

**California Debt and Investment Advisory Commission
Living With an Issue: Ongoing Debt Administration**

Bond Documents: Critical To Managing Debt Service



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May 14, 2009
San Diego, California

Supplemental Materials

**OPTIONS TO CONSIDER WHEN SURETY BONDS FAIL TO MEET THE
REQUIREMENTS OF AN INDENTURE: AMENDMENTS TO THE INDENTURE**

Excerpt from Sample Indenture

Section 1.01. Definitions

“Debt Service Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Authority and specified in writing to the Trustee; provided, however that in determining Bond Debt Service with respect to any Bonds that constitute Variable Rate Indebtedness, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be (i) with respect to Bonds which are Tax-Exempt, the ten year historical average of the Securities Industry and Financial Markets Association Municipal Swap Index ending with the week preceding the date of calculation, and (ii) with respect to Bonds which are not Tax-Exempt, the ten year historical average of the One Month USD LIBOR Rate ending with the month preceding the date the calculation is made or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the Authority.

“Reserve Financial Guaranty” means a policy of municipal bond insurance or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by S&P and Moody’s and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company.

“Series 20__A Debt Service Reserve Account” means the Debt Service Reserve Account established pursuant to Section 4.01 hereof.

“Series 20__A Debt Service Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Series 20__A Bonds as determined under the Code, or (b) the greatest amount of debt service on the Series 20__A Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Series 20__A Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the debt service on the Series 20__A Bonds for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Series 20__A Bonds) and terminating with the last

Fiscal Year in which any debt service on the Series 20__A Bonds is due, divided by the number of such Fiscal Years, all as computed and determined by the Authority and specified in writing to the Trustee.

“*Series 20__A Reserve Fund Policy*” means a surety bond issued by the Insurer to be deposited into the Series 20__A Debt Service Reserve Account; the Series 20__A Reserve Fund Policy constitutes a Reserve Financial Guaranty within the meaning of the Master Indenture with respect to the Series 20__A Bonds.

Section 5.06 Debt Service Reserve Fund.

(a) If on any date on which the principal or Redemption Price of, or interest on, the Bonds of any Series is due, the amount in the applicable account or subaccount in the Debt Service Fund available for such payment is less than the amount of the principal and Redemption Price of and interest on such Bonds due on such date, the Trustee shall apply amounts from such Series designated account, if any, within the Debt Service Reserve Fund to the extent necessary to make good the deficiency.

(b) Except as provided in subsection (e) of this Section, if on the last Business Day of any month the amount on deposit in any Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement with respect to the Bonds for which such Debt Service Reserve Account was established, such excess shall be applied to the reimbursement of each drawing on a Reserve Financial Guaranty deposited in or credited to such Account and to the payment of interest or other amounts due with respect to such a Reserve Financial Guaranty, and any remaining moneys shall be deposited in such Series' designated subaccount within the Interest Account.

(c) Whenever the amount in the Debt Service Reserve Account (excluding Reserve Financial Guaranties with respect to a Series of Bonds), together with the amount in the Debt Service Fund with respect to a Series of Bonds, is sufficient to pay in full all of the Outstanding Bonds of such Series in accordance with their terms (including principal or Redemption Price and interest thereon), the funds on deposit in the Debt Service Reserve Account with respect to such Series shall be transferred to such Series' designated subaccount within the Debt Service Fund.

(d) In the event of the refunding of one or more Bonds (or portions thereof) of any Series, the Trustee shall, upon the written direction of an Authorized Authority Representative, withdraw from such Series designated Debt Service Reserve Account any or all of the amounts on deposit therein (excluding Reserve Financial Guaranties) and deposit such amounts with itself as Trustee, or the Escrow Agent for the Bonds to be refunded, to be held for the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) of such Series being refunded shall be deemed to have been paid pursuant to Section 9.02, and (b) the amount remaining in the Series designated Debt Service Reserve Account after such withdrawal, taking into account any deposits to be made in the Series designated Debt Service Reserve Account in connection with such refunding, shall not be less than the Debt Service Reserve Requirement with respect to such Series.

(e) In lieu of the deposits and transfers to the Series designated Debt Service Reserve Account required by Section 5.03(g), the Authority may cause to be deposited in the Series designated Debt Service Reserve Account a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement with respect to such Series and the sums, if any, then on deposit in such Series designated Debt Service Reserve Account or being deposited in such Account concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from any Series designated Debt Service Reserve Account and applied to the payment of principal or Redemption Price of, or interest on, any Bonds of such Series and such withdrawal cannot be met by amounts on deposit in the applicable accounts in the applicable Debt Service Reserve Account; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Series designated Debt Service Reserve Account if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Authority deposits funds in the applicable Series designated Debt Service Reserve Account on or before such date such that the amount in the applicable Series designated Debt Service Reserve Account on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement with respect to such Series.

If, upon the deposit of a Reserve Financial Guaranty into the Series designated Debt Service Reserve Account pursuant to this subsection (e), there shall be any amount in the applicable Series designated Debt Service Reserve Account in excess of the Debt Service Reserve Requirement with respect to such Series, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Series designated Interest Subaccount.

If at any time obligations insured or issued by a Reserve Financial Guaranty Provider shall no longer maintain the required ratings set forth in the definition of “Reserve Financial Guaranty” in Section 1.01, the Authority shall provide or cause to be provided cash or a substitute Reserve Financial Guaranty meeting such requirements to the extent necessary to satisfy the Debt Service Reserve Requirement with respect to any Series with either cash, qualified Reserve Financial Guaranties or a combination thereof.

Section 6.21 Provisions relating to the Series 20__A Reserve Fund Policy.

(a) The Authority shall repay any draws under the Series 20__A Reserve Fund Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 20__A Bonds and (b) the maximum rate permissible under applicable

usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Series 20__A Reserve Fund Policy will be increased by such equal amount, subject to the terms of the Series 20__A Reserve Fund Policy.

All cash and investments in the Series 20__A Debt Service Reserve Account shall be transferred to the Series 20__A Debt Service Reserve Account for payment of principal and interest on Series 20__A Bonds before any drawing may be made on the Series 20__A Reserve Fund Policy or any other Reserve Financial Guaranty credited to the Series 20__A Debt Service Reserve Account in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Series 20__A Reserve Fund Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 20__A Debt Service Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 20__A Debt Service Reserve Account.

(b) If the Authority shall fail to pay any Policy Costs in accordance with the requirements of Section 6.20(a) hereof, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than remedies which would adversely affect owners of the Series 20__A Bonds.

(c) The Indenture shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The Authority's obligation to pay such amounts shall survive payment in full of the Series 20__A Bonds.

(d) The provisions relating to additional bonds set forth in Section 2.05 of the Master Indenture shall be amended to provide for at least one times coverage of the Policy Costs then due and owing.

(e) The Trustee shall be required to ascertain the necessity for a claim upon the Series 20__A Reserve Fund Policy and to provide notice to the Insurer in accordance with the terms of the Series 20__A Reserve Fund Policy at least five business days prior to each date upon which interest or principal is due on the Series 20__A Bonds.

Excerpt from Sample Supplemental Indenture

Section 1.03. Definitions.

“*Series 20__B Debt Service Reserve Account*” means the Series 20__B Debt Service Reserve Account established pursuant to Section 4.01 hereof.

“*Series 20__B Debt Service Reserve Requirement*” means, subject in each case to the provisions of Section 4.03 hereof, (i) from the delivery date through _____, 20__, \$_____ and (ii) as of _____, 20__, initially, an amount calculated in accordance with the definition of “Debt Service Reserve Requirement” under this Indenture, provided, that if the amount to be on deposit pursuant to this clause (ii) exceeds the amount on deposit as of _____, 20__, the Authority shall fund such difference within not more than 90 days from _____, 20__.

Section 6.04. Amendment to Master Indenture.(a) Pursuant to Section 7.01(c)(ii) of the Master Indenture, the following definitions are added to Section 1.01 of the Master Indenture:

“*Debt Service Reserve Requirement*” means, as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Authority and specified in writing to the Trustee; provided, however that in determining Bond Debt Service with respect to any Bonds that constitute Variable Rate Indebtedness, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be (i) with respect to Bonds which are Tax-Exempt, the ten year historical average of the SIFMA (formerly BMA) Index ending with the week preceding the date of calculation, and (ii) with respect to Bonds which are not Tax-Exempt, the ten year historical average of the One Month USD LIBOR Rate ending with the month preceding the date the calculation is made or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the Authority.

(f) Pursuant to Section 7.01(c)(ii) of the Master Indenture, Section 5.06(e) of the Master Indenture shall be amended by deleting said subsection and replacing it in its entirety with the following:

“(e) In lieu of the deposits and transfers to the Series designated Debt Service Reserve Account required by Section 5.03(g), the Authority may cause to be deposited in the Series designated Debt Service Reserve Account a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt

Service Reserve Requirement with respect to such Series and the sums, if any, then on deposit in such Series designated Debt Service Reserve Account or being deposited in such Account concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from any Series designated Debt Service Reserve Account and applied to the payment of principal or Redemption Price of, or interest on, any Bonds of such Series and such withdrawal cannot be met by amounts on deposit in the applicable accounts in the applicable Debt Service Reserve Account; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Series designated Debt Service Reserve Account if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Authority deposits funds in the applicable Series designated Debt Service Reserve Account on or before such date such that the amount in the applicable Series designated Debt Service Reserve Account on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement with respect to such Series.

If, upon the deposit of a Reserve Financial Guaranty into the Series designated Debt Service Reserve Account pursuant to this subsection (e), or upon a previously deposited Reserve Financial Guaranty again meeting the rating requirements set forth in the definition of "Reserve Financial Guaranty" in Section 1.01, there shall be any amount in the applicable Series designated Debt Service Reserve Account in excess of the Debt Service Reserve Requirement with respect to such Series, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty in the case of a newly purchased Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Series designated Principal Subaccount; provided, that if the amount to be transferred, or any part thereof, was not derived from the proceeds of Tax-Exempt Obligations, such amount or partial amount, as applicable, may be withdrawn by the Authority (or by the Trustee at the Authority's direction) and returned to the entity which had provided such funds as specified in the Authority's written direction to the Trustee.

If at any time obligations insured or issued by a Reserve Financial Guaranty Provider shall no longer maintain the required ratings set forth in the definition of "Reserve Financial Guaranty" in Section 1.01, the Authority shall provide or cause to be provided cash or a substitute Reserve Financial Guaranty meeting such requirements to the extent necessary to satisfy the Debt Service Reserve Requirement with respect to any Series with either cash, qualified Reserve Financial Guaranties or a combination thereof."

(g) Pursuant to Section 7.01(a) of the Master Indenture, upon the receipt of consent from the requisite percentage of Owners of Outstanding Bonds, Section 5.06(e) of the Master Indenture shall be amended by deleting said subsection and replacing it in its entirety with the following:

“(e) In lieu of the deposits and transfers to the Series designated Debt Service Reserve Account required by Section 5.03(g), the Authority may cause to be deposited in the Series designated Debt Service Reserve Account a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement with respect to such Series and the sums, if any, then on deposit in such Series designated Debt Service Reserve Account or being deposited in such Account concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from any Series designated Debt Service Reserve Account and applied to the payment of principal or Redemption Price of, or interest on, any Bonds of such Series and such withdrawal cannot be met by amounts on deposit in the applicable accounts in the applicable Debt Service Reserve Account; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Series designated Debt Service Reserve Account if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Authority deposits funds in the applicable Series designated Debt Service Reserve Account on or before such date such that the amount in the applicable Series designated Debt Service Reserve Account on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement with respect to such Series.

If, upon the deposit of a Reserve Financial Guaranty into the Series designated Debt Service Reserve Account pursuant to this subsection (e), there shall be any amount in the applicable Series designated Debt Service Reserve Account in excess of the Debt Service Reserve Requirement with respect to such Series, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Series designated Principal Subaccount; provided, that if the amount to be transferred, or any part thereof, was not derived from the proceeds of Tax-Exempt Obligations, such amount or partial amount, as applicable, may be withdrawn by the Authority (or by the Trustee at the Authority’s direction) and returned to the entity which had provided such funds as specified in the Authority’s written direction to the Trustee.”

Owners of the Series 20__B Bonds shall be deemed to have consented to this Amendment by their purchase of the Series 20__B Bonds.

(h) Pursuant to Section 7.01(c)(ii) of the Master Indenture, Section 5.06 of the Master Indenture is hereby amended to add the following subsection (f):

“(f) Notwithstanding any other provision of the Indenture to the contrary, the Authority may, in a Supplemental Indenture pursuant to which a Series of Bonds is issued, provide that: (i) the Debt Service Reserve Requirement for such Series of Bonds shall be the amount specified in such Supplemental Indenture, which shall be from \$0.00

to the maximum amount permitted under the definition of “Debt Service Reserve Requirement” set forth in Section 1.01 hereof, and (ii) that the Debt Service Reserve Account of the Debt Service Fund established at the time of issuance of such Series of Bonds may be drawn upon to pay accrued and unpaid interest and/or principal coming due on one or more Series of Bonds, and (iii) the amount on deposit in a Debt Service Reserve Account may be reduced once per Fiscal Year in proportion to the amount of Outstanding Bonds supported by such Debt Service Reserve Account as the principal amounts of such Bonds amortize, with the withdrawn funds deposited pro rata to the Principal Subaccount(s) for such Bonds, as applicable; provided, that if the amount to be transferred, or any part thereof, was not derived from the proceeds of Tax-Exempt Obligations, such amount or partial amount, as applicable, may be withdrawn by the Authority (or by the Trustee at the Authority’s direction) and returned to the entity which had provided such funds as specified in the Authority’s written direction to the Trustee.”

Sample Debt Service Reserve Insurance Policy

See attached.



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND DEBT SERVICE
RESERVE INSURANCE POLICY**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium:

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

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall be deemed to have been reimbursed for the amount so paid (together with interest and expenses) pursuant to the Bond Document. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due

upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed [REDACTED]. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of [REDACTED] and the date the Bonds are no longer outstanding under the Bond Document.

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

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

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

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

FINANCIAL SECURITY ASSURANCE INC.

By


Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 501B NY (8/96)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
DEBT SERVICE RESERVE
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not provided by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

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

FINANCIAL SECURITY ASSURANCE INC.

By

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 560-B-NY (10/96)

EXTENDING SURETY BOND COVERAGE TO ADDITIONAL RESERVE ACCOUNTS

Excerpt from Sample Master Trust Agreement

Article I. Definitions; Interpretations

“*Reserve Fund*” shall mean the fund of that name established pursuant to Section 4.04 hereof.

“*Reserve Fund Insurance Policy*” shall mean an insurance policy or surety bond provided by a bond insurer, or a letter of credit, deposited in the Reserve Fund in Lieu of, or partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Insurance Policy shall be rated in one of the two highest Rating Categories by Moody’s and S&P.

Article IV. Pledged Revenues and Funds

Section 4.06. Withdrawals from Debt Service Funds and Reserve Fund; Valuation of the Reserve Fund.

(a) In addition to the amounts deposited into the Accounts described in clauses (i) through (iv) of Section 4.05(a), the Trustee may accept and deposit into the Senior Debt Service Fund or Debt Service Fund other amounts from the Issuer or from other sources to be used for regularly scheduled principal and interest payments or for the redemption of Bonds or Parity Debt. There shall be withdrawn from the Senior Bond Interest Account and the Senior Bond Principal Account from time to time and set aside or deposited with the applicable Paying Agent or Paying Agents sufficient money for paying the interest on the Senior Bonds and Senior Parity Debt and the principal of and premium on the Senior Bonds and Senior Parity Debt as the same shall fall due, or if such interest, principal or premium is paid by or through a form of liquidity support, credit enhancement, interest rate swap agreement or other arrangement provided therefor, amounts in the Senior Bond Interest Account and Senior Bond Principal Account may, if so provided by Supplemental Agreement, be used to reimburse such amounts to the party providing such credit enhancement, liquidity support, interest rate swap agreement or other arrangement. There shall be withdrawn from the Interest Account and the Principal Account from time to time and set aside or deposited with the applicable Paying Agent or Paying Agents sufficient money for paying the interest on the Bonds and Parity Debt and the principal of and premium on the Bonds and Parity Debt as the same shall fall due, or if such interest, principal or Premium is paid by or through a form of liquidity support, credit enhancement, interest rate Swap agreement or other arrangement provided therefor, amounts in the Interest Account and Principal Account may, if so provided by Supplemental Agreement, be used to reimburse such amounts to the party providing such credit enhancement, liquidity support, interest rate swap agreement or other arrangement. For purposes of complying with the allocation requirements of the Sales Tax Ordinance, the payment of principal and interest with respect to any Bonds and Parity Debt shall be deemed to be an expenditure of Sales Tax receipts corresponding to the allocation of the proceeds of such Bonds and Parity Debt.

(b) If amounts in the Debt Service Fund are insufficient to pay such interest, principal or premium with respect to any Bonds as the same shall fall due, or on any earlier day as

provided in any Reserve Fund Insurance Policy, the Trustee shall immediately transfer amounts available in the Reserve Fund to the Debt Service Fund to pay such deficiency, and shall immediately notify the Issuer of such transfer. If amounts in the Reserve Fund consist of both cash and one or more Reserve Fund Insurance Policies, the Trustee shall first transfer all of such cash prior to making a draw on any Reserve Fund Insurance Policy, and thereafter shall make pro-rata draws upon each of such Reserve Fund Insurance Policies.

(c) Moneys held in the Reserve Fund shall be used for the purpose of paying principal and/or interest on the Bonds if the amounts in either of the Accounts mentioned in clauses (iii) and (iv) of Section 4.05(a) shall on any date be insufficient to pay in full the interest and principal due on such date. Investments in the Reserve Fund may not have maturities extending beyond five years. On or about July 1 of each year, commencing July 1, 19__, the Trustee shall value the Reserve Fund at the then-current market value in a manner satisfactory to the Trustee. If; on any valuation of the Reserve Fund, the value of the Reserve Fund shall exceed the Reserve Fund Requirement for all Bonds Outstanding, such excess shall be withdrawn and transferred to the Issuer to be used for any lawful purpose. In addition, at such time as any Bonds shall be paid in full or deemed to have been paid in full, or are otherwise no longer Outstanding, the Trustee shall value the Reserve Fund, and if the amount on deposit in the Reserve Fund after such Bonds are paid in full or deemed to have been paid in full, or are otherwise no longer Outstanding, exceeds the Reserve Fund Requirement for all Bonds Outstanding, such excess shall be withdrawn and transferred to the Issuer to be used for any lawful purpose. If, on any valuation of the Reserve Fund, the value is less than the Reserve Fund Requirement for all Bonds Outstanding, deposits shall be made into the Reserve Fund from and to the extent of Pledged Revenues as provided in Section 4.05(a)(v) (after deposits provided in clauses (i) through (iv) of Section 4.05(a) have been made) until the Reserve Fund Requirement for all Bonds Outstanding is met.

Sample Debt Service Reserve Surety Bond

See attached.



DEBT SERVICE RESERVE
SURETY BOND

Municipal Bond Investors Assurance Corporation
Armonk, New York, 10504

Surety Bond No.

Municipal Bond Investors Assurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments that are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and that are required to be made by or on behalf of the _____ (the "Issuer") under the Trust Agreement _____ between Commissionand the Trustee and the First Supplemental Trust Agreement dated as of _____ between the _____ and the Trustee (the "Document") to _____ as trustee under the Document or any successor trustee, (the "Paying Agent"), as such payments are due but shall not be so paid, in connection with the issuance by the Issuer of the

(together with any _____ Bonds (as defined in the Document) issued on a parity therewith, excluding bonds issued for the purpose of refunding the Obligations) together with any bonds issued on a parity therewith, (the "Obligations"), provided, that the amount available hereunder for payment pursuant to any one Demand for Payment (as hereinafter defined) shall not exceed _____ (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Issuer or any designee of the Issuer for such purpose. The term "Owner" shall not include the Issuer or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

2. Upon the later of: (i) three (3) days after receipt by the Insurer of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with _____ or its successor, sufficient for the payment to the Paying Agent, of amounts that are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, TWX or telegram of the executed Demand for Payment c/o the Insurer. If a



Demand for Payment made hereunder does not, in any instance, conform to the terms and conditions of this Surety Bond, the Insurer shall give notice to the Paying Agent, as promptly as reasonably practicable, that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by the Insurer under this Surety Bond pursuant to a particular Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by the Insurer hereunder and will be reinstated to the extent of each reimbursement of the Insurer pursuant to the provisions of Article II of the Financial Guaranty Agreement dated the date hereof between the Insurer and the Issuer (the "Financial Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Limit. The Insurer will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Financial Guaranty Agreement and such reinstatement shall be effective as of the date the Insurer gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2.

5. Any service of process on the Insurer or notice to the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

6. The term of this Surety Bond shall expire on the earlier of (i) (the maturity date of the Obligations being currently issued), or (ii) the date on which the Issuer has made all payments required to be made on the Obligations pursuant to the Document.

7. The premium payable on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

8. This Surety Bond shall be governed by and interpreted under the laws of the State of California. Any suit hereunder in connection with any payment may be brought only by the Paying Agent within one year after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and the Insurer has failed to make such payment, or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to the Insurer a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.



9. In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

In witness whereof, the Insurer has caused this Surety Bond to be executed in facsimile on its behalf by its duly authorized officers,

MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION

President

Assistant Secretary

SB-DSRF-7[CA]