

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, assuming continuing compliance with certain tax covenants described herein, (a)(i) interest on the Series 2008 Capital Fund Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except that no opinion is expressed as to the exclusion of interest on any Series 2008 Capital Fund Bond for any period during which such Series 2008 Capital Fund Bond is held by a person who, within the meaning of Section 147(a) of the Code is (1) a “substantial user” of facilities financed with the proceeds of the Series 2008 Capital Fund Bonds or (2) a “related person”; and (ii) interest on the Series 2008 Capital Fund Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in adjusted current earnings of corporations for purposes of the alternative minimum tax; and (b) the Series 2008 Capital Fund Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Series 2008 Capital Fund Bonds for certain owners thereof, and certain requirements of the Code must be satisfied after the date of issuance of the Series 2008 Capital Fund Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law, all as described herein under the heading “Tax Matters”.*

**\$384,475,000**

**PUERTO RICO HOUSING FINANCE AUTHORITY**  
**Capital Fund Modernization Program Subordinate Bonds**  
**(Puerto Rico Public Housing Projects), Series 2008 (Non-AMT)<sup>†</sup>**

**Dated:** Date of issuance

**Due:** As shown on inside cover page

Puerto Rico Housing Finance Authority (the “Authority”) will issue its \$384,475,000 Capital Fund Modernization Program Subordinate Bonds (Puerto Rico Public Housing Projects), Series 2008 (Non-AMT) (the “Series 2008 Capital Fund Bonds”) under a Master Trust Indenture, dated as of August 1, 2008 (the “Master Indenture”), by and between the Authority and U.S. Bank Trust National Association, as trustee (the “Trustee”), and a First Supplemental Trust Indenture, dated as of August 1, 2008 (the “First Supplemental Indenture” and, together with the Master Indenture, the “Indenture”), by and between the Authority and the Trustee. The proceeds of the Series 2008 Capital Fund Bonds will be used to (i) finance a loan (the “Loan”) under a Loan Agreement, dated as of August 1, 2008 (the “Loan Agreement”), by and among the Authority, the Puerto Rico Public Housing Administration (“PRPHA”), a governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth”), the Trustee and Vivienda Modernization I, LLC, a limited liability company (the “Limited Liability Company”), and (ii) pay the costs of issuance of the Series 2008 Capital Fund Bonds. The Limited Liability Company will utilize moneys from the Loan for the purpose of (i) financing a portion of the cost of the acquisition and modernization of various housing projects in the Commonwealth, and (ii) paying certain transactional costs.

**The principal of and redemption premium, if any, and interest on the Series 2008 Capital Fund Bonds are limited obligations of the Authority, a subsidiary of the Government Development Bank for Puerto Rico (the “Government Development Bank”), which are secured primarily by a pledge and assignment of the federal housing assistance payments made available by the United States Department of Housing and Urban Development (“HUD”) pursuant to its Capital Fund Program that HUD has permitted to be paid to the Trustee for the payment of debt service on the Series 2008 Capital Fund Bonds, subordinate to the payment of debt service on the Authority’s 2003 Bonds as more fully described herein under “FINANCING PLAN.” See also “SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS” and “RISKS TO THE BONDHOLDERS” herein.**

**The Series 2008 Capital Fund Bonds do not constitute a debt, obligation or a pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of the Government Development Bank or any other instrumentality of the Commonwealth (other than the Authority from the sources described herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority from the sources described herein) shall be liable for the payment thereof.**

**The Series 2008 Capital Fund Bonds are not a debt or liability insured or guaranteed by the United States of America or HUD or any other governmental agency or by any other person. The Authority has no taxing power.**

The Series 2008 Capital Fund Bonds will be issued only in book-entry form in denominations of \$5,000 stated principal amount or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, acting as Securities Depository for the Series 2008 Capital Fund Bonds. Beneficial Owners of Series 2008 Capital Fund Bonds will not receive certificates representing their ownership of Series 2008 Capital Fund Bonds. See Appendix D – “Book-Entry Only System.”

The Series 2008 Capital Fund Bonds will bear interest from their dated date at the per annum rates set forth on the inside cover page of this Official Statement, payable on December 1, 2008, and on each June 1 and December 1 thereafter. The Series 2008 Capital Fund Bonds are payable in full on their respective stated maturity dates. The Series 2008 Capital Fund Bonds are subject to redemption at par prior to their stated maturity dates from certain sources as described herein. See “The Series 2008 Capital Fund Bonds—Redemption Provisions” herein.

The Series 2008 Capital Fund Bonds are offered by the Underwriters when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, New York, New York; for PRPHA and the Puerto Rico Department of Housing by their counsel, Ballard Spahr Andrews & Ingersoll, LLP, Baltimore, Maryland, and O’Neill & Borges, San Juan, Puerto Rico; and for the Limited Liability Company by its counsel, Bufete Negrón García, CSP, San Juan, Puerto Rico. It is expected that the Series 2008 Capital Fund Bonds will be delivered through the facilities of DTC on or about August 7, 2008.

**JPMorgan**  
**Oriental Financial Services**  
**BBVAPR MSD**  
**Goldman, Sachs & Co.**  
**Merrill Lynch & Co.**  
**Popular Securities**  
**Scotia Capital**

**Banc of America Securities LLC**  
**DEPFA First Albany Securities LLC**  
**Lehman Brothers**  
**Morgan Stanley**  
**RBC Capital Markets**

**Citi**  
**Santander Securities**  
**Eurobank MSD**  
**Loop Capital Markets**  
**Oppenheimer & Co. Inc.**  
**Samuel A. Ramírez & Co.**  
**Wachovia Capital Markets, LLC**

August 1, 2008

<sup>†</sup> Interest not included in adjusted current earnings of corporations for purposes of the alternative minimum tax under the Code. See “Tax Matters – Opinion of Bond Counsel.”

**\$384,475,000**  
**PUERTO RICO HOUSING FINANCE AUTHORITY**  
**Capital Fund Modernization Program Subordinate Bonds**  
**(Puerto Rico Public Housing Projects), Series 2008 (Non-AMT)**

**\$179,905,000 Serial Bonds**

<b><u>Maturity</u></b> <b><u>(December 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Price</u></b> <b><u>or Yield</u></b>	<b><u>CUSIP Number</u></b> <b><u>(74526L)<sup>†</sup></u></b>
2008	\$15,855,000	3.000%	1.94%	BZ5
2009	2,000,000	3.500	2.47	CA9
2009	10,350,000	5.000	2.47	CB7
2010	4,495,000	3.500	3.12	CC5
2010	7,935,000	5.000	3.12	CD3
2011	1,905,000	4.000	3.59	CE1
2011	10,025,000	5.000	3.59	CF8
2012	1,695,000	4.000	3.81	CG6
2012	10,315,000	5.000	3.81	CH4
2013	3,020,000	4.000	100	CJ0
2013	9,115,000	5.000	4.00	CK7
2014	850,000	4.000	4.18	CL5
2014	11,730,000	5.250	4.18	CM3
2015	525,000	4.250	4.33	CN1
2015	12,700,000	5.500	4.33	CP6
2016	2,985,000	4.375	4.48	CQ4
2016	10,950,000	5.500	4.48	CR2
2017	2,600,000	4.500	4.62	CS0
2017	12,060,000	5.500	4.62	CT8
2018	4,250,000	4.625	4.74	CU5
2018	11,185,000	5.500	4.74	CV3
2019	16,235,000	5.500	4.88	CW1
2020	2,340,000	5.000	100	CX9
2020	14,785,000	5.500	4.99	CY7

**\$204,570,000 5.125% Term Bonds Due December 1, 2027 - Yield - 5.33%**  
**(CUSIP Number 74526LCZ4)<sup>†</sup>**

<sup>†</sup> CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2008 Capital Fund Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2008 Capital Fund Bonds or as indicated above.

No dealer, broker, sales representative or other person has been authorized by Puerto Rico Housing Finance Authority, Puerto Rico Public Housing Administration, Government Development Bank for Puerto Rico or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2008 Capital Fund Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Puerto Rico Housing Finance Authority, Puerto Rico Public Housing Administration or Government Development Bank for Puerto Rico since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008 CAPITAL FUND BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## OFFICIAL STATEMENT

**\$384,475,000**

**PUERTO RICO HOUSING FINANCE AUTHORITY  
Capital Fund Modernization Program Subordinate Bonds  
(Puerto Rico Public Housing Projects), Series 2008 (Non-AMT)**

### INTRODUCTION

#### General

This Official Statement of Puerto Rico Housing Finance Authority (the “Authority”) sets forth certain information in connection with the sale by the Authority of its \$384,475,000 Capital Fund Modernization Program Subordinate Bonds (Puerto Rico Public Housing Projects), Series 2008 (Non-AMT) (the “Series 2008 Capital Fund Bonds”). The Series 2008 Capital Fund Bonds will be the first series of bonds issued pursuant to a Master Trust Indenture, dated as of August 1, 2008 (the “Master Indenture”), and a First Supplemental Trust Indenture, dated as of August 1, 2008 (the “First Supplemental Indenture” and, together with the Master Indenture, the “Indenture”), each between the Authority and U.S. Bank Trust National Association, as Trustee (the “Trustee”). See Appendix A—”Summary of the Indenture” hereto. The Series 2008 Capital Fund Bonds are expected to be delivered on the date set forth on the cover page.

As more fully described herein under “SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS – General-Series 2008 Capital Fund Bonds are Subordinate Obligations,” the Series 2008 Capital Fund Bonds are secured by, among other things, a pledge and assignment of Capital Fund Allocations (as hereinafter defined) subordinate to the payment of the 2003 Bonds (as hereinafter defined).

As more fully described herein under “FINANCING PLAN – Additional Closing Conditions,” concurrently with the execution and delivery of the Series 2008 Capital Fund Bonds, the Authority is also issuing its Short-Term Bonds (as hereinafter defined).

The Master Indenture allows for the issuance of additional and refunding obligations in the form of bonds or notes thereunder (“Additional Capital Fund Bonds” and “Refunding Capital Fund Bonds,” respectively, and, together with the Series 2008 Capital Fund Bonds, the “Capital Fund Bonds”) secured under the Master Indenture on a parity with the Series 2008 Capital Fund Bonds. See “THE SERIES 2008 CAPITAL FUND BONDS – Additional Capital Fund Bonds and Refunding Capital Fund Bonds” herein.

The Authority is a subsidiary of the Government Development Bank for Puerto Rico (the “Government Development Bank”) and a governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”) with responsibility for financing the construction, reconstruction, improvement, alteration and repair of decent, safe and sanitary dwellings for persons of limited income. The Authority was created pursuant to Act No. 103 of August 11, 2001, as amended, by means of a redenomination of the public corporation formerly known as the Puerto Rico Housing Finance Corporation into the Authority and the transfer of all of the powers and faculties of the now defunct Puerto Rico Housing Bank and Finance Agency to the Authority.

Capitalized terms not defined elsewhere in this Official Statement are defined in Appendix A—”Summary of Certain Provisions of the Indenture” hereto.

## **Purpose of the Series 2008 Capital Fund Bonds**

The Authority is issuing the Series 2008 Capital Fund Bonds as part of a financing plan to assist the Puerto Rico Public Housing Administration (“PRPHA”), a governmental instrumentality of the Commonwealth, and the Puerto Rico Department of Housing (“DOH”), a department of the government of the Commonwealth, in fulfilling one of their principal missions of assisting in the rehabilitation and modernization of public housing in the Commonwealth. See “FINANCING PLAN” herein. DOH sets public policy for substantially all of the public housing projects in the Commonwealth and its programs are carried out by, among others, PRPHA.

The Authority will issue the Series 2008 Capital Fund Bonds to (i) finance a loan (the “Loan”) under a Loan Agreement, dated as of August 1, 2008 (the “Loan Agreement”), by and among the Authority, PRPHA, the Trustee and Vivienda Modernization 1, LLC, a limited liability company (the “Limited Liability Company”), and (ii) pay the costs of issuance of the Series 2008 Capital Fund Bonds. The Loan will be evidenced by a promissory note (the “Limited Partnership Promissory Note”) delivered by the Limited Liability Company. The Limited Liability Company will utilize moneys from the Loan for the purpose of (i) financing a portion of the cost of the acquisition and modernization of various housing projects in the Commonwealth (the “Projects”), and (ii) paying certain transactional costs. See “FINANCING PLAN” and “THE LIMITED LIABILITY COMPANY AND THE PROJECTS” herein.

## **Sources of Payment for the Series 2008 Capital Fund Bonds**

The Series 2008 Capital Fund Bonds and, to the extent approved by the United States Department of Housing and Urban Development (“HUD”), any Additional Capital Fund Bonds and Refunding Capital Fund Bonds will be secured by a pledge and assignment of (i) all Revenues, subject with respect to the federal housing assistance payments made available by HUD pursuant to its Capital Fund Program (the “Capital Grant Allocations”) to appropriation in each Federal Fiscal Year and allocation thereof to PRPHA, subordinate to the payment of the Authority’s 2003 Bonds, as described in “THE 2003 BONDS,” (ii) certain moneys and securities held by the Trustee under the Indenture, including all Limited Partnership Promissory Notes, together with income earned thereunder, subject to the use and application in accordance with the provisions of the Indenture, (iii) the right to enforce certain covenants of PRPHA in the Loan Agreement and the proceeds of such enforcement, and (iv) any and all other real and personal property of every name and nature as may be pledged under and subject to the terms of the Indenture (collectively referred to herein as the “Trust Estate”).

**The principal of and redemption premium, if any, and interest on the Series 2008 Capital Fund Bonds are limited obligations of the Authority which are secured by a pledge and assignment of the Trust Estate. The Series 2008 Capital Fund Bonds do not constitute a debt, obligation or a pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of the Government Development Bank or any other instrumentality of the Commonwealth (other than the Authority from the sources described herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority from the sources described herein) shall be liable for the payment thereof.**

**The Series 2008 Capital Fund Bonds are not a debt or liability insured or guaranteed by the United States of America or HUD or any other governmental agency or by any other person. The Authority has no taxing power.**

Brief descriptions of the Authority, the Series 2008 Capital Fund Bonds, the security for the Series 2008 Capital Fund Bonds, including PRPHA’s Capital Fund Allocations, the Loan Agreement and the Indenture, are included in this Official Statement. All references herein to the Loan Agreement, the Indenture and other documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available for inspection at the offices of the Trustee.

### **THE AUTHORITY**

The Authority is a subsidiary corporation of Government Development Bank and a government instrumentality of the Commonwealth. The Authority, previously known as Puerto Rico Housing Finance Corporation, was created pursuant to Resolution No. 4023, adopted by the Board of Directors of Government Development Bank on November 16, 1977 (the “Enabling Resolution”), with responsibility for financing the construction, reconstruction, improvement, alteration and repair of decent, safe and sanitary dwellings for persons of limited income. Pursuant to Act No. 103, approved on August 11, 2001, as amended (the “Act”), the Puerto Rico Legislature transferred to the Authority all rights, faculties, obligations, functions, contracts, properties and other assets and liabilities of the Puerto Rico Housing Bank and Finance Agency (the “Agency”), changed the official name of the Authority to its current name, and dissolved the Agency. The Puerto Rico Legislature also incorporated the terms of the Enabling Resolution into the Act, with the exception of the provisions governing the composition of the Board of Directors of the Authority. Under the Enabling Resolution, the Authority has the power to issue bonds and notes for any of its corporate purposes and to grant direct loans, insure loans and purchase loans, including mortgage-backed securities, from private lenders for the construction, improvement, reconstruction, rehabilitation, enlargement or repair of housing for persons and families of low or moderate income. The Authority is exempt from the payment of any taxes on its revenues and properties.

The role of the Authority in this transaction is to be the issuer of the Series 2008 Capital Fund Bonds and to lend the proceeds thereof to the Limited Liability Company pursuant to the terms of the Loan Agreement.

As provided by the Act, the Secretary of Housing serves as the Chair of the Board of Directors of the Authority and five additional members are appointed by the Governor, three of which must be members of the Board of Directors of Government Development Bank and two (2) of which must be private sector members. There are vacancies from time to time. The following individuals are the current members of the Board of Directors:

#### Puerto Rico Housing Finance Authority Board of Directors

<u>Name</u>	<u>Position</u>	<u>Term</u>	<u>Occupation</u>
Jorge Rivera-Jiménez	Chairman	Indefinite	Secretary of Housing
Ernesto A. Meléndez-Pérez, Esq.	Director	September 22, 2011	Attorney
Rafael Martínez-Margarida, CPA	Director	September 22, 2010	Certified Public Accountant
Luis A. Avilés-Pagán	Director	September 20, 2008	Attorney
Ana I. Vilá-Dávila	Director	September 22, 2008	Certified Public Accountant

The principal officers of the Authority are the following:

*Chair.* Jorge Rivera-Jiménez. Mr. Rivera is Secretary of Housing of the Commonwealth. He received a Bachelor’s Degree in Civil Engineering from the University of Puerto Rico – Mayaguez Campus and a Juris Doctor from the University of Puerto Rico – Río Piedras Campus. He holds professional licenses as an engineer, an attorney, a notary and a land surveyor. In 2001, he was appointed

Deputy Secretary of Housing. In January 2005, he was named Secretary of Housing and became Chair of the Board of Governors of the PRPHA.

*President.* Jorge Irizarry Herrans was appointed President of the Government Development Bank on December 4, 2007 and serves as President of the Authority. Mr. Irizarry served as Executive Vice President and Director of Financing of Government Development Bank from 2005 until his appointment as Acting President, and has over 30 years of experience in banking, investments and consulting, which he acquired while working at Chase Manhattan, Booz Allen Hamilton, Inc., Banco Mercantil, Banco de Ponce, PaineWebber, Inc., and Sandoval Associates. Mr. Irizarry has a Bachelor's degree in finance from New York University and holds a Master Degree in Business Administration from Harvard Business School.

*Executive Director.* Fernando L. Berio-Muñiz, Esq., CFA. Mr. Berio was appointed Executive Director on January 14, 2008. At the time of his appointment, he was acting as Assistant Executive Director in Administration and Finance. Prior to joining the Authority, Mr. Berio worked as an Associate in the corporate department of Pietrantonio Mendez & Alvarez, LLP, a San Juan-based law firm. Mr. Berio has also worked as Assistant Portfolio Manager at the Asset Management Division of Banco Popular de Puerto Rico, focusing his efforts on local fixed-income portfolios. Mr. Berio obtained a Juris Doctor degree from the University of Puerto Rico, School of Law and a Masters of Law (LLM) degree from Columbia University School of Law concentrating in corporate law and securities regulation. He earned a Bachelor's Degree in finance from Georgetown University. He is a CFA charterholder.

The Authority's mailing address is P.O. Box 71361, San Juan, Puerto Rico 00936-8461.

## **PUERTO RICO PUBLIC HOUSING ADMINISTRATION**

PRPHA is a government agency attached to the Department of Housing of the Commonwealth, created pursuant to Act No. 66 of the Legislature of the Commonwealth, approved August 17, 1989, as amended. PRPHA was created with "the purpose and function of achieving a highly efficient administration of public residential projects." PRPHA operates over 55,000 units of public housing in over 325 properties located in 76 municipalities throughout the Commonwealth and is the second largest public housing authority in the nation. It receives operating subsidies and capital funding grants from HUD, as do virtually all the 3,200 public housing authorities in the United States, which capital fund grants may be used, among other things, to finance the renovation and modernization of public housing developments. See, generally, "SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS" and "CAPITAL FUND PROGRAM" herein.

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

The Governing Board Members of PRPHA are the following:

Puerto Rico Public Housing Administration  
Governing Board Members

<u>Name</u>	<u>Position</u>	<u>Term</u>	<u>Occupation</u>
Jorge Rivera-Jiménez	Chairman	Indefinite	Secretary of Housing
Fernando L. Berio-Muñiz	Member	Indefinite	Executive Director, Housing Finance Authority
Félix V. Matos-Rodríguez	Member	Indefinite	Secretary, Family Services
Román M. Velasco-González	Member	Indefinite	Secretary, Labor and Human Resources
Alejandrina Fuentes-Rivera	Member	2010	Private Sector
Marianela Medina-Batiz	Member	2010	Residents Representative
vacancy	Member		Residents Representative

The principal officers of PRPHA are the following:

*Chair of the Board of Governors.* Jorge Rivera-Jiménez. A brief biography of Mr. Rivera is set forth above under “THE AUTHORITY.”

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

*Deputy Administrator.* José M. Urrutia-Vélez. Mr. Urrutia has worked for the PRPHA at the Legal Counsel’s Office since April 2004 and was appointed Deputy Administrator of PRPHA on May 10, 2007. He obtained a Bachelor’s Degree in Business Administration in 1992 and a Juris Doctor in 1995, both from the University of Puerto Rico –Río Piedras Campus.

PRPHA’s mailing address is P.O. Box 363188, San Juan, Puerto Rico 00936.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

As provided by Act No. 272 of the Legislature of the Commonwealth, approved May 15, 1945, as amended, the Government Development Bank for Puerto Rico has acted as financial advisor to the Authority in connection with the issuance of the Series 2008 Capital Fund Bonds. As financial advisor, Government Development Bank participated in the selection of the Underwriters of the Series 2008 Capital Fund Bonds. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with Government Development Bank.

As more fully described below under “FINANCING PLAN,” the Government Development Bank has previously assisted, and will continue to assist, PRPHA and DOH in connection with financing the rehabilitation and modernization of public housing projects in the Commonwealth.

## **THE LIMITED LIABILITY COMPANY AND THE PROJECTS**

The information under this heading has been provided solely by the Limited Liability Company and is believed to be reliable, but has not been independently verified by the Authority, PRPHA, DOH (to the extent the following information is not about DOH or documents that DOH is a signatory to), the Government Development Bank or the Underwriters. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by the Authority, PRPHA, DOH (to the extent the following information is not about DOH or documents that DOH is a signatory to), the Government Development Bank or the Underwriters.

### **The Limited Liability Company**

Vivienda Modernization 1, LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the “Sole Member”), a civil partnership created under the laws of the Commonwealth. DOH is the general partner of the Sole Member. In exchange for constructing, or acquiring and renovating, and maintaining housing that is affordable to households with low or limited incomes, partners in a partnership that owns such housing may be entitled to a direct credit on their federal taxes in accordance with Section 42 of the Internal Revenue Code of 1986, as amended (the “Section 42 Tax Credits”). See “OTHER PROJECT FUNDING SOURCES – Low Income Housing Tax Credits” herein.

### **The Projects**

The Projects initially consist of approximately 4,132 public housing units located at approximately 33 properties throughout the Commonwealth. The Projects are currently owned by PRPHA and serve as publicly-owned housing. PRPHA will transfer the Projects to DOH immediately prior to DOH’s sale of the Projects to the Limited Liability Company. In most cases, the Projects are portions of larger housing facilities and complexes that will continue to be public housing units. Concurrently with DOH’s sale of the Projects to the Limited Liability Company, air surface rights associated with the Projects will be transferred to the Limited Liability Company at nominal cost. The transfer documents will restrict the use of the land and the buildings located on the land to use as public housing in accordance with applicable public housing requirements. DOH or PRPHA will have a purchase option and right of first refusal to purchase the Limited Liability Company’s interest in the Projects after the housing tax credit compliance period expires.

The Loan made to the Limited Liability Company is assumable, in whole or in part, upon sale or transfer of all or a portion of the Projects with respect to the allocable amount for each such Project. Such sale or transfer may occur, among other situations, upon (a) the purchase of all or a portion of the Projects by DOH or PRPHA at the end of the tax credit period, and/or (b) if during the modernization period one or more Projects does not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements set forth in the Sole Member’s partnership agreement, DOH or its designee is required to purchase such Project(s). In such case or cases, the allocable amount of the obligations under the Limited Partnership Promissory Note and the Loan Agreement would be assumed by such new borrower (whether PRPHA, the DOH or its designee) and the Limited Liability Company would be released with respect to the amount of the Loan assumed. Such purchase would not affect the obligations of PRPHA to provide for the delivery of Capital Grant Allocations to the Trustee in the full amount of Transaction Costs.

DOH will serve as, among other things, seller of the Projects and developer. Through an interagency agreement, DOH will delegate management and operational functions to its affiliate, PRPHA. PRPHA will administer construction management, oversee operation of the Projects and compliance with

applicable public housing requirements, and provide such other functions as required by DOH in its capacity as general partner of the Sole Member, the sole member of the Limited Liability Company.

## FINANCING PLAN

*General.* The Authority, DOH and PRPHA have proposed a 2008 Financing Plan that is designed to facilitate the sale of all or a portion of approximately 33 existing public housing projects from DOH to the Limited Liability Company. The Limited Liability Company is expected to contribute approximately \$235 million<sup>††</sup> over the next few years for the rehabilitation and new construction of local public housing stock, representing a significant increase over current funding levels.

*2003 Bonds.* In 2003, the Authority issued its \$663,060,000 Capital Fund Program Bonds (Puerto Rico Public Housing Administration Project), Series 2003 (the “2003 Bonds”) to fund improvements to public housing projects throughout the Commonwealth, including certain of the Projects. See “THE 2003 BONDS” herein. The 2003 Bonds are secured primarily by the pledge of the PRPHA’s Capital Fund Allocations from HUD, and such pledge in favor of the owners of the 2003 Bonds is superior to the pledge of the Capital Fund Allocations in favor of the owners of the Series 2008 Capital Fund Bonds.

Currently, approximately \$596 million of 2003 Bonds remain outstanding. Simultaneously with the issuance of the Series 2008 Capital Fund Bonds, \$391,185,000 of the 2003 Bonds will be defeased. See “THE 2003 BONDS – Defeasance of a Portion of Outstanding 2003 Bonds” herein. The defeasance will be funded with moneys remaining in the 2003 Loan Fund, moneys made available from the reduction in the 2003 Debt Service Reserve Fund Requirement due to the defeasance, certain funds which were advanced to DOH by the Government Development Bank in connection with the 2003 Bonds, and certain Capital Grant Allocations of PRPHA (See Table 2 - Historical Obligation and Expenditure Requirements Compliance under the heading “CAPITAL FUND PROGRAM” herein.). After such defeasance, \$205,150,000 of 2003 Bonds will remain outstanding, \$17,638,180 will remain in the 2003 Debt Service Reserve Fund to secure such outstanding 2003 Bonds, and approximately \$46 million of proceeds of the 2003 Bonds will remain on deposit with the 2003 Trustee to permit PRPHA to finance the completion of the rehabilitation and modernization of public housing developments owned by PRPHA, not including the Projects.

*Series 2008 Capital Fund Bonds.* The net proceeds of the Series 2008 Capital Fund Bonds (the principal amount thereof less costs of issuance) will be loaned to the Limited Liability Company in accordance with the Loan Agreement. The Loan will be evidenced by the Limited Partnership Promissory Note. The proceeds loaned to the Limited Liability Company will be used to (1) pay to DOH a portion of the acquisition price of the Projects (including certain costs incurred by PRPHA for rehabilitation and modernization prior to their transfer), (2) continue the rehabilitation, modernization and construction of the Projects to completion, and (3) pay certain transaction and other costs.

DOH is expected to use a portion of the acquisition price it receives from the Limited Liability Company to (a) reimburse the Government Development Bank for certain interim advances made to PRPHA and (b) reimburse PRPHA for certain costs incurred, all in connection with the rehabilitation, modernization and construction of the projects undertaken prior to their transfer to the Limited Liability Company. A portion of such funds reimbursed to PRPHA will in turn be used by the PRPHA to fund the debt service reserve fund created under the Indenture relating to the Series 2008 Capital Fund Bonds (the “Debt Service Reserve Fund”) (\$15,712,950). See “ESTIMATED SOURCES AND USES OF FUNDS” below.

*Short-Term Bonds.* In order to provide additional interim financing to the Limited Liability Company for rehabilitation, modernization and construction costs of the Projects, the Authority is expected to issue \$100 million aggregate principal amount of its Housing Revenue Bonds (Vivienda Modernization 1, LLC Projects), Series 2008 (Non-AMT) (the “Short-Term Bonds”) maturing on October 1, 2011, concurrently with the issuance of the Series 2008 Capital Fund Bonds.

*Funding Sources for the Projects.* The Limited Liability Company will purchase the Projects from DOH at the purchase price of approximately \$252.827 million, using the following sources:

- a portion of the proceeds of the Series 2008 Capital Fund Bonds loaned to the Limited Liability Company (approximately \$115.009 million),
- a portion of the proceeds of the Short-Term Bonds loaned to the Limited Liability Company (approximately \$26.456 million),
- Limited Liability Company equity at closing in the amount of approximately \$8.473 million, and
- a purchase money note to DOH from the Limited Liability Company for the balance in the amount of approximately \$102.890 million.

Remaining rehabilitation, modernization and construction costs of the Projects will be funded from:

- a portion of the loan of the proceeds of the Series 2008 Capital Fund Bonds and investment earnings thereon (approximately \$261.113 million),
- a portion of the loan of the proceeds of the Short-Term Bonds and investment earnings thereon (approximately \$62.200 million), and
- a portion of the Limited Liability Company equity to be paid after the closing of the Series 2008 Capital Fund Bonds in the amount of approximately \$8.118 million.

*Additional Closing Conditions.* It is a condition to closing of the Series 2008 Capital Fund Bonds that there be simultaneous closings of the Series 2008 Capital Fund Bonds and the Short-Term Bonds. Each series of bonds has numerous closing conditions including, in the case of the Series 2008 Capital Fund Bonds, that HUD approve certain matters. The Authority and PRPHA have received all of the approvals from HUD that they expect to receive in order to close the Series 2008 Capital Fund Bonds and the Short-Term Bonds. A copy of the HUD Approval Letter (without exhibits) is attached hereto as Appendix B and a proposed form of the CFF Amendment is attached hereto as Appendix C, each of which is further described below under ‘SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS - Capital Fund Allocations.’”

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the issuance of the Series 2008 Capital Fund Bonds are expected to be as shown below:

### Sources:

Net Proceeds of Series 2008 Capital Fund Bonds <sup>(1)</sup>	\$384,213,450.55
Contribution to Debt Service Reserve Fund <sup>(2)</sup>	<u>15,712,950.00</u>
Total Sources	<u>\$399,926,400.55</u>

### Uses:

Deposit to Private Activity Loan Account <sup>(3)</sup>	\$382,348,829.30
Deposit to the Debt Service Reserve Fund <sup>(4)</sup>	15,712,950.00
Costs of Issuance <sup>(5)</sup>	<u>1,864,621.25</u>
Total Uses	<u>\$399,926,400.55</u>

<sup>(1)</sup> Represents the aggregate principal amount of the Series 2008 Capital Fund Bonds, plus net original issue premium in the amount of \$2,310,824.05, less underwriters' discount.

<sup>(2)</sup> Derived from a portion of the purchase price for the Projects reflecting past spending by PRPHA of Capital Grant Allocations.

<sup>(3)</sup> Amount of the Loan to the Limited Liability Company.

<sup>(4)</sup> Equal to one-half of the maximum Debt Service on the Series 2008 Capital Fund Bonds through 2024. Upon payment in full of the 2003 Bonds, amounts necessary to make the amounts on deposit in the Debt Service Reserve Fund equal to one-half of the maximum Debt Service on the Series 2008 Capital Fund Bonds through maturity will be transferred from the debt service reserve fund securing the 2003 Bonds to the Debt Service Reserve Fund.

<sup>(5)</sup> Includes legal fees and other transactional costs.

## THE SERIES 2008 CAPITAL FUND BONDS

### General

The Series 2008 Capital Fund Bonds will mature as stated on the inside front cover page of this Official Statement. Interest is payable on the Series 2008 Capital Fund Bonds on each June 1 and December 1 (each an "Interest Payment Date"), commencing December 1, 2008. The Series 2008 Capital Fund Bonds are issuable as fully registered bonds without coupons in denominations of \$5,000 and integral multiples thereof. Upon satisfaction of certain conditions as specified in the Indenture, the Authority may issue Additional Capital Fund Bonds and Refunding Capital Fund Bonds secured on a parity basis with the Series 2008 Capital Fund Bonds. See "THE SERIES 2008 CAPITAL FUND BONDS—Additional Capital Fund Bonds and Refunding Capital Fund Bonds" herein.

The principal of and premium, if any, on the Series 2008 Capital Fund Bonds shall be payable upon the presentation and surrender of the Series 2008 Capital Fund Bonds at the designated office of the Trustee as Paying Agent as the same shall become due and payable. Payment of the interest on each Series 2008 Capital Fund Bond shall be made by the Paying Agent by check mailed to the Holder thereof as of the applicable Record Date, at the address shown on the registration books kept by the Registrar. One fully registered Series 2008 Capital Fund Bond for maturity will be issued in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") as registered owner of all Series 2008 Capital Fund Bonds. See Appendix D – "Book-Entry Only System" herein. Beneficial

ownership of the Series 2008 Capital Fund Bonds may be acquired in denominations of \$5,000 and integral multiples thereof.

### Redemption Provisions

Optional Redemption at the Option of the Authority. The Series 2008 Capital Fund Bonds maturing after December 1, 2018 are subject to redemption prior to maturity, at the option of the Authority, as a whole, or in part in integral multiples of \$5,000 in any order of their maturity as determined by the Authority (less than all of the Series 2008 Capital Fund Bonds of a single maturity, interest rate and Series to be selected by lot by the Trustee), on December 1, 2018, and on any date thereafter, at the redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date; provided, that if any public housing assets are to be used to fund such an optional redemption, the prior consent of HUD shall be required.

Optional Redemption from the Proceeds of Insurance or Condemnation Awards. The Series 2008 Capital Fund Bonds are also subject to redemption, at the option of the PRPHA, in whole or in part, on any date, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date, from the proceeds of insurance or condemnation awards, if any public housing units in any portion of the public housing development of PRPHA (not including the Projects) are substantially damaged or destroyed by fire or other casualty or are taken by eminent domain and proceeds of any such insurance or condemnation award related thereto are not applied toward the repair, rebuilding or replacement of such public housing units (not including the Projects); provided, however, that if the circumstances described in paragraphs (iv) or (v) under the sub-caption “*Special Mandatory Redemption*” below are present, then the Series 2008 Capital Fund Bonds will be subject to mandatory redemption pursuant to such provisions.

The Term Bond due on December 1, 2027 is subject to mandatory redemption, in integral multiples of \$5,000 selected by lot by the Trustee, at a redemption price of par plus accrued interest to the redemption date, on December 1 of each of the years and in the principal amounts as follows:

Sinking Fund Redemption Date <u>(December 1.)</u>	Mandatory Sinking <u>Fund Amount</u>
2021	\$18,065,000
2022	18,985,000
2023	19,960,000
2024	20,970,000
2025	40,085,000
2026	42,160,000
2027 <sup>†</sup>	44,345,000

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<sup>†</sup>Final maturity

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

so purchased shall be cancelled and the principal amount thereof shall be credited against the mandatory sinking fund redemption required on such next mandatory sinking fund redemption date.

*Special Mandatory Redemption.* The Series 2008 Capital Fund Bonds are subject to special mandatory redemption, in whole or in part, at any time, and with respect to such maturities of the Series 2008 Capital Fund Bonds as the Authority shall direct in its discretion, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date (except as noted in the paragraph that follows clause (v) below), under the circumstances set forth below:

- (i) The PRPHA shall certify in writing to the Trustee, no later than May 24, 2010 (or such later date as may be approved by HUD), the amount of proceeds of the Series 2008 Capital Fund Bonds which is obligated or encumbered for the payment of Eligible Costs (as “obligated” and “encumbered” are defined by HUD for purposes of the Capital Fund Program); to the extent that the amount so certified is less than 90% of the proceeds of the Series 2008 Capital Fund Bonds (less any amounts needed to be maintained in the Debt Service Reserve Fund), the Trustee shall, on June 24, 2010 (or such later date as may be approved by HUD), withdraw an amount from the Loan Fund such that 90% of the proceeds of the Series 2008 Capital Fund Bonds taking into account such withdrawal are so obligated or encumbered, and shall apply such withdrawn amount to the redemption of the Series 2008 Capital Fund Bonds on June 24, 2010 (or such later date as may be approved by HUD).
- (ii) In whole or in part on June 24, 2012 (or such later date as may be approved by HUD), to the extent that any proceeds of the Series 2008 Capital Fund Bonds remain on deposit in the Loan Fund on May 24, 2012 (or such later date as may be approved by HUD).
- (iii) At the direction of HUD (or at the option of the PRPHA), in the event that HUD imposes administrative sanctions on the PRPHA which would have the effect of reducing the payment of Capital Grant Funds to PRPHA in any year by at least 20% below the levels that would have been paid to the PRPHA without such sanctions. The amount to be applied to any such redemption shall not exceed any unexpended proceeds of the Series 2008 Capital Fund Bonds less the amounts already obligated or encumbered (as “obligated” and “encumbered” are defined by HUD for purposes of the Capital Fund Program) for the payment of Eligible Costs and less any amounts needed to be maintained in the Debt Service Reserve Fund in order to meet the Debt Service Reserve Requirement.
- (iv) In whole or in part, on any date, in an amount not in excess of the proceeds of any condemnation or insurance awards received with respect to that portion of the Projects legally available for such redemption, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date, in the event that (i) such portion of the Projects are substantially damaged or destroyed by casualty or taken by eminent domain, and (ii) the proceeds of any insurance or condemnation awards with respect thereto are not applied towards the repair, rebuilding or replacement of such units.
- (v) Subject to the rights of the holders of the 2003 Bonds, in whole or in part, on any date, in an amount not in excess of the proceeds of any condemnation or insurance awards with respect to any public housing units in any portion of the public housing development of PRPHA (not including the Projects) and legally available for such

redemption, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date, in the event that (i) any such public housing units owned by the PRPHA are substantially damaged or destroyed by casualty or taken by eminent domain, (ii) the proceeds of any insurance or condemnation awards with respect thereto are not applied towards the repair, rebuilding or replacement of such units, (iii) as a result thereof, the amount of future Capital Grant Funds available to the PRPHA will be materially reduced by HUD, and (iv) any Rating Agency determines, after written notice of such material reduction (which the PRPHA covenants to provide to the Rating Agencies), that the failure to apply such proceeds with respect to such public housing units to the redemption of the Series 2008 Capital Fund Bonds would result in a reduction of the underlying rating on the Series 2008 Capital Fund Bonds below the then-current rating of the Series 2008 Capital Fund Bonds by the Rating Agency or a withdrawal of the then-current underlying rating on the Series 2008 Capital Fund Bonds.

In the case of a redemption of Series 2008 Capital Fund Bonds from unexpended Series 2008 Capital Fund Bond proceeds as described in (i), (ii) and (iii) above, the redemption price shall be equal to the sum of the present value of the remaining payments of principal and interest on such Series 2008 Capital Fund Bonds discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) using the yield of the Series 2008 Capital Fund Bonds to be redeemed stated on the inside cover page of this Official Statement assuming (i) for Series 2008 Capital Fund Bonds originally priced greater than 100% of principal amount thereof, that principal is received at the earlier of the scheduled maturity date or the first optional redemption date, and (ii) for Series 2008 Capital Fund Bonds originally priced at or less than 100% of principal amount thereof, that principal is received at the scheduled maturity date.

*Covenant by the PRPHA Not to Reduce Public Housing Units so as not to Cause a Special Redemption.* The PRPHA covenants in the Loan Agreement and in the First Supplemental Indenture not to reduce the number of units anticipated to be eligible for Capital Grant Allocations (the “ACC Units”) in each year through the maturity date of the Series 2008 Capital Fund Bonds by more than 5% (cumulatively), subject to planned additions and subtractions prior to reaching the “Stabilized Base Unit Count” as further set forth in the CFF Amendment, below the number of public housing units certified to HUD and anticipated to be eligible for Capital Fund Allocations without the prior prepayment, redemption, defeasance or refunding of the Series 2008 Capital Fund Bonds to the extent necessary to maintain the same debt service coverage ratio in the Bond Year immediately following such reduction in public housing units (based on the then current year’s Capital Fund Allocation but giving effect to the reduction in public housing units in a manner acceptable to HUD) as existed prior to the reduction; provided, however, that in no event shall PRPHA be required to maintain a debt coverage ratio in excess of 2.70 in any fiscal year of the Capital Fund Program, taking into account the combined debt service payments of the 2003 Bonds and the Series 2008 Capital Fund Bonds; and provided, further that if the reduction in units is required by law or public housing requirements, the PRPHA shall not be required to redeem or defease the Series 2008 Capital Fund Bonds prior to such reduction, but instead shall do so (to the extent necessary to maintain the same debt service coverage ratio as was in effect immediately preceding such reduction in public housing units) as soon as possible after becoming aware of the requirement of law or public housing requirements, but only to the extent that Capital Grant Funds are not otherwise needed by PRPHA to address the health and safety issues or other requirements of law in the PRPHA’s public housing portfolio, all as determined by HUD.

*General.* The Series 2008 Capital Fund Bonds will be redeemed only in the principal amount of \$5,000 and integral multiples thereof. With respect to any optional redemption of Series 2008 Capital Fund Bonds, unless moneys sufficient to pay the redemption price of the Series 2008 Capital Fund Bonds

to be redeemed shall have been received by the Trustee prior to the giving of the notice of redemption, such notice may, at the option of the Authority, state that such redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such Series 2008 Capital Fund Bonds, and the Trustee shall give notice, in the same manner in which the notice of redemption shall have been given, that such moneys were not so received and that such Series 2008 Capital Fund Bonds will not be redeemed.

### **No Redemption Upon an Event of Taxability**

The Series 2008 Capital Fund Bonds are not subject to redemption upon an event of taxability. See “RISKS TO THE BONDHOLDERS - No Acceleration or Redemption Upon Loss of Tax Exemption” herein.

### **Selection of Bonds for Redemption**

In the event of redemption of less than all the Series 2008 Capital Fund Bonds of like maturity, the Trustee shall assign to each such Outstanding Series 2008 Capital Fund Bond a distinctive number for each minimum denomination of the principal amount thereof so as to distinguish each such minimum denomination from each other portion of the Series 2008 Capital Fund Bonds subject to such redemption. The Trustee shall select by lot, using such method of selection it shall deem proper in its sole discretion, from the numbers of all such Series 2008 Capital Fund Bonds then Outstanding of such maturity, as many numbers as, at the minimum denomination for each number, shall equal the principal amounts of such Series 2008 Capital Fund Bonds to be redeemed. The Series 2008 Capital Fund Bonds to be redeemed shall be the Series 2008 Capital Fund Bonds to which were assigned numbers so selected; but only so much of the principal amount of each such Series 2008 Capital Fund Bonds of a denomination of more than the minimum denomination shall be redeemed as shall equal the minimum denomination for each number assigned to it and so selected.

### **Notice of Redemption**

When the Trustee shall receive notice from the Authority of its election or direction to redeem Series 2008 Capital Fund Bonds and when redemption of Series 2008 Capital Fund Bonds is required by the Indenture, the Trustee shall give notice, in the name of the Authority, of the redemption of such Series 2008 Capital Fund Bonds. Such notice shall specify the maturities of the Series 2008 Capital Fund Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable and, if less than all the Series 2008 Capital Fund Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2008 Capital Fund Bonds to be redeemed and, in the case of Series 2008 Capital Fund Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series 2008 Capital Fund Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Series 2008 Capital Fund Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by first class mail or registered or certified mail, return receipt requested (such delivery method to be determined by the Trustee), not less than thirty (30) days nor more than sixty (60) days before the Redemption Date, to the registered Owners of any Series 2008 Capital Fund Bonds or portions of Series 2008 Capital Fund Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but failure so to mail any such notice shall not affect the validity of the proceedings for the redemption of Series 2008 Capital Fund Bonds with respect to which no such failure occurred.

With respect to Book Entry Bonds, if the Trustee sends notice of redemption to the Securities Depository pursuant to the Letter of Representations, the Trustee shall not be required to give the notice set forth in the preceding paragraph. Upon direction in writing by the Authority, further notice shall be given by the Trustee in such manner as may be required or suggested by regulations or market practice at the applicable time, but no defect in such further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as described herein.

### **Additional Capital Fund Bonds and Refunding Capital Fund Bonds**

The Authority may issue Additional Capital Fund Bonds on a parity with the Series 2008 Capital Fund Bonds under the terms and conditions of the Master Indenture, including the prior approval of HUD. Among the terms and conditions of the Master Indenture that must be complied with are the following:

- The principal amount of Additional Capital Fund Bonds then to be issued, together with all other outstanding Bonds, does not exceed any limitation imposed by law.
- Prior to the issuance and delivery of the Additional Capital Fund Bonds, the Authority files with the Trustee the following:
  - the written approval by HUD of the issuance of such Additional Capital Fund Bonds;
  - unless otherwise approved by HUD in writing, evidence that the PRPHA has not failed (within the preceding five years) to obligate or expend the proceeds of prior Series of Bonds secured by the Indenture within the applicable time limits established by HUD;
  - a certificate demonstrating that the lesser of (i) the Capital Fund Program moneys received by the PRPHA in the immediately preceding Federal fiscal year and (ii) the average annual amount of Capital Fund Program moneys received by the PRPHA, as evidenced by Annual Financing Amendments between the PRPHA and HUD under the Capital Fund Program in the three Federal fiscal years immediately preceding the issuance of the Additional Capital Fund Bonds, equals or exceeds an amount equal to two and seven-tenths (2.7) times (a) the aggregate annual Transaction Costs (i.e., the sum of (a) debt service on the Series 2008 Capital Fund Bonds and any Additional and Refunding Capital Fund Bonds, including the Additional Capital Fund Bonds to be issued, plus (b) Issuer's Fees), plus (b) the sum of annual debt service on the 2003 Bonds and related Issuer's Fees; and
  - the written consent of the issuer of any financial guaranty insurance policy insuring some or all of the outstanding Bonds and advice from the Rating Agencies that such action will not have an adverse effect on the then-current underlying ratings of outstanding Bonds.
- The provisions of certain sections of the Master Indenture requiring the delivery of certain opinions and documents shall have been complied with as of the date of delivery of such Additional Capital Fund Bonds.

- At the time of issuance of such Additional Capital Fund Bonds, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Master Indenture except, in the case of Refunding Capital Fund Bonds, if the initial application of the proceeds of such Bonds shall cure such default.
- The PRPHA is not in default under any Loan Agreement.

The Authority may issue Refunding Capital Fund Bonds by satisfying the above-referenced terms and conditions and, in addition, delivering to the Trustee, acting as Authenticating Agent, the following:

- Evidence of the receipt by the Registrar of instructions to give due notice of the payment or redemption of all the Bonds to be refunded and the Bond Payment Dates or Redemption Dates, if any, upon which such Bonds are to be paid or redeemed.
- If Bonds are to be refunded and redeemed more than 45 days from the issuance of the Refunding Capital Fund Bonds, evidence of the receipt by the Registrar of instructions to mail the notice of redemption on a specified date prior to their Redemption Date.
- Evidence of the receipt by the Trustee of moneys or non-callable Government Obligations sufficient for the purpose of effecting the redemption.

### **Parity Provisions**

All Additional Capital Fund Bonds and Refunding Capital Fund Bonds issued under the Master Indenture or any Supplemental Indenture shall be issued on a parity basis with the Series 2008 Capital Fund Bonds and shall be equally and ratably secured by the pledge provided by the Master Indenture, but the pledge of Capital Fund Allocations shall be subordinate to the 2003 Bonds. The Authority may issue bonds, notes or other evidences of borrowing under indentures or resolutions secured by the (i) pledge of amounts in the Subordinate Obligation Debt Service Fund, as long as such pledge is expressly junior and subordinate to the pledge contained in the Indenture and with the approval of HUD or (ii) assets and revenues of the Authority other than the Revenues and assets pledged pursuant to the Indenture.

## **THE 2003 BONDS**

### **General**

In 2003, the Authority issued \$663,060,000 aggregate principal amount of its Capital Program Bonds (Puerto Rico Public Housing Administration Projects) Series 2003 (the “2003 Bonds”) for the primary purpose of making a loan to PRPHA to fund improvements to various public housing projects. There are currently approximately \$596 million principal amount of the 2003 Bonds outstanding. In connection with the issuance of the Series 2008 Capital Fund Bonds, the Master Trust Indenture, dated as of December 1, 2003, as supplemented and amended (the “2003 Indenture”) pursuant to which the 2003 Bonds were issued, will be amended to prevent the Authority from issuing additional bonds thereunder having a pledge of the Capital Fund Allocations senior to the Series 2008 Capital Fund Bonds unless such additional bonds are refunding bonds and debt service in each year is equal to or less than the debt service on the 2003 Bonds being refunded.

### **Defeasance of a Portion of Outstanding 2003 Bonds**

The Authority plans to defease \$391,185,000 of the 2003 Bonds (the “Defeased 2003 Bonds”) on the date of issuance of the Series 2008 Capital Fund Bonds. In order to accomplish the defeasance of the

Defeased 2003 Bonds, the Authority will enter into an escrow deposit agreement (the “Escrow Agreement”) with the 2003 Trustee (the “Escrow Agent”). The Escrow Agreement will create an escrow fund (the “Escrow Fund”) held by the Escrow Agent. The Authority will deposit the moneys remaining in the 2003 Loan Fund, moneys made available from the reduction in the 2003 Debt Service Reserve Fund Requirement due to the defeasance, certain funds which were advanced to DOH by the Government Development Bank in connection with the 2003 Bonds, and certain Capital Grant Allocations of PRPHA with the Escrow Agent, and all or a portion of these net proceeds and other available moneys will be invested in Defeasance Obligations (as such term is defined in the Master Trust Indenture governing the 2003 Bonds), the principal of and interest on which when due, together with any uninvested moneys, will provide moneys sufficient to pay the principal of and redemption premiums, if any, and interest on the Defeased 2003 Bonds to their respective earliest dates of redemption or payment as set forth in the table below. The Escrow Agent will be given irrevocable instructions to pay or call for redemption the Defeased 2003 Bonds in accordance with the schedule of maturities and redemption dates set forth in the table that follows, and the Defeased 2003 Bonds will not be subject to redemption other than as provided in such schedule. No proceeds of the Series 2008 Capital Fund Bonds will be applied to the defeasance of the Defeased 2003 Bonds.

The following Defeased 2003 Bonds maturing prior to December 1, 2014 will be paid at maturity:

<b><u>Maturity</u></b> <b><u>(December 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>CUSIP</u></b> <b><u>Numbers</u></b> <b><u>(74526L)</u></b>
2008	\$ 6,650,000	3.00%	AD5
2008	8,770,000	4.50	AT0
2009	11,260,000	3.00	AE3
2009	4,735,000	4.50	AW3
2010	5,600,000	4.00	AF0
2010	11,055,000	5.00	AX1
2011	4,380,000	4.00	AG8
2011	13,075,000	5.00	AY9
2012	1,035,000	4.00	AH6
2012	17,295,000	5.00	AZ6
2013	3,765,000	4.00	AJ2
2013	15,480,000	5.00	BA0

The following Defeased 2003 Bonds maturing on or after December 1, 2014 will be redeemed on December 1, 2013 at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the date of redemption:

<b><u>Maturity</u></b> <b><u>(December 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>CUSIP</u></b> <b><u>Numbers</u></b> <b><u>(74526L)</u></b>
2014	\$20,210,000	5.00%	AK9
2015	21,250,000	5.00	AL7
2016	22,335,000	5.00	AM5
2017	23,480,000	5.00	AN3
2018	24,685,000	5.00	AP8
2019	25,950,000	5.00	AQ6
2020	27,285,000	5.00	AR4
2023	24,425,000	4.50	AU7
2024	32,870,000	4.60	AV5

A portion of the 2003 Term Bond maturing on December 1, 2023 (CUSIP Number 74526LBB8) in the aggregate principal amount of \$65,595,000 will be redeemed on December 1, 2013 at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the date of redemption. The sinking fund redemption payments on the 2003 Term Bond maturing on December 1, 2023 will be reduced by the following principal amounts in the following years:

<b>Sinking Fund Redemption Date (December 1)</b>	<b><u>Reduction in Sinking Fund Principal Payment</u></b>
2021	\$28,630,000
2022	29,990,000
2023 <sup>†</sup>	6,975,000

<sup>†</sup>Final Maturity.

Upon the defeasance of the Defeased 2003 Bonds, the Defeased 2003 Bonds will, in the opinion of Bond Counsel, no longer be outstanding under the 2003 Indenture. However, approximately \$205 aggregate principal amount of 2003 Bonds will not be defeased as part of this plan of finance and will remain outstanding (the “Remaining 2003 Bonds”). Debt service on the Remaining 2003 Bonds is reflected in the table under “ANNUAL DEBT SERVICE REQUIREMENTS.”

## ANNUAL DEBT SERVICE REQUIREMENTS

The debt service requirements of the Authority with respect to the 2003 Bonds and the Series 2008 Capital Fund Bonds are shown below:

Fiscal Year Ending <u>September 30</u>	Debt Service on <u>2003 Bonds</u> <sup>(1)</sup>	Series 2008 <u>Capital Fund Bonds</u>		Total Debt <u>Service</u>
		<u>Principal</u>	<u>Interest</u>	
2009	\$ 17,632,598	\$ 15,855,000	\$ 5,570,887	\$ 49,058,484
2010	17,632,448	12,350,000	18,588,206	48,570,654
2011	17,634,373	12,430,000	18,017,419	48,081,791
2012	17,638,173	11,930,000	17,451,656	47,019,829
2013	17,633,123	12,010,000	16,871,156	46,514,279
2014	17,633,198	12,135,000	16,291,106	46,059,304
2015	17,635,823	12,580,000	15,677,919	45,893,741
2016	17,632,323	13,225,000	14,992,600	45,849,923
2017	17,635,948	13,935,000	14,265,772	45,836,719
2018	17,635,198	14,660,000	13,509,200	45,804,398
2019	17,633,698	15,435,000	12,713,181	45,781,879
2020	17,634,823	16,235,000	11,860,850	45,730,673
2021	17,631,948	17,125,000	10,949,300	45,706,248
2022	17,635,224	18,065,000	10,021,297	45,721,521
2023	17,635,403	18,985,000	9,071,891	45,692,293
2024	17,636,360	19,960,000	8,073,925	45,670,285
2025	17,636,520	20,970,000	7,025,094	45,631,614
2026	0	40,085,000	5,460,559	45,545,559
2027	0	42,160,000	3,353,031	45,513,031
2028	0	44,345,000	1,136,341	45,481,341
<b>Total</b>	<u>\$299,787,174</u>	<u>\$384,475,000</u>	<u>\$240,901,390</u>	<u>\$925,163,564</u>

<sup>(1)</sup> Reflects debt service on the 2003 Bonds after the defeasance described under “THE 2003 BONDS.” PRPHA and HUD will enter into a Capital Fund Defeasance Financing Amendment to Consolidated Annual Contributions Contract to reflect the defeasance of a portion of the 2003 Bonds.

## SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS

### **General – Series 2008 Capital Fund Bonds are Subordinate Obligations**

The Series 2008 Capital Fund Bonds are secured by a pledge and assignment of the Trust Estate, as defined herein under “INTRODUCTION – Sources of Payment for the Series 2008 Capital Fund Bonds.”

In connection with the issuance of the Series 2008 Capital Fund Bonds, the 2003 Indenture will be amended to prevent the Authority from issuing additional bonds thereunder having a pledge of the Capital Fund Allocations senior to the Series 2008 Capital Fund Bonds unless such additional bonds are refunding bonds and debt service in each year is equal to or less than the debt service on the 2003 Bonds being refunded.

**The principal of and redemption premium, if any, and interest on the Series 2008 Capital Fund Bonds are limited obligations of the Authority which are secured by a pledge and assignment of the Trust Estate, subordinate to the payment of debt service on the 2003 Bonds. The Series 2008 Capital Fund Bonds do not constitute a debt, obligation or a pledge of the credit of the Commonwealth or any of its municipalities or political subdivisions or of the Government Development Bank or any other instrumentality of the Commonwealth (other than the Authority from the sources described herein), and neither the Commonwealth nor any of its municipalities or political subdivisions nor Government Development Bank or any other public instrumentality of the Commonwealth (other than the Authority from the sources described herein) shall be liable for the payment thereof.**

**The Series 2008 Capital Fund Bonds are not a debt or liability insured or guaranteed by the United States of America or HUD or any other governmental agency or by any other person. The Authority has no taxing power.**

### **Capital Fund Allocations**

PRPHA receives funding, including the Capital Fund Allocations, from HUD pursuant to an Annual Contributions Contract (the “ACC”). The Authority has previously issued its 2003 Bonds which are secured by the Capital Fund Allocations pursuant to the ACC on a basis senior to the Series 2008 Capital Fund Bonds. As more fully described herein under “THE 2003 BONDS,” a portion of the 2003 Bonds will be defeased, thereby reducing the maximum annual debt service on the 2003 Bonds. It is expected that the annual Capital Fund Allocations remaining after payment of annual debt service on the 2003 Bonds will be sufficient to pay Debt Service on the Series 2008 Capital Fund Bonds as herein described. See “ANNUAL DEBT SERVICE REQUIREMENTS” above.

On June 24, 2008, pursuant to a letter from HUD to PRPHA (as amended as described below, the “HUD Approval Letter”), a copy of which (without the exhibits) is attached hereto as Appendix B, HUD approved the issuance of the Series 2008 Capital Fund Bonds subject to certain conditions, and authorized PRPHA to pledge and assign its Capital Fund Allocations remaining after payment of the 2003 Bonds to the extent necessary to pay Debt Service on the Series 2008 Capital Fund Bonds and/or reimburse the Authority for the Issuer’s Fees. On July 24, 2008, HUD issued a letter approving certain revised debt service schedules, a sources and uses statement, and a revised 2008 Annual Statement. Except for the approval of the revised documents referenced in the July 24, 2008 letter, the HUD Approval Letter remains in full force and effect. On or prior to the issuance of the Series 2008 Capital Fund Bonds, HUD and PRPHA will enter into a Capital Fund 2008 Financing Amendment to the ACC (the “CFF Amendment”), which provides generally for the use by PRPHA of its Capital Fund Allocations to pay

Debt Service on the Series 2008 Capital Fund Bonds. The proposed form of the CFF Amendment is attached hereto as Appendix C.

In the CFF Amendment, HUD has confirmed that, upon determining the amount of Capital Fund Allocations to be made available to PRPHA in any fiscal year, HUD will not permit disbursements of such moneys for purposes other than the payment of Debt Service (of all outstanding Bonds under the Master Indenture, including the 2003 Bonds and the Series 2008 Capital Fund Bonds) which, for purposes of the CFF Amendment includes certain ongoing fees, including the Issuer’s Fees, and related costs to an extent that would reduce the amounts available for such fiscal year below the amounts scheduled for Debt Service, including ongoing fees, and related costs in such fiscal year. The effect of this confirmation and agreement is that, subject to the availability of appropriations, with respect to the payment of Debt Service, the Trustee will have a priority claim against all Capital Fund Allocations, subordinate only to the claim of the 2003 Indenture, to be made available to PRPHA in any fiscal year, and that no expenditures for other projects or purposes can be made by PRPHA that would reduce delivery of such moneys to the Trustee in the full amount of Debt Service. HUD has further agreed that, upon determining the amount of Capital Fund Program moneys available to PRPHA in any fiscal year, with the exception of the 2003 Bonds debt service payments which are senior to the payment of Debt Service on the Series 2008 Capital Fund Bonds, it will not permit disbursements of such moneys for purposes other than Series 2008 Capital Fund Bonds debt service to an extent that would reduce the amounts available for such fiscal year below the amounts scheduled for Series 2008 Capital Fund Bonds debt service in such fiscal year. See Appendices B and C.

The Capital Fund Allocations received by PRPHA since Federal fiscal year 2000 are as follows:

<u>Federal Fiscal Year</u> <u>(ending September 30.)</u>	<u>Capital Fund Allocation</u> <u>(in millions)</u>
2000	\$171.1
2001	174.9
2002	165.5
2003	157.0
2004	148.4
2005	143.2
2006	134.0
2007	140.2
2008	137.2

The Capital Fund Allocation for 2008 is \$137.2 million; however, as more fully described in Section 5 of the CFF Amendment attached hereto as Appendix C, HUD has made a one-time withholding of \$10 million of FY 2008 Capital Fund moneys until such time as PRPHA can provide to HUD satisfactory evidence with respect to certain properties that (1) certain declarations of trust have been recorded, and (2) no liens or other encumbrances have priority over such declarations. HUD will continue to withhold such moneys until PRPHA provides such satisfactory evidence. If PRPHA does not provide satisfactory evidence by December 1, 2009, PRPHA will permanently lose such \$10 million.

A chart showing the historical obligation and expenditure requirements compliance of PRPHA is set forth below under the caption “CAPITAL FUND PROGRAM – Withholding of Capital Funds.” See also “Capital Fund Program—History of Modernization Funding” herein.

## **Debt Service Reserve Fund**

Under the Indenture, the Authority is initially required to maintain on deposit in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Fund Requirement, which is an amount equal to one-half of the maximum Debt Service in any one year on the Series 2008 Capital Fund Bonds through 2024. Upon the execution and delivery of the Series 2008 Capital Fund Bonds, the Authority expects to fund this amount from moneys provided by PRPHA from reimbursed Capital Grant Allocations which were previously spent on the rehabilitation and modernization of the Projects. Upon payment in full of the 2003 Bonds, amounts necessary to make the amounts on deposit in the Debt Service Reserve Fund equal to one-half of the maximum Debt Service on the Series 2008 Capital Fund Bonds in any one year through maturity will be transferred from the debt service reserve fund securing the 2003 Bonds to the Debt Service Reserve Fund. If at any time for any reason, the funds held in the Debt Service Fund are insufficient to pay when due the principal of or interest on the Series 2008 Capital Fund Bonds, the Trustee is authorized to withdraw from the Debt Service Reserve Fund to pay principal and interest on the Series 2008 Capital Fund Bonds. Although the Indenture permits the Authority to use a “Cash Equivalent” to fund the Debt Service Reserve Fund, the Authority expects to make a cash deposit from moneys provided by PRPHA to the Debt Service Reserve Fund upon the execution and delivery of the Series 2008 Capital Fund Bonds.

## **CAPITAL FUND PROGRAM**

### **Public Housing Program**

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

Since 1965, the public housing program has been administered at the Federal level by HUD. Of the approximately 1.2 million public housing units in the United States, which are divided among approximately 13,000 developments, nearly ninety percent were constructed prior to 1975. Average total family income for families in public housing as of 2004 was \$10,768. Seventy-seven percent of public housing families had annual incomes below 30% of area median income.

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

Throughout the 1950s and the 1960s, as average tenant incomes in public housing declined, tenants paid an increasing share of income for rent. In response to concerns over rent burdens and the ability of public housing authorities to meet operating costs, the Federal Government, beginning in 1969,

made significant changes to the public housing program. Tenant rental payments were limited to 25% of household income, resulting in a substantial reduction in rent receipts for public housing authorities. (The limit on tenant rental payments was increased to 30% of tenant income in 1981.) To offset this loss of income, the Federal Government provided funds to public housing authorities for the operation and maintenance of public housing, and, by 1980, annual appropriations for operating funds were over \$740 million and capital funding at approximately \$50 million.

*Renovation-Modernization Programs and Funding.* The original funding mechanism for public housing construction did not provide funding for a capital replacement reserve or for modernization. As the public housing stock aged and operating revenues declined, capital replacement and repair needs grew, and as a result, in 1968, HUD and Congress began a series of efforts to fund major repairs and renovation - referred to generally under the term "modernization." Initially, modernization costs were paid by HUD through the ACCs, either by increasing amounts payable under the original ACC with respect to a project or through a separate contract.

Modernization funding was increased and the method of funding for large public housing authorities was changed in 1992 with the adoption of the Comprehensive Grant Program ("Comp Grant"). Comp Grant was limited to public housing authorities with more than 250 units and, unlike an earlier HUD program ("CIAP"), was a formula based program, under which large public housing authorities were assured of receiving capital funding based on their size, modernization needs and replacement needs, among other criteria. The CIAP program continued to serve smaller public housing authorities.

### **Establishment of the Capital Fund Program; Annual Allocations**

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

The amount of Capital Fund subsidies allocated to each public housing authority, including PRPHA, is set according to formulas developed by HUD through negotiated rulemaking procedures, taking into account factors provided by the statute. As set forth in Section 9(d)(2) of the 1937 Act, these factors include: (i) the number of public housing units owned, assisted or operated by the public housing authority; (ii) the public housing authority's need to carry out rehabilitation, modernization and other activities for its public housing units, taking into account both backlog and future needs; (iii) housing construction and rehabilitation costs in the area; (iv) the public housing authority's need to provide a "safe and secure environment" in its public housing; and (v) the public housing authority's record of "exemplary performance" in operating its public housing. The Secretary of HUD is empowered to consider additional factors.

HUD has issued a final rule governing Capital Fund allocations. The Capital Fund allocation rule is set forth at 24 C.F.R. Part 905. The Capital Funds, which are allocated annually by HUD, based upon annual appropriations from the Congress, represent the major source of funding for modernization and other capital activities at public housing authorities and are the source of the moneys pledged by the Authority for payment of the 2003 Bonds and the Series 2008 Capital Fund Bonds.

As with all other aspects of the Capital Fund Program, the allocation formula is subject to periodic review by Congress and change at any time, whether by law or HUD regulation.

## **Capital Fund Authorization and Appropriations by Congress**

Under Article I, Section 9 of the United States Constitution, the power to appropriate funds to be spent by the Federal Government belongs to the Congress. Typically, when Congress creates a new program such as the Capital Fund Program, it authorizes the expenditure of Federal funds in the prescribed manner for the stated purposes. This authorizing legislation may limit the amount of money to be spent on a given purpose and/or the period of time in which the program may operate, or it may establish the program permanently and permit the spending of such funds as may be necessary for the legislative purpose. In either such event, in addition to an expenditure of funds being generally authorized by law, the amounts to be spent must also be specifically appropriated by the Congress. Appropriations are typically made in various “Appropriations Acts” that fund the operation of all activities of the Federal Government. Appropriations Acts are normally adopted annually by Congress, as an outcome of the process by which the Executive Branch proposes a budget to Congress and the elements of that budget are negotiated within Congress and between Congress and the President.

Section 519(a) of QHWRA authorized the appropriation of \$3 billion for the Capital Fund Program for Federal fiscal year 1999, and such sums as may be necessary for Federal fiscal years 2000 through 2003. Although there is no authorization for appropriations under the Capital Fund Program after Federal fiscal year 2003, this program remains in effect and Congress has provided appropriations for the program each fiscal year. See Table 1 and “RISKS TO THE BONDHOLDERS — Termination of Capital Fund Program.”

### **History of Modernization Funding**

Appropriations. The amount of funds appropriated by Congress for public housing modernization has varied from year to year. Table 1 below shows such appropriations between 1980 and 2008. The column headed “Enacted Appropriation” reflects the actual appropriations by the Congress for such programs for the particular Federal fiscal years, adjusted by rescission, carryovers and technical items.

**TABLE 1--APPROPRIATIONS FOR PUBLIC HOUSING MODERNIZATION: 1980-2007**

<u>Fiscal Year</u>	<u>Enacted Appropriation</u> <sup>(1)</sup>
1980 <sup>(2)</sup>	\$50,000,000
1981	100,000,000
1982	75,000,000
1983	2,500,000,000
1984	1,550,000,000
1985	1,725,000,000
1986	1,500,000,000
1987	1,436,940,000 <sup>(3)</sup>
1988	1,685,732,500
1989	1,646,948,200
1990	2,030,000,000
1991	2,500,000,000
1992	2,800,975,000
1993	3,100,000,000
1994	3,230,000,000
1995	2,885,000,000 <sup>(4)</sup>
1996	2,500,000,000
1997	2,500,000,000
1998	2,500,000,000
1999	3,000,000,000
2000 <sup>(5)</sup>	2,900,000,000
2001 <sup>(5)</sup>	2,993,400,000 <sup>(6)</sup>
2002 <sup>(5)</sup>	2,843,400,000
2003 <sup>(5)</sup>	2,712,255,000 <sup>(6)</sup>
2004 <sup>(5)</sup>	2,696,253,000 <sup>(6)</sup>
2005 <sup>(5)</sup>	2,579,200,000 <sup>(6)</sup>
2006 <sup>(5)</sup>	2,419,874,000 <sup>(6)</sup>
2007 <sup>(5)</sup>	2,431,379,000 <sup>(6)</sup>
2008 <sup>(5)</sup>	2,438,964,000

<sup>(1)</sup> These numbers reflect funds appropriated for public housing modernization or for the Capital Fund in the Appropriations Bills for Veterans Affairs, Housing and Urban Development and Independent Agencies for each of the fiscal years indicated. These figures do not include (a) additional funds which may have been appropriated in a Supplemental Appropriations bill for these years, (b) except as otherwise noted, adjustments for subsequent rescissions (unless such rescission was included as part of the enactment of the applicable Public Law) or (c) additional funds appropriated for public housing development, the Major Rehabilitation Obsolete Project ("MROP") and HOPE VI.

<sup>(2)</sup> The public housing modernization program, in its form as a grant, was first authorized in law in 1980 pursuant to the Comprehensive Improvement Assistance Program. Congress provided funds for this purpose three years prior to the enactment of authorizing legislation in the following amounts: 1977—\$35,000,000, 1978—\$42,500,000 and 1979—\$50,000,000.

<sup>(3)</sup> Pursuant to Further Continuing Appropriations, 1987 (Pub. L. 99-464), Congress appropriated for fiscal year 1987 "[s]uch amounts as may be necessary...for programs, projects, or activities provided for in H.R. 5313, the Department of Housing and Urban Development-Independent Agencies Appropriations Act, 1987, to the extent and in the manner provided for in the conference report and joint explanatory statement of the committee of conference (House Report 99-977) as filed in the House of Representatives on October 7, 1986, as if enacted into law." This number reflects the amount appropriated pursuant to such conference report and joint explanatory statement of the committee of conference.

<sup>(4)</sup> Includes an \$815,000,000 rescission enacted pursuant to the Emergency Supplemental Appropriations for Additional Disaster Assistance, For Anti-Terrorism Initiatives, For Assistance in the Recovery from the Tragedy that Occurred at Oklahoma City, and Rescissions Act, 1995 (Pub. L. 104-19).

<sup>(5)</sup> Current Capital funding formula.

<sup>(6)</sup> Includes a rescission in the following amounts for the following fiscal years: 2001 - \$6,600,000; 2003 - \$17,745,000; 2004 - \$16,002,000; 2005 - \$20,800,000; 2006 - \$43,726,000; and 2007 - \$7,585,000.

Once Congress has appropriated funds for modernization, HUD is responsible for allocating those funds among the public housing authorities.

### **Withholding of Capital Funds**

The 1937 Act requires public housing authorities to obligate for expenditure at least 90% of their allocation of Capital Funds within 24 months of the date such funds become available to the public housing authority (or of the date on which adequate funds to undertake modernization, substantial rehabilitation or new construction are accumulated) (the “Obligation Requirement”). Unless a waiver or extension is obtained a public housing authority cannot be awarded Capital Funds for any month during a fiscal year in which such public housing authority has unobligated Capital Funds in violation of the Obligation Requirement. However, if a public housing authority cures its failure to obligate the previously allocated Capital Funds within such fiscal year, Capital Funds will be made available to the public housing authority in an amount proportional to the number of months remaining in such fiscal year.

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

The HUD Approval Letter states that Capital Fund Program requirements are applicable to the use of the proceeds of the Series 2008 Capital Fund Bonds, which includes the Obligation Requirement, as well as the Expenditure Requirement referenced below. To the extent bond proceeds remain unobligated or unexpended in violation of such requirements, those proceeds must be used to redeem bonds. See “Redemption of Series 2008 Capital Fund Bonds” and Appendices B and C.

In addition to the Obligation Requirement discussed above, public housing authorities are required to expend Capital Funds within four years (plus the period of any extension approved by HUD) of the date on which such funds become available to the public housing authority for obligation (the “Expenditure Requirement”). Failure to do so may result in recapture of the funds upon action by the Secretary of HUD.

The withholding or recapture of Capital Funds are described in more detail in “Risks to the Bondholders” herein.

Taking into consideration extensions thereof approved by HUD, including a one-year extension for 2004, PRPHA has been in compliance with the Obligation Requirement and the Expenditure Requirement as reflected in Table 2 below. Internal control and monitoring systems are in place to ensure that PRPHA meets or exceeds all Obligation Requirements and Expenditure Requirements in a timely manner.

**Table 2 – Historical Obligation and Expenditure Requirements Compliance**

<u>Fiscal Year</u>	<u>PRPHA Allocation (in millions)</u>	<u>Obligated Funds (in millions)</u>	<u>% Obligated</u>	<u>Expended Funds (in millions)</u>	<u>% Expended</u>	<u>Available Balance (in millions)</u>	<u>% Available</u>
2000	\$171.1	\$171.1	100.0	\$171.1	100.0	\$ 0	0
2001	174.9	174.9	100.0	174.9	100.0	0	0
2002	165.5	165.5	100.0	165.5	100.0	0	0
2003	157.0	157.0	100.0	157.0	100.0	0	0
2004*	151.9	151.9	100.0	105.2	69.3	46.7	31.0
2005**	143.2	143.2	100.0	95.1	66.4	48.1	33.6
2006**	134.0	133.9	99.9	86.0	64.2	48.0	35.8
2007**	140.2	73.9	52.7	8.5	6.1	131.6	93.9
2008**	137.2	46.3	33.8	0.0	0.0	137.2	100.0

\* PRPHA has received from HUD a one year extension of the obligation/expenditure deadline. A portion of the available balance shown will be used by PRPHA to fund a portion of the debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds and the remaining amount will be used to purchase Defeasance Obligations for the 2003 Bonds.

\*\* Funds not yet subject to deadlines for obligation and expenditure, as applicable.

The Capital Fund Allocation for 2008 is \$137.2 million; however, as more fully described in Section 5 of the CFF Amendment attached hereto as Appendix C, HUD has withheld \$10 million of FY 2008 Capital Fund moneys until such time as PRPHA can provide to HUD satisfactory evidence with respect to certain properties that (1) certain declarations of trust have been recorded, and (2) no liens or other encumbrances have priority over such declarations. HUD will continue to withhold such moneys until PRPHA provides such satisfactory evidence. If PRPHA does not provide satisfactory evidence by December 1, 2009, PRPHA will permanently lose the \$10 million.

### **HUD Approval Letter**

The form of the HUD Approval Letter (without exhibits) is attached as Appendix B hereto and should be read in its entirety.

### **CFF Amendment**

The proposed form of the CFF Amendment is attached as Appendix C hereto and should be read in its entirety.

## **OTHER PROJECT FUNDING SOURCES**

### **Low Income Housing Tax Credits**

In exchange for constructing, or acquiring and renovating, and maintaining housing that is affordable to households with low or limited incomes, owners of such housing may be entitled to a direct credit on their federal taxes. Properties developed by use of the low-income housing tax credit generally must remain affordable for 30 years under the applicable Federal tax requirements, and may be subject to an extended affordability requirement under Commonwealth law and other funding requirements. Because equity capital generated by the credit only furnishes a portion of a project's financing, the program also has inspired an effective public/private partnership through which government agencies, commercial lenders and private entities can invest in the revitalization of local neighborhoods.

The Limited Liability Company expects to receive low-income housing tax credits under Section 42 of the Code in conjunction with the issuance of the Series 2008 Capital Fund Bonds and the Short-Term Bonds. As a condition of receiving such tax credits, the Limited Liability Company will enter into a tax credit regulatory agreement (the “Extended Use Agreement”), pursuant to which the Limited Liability Company will agree, among other things, to set aside substantially all of the units in each Project for 30 years for rental to tenants eligible under Section 42. Substantially all units will be low income housing tax credit units requiring the units to be occupied by households with incomes at or below 60% of the area median income adjusted for family size.

## **RISKS TO THE BONDHOLDERS**

The factors discussed below should be considered in evaluating the ability of the Authority to make payments in amounts sufficient to provide for payment of the principal of, premium, if any, and interest on the Series 2008 Capital Fund Bonds. This discussion of the risk factors involved in purchasing and owning the Series 2008 Capital Fund Bonds is not, and is not intended to be, exhaustive.

### **General – Series 2008 Capital Fund Bonds are Subordinate Obligations**

The Series 2008 Capital Fund Bonds will be limited obligations of the Authority and except to the extent payable from Series 2008 Capital Fund Bond proceeds, will be secured by the Trust Estate, primarily consisting of the Capital Fund Allocations, subordinate to the ongoing payment of debt service on the 2003 Bonds (the 2003 Bonds are not subject to acceleration of principal upon any event of default). The Series 2008 Capital Fund Bonds will not constitute indebtedness or an obligation of the Commonwealth or any other governmental instrumentality or political subdivision thereof. The Authority has no taxing power. See “SECURITY FOR THE SERIES 2008 CAPITAL FUND BONDS.”

The ability of the Authority to make payments in amounts sufficient to provide for payment of the principal of, premium, if any, and interest on the Series 2008 Capital Fund Bonds could be adversely affected by the occurrence of certain events, including, without limitation, the events and circumstances described below.

### **No Liability to PRPHA For Failure to Pay Debt Service Solely Due to Failure of Congress to Appropriate Funds for the Capital Fund Program**

Notwithstanding any other provision in the Indenture to the contrary, the failure of PRPHA to pay amounts due under the Loan Agreement, including amounts related to payment of debt service on the Bonds, that arises solely as a result of the failure of Congress to appropriate funds for the Capital Fund Program to PRPHA shall not result in any liability to PRPHA.

### **Delay, Reduction or Elimination of Appropriations**

The primary security for the Series 2008 Capital Fund Bonds is a claim to annual Capital Fund Allocations to be received from HUD, subordinate to the claim thereto as provided in the 2003 Indenture. National appropriations must be determined by Congress each year. There can be no assurance that Congress will reauthorize the expenditure of Capital Fund Allocations, maintain appropriations for the Capital Fund Program at levels sufficient to assure payment of the 2003 Bonds and the Series 2008 Capital Fund Bonds or make specific year’s appropriation under the Capital Fund Program in a timely manner. A decrease in the level of appropriated funds by Congress to HUD or a delay in appropriations could have a material adverse effect on the Authority’s ability to pay debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds. In all events, Capital Fund Allocations shall be allocated only to the extent appropriated by the federal government.

## **Withholding of Capital Funds**

The Secretary of HUD is required to withhold Capital Funds that would otherwise be allocated to a public housing authority if the public housing authority fails to obligate its Capital Program Funds within the time period required by the 1937 Act. See “CAPITAL FUND PROGRAM—Withholding of Capital Funds” herein. Any withholding by HUD of Capital Funds may have a materially adverse effect on the Authority’s ability to pay Debt Service and Issuer’s Fees.

Although the proceeds of the 2003 Bonds are not subject to the Obligation Requirement and the Expenditure Requirement, as noted herein under “THE 2003 BONDS,” a large portion of the 2003 Bonds remain on deposit with the 2003 Trustee, though a substantial amount thereof will be applied to the defeasance of 2003 Bonds upon the execution and delivery of the Series 2008 Capital Fund Bonds. In addition, as noted in Table 2 under “CAPITAL FUND PROGRAM—Withholding of Capital Funds,” after receiving a one-year extension of the Expenditure Requirement, a portion of the 2004 HUD allocation will be used to pay debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds to assist in the expenditure of those moneys and the remaining portion of such moneys will be applied to the defeasance of the 2003 Bonds.

Taking into consideration extensions thereof approved by HUD, PRPHA has been in compliance with the Obligation Requirement and the Expenditure Requirement for the past seven years. PRPHA believes that internal control and monitoring systems are in place to ensure that PRPHA meets or exceeds all Obligation Requirements and Expenditure Requirements in a timely manner. However, no assurances can be given that other circumstances, including circumstances outside the control of PRPHA, will not arise that restrict or prevent PRPHA from complying with the Obligation Requirement and the Expenditure Requirement.

The likelihood of any potential withholding of Capital Funds adversely affecting the Authority’s ability to pay Debt Service and Issuer’s Fees is reduced by a number of factors, including:

1. Unobligated amounts are disregarded if they do not exceed 10% of the original amount made available.
2. If a public housing authority cures its failure to obligate a prior year’s Capital Fund Allocations, the public housing authority shall receive for the then-current fiscal year a share equal to its original share multiplied by a fraction equal to the number of months remaining in the year subsequent to the month in which the cure occurred, divided by 12.
3. Current Capital Fund Allocations are equal to in excess of 2.7 times this year’s Debt Service, including ongoing fees, for the 2003 Bonds and the Series 2008 Capital Fund Bonds combined.
4. HUD has agreed that Debt Service, including ongoing fees, may be paid from any Capital Fund Allocations, including any unobligated funds. Accordingly, to the extent that the withholding of a particular year’s allocation of Capital Fund Allocations is due to the presence of unobligated funds in violation of the 1937 Act’s obligation deadlines, those earlier unobligated funds would be available to enable the Authority to pay Debt Service and ongoing fees. Such payment would also help to cure the condition giving rise to the withholding of Capital Fund Allocations. For example, HUD has agreed to allow PRPHA to fund a portion of the interest due on the 2003 Bonds and the Series 2008 Capital Fund Bonds from 2004 unexpended funds.

5. If unobligated Capital Fund Allocations remaining from prior fiscal years are insufficient fully to pay Debt Service in a particular year and the application of such funds comes too late in the year to permit receipt of sufficient Capital Fund Allocations in the current year to permit full payment of debt service with such current amounts, the Debt Service Reserve Fund may be used to pay Debt Service. Full application of amounts remaining unobligated from prior years to Debt Service would enable PRPHA to receive a full allocation of Capital Fund Allocations for the subsequent fiscal year, enabling it to restore its Debt Service Reserve Fund and pay current Debt Service.
6. Debt Service once paid cannot be recaptured because such amounts are obligated and expended on a current, ongoing basis.
7. If and to the extent that the failure to obligate proceeds of the Series 2008 Capital Fund Bonds within 24 months of their issuance constitutes a violation of the Obligation Requirement, or the failure to expend proceeds of the Series 2008 Capital Fund Bonds within 48 months of their issuance constitutes a violation of the Expenditure Requirement, a Special Mandatory Redemption of the Series 2008 Capital Fund Bonds with unexpended proceeds may cure any such violation. See “THE SERIES 2008 CAPITAL FUND BONDS—Redemption Provisions—Special Mandatory Redemption.”

### **Termination of Capital Fund Program**

As described above under “CAPITAL FUND PROGRAM,” the funding authorization for the Capital Fund Program expired at the end of Federal fiscal year 2003; nevertheless, Congress appropriated \$2.70 billion for the Capital Fund Program in Federal fiscal year 2004, \$2.58 billion for the Program in Federal fiscal year 2005, \$2.44 billion for the Program in Federal fiscal year 2006, and \$2.44 billion for the Program for Federal fiscal year 2007. For Federal fiscal year 2008, Congress appropriated \$2,438,964,000 for the Capital Fund Program by the enactment of the Consolidated Appropriations Act, 2008 (Pub. L. 110-161). As is discussed above under “CAPITAL FUND PROGRAM—Public Housing Program—*Renovation-Modernization Programs and Funding*,” HUD and the Congress have provided assistance to housing authorities for modernization and other capital activities in a variety of forms. There can be no assurance that the Congress will maintain the Capital Fund Program in its present form or reauthorize the expenditure of funds thereunder. Although PRPHA has pledged to the Trustee amounts received under any successor to the Capital Funds Program, there can be no assurance that, upon discontinuation or termination of the Capital Fund Program, a substantially similar program will be established by the Congress in lieu of the Capital Fund Program or that amounts provided under any such successor will be comparable to those provided under the Capital Fund Program. Accordingly, a discontinuation or termination of the Capital Fund Program could result in decreased funding by HUD to PRPHA for capital needs and could have a material adverse effect on the 2003 Bonds and the Series 2008 Capital Fund Bonds.

### **Change in Allocation Formula**

As described above under the caption “CAPITAL FUND PROGRAM,” HUD allocates amounts to housing authorities under the Capital Fund Program on the basis of a formula authorized by law (the “Capital Funds Formula”). HUD has previously allocated amounts to housing authorities under predecessor programs for the modernization of public housing by formula or upon such other bases as were established by Congress with respect to the particular program. There can be no assurance that Congress will not change the basis upon which moneys will be allocated to housing authorities (including PRPHA) under the Capital Fund Program (or any successor thereto). There can be no assurance that HUD will not make technical or fundamental changes to the Capital Funds Formula. A change in the Capital

Funds Formula or basis upon which amounts under the Capital Fund Program (or any successor thereto) are allocated to housing authorities could decrease the amount of such funds allocated by HUD to PRPHA and could, therefore, have a material adverse effect on the Authority's ability to pay debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds.

### **Reduction in Allocation**

There can be no assurance that changes in the operations of PRPHA will not have an adverse effect on allocations of Capital Fund Program moneys under the current Capital Fund Allocations Formula or any successor thereto. There is no assurance that PRPHA's allocations of Capital Fund Allocations will not be reduced in any year through application of the Capital Fund Allocations Formula, as a result of a reduction in the number of public housing units operated by PRPHA which are eligible for improvements funded by Capital Fund Allocations or otherwise. Any change in the status of PRPHA's inventory of public housing units and/or operations considered for purposes of the current or any future Capital Fund Allocations Formula could decrease the amount of such funds allocated by HUD to PRPHA and could, therefore, have a material adverse effect on the Authority's ability to pay debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds.

With respect to the foregoing, PRPHA covenants in the Loan Agreement and in the First Supplemental Indenture not to reduce the number of ACC Units in each year through the maturity of the Series 2008 Capital Fund Bonds by more than 5% (cumulatively), subject to planned additions and subtractions prior to reaching the "Stabilized Base Unit Count" as further set forth in the CFF Amendment, below the number of public housing units certified to HUD and anticipated to be eligible for Capital Fund Allocations without the prior prepayment, redemption, defeasance or refunding of the Series 2008 Capital Fund Bonds to the extent necessary to maintain the same debt service coverage ratio in the Bond Year immediately following such reduction in public housing units (based on the then current year's Capital Fund Allocation but giving effect to the reduction in public housing units in a manner acceptable to HUD) as existed prior to the reduction; provided, however, that in no event shall PRPHA be required to maintain a debt coverage ratio in excess of 2.70 in any fiscal year of the Capital Fund Program, taking into account the combined debt service payments of the 2003 Bonds and the Series 2008 Capital Fund Bonds; and provided, further that if the reduction in units is required by law or public housing requirements, the PRPHA shall not be required to redeem or defease the Series 2008 Capital Fund Bonds prior to such reduction, but instead shall do so (to the extent necessary to maintain the same debt service coverage ratio as was in effect immediately preceding such reduction in public housing units) as soon as possible after becoming aware of the requirement of law or public housing requirements, but only to the extent that Capital Grant Funds are not otherwise needed by PRPHA to address the health and safety issues or other requirements of law in the PRPHA's public housing portfolio, all as determined by HUD.

### **Other Changes in Law or Regulations**

There can be no assurance that the laws and regulations presently applicable to the Capital Fund Program will not be rescinded, revised or supplemented in such a way as to have a material adverse effect on the Authority's ability to pay debt service on the 2003 Bonds and the Series 2008 Capital Fund Bonds.

### **HUD Administrative Sanctions**

The Capital Fund Program and the public housing program generally operate under a series of regulations and requirements prescribed by the 1937 Act and by HUD pursuant to its administrative authority over those programs. Various sanctions may be imposed upon housing authorities which violate HUD program requirements, including, under specified circumstances, the withholding of funds to which

a public housing authority might otherwise be entitled. The statute provides for various extensions and exceptions which would avoid the withholding of assistance in particular cases. HUD regulations permit withholding of assistance in other circumstances, as well. In addition, there can be no assurance that HUD and Congress will not impose additional conditions upon the receipt of assistance pursuant to the Capital Fund Program or any successor, with which PRPHA may be unable to comply. See “RISKS TO THE BONDHOLDERS—Withholding of Capital Funds” herein.

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

While nothing in the HUD Approval Letter is intended to diminish HUD’s authority to administer, monitor and regulate the public housing program, including HUD’s authority to exercise administrative sanctions provided by law, HUD has agreed that no subsequent change in the permissible use of Capital Fund Program moneys and no administrative sanction regarding PRPHA (including the one-time withholding of the \$10 million in Capital Fund Allocations as described in Table 2 above) will affect the eligibility of expenditures for debt service on the Series 2008 Capital Fund Bonds or reduce the Capital Fund Allocations to PRPHA, except as required by law, below the levels needed to pay such debt service.

#### **HUD Directed Redemption**

The CFF Amendment provides, among other things, that in the event HUD shall determine to impose administrative sanctions upon PRPHA which would have the effect of reducing the payment of Capital Fund Allocations to PRPHA in any year by at least 20%, HUD shall have the right to require that unexpended proceeds of the Series 2008 Capital Fund Bonds (except for amounts already obligated or encumbered for the payment of project costs or required for a debt service reserve) be applied, at the earliest permissible date to the optional redemption of the Series 2008 Capital Fund Bonds. See “REDEMPTION PROVISIONS - Special Mandatory Redemption” herein.

#### **Federal Budget Delays**

Capital Fund Allocations for a particular Federal fiscal year generally become available near or after the end of each Federal fiscal year, and this delay has been taken into account in structuring debt service payments on the Series 2008 Capital Fund Bonds. In the event that Federal appropriations are delayed, PRPHA’s receipt of Capital Fund Allocations may also be delayed. In the event of a delay, Congress has traditionally provided interim funding to federal agencies until final appropriation bills are enacted; however, there can be no assurance of any such interim funding.

#### **No Obligation of HUD**

HUD has no obligation with respect to the Series 2008 Capital Fund Bonds. The Series 2008 Capital Fund Bonds are secured solely by the Trust Estate, which is comprised of (i) all Capital Grant Receipts received by the Trustee for deposit into the Revenue Fund after the payment of the 2003 Bonds, including all earnings thereunder, (ii) certain funds held under the Indenture, together with income earned thereunder, and (iii) the right to enforce certain covenants of the PRPHA in the Loan Agreement.

In particular, and without limitation, HUD has no obligation to accelerate Capital Fund Allocations or increase the amount of Capital Fund Allocations pledged to Debt Service or Issuer's Fees in the event of a default under the Series 2008 Capital Fund Bonds.

### **Early Redemption**

The Series 2008 Capital Fund Bonds may be redeemed prior to maturity upon special redemption or optional redemption, including redemption from unexpended or unobligated Series 2008 Capital Fund Bond proceeds or insurance or condemnation proceeds. See "THE SERIES 2008 CAPITAL FUND BONDS—Redemption Provisions—*Special Mandatory Redemption*" herein.

### **No Acceleration or Redemption upon Loss of Tax Exemption**

The Authority has covenanted and agreed in the Indenture, and PRPHA and the Limited Liability Company have covenanted and agreed in the Loan Agreement, to comply with the applicable provisions of the Code relating to the exclusion from gross income of the interest payable on the Series 2008 Capital Fund Bonds for Federal income tax purposes, and the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate contain covenants and procedures designed to assure compliance with such provisions. Any failure by the Authority, PRPHA or the Limited Liability Company to comply with such provisions will not give rise to a redemption or acceleration of the Series 2008 Capital Fund Bonds. Consequently, interest on the Series 2008 Capital Fund Bonds may become includable in gross income for purposes of Federal income taxation retroactively to the date of issuance of the Series 2008 Capital Fund Bonds by reason of the Authority's, PRPHA's or the Limited Liability Company's failure to comply with the requirements of Federal tax law. See "TAX MATTERS" herein. There is no provision for a redemption of Series 2008 Capital Fund Bonds or for an increase in the rate of interest payable thereon upon the occurrence of such an event.

### **Enforceability of Remedies**

The remedies available to the owners of the Series 2008 Capital Fund Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Federal bankruptcy laws, the Indenture and the various related documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2008 Capital Fund Bonds will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by principles of equity.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, expected to be delivered in substantially the form attached to this Official Statement as Appendix E, under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, assuming continuing compliance with certain tax covenants described herein, (a)(i) interest on the Series 2008 Capital Fund Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to the exclusion of interest on any Series 2008 Capital Fund Bond for any period during which such Series 2008 Capital Fund Bond is held by a person who, within the meaning of Section 147(a)

of the Code is (1) a “substantial user” of facilities financed with the proceeds of the Series 2008 Capital Fund Bonds or (2) a “related person;” and (ii) interest on the Series 2008 Capital Fund Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in adjusted current earnings of corporations for purposes of the alternative minimum tax; and (b) the Series 2008 Capital Fund Bonds, and the interest thereon, are exempt from state, Commonwealth of Puerto Rico and local taxation. In rendering its opinion, Bond Counsel to the Authority has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, DOH, and the Limited Liability Company in connection with the Series 2008 Capital Fund Bonds, and Bond Counsel to the Authority has assumed compliance by the Authority, DOH and the Limited Liability Company with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2008 Capital Fund Bonds from gross income under Section 103 of the Code.

Bond Counsel to the Authority expresses no opinion regarding any other Federal, Commonwealth or state tax consequences with respect to the Series 2008 Capital Fund Bonds. Bond Counsel to the Authority renders its opinion under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel to the Authority expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2008 Capital Fund Bonds, or under state, Commonwealth and local tax law.

### **Summary of Certain Federal Tax Requirements**

Under applicable provisions of the Code, the exclusion from gross income of interest on the Series 2008 Capital Fund Bonds for purposes of Federal income taxation requires that (i) at least 40% of the units in each Project financed by the Series 2008 Capital Fund Bonds be occupied during the “Qualified Project Period” (defined below) by individuals whose incomes, determined in a manner consistent with Section 8 of the United States Housing Act of 1937, as amended, do not exceed 60% of the median income for the area, as adjusted for family size, and (ii) all of the units of each Project financed by the Series 2008 Capital Fund Bonds be rented or available for rental on a continuous basis during the Qualified Project Period. “Qualified Project Period” for each Project financed by the Series 2008 Capital Fund Bonds means a period commencing upon the later of (a) occupancy of 10% of the units in such Project or (b) the date of issue of the Series 2008 Capital Fund Bonds and running until the later of (i) the date which is 15 years after occupancy of 50% of the units in such Project, (ii) the first date on which no tax-exempt private activity bonds issued with respect to such Project are outstanding or (iii) the date on which any assistance provided with respect to such Project under Section 8 of the 1937 Housing Act terminates. Such Project will meet the continuing low income requirement as long as the income of the individuals occupying the unit does not increase to more than 140% of the applicable limit. Upon an increase over 140% of the applicable limit, the next available unit of comparable or smaller size in such Project must be rented to an individual having an income that does not exceed the applicable income limitation.

In the event of noncompliance with the requirements described in the preceding paragraph arising from events occurring after the issuance of the Series 2008 Capital Fund Bonds, the Treasury Regulations provide that the exclusion of interest from gross income for Federal income tax purposes will not be impaired if the Authority takes appropriate corrective action within a reasonable period of time after such noncompliance is first discovered or should have been discovered by the Authority.

## **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2008 Capital Fund Bonds in order that interest on the Series 2008 Capital Fund Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2008 Capital Fund Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2008 Capital Fund Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority, DOH and the Limited Liability Company have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2008 Capital Fund Bonds from gross income under Section 103 of the Code. The Authority, DOH and the Limited Liability Company will each deliver its Tax Certificate concurrently with the issuance of the Series 2008 Capital Fund Bonds which will contain provisions relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such covenant, the remedies available to the Authority or the owners of the Series 2008 Capital Fund Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series 2008 Capital Fund Bonds for Federal income tax purposes.

## **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain general Federal income tax matters with respect to the Series 2008 Capital Fund Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2008 Capital Fund Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2008 Capital Fund Bonds.

Prospective owners of the Series 2008 Capital Fund Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2008 Capital Fund Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

## **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2008 Capital Fund Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2008 Capital Fund Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2008 Capital Fund Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel to the Authority further is of the opinion that, for any Series 2008 Capital Fund Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is

excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2008 Capital Fund Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2008 Capital Fund Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

### **Bond Premium**

In general, if an owner acquires a Series 2008 Capital Fund Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2008 Capital Fund Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2008 Capital Fund Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2008 Capital Fund Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2008 Capital Fund Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2008 Capital Fund Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2008 Capital Fund Bonds under Federal or state law and could affect the market price or marketability of the Series 2008 Capital Fund Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Series 2008 Capital Fund Bonds, will not have an adverse effect on the tax exempt status, market price or marketability of the Series 2008 Capital Fund Bonds.

Prospective purchasers of the Series 2008 Capital Fund Bonds should consult their own tax advisors regarding the foregoing matters.

### **UNDERWRITING**

The Underwriters have agreed, jointly and severally, to purchase the Series 2008 Capital Fund Bonds at the initial offering prices set forth or derived from information set forth on the inside cover page of this Official Statement. The Underwriters will receive compensation as underwriters in the form of an underwriters' discount equal to \$2,572,373.50. The Purchase Contract with respect to the Series 2008 Capital Fund Bonds provides that the Underwriters will purchase the Series 2008 Capital Fund Bonds, subject to fulfillment by the Authority and PRPHA of certain terms and conditions set forth in the Purchase Contract, including the simultaneous closing of the Short-Term Bonds with the Series 2008 Capital Fund Bonds, and including the receipt of certain legal opinions. In the Purchase Contract, the Authority and PRPHA have agreed to indemnify the Underwriters, to the extent permitted by law, against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that the Underwriters may be required to make in respect thereof. The initial public offering prices of the Series 2008 Capital Fund Bonds may be changed, from time to time, by the Underwriters. The Purchase Contract provides that the Underwriters may offer and sell the Series 2008 Capital Fund Bonds to certain dealers (including dealers depositing the Series 2008 Capital Fund Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the public offering prices stated on the inside cover page.

Oriental Financial Services Corporation and Bear, Stearns & Co. Inc. (an affiliate of J.P. Morgan Securities Inc., an Underwriter of the Series 2008 Capital Fund Bonds) have entered into a joint venture agreement under which the parties shall provide services and advice to each other and take risk related to the structuring and execution of certain municipal finance transactions with governmental entities located in the Commonwealth. Pursuant to the terms of such joint venture agreement and in compliance with applicable rules, the parties will be entitled to receive a portion of each other's net profits (including those of J.P. Morgan Securities Inc.) from the underwriting of the Series 2008 Capital Fund Bonds as consideration for their professional services.

Santander Securities Corporation ("SSC") and Banc of America Securities LLC ("BAS") have entered into an agreement to jointly pursue municipal securities underwriting opportunities with the

Commonwealth, its agencies, municipalities and government conduit issuers in the Commonwealth. Under the terms of the agreement, SSC and BAS will be entitled to receive a portion of each other's revenues from the underwriting of the Series 2008 Capital Fund Bonds in consideration for their professional services.

BBVAPR MSD ("BBVA") and RBC Capital Markets Corporation ("RBC") have entered into an agreement under which the parties provide services and advice to each other to assist the Commonwealth and its issuers in the structuring and execution of their municipal securities offerings. As part of the agreement, BBVA and RBC share in the risk from the underwriting of the Series 2008 Capital Fund Bonds as part of the consideration for their professional services.

Popular Securities, Inc. ("Popular") has entered into a joint venture agreement (the "JV Agreement") with Morgan Stanley & Co. Incorporated ("Morgan Stanley") under which the parties shall provide services and advice to each other related to the structuring and execution of certain municipal finance transactions in the U.S. capital markets with governmental entities located in the Commonwealth. Pursuant to the terms of the JV Agreement and in compliance with applicable rules, the parties are entitled to receive a portion of each other's net profits from the underwriting of the Series 2008 Capital Fund Bonds as consideration for their professional services.

Loop Capital LLC ("LC") and TMC Capital, Inc. ("TMC") have entered into an agreement to jointly pursue municipal securities underwriting opportunities with the Commonwealth, its agencies, municipalities and governmental conduit issuers in the Commonwealth. Under the agreement LC and TMC will be entitled to receive a portion of each other's revenues from the underwriting of the Series 2008 Capital Fund Bonds in consideration for their professional services.

Oppenheimer & Co. Inc. ("Oppenheimer") and Eurobank Municipal Securities Dealer ("Eurobank MSD") have entered into an agreement to jointly pursue municipal securities underwriting opportunities with the Commonwealth, its agencies, municipalities and governmental conduit issuers in the Commonwealth. Under the agreement Oppenheimer and Eurobank MSD will be entitled to receive a portion of each other's revenues from the underwriting of the Series 2008 Capital Fund Bonds in consideration for their professional services.

J.P. Morgan Securities Inc. ("JPMSI") and Scotia Capital (USA) Inc. ("SCUSA") have entered into an agreement to assist the Commonwealth, its public corporations, agencies, instrumentalities, and municipalities in structuring and facilitating the issuance of their municipal securities. Pursuant to the agreement and in compliance with applicable rules, the parties are entitled to receive a portion of each other's revenues from the underwriting of certain bonds issued in the Commonwealth, but will not be sharing revenues with respect to the Series 2008 Capital Fund Bonds.

## **LEGAL INVESTMENT**

The Series 2008 Capital Fund Bonds will be eligible for deposit by banks in the Commonwealth to secure public funds and will be approved investments for insurance companies to qualify them to do business in the Commonwealth, as required by law.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of (a) the mathematical computations of the adequacy of the outstanding maturing amount of principal of and interest on the Defeasance Obligations and other available moneys to be deposited in escrow to pay the maturing amounts or redemption prices of the Defeased 2003 Bonds on their respective maturity or redemption dates, together with all payments of

interest thereon coming due on or prior to such dates and (b) mathematical computations supporting the conclusion of Bond Counsel that the 2003 Bonds are not “arbitrage” bonds under Section 148 of the Code, will be verified by Causey, Demgen & Moore Inc.

## **LITIGATION**

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the Series 2008 Capital Fund Bonds or in any way contesting or affecting the validity of the Series 2008 Capital Fund Bonds, the resolutions or other proceedings of the Authority taken with respect to the authorization, issuance or sale thereof, or the pledge or application of any moneys under the Indenture or the existence or powers of the Authority.

## **LEGAL MATTERS**

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2008 Capital Fund Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. The issuance of the Series 2008 Capital Fund Bonds is conditioned upon the delivery on the date of issuance of the approving opinion of Bond Counsel to the Authority in substantially the form attached to this Official Statement as Appendix E. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP. Certain legal matters will be passed upon for PRPHA and DOH by their counsel, Ballard Spahr Andrews & Ingersoll, LLP, Baltimore Maryland, and O’Neill & Borges, San Juan, Puerto Rico. Certain legal matters will be passed upon for the Limited Liability Company by its counsel, Bufete Negrón Garcia, CSP, San Juan, Puerto Rico.

## **RATINGS**

Standard & Poor’s Rating Services (“S&P”) and Fitch Ratings (“Fitch”) have assigned their long-term municipal ratings of “AA-” and “A+,” respectively, to the Series 2008 Capital Fund Bonds. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor’s Rating Services, 55 Water Street, New York, New York 10041 and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. A revision, suspension or withdrawal of any such ratings may have an effect on the market price of the Series 2008 Capital Fund Bonds.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), PRPHA and the Trustee will enter into an agreement for the benefit of the owners of all Series 2008 Capital Fund Bonds (the “Disclosure Agreement”) to provide continuing disclosure. Pursuant to the Disclosure Agreement, PRPHA will undertake to provide annually, on or before 305 days after the end of each Federal fiscal year, commencing with the Federal fiscal year in which the Series 2008 Capital Fund Bonds are issued, to each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (each a “Repository”), and, if and when one is established, a state information depository for the Commonwealth of Puerto Rico (the “State Information Depository”), certain financial information and other operating data with respect to PRPHA (collectively, the “Annual Information”), as follows:

- The level of Capital Fund Allocations to PRPHA by HUD.
- The amount of unobligated Capital Funds for the three most recent Federal fiscal years.
- The amount of unexpended Capital Funds for the five most recent Federal fiscal years.
- Changes in the Capital Fund Program materially affecting the level of funding to PRPHA.
- Statutory or regulatory changes in the Capital Fund formula materially affecting the level of funding to PRPHA.
- Any material change in direct payment of debt service funds for payment of the Series 2008 Capital Fund Bonds to the Trustee.
- To the extent there have been any material changes, an update of the information contained herein under the headings “Puerto Rico Public Housing Administration” and “Capital Fund Program”.

In addition, PRPHA will undertake in the Disclosure Agreement, for the benefit of the owners of the Series 2008 Capital Fund Bonds, to provide to each such Repository or to the Municipal Securities Rulemaking Board (“MSRB”), and to the State Information Depository, in a timely manner, the notices required to be provided by Rule 15c2-12.

The notices required to be provided by Rule 15c2-12, which PRPHA will undertake to provide as described above, include notices of any of the following events with respect to the Series 2008 Capital Fund Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2008 Capital Fund Bonds; (7) modification to the rights of owners of Series 2008 Capital Fund Bonds; (8) Series 2008 Capital Fund Bond calls, other than mandatory sinking fund redemptions; (9) defeasances of all or a portion of the Series 2008 Capital Fund Bonds; (10) the release, substitution, or sale of property securing repayment of the Series 2008 Capital Fund Bonds; and (11) rating changes; and to each Repository or to the MSRB and to the State Information Depository, in a timely manner, notice of a failure by PRPHA to provide the Annual Information required by the Disclosure Agreement.

If PRPHA fails to comply with any provisions of the Disclosure Agreement, then the Trustee and, as a direct or third party beneficiary, as the case may be, any owner of the Series 2008 Capital Fund Bonds may enforce, for the equal benefit and protection of all owners similarly situated by mandamus or other suit or proceeding at law or in equity, against PRPHA, and may compel PRPHA to perform and carry out its duties thereunder; provided that the sole and exclusive remedy for breach or default under the Disclosure Agreement to provide the continuing disclosure described above is an action to compel specific performance of the undertakings contained therein, and no person or entity may recover monetary damages thereunder under any circumstances; provided further, however, that the rights of any owner of Series 2008 Capital Fund Bonds to challenge the adequacy of the information provided by PRPHA are conditioned upon the provisions of the Indenture with respect to the enforcement of remedies of owners of the Series 2008 Capital Fund Bonds upon the occurrence of an Event of Default described in the Indenture. A breach or default under the Disclosure Agreement shall not constitute an Event of Default under the Indenture. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the Disclosure Agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the provision of such information, shall no longer be required to

be provided. Beneficial Owners of the Series 2008 Capital Fund Bonds are third party beneficiaries of the Disclosure Agreement and, as such, are deemed to be owners of the Series 2008 Capital Fund Bonds for the purposes of exercising remedies.

The foregoing undertakings are intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data. Where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The Disclosure Agreement, however, may be amended or modified without the consent of the owners of the Series 2008 Capital Fund Bonds under certain circumstances set forth in the Disclosure Agreement.

Copies of the Disclosure Agreement when executed and delivered by the parties thereto on the date of the initial delivery of the Series 2008 Capital Fund Bonds will be on file at the office of the Authority.

### **MISCELLANEOUS**

The summaries and explanations of the Indenture, the Loan Agreement, the HUD Approval Letter, the CFF Amendment and the other documents described herein do not purport to be complete and reference is made to said Indenture, Loan Agreement, HUD Approval Letter, CFF Amendment and other documents for their full and complete provisions. The Appendices attached hereto are a part of this Official Statement. During the offering period, copies, in reasonable quantity, of the Indenture, the Loan Agreement, the HUD Approval Letter, the CFF Amendment and such other documents may be obtained upon written request directed to the Authority.

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

### **PUERTO RICO HOUSING FINANCE AUTHORITY**

By:                   /s/ Fernando L. Berio-Muñiz                    
Executive Director

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

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

**Definitions (Section 1.1)**

The Indenture defines certain terms, including the following:

“*ACC*” means the Consolidated Annual Contributions Contract between HUD and PRPHA as currently in existence and as it may be amended from time to time.

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

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

“*Annual ACC Amendment*” means the annual amendment to the ACC to be executed by HUD and PRPHA (subject to the availability of appropriations and the allocation of such amounts to PRPHA by HUD) for the obligation to PRPHA of annual Capital Grant Allocations.

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

“*Annual Plan*” means the annual agency plan submitted by PRPHA to HUD pursuant to 24 CFR Part 903, subpart B.

“*Annual Statement*” means the annual submission by PRPHA to HUD as a part of its Annual Plan for spending its Capital Grant Allocations during each PRPHA fiscal year pursuant to the Capital Fund Program and all applicable HUD rules and regulations.

“*Authenticating Agent*” means the Trustee or other Fiduciary as may be authorized pursuant to a Supplemental Indenture to perform the acts required of such agent in conformance with the provisions of the Indenture and such Supplemental Indenture.

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

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

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

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

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

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

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

“*Bond Year*” means, with respect to the Bonds, the initial period beginning on the date of issuance of the first Series of Bonds and terminating on November 30, 2008, and thereafter each period of twelve (12) consecutive months beginning on December 1 and terminating on November 30.

“*Borrower*” means any or all of the PRPHA and the Limited Partnerships.

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

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

“*Capital Fund Program*” means the federal housing assistance program established by Section 9(d) of the United States Housing Act of 1937, as amended (42 U.S.C. §1437g(d)), together with all successor or replacement federal programs pursuant to which the PRPHA receives funds for the purpose of development, financing, modernization or otherwise in connection with the capital costs of public housing projects and the other purposes specifically set forth in said Section 9(d).

“*Capital Grant Allocations*” means capital grant funds allocated by HUD to or on behalf of the PRPHA in each federal fiscal year pursuant to the Capital Fund Program. Unless specifically approved by HUD, the term Capital Grant Allocations shall exclude any Replacement Housing Factor Funds received or to be received by the PRPHA. In all events, the Capital Grant Allocations are subject to appropriation in each Federal Fiscal Year and allocation thereof to the PRPHA.

“*Capital Grant Receipts*” means Capital Grant Allocations, to the extent transferred to the Trustee by the 2003 Trustee from the Subordinate Obligation Debt Service Fund maintained under the 2003 Indenture.

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

“*Cash Flow Statement*” means a certificate prepared by or on behalf of the Authority with respect to Cash Flows setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then outstanding, (i) all amounts expected to be received by the Trustee under the Loan Agreements during such period; (ii) the application of all Revenues in accordance with the Indenture; (iii) the resulting balances on each Bond Payment Date, including earnings in all Accounts resulting from reinvestment of existing balances (to the extent such earnings are retained in such Accounts and are not subject to withdrawal by any Borrower); and establishing under the scenario included in the Cash Flows, that anticipated Revenues will be at least sufficient to pay the principal of and interest on the Bonds, when due. Each Cash Flow Statement shall be accompanied by all supporting Cash Flows, and shall be sent by the Authority to each Rating Agency.

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

“*Certificate*” means a written document signed by an Authorized Officer or Authorized Officers attesting to or acknowledging the circumstances or other matters therein stated which Certificate shall not be required to be approved, adopted or ratified by action of the governing body of the Authority.

“*CFF Amendment*” means the Capital Fund 2008 Financing Amendment to the ACC executed between PRPHA and HUD which, together with the HUD Approval Letter, authorize the payment of Capital Grant Allocations to pay Transaction Costs.

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

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

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

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

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

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

“*Debt Service Reserve Fund*” means the Debt Service Reserve Fund established pursuant to Section 5.2 of the Indenture.

“*Debt Service Reserve Requirement*” means an amount established for each Series of Bonds at least equal, in the aggregate for all Series of Bonds, to one-half (1/2) of the maximum Debt Service for the current and for such Bond Years as set forth in the related Supplemental Indenture.

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

“*Depository*” means any commercial bank, trust company or national banking association selected by the Authority or the Trustee as a depository of moneys or securities held under the provisions of the Indenture, and may include the Trustee or any Paying Agent.

“*Depository Agreement*” means the General Depository Agreement, HUD Form 51999, as amended by the HUD Approval Letter, among the PRPHA, the Depository and the Authority, which is required by HUD to be placed on any account which includes Federal funds, which shall, for purposes of the Indenture, include the proceeds of the Bonds.

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

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

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

“*Final Debt Service Schedule*” means the final debt service schedule submitted to HUD after pricing of a Series of Bonds pursuant to the HUD Approval Letter.

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

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

“*Fund*” means any of the trust funds created and established b, or pursuant to, the Indenture.

“*GDB Advances*” means the outstanding amount of advances made with respect to Projects under the GDB Project Loan Agreement.

“*GDB Project Loan Agreement*” means the Amended GDB Project Loan Agreement, dated as of October 31, 2007, among the PRPHA, DOH and Government Development Bank.

“*Governmental Purpose Loan Account*” means the Account established in the Loan Fund which is to contain proceeds of Bonds that are, as reflected in a Bond Counsel’s Opinion delivered to the Trustee, issued as “governmental purpose bonds” under the Code.

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

“*Government Obligations*” means (i) any direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America and (ii) certificates of ownership of the principal of or interest on obligations of the type described in clause (i) of this definition, (a) which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System in the capacity of a custodian; (b) the owner of which certificate is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying obligations; and (c) for which the underlying obligations are held in safekeeping in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

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

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

“*HUD Approval Letter*” means the letter from HUD to the PRPHA, as amended, approving the issuance of Bonds and the Final Debt Service Schedule. The form of the HUD Approval Letter (without exhibits) is attached as Appendix B.

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

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

“*Interest Requirement*” for any Bond Year or any Interest Period, as the context may require, as applied to any Senior Obligations then Outstanding, shall mean the total of the sums that would be deemed to accrue on such Senior Obligations during such Bond Year or Interest Period if the interest on such Senior Obligations were deemed to accrue daily during such Bond Year or Interest Period in equal amounts; provided, however, that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the proceeds of Bonds allocable to the payment of such interest as provided in the Supplemental Indenture authorizing the issuance of such

Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the Authority shall otherwise provide in a Supplemental Indenture, interest expense on Section 2.8 Obligations drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement. For the purpose of determining the Interest Requirement, except as provided in the provisions of the Indenture relating to Credit Facilities and unless otherwise provided in a Supplemental Indenture, interest on variable rate Senior Obligations shall be calculated at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet Outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been Outstanding for at least 12 months, the average rate over the 12 months immediately preceding the date of calculation, and (iii)(1) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus 50 basis points, or (2) if interest is not so excludable, the interest rate on Government Obligations with comparable maturities plus 50 basis points.

“*Investment Securities*” means, except as may be otherwise provided in a Supplemental Indenture, one or more of the following investments, but only if and to the extent any such investment (i) is at the time of acquisition by the Authority a legal investment for the funds of the Authority under the laws of the Commonwealth then in force, (ii) is in conformity with the provisions of the Depository Agreement, and (iii) in addition to rating requirements stated below, is rated by the Rating Agencies at least as high as the outstanding ratings on the Bonds:

- (1) Government Obligations;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
  - Export-Import Bank
  - Farm Credit System Financial Assistance Corporation
  - Farmers Home Administration
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development
  - Federal Housing Administration;
- (3) Senior debt obligations which at the time of purchase are rated “AAA” by S&P and Fitch, issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

- (4) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1+" by S&P and "F-1" by Fitch, and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "F-1" by Fitch, and which matures not more than 180 days after the date of purchase;
- (6) Investments in a money market fund which at the time of purchase is rated "AAAm" or "AAAm-G" or better by S&P and "AAA" or better by Fitch, including any proprietary mutual fund of the Trustee or an affiliate of the Trustee for which the Trustee or an affiliate of the Trustee serves as investment advisor;
- (7) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the regulations issued thereunder with counterparties (or affiliated guarantors) rated "AA" or better by S&P and Fitch at the time of the execution and delivery of the agreement;
- (8) Obligations the interest upon which is tax-exempt under the provisions of Section 103 of the Code, subject to such tax-exempt obligations being rated at the time of purchase within the two (2) highest general classifications established by S&P and Fitch;
- (9) Pre-refunded Municipal Obligations; and
- (10) Investment agreements with providers (or affiliated guarantors) rated "AA" or better by S&P and Fitch at the time of the execution and delivery of the agreement, or investment agreements otherwise approved in writing by S&P and Fitch.

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

*"Limited Partnership"* means each entity (whether in the legal form of a partnership, limited liability company, corporation or other entity) that is to receive a Loan, as approved by HUD and identified pursuant to the provisions of a Supplemental Indenture.

*"Limited Partnership Promissory Note"* means each promissory note executed and delivered by a Limited Partnership to evidence a Loan to such Limited Partnership under the Loan Agreement.

*"Loan"* means, collectively, the loans made to the PRPHA and/or for the benefit of the PRPHA to one or more Limited Partnerships by the Authority from the proceeds of a Series of Bonds, as evidenced by the Loan Agreement.

“*Loan Agreement*” means each loan agreement among the Authority, the Trustee, the PRPHA and the related Limited Partnerships, collectively referred to as the “Loan Agreements.”

“*Loan Fund*” means the Loan Fund established pursuant to the Indenture.

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

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

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

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

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

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

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

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

“*Principal Requirement*” for any Bond Year, as applied to any Senior Obligations then Outstanding, means an amount of money equal to the aggregate of the principal amount of such Senior Obligations which mature during said Bond Year (including all required Sinking Fund Payments), reduced by the aggregate principal amount of such Senior Obligations which would at or before such

Bond Year be retired by reason of the payment when due and application in accordance with the Indenture and the Supplemental Indenture creating such Senior Obligations of Sinking Fund Payments payable before such Bond Year for the retirement of Outstanding Bonds.

“*Private Activity Loan Account*” means the Account established in the Loan Fund which is to contain proceeds of Bonds that are, as reflected in a Bond Counsel’s Opinion delivered to the Trustee, issued as “private activity bonds” under the Code.

“*Private Activity Borrower Loan Subaccount*” means each Subaccount related to an individual Limited Partnership and established in the Private Activity Loan Account pursuant to the Indenture.

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

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

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

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

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

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

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

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

“*Registrar*” means the Trustee, the Authenticating Agent or any other agent of the Authority at the office of which Bonds may be presented for registration, transfer or exchange as provided in the Indenture.

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

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

“*Revenues*” means (i) that portion of the Capital Grant Allocations permitted by HUD to be paid to the Trustee for Transaction Costs in accordance with the terms of the Loan Agreement and pursuant to the HUD Approval Letter and the CFF Amendment, including Capital Grant Receipts paid over to the Trustee by the 2003 Trustee in accordance with the terms of the 2003 Indenture, subject to the availability of appropriations of such amounts and allocation thereof to PRPHA. Revenues may include any Capital Grant Allocations available to the PRPHA for payment of Transaction Costs and under any effective Annual Plan and/or Annual ACC Amendment, including funds remaining Unobligated from previous PRPHA fiscal years, without regard to the PRPHA fiscal year for which those funds were initially made available. Revenues shall also include (i) any sums received by the PRPHA under the Loan Agreement relating to insurance proceeds or condemnation awards or paid by the PRPHA for application to the payment of Transaction Costs in accordance with the default provisions of the Loan Agreement, (ii) proceeds representing payment of interest, if any, on all Limited Partnership Promissory Notes, (iii) any sums received by the Trustee in prepayment of Limited Partnership Promissory Notes pursuant to a certain section of the Loan Agreement or as a result of any other prepayment of principal on such Limited Partnership Promissory Notes which is required by the terms of the Limited Partnership Promissory Notes to be applied to the payment of Bond Debt Service, and (iv) all earnings on Funds and Accounts (other than the Rebate Fund and the Costs of Issuance Fund). In all cases, Revenues constituting Capital Grant Allocations are subject to appropriation in each federal fiscal year and allocation thereof to PRPHA.

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

“*Section 2.8 Obligations*” means any obligations incurred by the Authority to reimburse the issuer or issuers of one or more Credit Facilities securing one or more Series of Bonds as described in the Indenture, including any fees or other amounts payable to the Credit Facility Provider, whether such obligations are set forth in one or more reimbursement agreements entered into between the Authority and the Credit Facility Provider, or in one or more notes or other evidences of indebtedness executed and delivered by the Authority pursuant thereto, or any combination thereof.

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

“*Senior Obligation*” means, with respect to the priority of treatment thereof under the Indenture, (a) any Bonds issued by the Authority under the Indenture, and (b) any Section 2.8 Obligations secured on a parity with Bonds.

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

“*Sinking Fund Payment*” means, as of any particular date of calculation, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds which mature

after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the election of the Authority.

“*Subordinate Obligation*” means any bonds, notes or evidences of indebtedness (not including Senior Obligations) issued by the Authority as permitted by the Indenture and any other subordinate obligation identified in a Supplemental Indenture.

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

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

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

“*Tax Credit Project*” means a Project that is owned by a Limited Partnership.

“*Transaction Costs*” means the sum of Debt Service and the Issuer’s Fee.

“*Trust Estate*” means the property conveyed to the Trustee pursuant to the Granting Clauses of the Indenture. The Costs of Issuance Fund and earnings thereon and the Rebate Fund and earnings thereon, and any other funds representing rebate owing to the U.S. Treasury, are not part of the Trust Estate.

“*2008 LLC*” means Vivienda Modernization 1, LLC, a Puerto Rico limited liability company.

“*2003 Bonds*” means the Authority’s Capital Fund Program Bonds (Puerto Rico Public Housing Administration Projects), Series 2003, issued under the 2003 Indenture.

“*2003 Indenture*” means the Master Trust Indenture, dated as of December 1, 2003, by and between the Authority and U.S. Bank Trust National Association, as trustee thereunder, securing the Authority’s 2003 Bonds, as supplemented and amended.

“*2003 Transferred Amounts*” means amounts released to PRPHA pursuant to the terms of the 2003 Indenture upon final payment of the 2003 Bonds and transferred by PRPHA to the Trustee for deposit in the Debt Service Reserve Account.

“*2003 Trustee*” means U.S. Bank Trust National Association, as trustee under the 2003 Indenture.

“*Unobligated*” means those Capital Grant Allocations that are not subject to a binding agreement that will result in outlays, immediately or in the future.

#### **Conditions Precedent to Delivery of Bonds. (Sections 2.5 and 2.6.)**

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

- (1) a copy of the Supplemental Indenture authorizing such Series of Bonds, executed and delivered by the Authority and the Trustee and containing the following: (a) the authorized principal amount and designation of such Bonds; (b) the purposes for which

the proceeds of such Bonds shall be used; (c) the Dated Dates and maturity dates of such Series of Bonds; (d) the interest rates, if any, of and principal amounts payable upon such Bonds (or the manner of determining such rates or amounts) and the Interest Payment Dates, if any, and Principal Payment Dates therefor; (e) the denominations of, and the manner of dating, numbering and lettering such Bonds; (f) the Paying Agents and the places of payment of such Bonds or the manner of appointing and designating the same; (g) provisions concerning the forms of such Bonds and of the Authenticating Agent's certificate of authentication; (h) any other provisions deemed advisable by the Authority as shall not conflict with the provisions of the Indenture; (i) the Redemption Price, if any, of and the redemption terms for such Bonds; (j) the amounts and due dates of the Sinking Fund Payments, if any, for any of such Bonds; (k) the Credit Facility Provider or Bond Insurer, if any; (l) the name(s) of those Limited Partnerships that upon execution of such Supplemental Indenture have been approved by HUD for participation in the Program; and (m) if applicable, designation that the Bonds of such Series are Federally Taxable Bonds;

- (2) a Bond Counsel's Opinion in the form described in the Indenture;
- (3) a written order as to the delivery of such Bonds, signed by an Authorized Officer, which order shall include a certification from PRPHA that issuance of the Bonds does not conflict with Federal public housing requirements;
- (4) evidence of the receipt by the Trustee of the amount of the proceeds of such Bonds to be deposited with the Trustee into the various Funds and Accounts, which shall be conclusively established by the executed certificate of the Trustee so stating;
- (5) executed Loan Agreements;
- (6) HUD Approval Letter and CFF Amendment; and
- (8) such further documents and moneys as are required by the provisions of the Indenture or of any Supplemental Indenture.

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

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

- (1) the principal amount of the Additional Capital Fund Bonds then to be issued, together with the principal amount of bonds, notes and other obligations theretofore issued pursuant to applicable law, will not exceed in aggregate principal amount any limitation thereon imposed by law;
- (2) prior to the issuance and delivery of any such Additional Capital Fund Bonds, the Issuer shall file with the Trustee:

- (a) the written approval by HUD of the issuance of such Additional Capital Fund Bonds,
  - (b) unless otherwise approved by HUD in writing, evidence that PRPHA has not failed (with the preceding five years) to obligate or expend the proceeds of prior Series of Bonds secured by the Indenture within the applicable time limits established by HUD,
  - (c) a Certificate demonstrating that the lesser of (y) the Capital Fund Program moneys received by PRPHA in the immediately preceding federal fiscal year and (z) the average annual amount of Capital Fund Program moneys received by PRPHA, as evidenced by Annual Financing Amendments between PRPHA and HUD under the Capital Fund Program in the three federal fiscal years immediately preceding the issuance of the Additional Capital Fund Bonds, equals or exceeds an amount equal to two and seven-tenths (2.7) times (a) the aggregate annual Transaction Costs, plus (b) the sum of annual debt service on the 2003 Bonds and related Issuer's Fees, and
  - (d) the written consent of any Bond Insurer and advice from the Rating Agencies that such action will not have an adverse effect on the then-current underlying ratings of the Bonds Outstanding;
- (3) at the time of issuance of such Additional Capital Fund Bonds, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture except, in the case of Refunding Capital Fund Bonds, if the initial application of the proceeds of such Bonds shall cure such default; and
  - (4) PRPHA is not in default under any Loan Agreement.

**Conditions Precedent to Delivery of Refunding Capital Fund Bonds (Section 2.7.)**

In addition to the foregoing requirements for the issuance of Additional Capital Fund Bonds, Refunding Capital Fund Bonds of any Series shall be authenticated by an Authenticating Agent only upon the receipt by the Authenticating Agent of:

- (1) evidence of the receipt by the Registrar of instructions to the Registrar to give due notice of the payment or redemption of all the Bonds to be refunded and the Bond Payment Dates or Redemption Dates, if any, upon which such Bonds are to be paid or redeemed, which shall be conclusively established by the executed certificate of the Registrar so stating;
- (2) if Bonds are to be refunded which also are to be redeemed subsequent to the next succeeding forty-five (45) days, evidence of the receipt by the Registrar of instructions to the Registrar to mail, as provided in the Indenture, notice of the redemption of such Bonds on a specified date prior to their Redemption Date, which shall be conclusively established by the executed certificate of the Registrar so stating; and
- (3) evidence of the receipt by the Trustee of (i) moneys (which may include all or a portion of the proceeds of the Refunding Capital Fund Bonds to be issued) in an amount sufficient to effect payment or redemption at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the due date or Redemption Date, or (ii) noncallable Government Obligations for the purpose of effecting a refunding of Bonds, the principal of and interest on which when due (without

reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Capital Fund Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date or dates of maturity thereof, which moneys or noncallable Government Obligations shall be held by the Trustee or any one or more of the Paying Agents in the Debt Service Fund or a separate escrow account to be created pursuant to an escrow agreement entered into for that purpose. Such receipt shall be conclusively established by the executed certificate of the Trustee so stating.

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

#### **Credit Facilities to Secure Bonds (Section 2.8.)**

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

#### **Transfer of Bonds (Section 3.5.)**

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

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

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

In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Authority shall execute and an Authenticating Agent shall authenticate and deliver Bonds in accordance with the provisions of the Indenture. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or an Authenticating Agent may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, and, except (i) with respect to the delivery of definitive Bonds in exchange for temporary Bonds, or (ii) as otherwise provided in the Indenture, may charge a sum sufficient to pay the cost of preparing each new Bond (except for any Bonds held in custody for the benefit of any provider of a Credit Facility pursuant to a Supplemental Indenture) issued upon such exchange or transfer, which sums shall be paid by the Bondholder requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The Authority shall not be obligated to issue, exchange or transfer any Bond during a period beginning on the opening of business on the date Bonds are selected for redemption and ending on the date of the mailing of notice of such redemption or transfer or exchange Bonds called or being called for redemption, except the unredeemed portion of Bonds being redeemed in part.

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

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

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

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

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

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

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

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

(4) the amount, if any, required to be applied to reimburse Government Development Bank for GDB Advances pursuant to the terms of the GDB Project Loan Agreement shall be transferred to or upon the order of Government Development Bank; and

(5) the balance remaining after such deposits have been made shall be deposited in the applicable Account of the Loan Fund.

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

(A) In order best to provide for the proper administration of all moneys received as proceeds of the Bonds and constituting the Trust Estate (not including the Costs of Issuance Fund and earnings thereon, the Rebate Fund and earnings thereon, and any other amounts owing as rebate to the U.S. Treasury), there are hereby created and established the following Accounts:

- (i) the Loan Fund (with the Governmental Purpose Account, Private Activity Loan Account (and individual Private Activity Borrower Loan Subaccounts in the Private Activity Loan Account related to each Limited Partnership),
- (ii) the Revenue Fund,
- (iii) the Debt Service Fund,
- (iv) the Debt Service Reserve Fund;
- (v) the Subordinate Obligation Debt Service Fund; and
- (vi) the Rebate Fund.

(B) The following shall be credited to the Loan Fund and allocated to Accounts and Subaccounts therein as directed to the Trustee by the Authority:

- (1) all proceeds from the sale of the Bonds (including premium, but excluding accrued interest, capitalized interest, amounts deposited into the Costs of Issuance Fund and proceeds from the sale of Refunding Capital Fund Bonds); and
  - (2) all other moneys required or directed to be transferred to the Loan Fund pursuant to any Supplemental Indenture.
- (C) All Revenues shall be credited to the Revenue Fund as received.
- (D) The following shall be credited to the Debt Service Fund:
- (1) accrued interest from the sale of the Bonds, if any;
  - (2) capitalized interest on the Bonds, if any;
  - (3) any amounts transferred from the Revenue Fund pursuant to the Indenture;
  - (4) any amounts transferred from the Debt Service Reserve Fund pursuant to the Indenture; and
  - (5) any amounts transferred from the Loan Fund for the purpose of paying principal of or interest on Senior Obligations.
- (E) Amounts shall be credited to the Subordinate Obligation Debt Service Fund from the Revenue Fund pursuant to the Indenture.
- (F) All such Accounts and any subaccounts to the Indenture established as in the Indenture provided shall be held and maintained by the Trustee and shall be identified by the Trustee according to the designations in the Indenture provided in such manner as to distinguish such Accounts from the accounts established by the Authority, and held and maintained by the Trustee, for any other of its obligations. All moneys or securities held by the Trustee or any Depository pursuant to the Indenture shall be held in trust and applied only in accordance with the provisions of the Indenture. All moneys credited to the Accounts shall be used for the purposes and disbursed as in the Indenture provided.

**Loan Fund (Section 5.3.)**

- (A) Moneys in the Loan Fund shall be used, except as otherwise provided by any Supplemental Indenture, only for the following purposes:
- (1) to fund the Debt Service Reserve Fund and finance capital projects pursuant to the Program and pursuant to executed Loan Agreements;
  - (2) to make deposits to the Debt Service Fund for the purpose of paying principal of or interest on Senior Obligations, whether at maturity or earlier redemption or purchase to the extent of any deficiency in the Indenture; and
  - (3) any amount remaining in the Loan Fund after all Senior Obligations have been retired may be transferred to such other Fund or Account of the Authority as an Authorized Officer may direct for application in accordance with the Capital Fund Program unless otherwise required by one or more Loan Agreements to be

used for Transaction Costs or to be repaid to a Borrower, or as otherwise directed by HUD, provided that prior to any such transfer the Authority shall have furnished the Trustee with a Bond Counsel's Opinion to the effect that such transfer will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

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

- (1) an executed Loan Agreement and a Certificate of an Authorized Officer:
  - (i) stating that the Loan is made in accordance with the provisions of the Indenture;
  - (ii) with respect to any Loan made to PRPHA, stating the principal amount of the Loan, the interest rate on the Loan, and the term of the Loan; and
  - (iii) directing whether such Net Loan Proceeds are to be deposited to the credit of the Governmental Purpose Loan Account or Private Activity Account (and if to the Private Activity Account, the identity of the related Private Activity Borrower Loan Subaccount that is to receive the Net Loan Proceeds).

The entire amount of the Net Loan Proceeds of each Loan shall be deposited into the loan fund established by the related Loan Agreement, to be held by the Trustee in its capacity as party to the Loan Agreement for disbursement in accordance with the terms of the Loan Agreement. With respect to any Loan made to a Limited Partnership, the related Loan Agreement may provide that the right to receive repayment of such Loan is to be the subject of an assignment by the Trustee to PRPHA of any related promissory note of such Borrower and mortgage securing such promissory note.

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

#### **Revenue Fund (Section 5.4.)**

Pursuant to each Loan Agreement, the Trustee shall receive for deposit in the Revenue Account established under such Loan Agreement, from or on account of the Capital Fund Program, those moneys agreed to by HUD, the Authority and PRPHA. Such moneys shall, upon receipt, including receipt from the 2003 Trustee, be transferred by the Trustee to the Revenue Fund (under the Indenture) and constitute Revenues under the Indenture. The Trustee shall promptly notify the Authority in the event there is a failure to receive from HUD and/or from the 2003 Trustee when due the full amount set forth in each Loan Agreement upon receipt of such Revenues from HUD and/or the 2003 Trustee. All amounts so received shall be deposited in the Revenue Fund.

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

- (1) first, to the Debt Service Fund, the amount necessary to make the payments of principal and interest on the Bonds on the next succeeding Bond Payment Date,
- (2) second, to the Debt Service Fund, to be applied to the redemption of Bonds, the proceeds of insurance not applied to restoration of a Project following casualty loss or condemnation;
- (3) third, to the Debt Service Reserve Fund in the amount required to bring the balance therein to equal the Debt Service Reserve Requirement;
- (4) fourth, to the Authority in the amount included in a written requisition from the Authority in payment of any one or more components of the Issuer's Fee;
- (5) fifth, to the Subordinate Obligation Debt Service Fund an amount, if any, equal to the amount required by any trust indenture or resolution authorizing the issuance or incurrence of Subordinate Obligations to be deposited in the Indenture on such date and without priority, one over the other, to any accounts within the Subordinate Obligation Debt Service Fund, as specified by a Certificate filed with the Trustee; and
- (6) sixth, to the Rebate Fund, the balance; provided, that to the extent set forth in a Certificate accompanied by a Bond Counsel's Opinion to the effect that any such transfer shall not adversely affect the exclusion of interest on the Bonds from federal income taxation, to the Loan Fund, the balance.

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

#### **Debt Service Fund (Section 5.5.)**

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

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

- (1) first, to the Paying Agent the interest due on Outstanding Senior Obligations on such Bond Payment Date, and
- (2) second, to the Paying Agent the amount required for payment of the principal or Redemption Price of Senior Obligations due (whether by maturity or redemption) or called for redemption on such Bond Payment Date.

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

(C) As soon as practicable after the sixtieth day preceding the due date of any Sinking Fund Payment, the Trustee shall proceed to call for redemption, on such due date, Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as shall be necessary to

complete the retirement of a principal amount of the Bonds of such maturity equal to the required unsatisfied balance of such Sinking Fund Payment.

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

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

#### **Costs of Issuance Fund (Section 5.6.)**

The Costs of Issuance Fund shall not be a part of the Trust Estate. That portion of the proceeds of a Series of Bonds that is deposited into the Costs of Issuance Fund shall be available for disbursement to pay Costs of Issuance relating to such Series against receipt of a Certificate of an Authorized Officer.

#### **Subordinate Obligation Debt Service Fund (Section 5.7.)**

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

#### **Debt Service Reserve Fund (Section 5.8.)**

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

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

(C) A Supplemental Indenture authorizing the issuance of a Series of Bonds may provide that the Debt Service Reserve Requirement with respect to such Series of Bonds is to be initially funded by one or more Debt Service Reserve Facilities. Whenever the Indenture refers to “moneys” on deposit to the credit of the Debt Service Reserve Fund, “moneys” shall be deemed to include said Debt Service Reserve Facilities. Moneys in the Debt Service Reserve Fund may also be replaced by a deposit of one or more Debt Service Reserve Facilities so long as such action shall not impair the outstanding ratings of the Bonds by the Rating Agencies.

### **Deposits (Section 5.9.)**

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

### **Investment of Certain Funds (Section 5.10.)**

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

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

Notwithstanding any provision of the Master Indenture to the contrary, earnings on the investment of amounts attributable to the Series 2008 Capital Fund Bonds and held in the Funds and Accounts maintained under the Master Indenture (with respect to the Debt Service Reserve Fund, only to the extent such earnings shall represent an excess of the balance therein over the Debt Service Reserve Requirement) shall be transferred on a regular basis to the Loan Fund for deposit in the Private Activity Loan Account and the Private Activity Borrower Loan Subaccount established with respect to the 2008 LLC. Amounts therein may be applied to the redemption of Series 2008 Capital Fund Bonds in accordance with the redemption provisions in the Indenture, to the funding of additional modernization work for the Projects or, at the direction of the Authority accompanied by an opinion of Bond Counsel to the effect that such action shall not impair the exclusion of interest from federal income taxation, transferred to the PRPHA for application to other construction and modernization projects.

### **Valuation and Sale of Investments (Section 5.11.)**

In computing the amount in any Account, obligations purchased as an investment of moneys in the Indenture shall be valued at their Value plus accrued interest in each case. “Value” means the value of any investments calculated as follows:

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

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

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

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

#### **Disposition of Unclaimed Funds (Section 5.13.)**

Notwithstanding any provisions of the Indenture, and subject to applicable unclaimed property laws, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of, redemption premium of or interest on the Bonds remaining unclaimed for 6 years after the payment thereof shall be paid (i) to HUD, if such moneys represent payments made by HUD (either directly or on behalf of a Borrower) and (ii) otherwise, to the Authority, whereupon all liability of the Authority and the Trustee with respect to such money shall cease.

#### **Payment of Redeemed Bonds (Section 6.6.)**

Notice having been given by mail in the manner provided above, the Bonds or portions thereof so called for redemption shall become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid to the Redemption Date. If there shall be called for redemption less than the entire principal amount of a Bond, the Authority shall execute, the Authenticating Agent shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered at the option of the Owner, Bonds of like Series, priority and maturity in any of the authorized denominations. If, on the Redemption Date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the Redemption Date, shall be held by the Paying Agent so as to be available therefor on said date and if notice of redemption shall have been mailed as aforesaid, then, from and after the Redemption Date, interest on the Bonds or portions thereof of such Series and maturities so called for redemption shall cease to accrue and become payable. If said moneys shall not be available on the Redemption Date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. Copies of all notices given shall be sent by the Trustee to HUD. HUD shall be notified in writing by the Authority of any unscheduled redemption of Bonds at least sixty (60) days prior to the next date on which HUD is scheduled to pay Debt Service to the Trustee, and provided with a revised Debt Service schedule and any other documents requested by HUD. Should all or a portion of any Debt Service payment be made to the Trustee that exceeds the amount due for Debt Service for any

reason, the Trustee shall return such overpayment to the U.S. Department of the Treasury promptly but no later than three (3) Business Days after learning of such overpayment.

#### **Conditional Redemption (Section 6.8.)**

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

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

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

#### **Tax Covenants (Section 7.6.)**

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

#### **Budget and Collection of Revenues (Section 7.7.)**

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

Each Loan Agreement shall require PRPHA to execute and deliver and present to HUD for execution and delivery a CFF Amendment, which directs HUD to pay directly to the Trustee (or, to the extent there are any Series 2003 Bonds outstanding under the 2003 Indenture and the 2003 Indenture shall not have been fully defeased in accordance with the terms thereof, to the 2003 Trustee) from and to the extent of Capital Fund Program moneys appropriated and available to PRPHA at such time, in the amount necessary to pay Loan Debt Service (as defined in the 2003 Indenture) and Transaction Costs, and to execute separate Annual ACC Amendments to authorize such payments. Amounts to be paid by HUD shall be requested to be paid to the Trustee (or 2003 Trustee, as applicable) no earlier than three (3) Business Days and no later than one (1) Business Day before each Bond Payment Date. To the extent that any 2003 Bonds are outstanding under the 2003 Indenture and the 2003 Indenture shall not have been fully defeased in accordance with the terms thereof, the Authority shall cause the 2003 Trustee, on and prior to each Bond Payment Date, to deposit in the Subordinate Obligation Debt Service Fund maintained under the 2003 Indenture, in accordance with the requirements thereof, all amounts available for such

deposit in accordance with the priorities set forth in said 2003 Indenture up to the amount of Transaction Costs due on such Bond Payment Date. The Authority shall cause the 2003 Trustee to transfer to the Trustee for deposit in the Revenue Fund all amounts on deposit in the Subordinate Obligation Debt Service Fund maintained under the 2003 Indenture as and when deposited therein, but not more frequently than weekly.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(14) to make any change which, in the judgment of the Trustee in reliance on a Bond Counsel's Opinion, is not materially adverse to the interests of the Trustee or the Owners of Senior Obligations; or

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

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

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

### **General Provisions (Section 8.3.)**

The copy of every Supplemental Indenture delivered to the Trustee shall be accompanied by a Bond Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully executed by the Authority in accordance with the provisions of the Indenture and the Act, is authorized or permitted by the Indenture and the Act, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Authority, and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

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

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

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

### **Powers of Amendment (Section 9.2.)**

Except as provided in the case of amendments without Owners' consent, any modification of or amendment to the Indenture and of the rights and obligations of the Authority or the Owner of any Senior Obligation under a Supplemental Indenture, may be made by a Supplemental Indenture and in the event such Supplemental Indenture shall be executed with the requirement that the Owners consent thereto,

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

### **Consent of Owners of Bonds (Section 9.3.)**

A copy of any Supplemental Indenture making a modification or amendment which is not permitted by without Owners' consent (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Owners of Bonds for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Registrar on behalf of the Authority to the Owners of Bonds to be affected by such proposed amendment or modification. Such Supplemental Indenture shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Owners of the requisite percentages of Outstanding Bonds, and (b) a Bond Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully approved by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, assuming due authorization, execution and delivery by the other parties thereto, is valid and binding upon the Authority, and (ii) the notice described below shall have been delivered.

The consent of an Owner of a Bond to any modification or amendment shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given. A Certificate by the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Indenture shall be conclusive that the consents have been given by the Owners of the Bonds described in such Certificate of the Trustee. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any

Bonds issued in exchange therefor (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner of such Bonds giving such consent or a subsequent Owner thereof by filing with the Trustee, at least three (3) Business Days prior to the time when the written statement of the Trustee is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may likewise be proved by a Certificate of the Trustee to the effect that no revocation thereof is on file with the Trustee.

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

If a Supplemental Indenture is to become effective on the same date as the date of issuance of Additional Capital Fund Bonds, the consents of the underwriters or purchasers of such Additional Capital Fund Bonds shall be counted for purposes of the Indenture.

#### **Modifications by Unanimous Consent (Section 9.4.)**

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

#### **Events of Default (Section 10.1.)**

Each of the following events is an "Event of Default":

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

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

(3) the Authority shall fail or refuse to comply with the provisions of the Indenture, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture or in any Supplemental Indenture or the Bonds, and such failure, refusal or default shall continue for a period of thirty (30) days after written notice thereof by the Trustee or the Owners of not less than 25% in principal amount of the Outstanding Bonds; provided that the Trustee or such Owners of not less than 25% in principal amount of the Outstanding Bonds shall not provide written notice to the Authority of any such failure, refusal or default until and after the Trustee has complied with the written notice provisions set forth below; or

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

**Notwithstanding any other provision in the Indenture to the contrary, the failure of PRPHA to pay amounts due under the Loan Agreement including amounts related to payment of debt service on the Bonds, or due to any Bond Insurer as reimbursement of its payments of such amounts, that arises solely as a result of the failure of Congress to appropriate funds for the Capital Fund Program to PRPHA, shall not result in any liability to PRPHA.**

The Trustee shall not give the written notice referred to in paragraph (3) above unless or until (i) the Authority has been advised by the Trustee that the Trustee believes that a reasonable basis exists to issue such written notice; (ii) a period of ten (10) Business Days has expired after receipt by the Authority of such advice, during which period the Authority shall have the opportunity to contest the basis for such written notice; and (iii) the Trustee has provided the Authority with written confirmation that the Trustee disagrees with the Authority's position on the matter in question.

### **Remedies (Section 10.2.)**

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

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

(2) by bringing suit upon the Senior Obligations;

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

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

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

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

#### **Priority of Payments After Default (Section 10.3.)**

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

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

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

So long as no Senior Obligations are Outstanding, to the payment of Subordinate Obligations in accordance with the provisions of the Supplemental Indentures executed in connection with the issuance or incurrence of such Subordinate Obligations.

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

#### **Termination of Proceedings (Section 10.4.)**

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

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

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

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

(A) Except as otherwise specifically provided in the Indenture, no Bondholder shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture unless such person is an Owner of one or more Bonds then Outstanding, and (1) an Event of Default shall have occurred and is continuing; (2) such Owner previously shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, (3) the Owners of not less than 25% in principal amount of the Bonds then Outstanding, shall have made written request of the Trustee after the right to exercise such powers of right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted or granted under the law or to institute such action, suit or proceeding in its name, (4) there shall have been offered to the Trustee security and indemnity satisfactory to it against the fees, costs, expenses and liabilities to be incurred in the Indenture or thereby, (5) the Trustee shall have refused or neglected to comply with such request within sixty (60) days after its receipt of such written request

and offer of indemnity and (6) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of the Bonds then Outstanding; and such notification request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Indenture or for any other remedy under the Indenture or by law. It is understood and intended that, except as otherwise above provided, no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit of all Owners of Bonds. Nothing contained in this section shall affect or impair the absolute and unconditional right of any Owner of a Bond to receive payment of principal of, redemption premium, if any, and interest on the Bonds on and after the due date thereof, and to enforce the payment of the principal of and interest on its Bonds, or the obligation of the Authority to pay the principal of and interest on each Bond issued or incurred hereunder, to the Owner thereof at the time and place in said Bond expressed.

#### **Waiver of Defaults (Section 10.10.)**

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

#### **Notice of Event of Default (Section 10.11.)**

The Trustee shall give to the Owners of Bonds notice of each Event of Default known by a trust officer in the corporate trust department of the Trustee within ninety (90) days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of, Redemption Price or interest on any of the Bonds, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners of Bonds.

#### **Further Notices of Event of Default (Section 10.12.)**

The Trustee shall promptly mail written notice of the occurrence of any Event of Default to any Credit Facility Provider and Bond Insurer; provided that such notice shall in no event be required to be given prior to the Bondholders receiving notice. In addition, the Trustee shall promptly mail written notice to HUD of the occurrence of any Event of Default.

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

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

regarded as Owner of such Bonds in the event such Credit Facility Provider or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

**No Acceleration (Section 10.15.)**

Notwithstanding any other provision in the Indenture to the contrary, none of the holders of the Bonds, the Trustee, any Credit Facility Provider or any Bond Insurer shall have the right to declare the principal of the Bonds to be immediately due and payable upon any Event of Default.

**Certain Rights of the Trustee (Section 11.2.)**

Except as otherwise provided in the Indenture:

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

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

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

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

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

(F) the Trustee is not required to take notice or deemed to have notice of any default or Event of Default under the Indenture, except Events of Default under paragraphs (1) and (2), unless an Authorized Officer of the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the Authority or the holders of at least 25% in aggregate principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists; and

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

### **Compensation and Expenses of the Trustee (Section 11.5.)**

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

### **Qualifications of Trustee (Section 11.6.)**

The Trustee shall be a corporation or banking association organized and doing business under the laws of the United States of America, the Commonwealth or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$50,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If at any time the Trustee shall cease to be eligible, it shall resign promptly in the manner and with the effect specified in this Article.

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

No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee.

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

Prior to the occurrence and continuance of an Event of Default, or after the curing or waiver of any such Event of Default, the Authority or the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. If an instrument of removal has been delivered to the Trustee and no successor Trustee has been appointed within 30 days after the giving of such notice, the Trustee may petition, at the expense of the Issuer, a court of competent jurisdiction for the appointment of a successor Trustee.

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

### **Defeasance (Section 13.1.)**

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

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Senior Obligations the principal, purchase price and interest due or to become due thereon, at the times and in the manner stipulated in the Senior Obligations and in the Indenture, and pay or cause to be paid (i) to each Fiduciary its fees, costs and expenses relating to such Senior Obligations, (ii) to each Credit Facility Provider relating to such Senior Obligations all amounts owing under each Credit Facility or agreements relating thereto, and (iii) to each remarketing agent relating to such Senior Obligations all amounts owing under each remarketing agreement relating thereto, such Senior Obligations shall cease to be entitled to any lien, benefit or security under the Indenture and all covenants, agreements and obligations of the Authority to the Owners of such Senior Obligations shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be necessary and desirable to evidence such discharge and satisfaction.

Bonds (other than Bonds held in custody for the benefit of a Credit Facility Provider under a Supplemental Indenture) or interest installments (other than on Bonds held in custody for the benefit of a Credit Facility Provider under a Supplemental Indenture) for the payment of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Authority of funds for such payment or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed above. Except as otherwise provided in any Supplemental Indenture, all Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, and/or noncallable Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an independent firm of certified public accountants or other entity with similar experience acceptable to the Authority, to pay when due the principal or Redemption Price, if any, of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Except as provided below, neither Defeasance Obligations or moneys deposited with the Trustee nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or

used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and to the extent not adverse to the tax-exempt status of such Bonds or any refunding obligations, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

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

Written notice of the defeasance of any Bonds shall be given to each of the Rating Agencies and to HUD at least sixty (60) days in advance of the planned defeasance. No defeasance of Bonds may be made with public housing assets, other than Capital Grant Receipts, without the prior approval of HUD.

#### **HUD Not Liable (Section 14.7.)**

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

#### **Collection of Revenues; Recording and Filing (Section 14.8.)**

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

#### **Federal Public Housing Requirements Control (Section 14.13.)**

To the extent that any provision of the Indenture is in conflict with the requirements of the United States Housing Act of 1937, as amended, the applicable provisions of Title 24 of the Code of Federal Regulations, or the ACC, as amended (collectively, "Federal public housing requirements"), such Federal public housing requirements shall control and govern in such instances of conflict; provided, however, that the provisions of the Indenture shall control in the case of a conflict between the provisions of the Indenture and changes in the policies of HUD made after the date of the Indenture which are not the result of or required by a change in law.

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**APPENDIX B**

**HUD APPROVAL LETTER**

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

ASSISTANT SECRETARY FOR  
PUBLIC AND INDIAN HOUSING

JUN 24 2008

Mr. Carlos G. Laboy-Diaz  
Administrator  
Puerto Rico Public Housing Administration  
606 Barbosa Ave.  
Rio Piedras, Puerto Rico 00928

Dear Mr. Laboy:

Thank you for your submission to the U.S. Department of Housing and Urban Development (“HUD”) and subsequent submissions, (collectively, “Submission”) requesting certain approvals in connection with a Capital Fund Financing Program (the “CFFP”) Proposal. The Puerto Rico Public Housing Administration (the “Authority”) is requesting certain approvals in connection with the Capital Fund Program Revenue Subordinate Bonds, Series 2008 (the “2008 Bonds”) to be issued by the Puerto Rico Housing Finance Authority (the “Issuer”). By correspondence dated December 3, 2003, HUD approved the issuance of Puerto Rico Housing Finance Authority’s Capital Fund Program Bonds (Puerto Rico Public Housing Administration Project), Series 2003 (the “2003 Bonds”), which were issued in the initial principal amount of \$663,060,000 and were issued pursuant to a Master Trust Indenture, as supplemented by a First Supplemental Trust Indenture, by and between the Issuer and U.S. Bank Trust National Association as Trustee there under (the “2003 Trustee”).

The 2008 Bonds are being issued by the Issuer pursuant to a Master Trust Indenture of Trust, relating to the 2008 Bonds, as supplemented by the First Supplemental Indenture (collectively, the “Indenture”), between the Authority and the U.S. Bank Trust National Association, as Trustee (the “2008 Trustee”). The proceeds of the 2008 bonds are being loaned to the Vivienda Modernization 1, LLC, a Puerto Rican Limited liability company, (the “LLC”) of which Vivienda Modernization 1 Holdings S.E., a civil partnership created under the laws of Puerto Rico (the “Limited Partnership”), is the sole member, pursuant to a loan agreement among the Issuer, the Authority, the 2008 Trustee, and the LLC (the “Loan agreement”). The Department of Housing of the Commonwealth of Puerto Rico to which the Authority is attached, is the general partner of the Limited Partnership. Pursuant to a Mixed Finance Proposal approval by HUD, the LLC will use the proceeds of the 2008 bonds to carry out the modernization program of the Authority in consideration of, among other things, the Authority’s repayment of the 2008 Bonds. The Master Trust Indenture, First Supplemental Trust, and Loan Agreement were included in the Submission and are collectively referred to as the “2008 Bond Documents.”

The 2003 Bonds, as approved by HUD by letter dated December 3, 2003, are secured by a pledge of the Authority’s Capital Fund Program monies (but only Capital Fund Program formula funds under Section 9(d) of the Act, but excluding any Replacement Housing Factor grant moneys also under 9(d)), subject to the availability of appropriations. A portion of the 2003 Bonds will be defeased upon the issuance of the 2008 Bonds. The attached defeasance financing amendment to the ACC (the “Defeasance Financing Amendment”) modifies the

Capital Fund Financing Amendment to the ACC for the 2003 bonds (the “2003 ACC Amendment”) to revise the final debt service schedule for the 2003 Bonds (the “Revised 2003 Final Debt Service Schedule”) incorporating the reduced debt service requirements resulting from the partial defeasance. The portion of the 2003 Bonds which remains outstanding will have a priority in payment over the 2008 Bonds. Available Capital Funds, subject to the availability of appropriations, but only to the extent required for the payment of debt service on the 2003 Bonds and 2008 Bonds, will be paid to the 2003 Trustee for payment of debt service, first of the 2003 Bonds outstanding, with remaining amounts being transferred to the 2008 Trustee for payment of debt service on the 2008 Bonds all as further described herein and in the 2008 ACC Amendment. The portion of the 2003 Bonds which is being defeased will be paid in accordance with the Escrow Deposit Agreement between the Issuer and the 2003 Trustee dated as of July 1, 2008.

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

1. HUD hereby approves the issuance of the 2008 Bonds pursuant to the 2008 Bond Documents in substantially the form submitted subject to the Authority receiving further approval from HUD of its Mixed Finance Proposal and Evidentiaries pursuant to 24 CFR 941.606 and 24 CFR 941.610 respectively. HUD’s approval of the 2003 Bonds included an approval of a line of credit (the “line”) from the Government Development Bank (the “GDB”). By correspondence dated October 26, 2007 HUD approved an expansion of that Line up to an amount not to exceed \$210,000,000. Therefore, as a condition of this approval, all drawings to date on the Line must be repaid in its entirety, the Authority’s public housing assets shall no longer secure the Line, and the Line shall provide no recourse to the Authority’s public housing assets. This approval is further conditioned on the Authority receiving approval of its request dated March 14, 2008 to retain the original Date of Full Availability (DOFA) dates for all projects currently the subject of a Mixed Finance Proposal, as detailed in Attachment F. Any substantive changes to the form of the 2008 Bond Documents that affect HUD’s rights or obligations shall be submitted to HUD for review and approval by the Deputy Assistant Secretary for the Office of Public Housing Investments. Except as stated, no further approval of the 2008 Bond Documents by HUD shall be required. This approval does not constitute approval for any other agreements, series of bonds or additional debt issued by the Authority. Unless otherwise approved by HUD in writing, if the Authority does not close on the 2008 Bonds within 60 days of the date of this letter this approval shall terminate without any further action from HUD.
2. Subject to the availability of appropriations, HUD hereby approves the use of Capital Fund grants for the 2008 Bonds (which is defined to include only Capital Fund formula funds under Section 9(d) of the United States Housing Act of 1937 (“Act”) and any applicable successor program, and exclude Replacement Housing Factor grants) for payment of debt service as presented in the 2008 Bonds estimated debt service schedule attached hereto. Following the execution of the

2008 Bond Documents, the final debt service schedule (the “2008 Bonds Final Debt Service Schedule”) shall be submitted to HUD. Unless approved by the Deputy Assistant Secretary for the Office of Public Housing Investments the 2008 Bonds Final Debt Service Schedule shall not exceed the 2008 Bonds estimated debt service schedule in any year by more than 10%. Also attached hereto is the Revised 2003 Bonds Debt Service Schedule, and an estimated consolidated debt service schedule reflecting the estimated debt service from both the 2003 Bonds and 2008 Bonds. Upon submission of the 2008 Bonds Final Debt Service Schedule, the Authority shall also submit a final consolidated debt service schedule (the “Final Consolidated Debt Service Schedule”), which shall reflect no more than 37.0% of any fiscal year capital fund grant scheduled for the payment of debt service on the 2008 Bonds and 2003 Bonds.

3. HUD hereby determines that the Authority constitutes a “public housing agency” within the meaning of section 3(b)(6) of the Act and that the 2008 Bonds constitute a housing program obligation issued by a public housing agency in connection with low-income housing projects as described in section 11(b) of the Act. The provisions of 26 U.S.C. § 149(c)(2)(C)(iii) state that the interest on such obligations shall not be exempt from taxation under section 11(b) unless issued before June 19, 1984, and the provisions of 26 U.S.C. § 149(c)(1) state that any exemption of income on bonds from taxation, unless otherwise excepted, must derive from the Internal Revenue Code. HUD offers no opinion on the tax status of such bonds.
4. Provided that the Authority submits the documents described below in the Post Approval Documentation section of this letter, HUD hereby agrees, subject to the availability of appropriations, to make debt service payments on the 2008 Bonds as reflected on the 2008 Bonds Final Debt Service Schedule automatically and directly to the 2003 Trustee for the benefit of the Authority. Subject to the availability of appropriations, each debt service payment on the 2008 Bonds shall be combined and made as a single payment along with each debt service payment on the 2003 Bonds, all as detailed on the Final Consolidated Debt Service Schedule. HUD will establish a system of direct payment for the consolidated payments, by wire transfer or otherwise, to the 2003 Trustee. In accordance with the documents for the 2003 Bonds and the 2008 Bond Documents, the 2003 Trustee will deposit payment with respect to the 2008 Bonds with the 2008 Trustee after making required debt service payments on the 2003 Bonds.
5. HUD hereby agrees that amounts paid to the 2003 Trustee to make debt service payments for the 2008 Bonds under the 2008 Bond Documents as reflected on the 2008 Bonds estimated Debt Service Schedule are authorized and under current law are not subject to recapture, and that no regulatory waiver is necessary to disclaim effectively any right, title and interest of the United States in and to such amounts. Nothing in this paragraph shall prevent HUD from recapturing funds from the Authority (as opposed to the 2003 Trustee or the 2008 Trustee) in accordance with applicable law.

6. HUD further acknowledges and agrees that the 2008 Bonds are being sold to capital market investors who rely on the full and timely payment of such HUD amounts, subject to the availability of appropriations and pursuant to this letter and the Capital Fund Financing Amendment to the Consolidated Annual Contributions Contract (“ACC”). HUD further acknowledges and agrees that, notwithstanding the provisions of that certain HUD General Depository Agreement (form HUD 51999 (6/91))(GDA) entered into between the Authority and the 2008 Trustee, (including any Paying Agent or other Depository authorized by the Master Trust Indenture), permitting HUD as third-party beneficiary thereof to block payment from specified Authority accounts held with the 2008 Trustee, HUD will not exercise such right if the effect would be to reduce or delay any scheduled debt service or redemption payment on the 2008 Bonds. HUD further acknowledges and agrees that in the event of a conflict between this Section 6 and the GDA, the obligation of HUD set forth in the previous sentence shall prevail.
7. HUD hereby agrees that interest earned on amounts paid to the 2003 Trustee and 2008 Trustee to make debt service payments on the 2008 Bonds may be applied to pay debt service on the 2003 Bonds or the 2008 Bonds or other Capital Fund eligible work items and need not be returned to HUD. In addition, HUD hereby determines that no regulatory waiver is necessary to permit such use.
8. Nothing in this letter is intended to diminish HUD’s authority to administer, monitor, and regulate the public housing program, including HUD’s authority to exercise any administrative sanction provided by law; provided, however, that HUD hereby agrees that no subsequent change in the permissible use of Capital Fund Program moneys and no administrative sanction regarding the Authority (including the withholding of \$10,000,000 in Capital Funds as provided below) will affect the eligibility of expenditures for debt service on the 2008 Bonds or reduce Capital Fund allocations to the Authority, except as required by law, below the levels needed to pay such debt service.
9. HUD hereby waives any additional notice or consent required under the Federal Assignment of Claims Act.
10. The 2008 Bonds are not obligations of or guaranteed by HUD or the United States of America. No action taken pursuant to these documents shall result in any liability to the federal government. Appropriate statements to such effect shall be included in offering materials with respect to the 2008 Bonds. HUD’s review of the CFFP Proposal is limited to a review for compliance with CFFP programmatic requirements, and does not extend to the review of underwriting, including assumptions regarding the future receipt of Capital Fund Program moneys, for which the Authority is solely responsible and which it pledges at its own risk.
11. The pledge and assignment of “Revenues” under the Loan Agreement and the Indenture is authorized for the purpose of securing the debt service on the 2008 Bonds.
12. To the extent that allocations of Capital Fund Program moneys to the Authority are reduced or recaptured because Capital Fund amounts previously allocated to

the Authority remain unobligated or unexpended in violation of Section 9(j)(1) or (5)(A) of the Act (or any successor(s) thereto), HUD agrees that, (i) unless otherwise prohibited by law, any unobligated Capital Fund Program moneys that are available to the Authority may be used, on a first priority basis, to the extent necessary, to pay principal of and interest on the 2008 Bonds or 2003 Bonds, and (ii) to the extent permitted or provided by law, the recapture of all funds unobligated or unexpended in violation of said provisions of Section 9(j) shall serve to cure such violation(s).

Except as expressly provided herein, nothing in this approval letter is intended to modify or waive the Capital Fund Program requirements, which are all applicable to the use of the proceeds from the 2008 Bonds. Attached is the approved budgeted use of CFFP Proceeds. The Capital Fund Program requirements include, but are not limited to the preparation and submission to HUD of annual Capital Fund plans and budgets and the execution and delivery each year of the Capital Fund Program Amendment to the ACC in the form prescribed by HUD. Changes in the work items funded with the proceeds beyond the threshold described below are subject to written approval from the applicable HUD Field Office, in addition to any other HUD approvals that may be required.

- A change in the type of activity (e.g., development verses modernization) being financed.
- A change in the public housing projects upon which the proceeds are being used.
- A reduction of 20% or more in the number of public housing units the proceeds will be used upon.
- An increase of 20% or more in the cost of non-dwelling space.

The Authority must report progress in completing work items funded with the proceeds from this issuance in an Annual Statement/Performance and Evaluation Report, which must be submitted to the applicable HUD Field Office on a quarterly basis, as well as incorporated in the Authority's annual Capital Fund plan. The Authority will continue to report progress until all work is completed, paid and reflected in an annual audit.

### **Withholding of Capital Funds**

HUD requires that, as a condition of its approval of this transaction that the Authority agrees to a provision for a one time contractual withholding of Capital Fund monies by HUD. For all of the PRPHA's ACC properties (the "Properties") as identified in the "DOT Tracking Chart" attached as Exhibit E to this HUD approval letter, the Authority must provide for HUD review and approval a certification of the Authority's General Counsel that the title policies for the Properties attached to said certification evidence (i) the recordation of a Declaration of Trust and (ii) that no lien or other encumbrance has priority over such Declaration. The Authority must complete this work to HUD's satisfaction for the Properties.

HUD has withheld \$10 million of FY 2008 Capital Fund moneys ("Amount"), resulting in a net amount of \$127,223,337 which has been obligated by HUD to the Authority. HUD will release the Amount as soon as the Authority completes the work described in the preceding

paragraph to HUD's satisfaction, however, if the Authority fails to submit documentation regarding all of the DOTs that is satisfactory to HUD by December 31, 2009, HUD will continue to withhold the entire Amount and the Authority will permanently lose this Amount.

### **Post Approval Documentation Requirements**

Once the Authority and the 2008 Trustee have executed the documents relating to the 2008 Bonds, the Authority must submit to HUD Headquarters a final closing binder containing copies of all executed documents relating to the 2008 Bonds, together with a certification from the Authority and its counsel attesting that the changes requested by HUD have been made and that no other substantive changes to the submissions (including no substantive changes to the 2008 Bond Documents changing HUD's rights or obligations) have been made since they were last approved by HUD. The Authority must also include a certified copy of the Board Resolution authorizing the CFFP transaction described herein. An original and one copy of the final closing binder must be received within 60 days of the date of this letter.

The Authority may proceed to execute three originals of the Capital Fund Financing Amendment. All three originals must be executed by the Authority and then delivered to the HUD Caribbean Field Office, where the Director of Public Housing will execute all originals on behalf of HUD. The Field Office will keep one original for their use and return the other two originals to the Authority. The Authority should retain one original, the other original with two original signatures should be returned to the Office of Capital Improvements at HUD Headquarters.

Additionally, within 60 days of the date of this letter, the Authority shall submit to HUD: (1) the Final Debt Service Schedule, (2) a complete and fully executed Direct Deposit Sign-Up Form (Standard Form 1199A with original signatures from the Authority and the Lender), (3) a Tab Delimited file in the format required for uploading into LOCCS reflecting the debt service payments for the Final Consolidated Debt Service Schedule, and (4) an executed copy (s) of the HUD General Depository Agreement (s) (form HUD-51999 (6/91)) entered into between the Authority and the Depository. The items noted in this and the preceding paragraph shall collectively constitute the "Post Approval Documentation." Please refer to the CFFP Post Approval Documentation website for more detailed information:

<http://www.hud.gov/offices/pih/programs/ph/capfund/postapp.cfm>. All submissions should be sent to:

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

Should you have any questions, please contact Todd Wendorf, Office of Capital Improvements at (312) 353-6236, extension 2511, or Jeffrey Riddel at (202)402-7378.

Sincerely,



Dominique Blom  
Deputy Assistant Secretary  
Office of Public Housing Investments

cc: Olga Saez, Public Housing Field Office Director

Enclosures: Exhibit A - Estimated 2008 Bond Debt Service Schedule  
Exhibit B.- Revised 2003 Bond Debt Service Schedule  
Exhibit C - Estimated Consolidated Bond Debt Service Schedule  
Exhibit D - 2003 Bonds Annual Statement, 2008 Bonds Annual Statement  
Exhibit E - 2008 Capital Fund Financing Amendment to the Consolidated ACC  
Exhibit F - Properties subject to retention of original DOFA date  
Exhibit G - Properties that must evidence DOTs  
Exhibit H - Defeasance Financing Amendment

[Exhibits not attached to this Appendix B.]

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**APPENDIX C**

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

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**CAPITAL FUND 2008 FINANCING AMENDMENT  
TO CONSOLIDATED ANNUAL CONTRIBUTIONS CONTRACT**

**Section 1.** This Capital Fund Financing Amendment to Consolidated Annual Contributions Contract (“2008 Financing Amendment”) covers the program (the “Program”) for the modernization of public housing of Puerto Rico Public Housing Administration, a housing authority which is a public body and body corporate and politic of the Commonwealth of Puerto Rico (the “Authority”) to be carried out pursuant to the Capital Fund Program authorized by section 9(d) of the U.S. Housing Act of 1937 (the “Capital Fund Program”), and in accordance with the Authority’s public housing agency plan and Mixed Finance Proposal, as approved by HUD, together with the proceeds of a certain tax-exempt bond issue (the “2008 Bonds”) identified below to be issued by the Puerto Rico Public Housing Finance Authority (the “Issuer”) and secured by a pledge of Capital Fund Program moneys (which is further defined to include only CFP formula funds under Section 9(d) of the Act, but exclude Replacement Housing Factor grant moneys also under 9(d)) for debt service and subject to the availability of appropriations.

**THE PUERTO RICO PUBLIC HOUSING ADMINISTRATION  
CAPITAL PROGRAM REVENUE BONDS, SERIES 2008**

**Section 2.** This Capital Fund Financing ACC Amendment is amendment #CFFP 219 to Consolidated Annual Contributions Contract Form HUD-53012A and Form HUD-53012B Number: PR-43 dated March 21, 1996 (together with any amendments thereto and modifications thereof, the “ACC”).

**Section 3.** The ACC is amended to evidence the approval by HUD of the issuance of the 2008 Bonds identified in Section 1 and to permit the pledge and payment of moneys received under the Capital Fund Program (or any successor thereto) to such 2008 Bonds subject to the first priority pledge thereof to the payment of debt service on the outstanding portion of the Issuer’s Capital Fund Program Bonds (Puerto Rico Public Housing Administration Project) Series 2003 (the “2003 Bonds”). The 2003 Bonds will be partially defeased, as reflected in the defeasance financing Amendment to the ACC (the “Defeasance Financing Amendment”) of this same date. This 2008 Financing Amendment is part of the ACC.

**Section 4.** The following provisions are applicable to the 2008 Bonds and the Program, notwithstanding any provision of the ACC to the contrary:

(A) References in the ACC to “notes” and “bonds” shall not mean or refer to the 2008 Bonds. With the exception of amounts pledged to the payment of debt service on the 2003 Bonds as evidenced by the revised debt service schedule attached to the Defeasance Financing Amendment (“2003 Bonds Revised Debt Service Schedule”), amounts payable to the Authority by HUD pursuant to the Capital Fund Program (and any successor program for funding modernization needs) and pledged to the payment of debt service on the 2008 Bonds by the Authority shall be used exclusively for debt service on such 2008 Bonds in accordance with the 2008 Bonds Final Debt Service Schedule approved by HUD and described in Section 2 of the HUD approval letter collectively, (“2008 Bond Debt Service”), but limited by Section 8 of the HUD approval letter, shall not be available for any other purpose, including but not limited to, (a) the repayment of any bonds to the Authority by HUD pursuant to Section 4 of

the United States Housing Act of 1937 (the "Act"), or (b) the repayment of any notes or bonds (other than the 2003 Bonds and 2008 Bonds) as described in the ACC. Notwithstanding anything to the contrary in this document, the 2003 Bonds have a first priority pledge of Capital Funds, and all of HUD's obligations pursuant to this 2008 Financing Amendment shall be subordinate to HUD's and the Authority's obligations pursuant to the financing amendment dated December 3, 2003 (the "Original Financing Amendment"), as revised by the Defeasance Financing Amendment.

(B) The 2003 Bonds and 2008 Bonds do not constitute a debt or liability of HUD or the United States, the full faith and credit of the United States are not pledged to the payment of Bond Debt Service, and neither 2008 Bond Debt Service nor 2003 Bond Debt Service are guaranteed by HUD or the United States.

(C) Nothing in this 2008 Financing Amendment is intended to diminish HUD's authority to administer, monitor, and regulate the public housing program, including HUD's authority to exercise any administrative sanction or remedy provided by law; provided, however, that except as required by law, HUD will not assert any claim or right under the ACC, including the exercise of administrative sanctions and remedies, if and to the extent that the effect of such claim or right would be to reduce the payment of Capital Fund Program moneys to the Authority below the level necessary to pay 2008 Bond Debt Service or delay the time for payment of such moneys such that required amounts would not be available to pay 2008 Bond Debt Service when due. In the event that HUD shall determine to impose administrative sanctions upon the Authority which would have the effect of reducing the payment of Capital Fund Program moneys to the Authority in any year by more than 20%, HUD shall have the right (in addition to all other rights and remedies available to HUD), while such sanctions remain in effect, to require that unexpended proceeds of 2008 Bonds already issued (except for amounts already obligated or encumbered for the payment of project costs or required for a debt service reserve or other structural purposes of such issue(s)) be applied, at the earliest permissible date, to redeem outstanding 2008 Bonds.

In the event that the Authority has not obligated at least 90% of the proceeds of the 2008 Bonds twenty three months after the date of the HUD approval letter, unless otherwise approved by HUD, unobligated proceeds of the 2008 Bonds shall be applied, to prepay the 2008 Bonds ("Mandatory Obligation Prepayment") such that 90% of the balance of the 2008 Bonds remaining after the Mandatory Obligation Prepayment shall be obligated no later than 24 months after the execution of the 2008 Bond Documents ("Obligation End Date").

In the event that the Authority has not expended 100% of the proceeds of the 2008 Bonds forty seven months after the date of the HUD approval letter, unless otherwise approved by HUD, unexpended proceeds of the 2008 Bonds shall be applied to prepay the 2008 Bonds ("Mandatory Expenditure Prepayment") such that 100% of the balance of the 2008 Bonds remaining after the Mandatory Expenditure Prepayment will have been expended no later than 48 months after the execution of the 2008 Bond Documents ("Expenditure End Date").

Within 7 days of the Obligation End Date, and then again within 7 days of the Expenditure End Date, the Authority shall submit a Performance and Evaluation report to the appropriate HUD Field Office, documenting the obligation and expenditure of the 2008 Bond proceeds, along with a Certification signed by the Executive Director of the Authority, attesting to its accuracy.

(D) Payment of Bond Debt Service is a permissible use of Capital Fund Program moneys. HUD approval of the 2008 bonds is subject to the Authority receiving further approval from HUD of its Mixed Finance Proposal and Evidentiaries pursuant to 24 CFR 941.606 and 24 CFR 941.610 respectively. This approval is further conditioned on the Authority receiving approval of its request dated March 14, 2008 to retain the original Date of Full Availability (DOFA) dates for all projects currently the subject of a Mixed Finance Proposal. Once the 2008 Bonds have been approved by HUD, no further approval shall be required for payment of Bond Debt Service with Capital Fund Program moneys available to the Authority.

(E) The adoption of this 2008 Financing Amendment does not supersede or preclude the adoption of annual Capital Fund plans and annual Capital Fund Program Amendments to the ACC; provided, however, that if in any fiscal year, (i) the applicable annual Capital Fund plan shall not have been approved by HUD or (ii) the annual Capital Fund Program Amendment to the ACC shall not have been executed, in either case, by the later of (i) October 1 of the first year following the end of the applicable Federal fiscal year with respect to which such funds were appropriated or (ii) 60 days prior to the first scheduled 2008 Bond Debt Service payment following such October 1, HUD agrees, subject to the availability of appropriations, to approve immediately upon receipt from the Authority (subject to any legal requirements or constraints applicable at the time), an annual Capital Fund plan and/or an annual Capital Fund Program Amendment to the extent and in an amount sufficient to make the applicable 2008 Bond Debt Service payment.

(F) Subject to the availability of appropriations and approval of the annual Capital Fund plan and Capital Fund Program Amendment, and further provided that the Authority submits the Post Approval Documentation described in the HUD Approval Letter, HUD will make Capital Fund Program moneys automatically and directly available to the trustee for the 2003 Bonds (the "2003 Trustee") in accordance with the approved 2008 Bonds Final Debt Service Schedule, as described in the HUD Approval Letter, to the extent required for payment of 2008 Bond Debt Service. Subject to the availability of appropriations, each debt service payment on the 2008 Bonds shall be combined and made as a single payment along with each debt service payment on the 2003 Bonds, all as detailed on the Final Consolidated Debt Service Schedule. Such direct payment shall be implemented by whatever means are available to HUD at the applicable time, but in any event, the 2003 Trustee shall be able to receive, based upon the direction of the Authority pursuant to and as embodied in this 2008 Financing Amendment, the necessary amounts without the need for payment to flow through the Authority. In accordance with the documents for the 2003 Bonds and the documents for the 2008 Bonds, the 2003 Trustee will deposit payment for debt service on the 2008 Bonds with the Trustee for the 2008 Bonds (the "2008 Trustee") after making required payments on the 2003 Bonds.

(G) Amounts requisitioned by or payable to the 2008 Trustee for 2008 Bond Debt Service shall not be paid earlier than three (3) business days prior to the date upon which they are required to make such payment on the 2008 Bonds. HUD agrees that, provided the Authority submits the Post Approval Documentation described in the HUD approval letter, upon determining the amount of Capital Fund Program moneys available to the Authority in any fiscal year, with the exception of 2003 Bond Debt Service payments, it will not permit disbursements of such moneys for purposes other than 2008 Bond Debt Service in accordance with the 2008 Bond Debt Service Schedule approved by HUD to an extent that would reduce

the amounts available for such fiscal year below the amounts scheduled for 2008 Bond Debt Service in such fiscal year.

(H) The Authority certifies that the number of ACC units anticipated to be eligible for Capital Fund Allocations in each year through the maturity date of the financing will not be less than 53,020 (“Stabilized Base Unit Count”) excepting additions and subtractions from the Authority’s public housing portfolio prior to reaching the Stabilized Base Unit Count, all in amounts as shown on the attached portfolio schedule. The Authority covenants with HUD not to reduce the number of ACC units by more than 5% (cumulatively) below the Stabilized Base Unit Count (except for changes in the unit count prior to reaching the Stabilized Base Unit Count, but only in amounts as shown on the attached portfolio schedule) without the prior prepayment, redemption, defeasance or refunding of the 2008 Bonds to the extent necessary to maintain the same debt coverage ratio in the 2008 Bonds year immediately following such reduction in ACC Units (based on the then current year’s capital fund allocation but giving effect to the reduction in ACC Units in a manner acceptable to HUD) as existed prior to the reduction; provided, however, that in no event shall the Authority be required to maintain a debt coverage ratio in excess of 2.70 in any fiscal year of the Capital Fund Program, taking into account the combined debt service payments of the 2003 Bonds and 2008 Bonds; and provided, further that if the reduction in units is required by law or public housing requirements, the Authority shall not be required to redeem or defease the 2008 Bonds prior to such reduction, but instead shall do so (to the extent necessary to maintain the same debt service coverage ratio as was in effect immediately preceding such reduction in ACC Units) as soon as possible after becoming aware of the requirement of law or public housing requirements but only to the extent that Capital Funds are not otherwise needed by the Authority to address the health and safety issues or other requirements of law in the Authority’s public housing portfolio, all as determined by HUD.

(I) The proceeds of the 2008 Bonds may be expended only for purposes for which public housing Capital Fund Program moneys may be expended. The Authority shall provide for the application of the proceeds of the 2008 Bonds (in such detail as shall be reasonably required by HUD) in its annual and 5-year Capital Fund plans. All such uses of proceeds of the 2008 Bonds shall be subject to HUD approval (as part of HUD's approval of Authority's annual plan) and the Authority shall report to HUD annually with respect to such expenditures in the same manner as it accounts for the expenditure of Capital Fund Program moneys.

## **Section 5 – Capital Fund Withholding**

HUD requires that, as a condition of its approval of this transaction that the authority agrees to a provision for a one time contractual withholding of Capital Fund monies by HUD. For all of the PRPHA’s ACC properties (the “Properties”) as identified in the “DOT Tracking Chart” attached as Exhibit E to the HUD approval letter, the Authority must provide for HUD review and approval a certification of the Authority’s General Counsel that the title policies for the Properties attached to said certification evidence (i) the recordation of a Declaration of Trust and (ii) that no lien or other encumbrance has priority over such Declaration. The Authority must complete this work to HUD’s satisfaction for the Properties.

HUD has withheld \$10 million of FY 2008 Capital Fund moneys (“Amount”), resulting in a net amount of \$127,223,337 has been obligated by HUD to the Authority. HUD will release the Amount as soon as the Authority completes the work described in the preceeding paragraph to HUD’s satisfaction, however, if the Authority fails to submit

documentation regarding all of the DOTs that is satisfactory to HUD by December 1, 2009, HUD will continue to withhold the entire Amount and the Authority will permanently lose this Amount.

**Section 6 - Authority Representations and Assurances.**

By executing this 2008 Financing Amendment, the Authority represents, warrants and agrees that it will apply all proceeds of the Bonds (i) as approved by HUD in connection with HUD's consent to issuance of the Bonds and (ii) to expenditures which are permissible under the laws and regulations governing the Capital Fund Program (or any applicable successor).

Additionally, the Authority represents, warrants and agrees that it has insurance coverage in conformance with public housing requirements including the Consolidated ACC. The Authority hereby further covenants that prior to terminating or amending any form of required insurance or seeking permission to self insure in accordance with section 4 of the ACC and the public housing requirements, it shall apply to HUD for a waiver of any form of required insurance or permission to self insure, and it shall obtain written approval from HUD to amend its CFFP proposal approval and this 2008 Financing Amendment to explicitly permit such action.

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

PUERTO RICO PUBLIC HOUSING  
ADMINISTRATION, COMMONWEALTH OF  
PUERTO RICO

By \_\_\_\_\_  
Carlos Laboy-Diaz  
Administrator

UNITED STATES OF AMERICA  
Secretary of Housing and Urban  
Development

By \_\_\_\_\_  
Olga Saez  
Public Housing Director

Date: \_\_\_\_\_

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**BOOK-ENTRY ONLY SYSTEM****Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, New York, will initially act as securities depository for the Series 2008 Capital Fund Bonds. DTC and any successor or substitute securities depository are sometimes referred to herein as the “Securities Depository.” The Series 2008 Capital Fund Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Cede & Co. and any future nominee of a Securities Depository are sometimes herein referred to as the “Securities Depository Nominee.” One fully-registered bond certificate will be issued for each maturity of the Series 2008 Capital Fund Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2008 Capital Fund Bonds, references herein to the Holders of the Series 2008 Capital Fund Bonds or registered owners of the Series 2008 Capital Fund Bonds shall mean Cede & Co. and shall not mean the actual owners (“Beneficial Owners”) of the Series 2008 Capital Fund Bonds.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (“NSCC,” “FICC” and “EMCC,” all subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear securities transactions through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission. DTC has S&P’s highest rating: AAA. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) or [www.dtc.org](http://www.dtc.org).

Purchases of Series 2008 Capital Fund Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Capital Fund Bonds on DTC’s records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Series 2008 Capital Fund Bonds are to be accomplished by entries made on the books of Direct and

Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Capital Fund Bonds, except in the event that use of the book-entry system for the Series 2008 Capital Fund Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 Capital Fund Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Capital Fund Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Capital Fund Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Series 2008 Capital Fund Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 Capital Fund Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008 Capital Fund Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Authority as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Capital Fund Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Series 2008 Capital Fund Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2008 Capital Fund Bonds to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008 Capital Fund Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, bond certificates are required to be printed and delivered.

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

Unless otherwise noted, the information contained in the preceding paragraphs under this caption “Book-Entry Only System” has been extracted from information given by DTC. The Authority, the Trustee and the Underwriters do not make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.

THE AUTHORITY AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2008 CAPITAL FUND BONDS, OR TO ANY BENEFICIAL OWNER OF BONDS IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF OR PREMIUM OR INTEREST ON THE SERIES 2008 CAPITAL FUND BONDS, ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN UNDER THE INDENTURE, THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2008 CAPITAL FUND BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

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FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2008

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

Ladies and Gentlemen:

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

We have also examined a certified copy of a resolution adopted by the Board of Directors of the Authority on August 1, 2008 (the “Bond Resolution”), and other proofs submitted relative to the following issue of Bonds (collectively, the “Bonds”):

\$384,475,000

PUERTO RICO HOUSING FINANCE AUTHORITY  
 Capital Fund Modernization Program Subordinate Bonds  
 (Puerto Rico Public Housing Projects), Series 2008 (Non-AMT)

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2008	\$15,855,000	3.000%
2009	2,000,000	3.500
2009	10,350,000	5.000
2010	4,495,000	3.500
2010	7,935,000	5.000
2011	1,905,000	4.000
2011	10,025,000	5.000
2012	1,695,000	4.000
2012	10,315,000	5.000
2013	3,020,000	4.000
2013	9,115,000	5.000
2014	850,000	4.000
2014	11,730,000	5.250
2015	525,000	4.250
2015	12,700,000	5.500
2016	2,985,000	4.375
2016	10,950,000	5.500
2017	2,600,000	4.500

2017	12,060,000	5.500
2018	4,250,000	4.625
2018	11,185,000	5.500
2019	16,235,000	5.500
2020	2,340,000	5.000
2020	14,785,000	5.500

\$204,570,000 5.125% Term Bonds Due December 1, 2027

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

The Bonds are issued under and pursuant to a trust indenture (said trust indenture, together with any amendments or supplements thereof and thereto, being herein called the “Indenture”) by and between the Authority and U.S. Bank Trust National Association, as trustee (the “Trustee”) for the purpose of (i) providing funds to make a loan under a Loan Agreement (the “Loan Agreement”) entered into by the Authority with the Puerto Rico Public Housing Administration (“PRPHA”), a governmental agency attached to the Department of Housing of the Commonwealth, the Trustee, and Vivienda Modernization 1, LLC (the “2008 LLC”), said Bonds to be repaid pursuant to an assignment by PRPHA to the Trustee of certain capital grant funds required to be remitted to PRPHA by the U. S. Department of Housing and Urban Development (the “Capital Grant Receipts”) for the financing of capital modernization improvements to public housing projects in the Commonwealth (the “Program”), and (ii) making deposits in various funds and accounts established under the Indenture.

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

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

The Internal Revenue Code of 1986, as amended (the “Code”), establishes requirements that must be met subsequent to the initial issuance and delivery of the Bonds in order that interest on the Bonds not be included, on and after the date of such issuance and delivery, in gross income for Federal income tax purposes under the Code. The Authority has established procedures in the Program documents and the Indenture to meet the requirements of the Code. The Authority has also covenanted in the Indenture to comply with the requirements of Sections 142 and 148 of the Code. In our opinion, the procedures that have been established as of the date hereof in the Authority’s Program documents and the Indenture are sufficient, if followed by the Authority, the Puerto Rico Department of Housing (“DOH”) and the 2008 LLC, to comply with the requirements of the Code. Our opinion in paragraph 6 below is rendered on the assumption that the Authority, DOH and the 2008 LLC will carry out the aforementioned procedures set forth in the Program documents and comply with the aforementioned covenants.

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

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

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

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

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

(5) The Bonds do not constitute a debt, obligation or pledge of credit of the Commonwealth or any municipality or political subdivision thereof, or of Government Development Bank for Puerto Rico, PRPHA, the 2008 LLC or any public instrumentality of the Commonwealth other than the Authority as set forth above, and neither the Commonwealth nor any such municipality or political subdivision, nor Government Development Bank for Puerto Rico, PRPHA, the 2008 LLC or any public instrumentality of the Commonwealth other than the Authority as set forth above, shall be liable for the payment of the Bonds or the interest thereon.

(6) Under the provisions of the Acts of Congress now in force, and under existing statutes and court decisions, assuming continuing compliance with certain tax covenants described herein, (a)(i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to the exclusion of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code is (1) a “substantial user” of facilities financed with the proceeds of the Bonds or (2) a “related person;” and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in adjusted current earnings of corporations for purposes of the alternative minimum tax; and (b) the Bonds, and the interest thereon, are exempt from state, the Commonwealth of Puerto Rico and local taxation. Additionally, certain provisions of the Code may affect the tax treatment of interest on the Bonds for certain owners thereof, and certain requirements of the Code must be satisfied after the date of issuance of the Bonds in order to maintain the exclusion from gross income of interest thereon under Federal law.

We express no opinion regarding any other Federal, Commonwealth or state tax consequences with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state, Commonwealth or local tax law.

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

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

Yours very truly,

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