

DISCUSSION OF THE STATUS OF THE CAPITAL TRUST AGENCY (ATLANTIC HOUSING FOUNDATION) SERIES 2008 SUBORDINATE BONDS

Atlantic Housing Foundation has outstanding approximately \$58,470,000 of Capital Trust Agency Variable Rate Demand Housing Revenue Refunding Bonds (Atlantic Housing Foundation Properties) Series 2008 A and \$58,020,000 Taxable Series 2008 A-T (together, the "Senior Bonds"). In addition to those bonds, there are approximately \$36,020,000 of Subordinate Bonds (the "Subordinate Bonds," and together with the Senior Bonds, the "Bonds"). Pursuant to the documents relating to these three series of Bonds, the Subordinate Bonds are only payable to the extent revenues are available after paying all obligations relating to the Senior Bonds. In mid January 2009, Grandbridge Real Estate Capital, as Loan Servicer for the underlying loans, notified Wells Fargo Bank, National Association as Trustee for all of the Bondholders that substantial amounts of money held under the Subordinate Bond Indenture must be transferred to the Senior Trust Indenture in order to pay the next installment of principal and interest on the Senior Bonds. The required amounts included \$542,780 from the Subordinate Bond Fund and \$96,291 from the operating accrual within the Revenue Fund.

The entire situation results from the fact that the initial 2005 acquisition and rehabilitation financing utilized to acquire these projects was multiple series of auction rate obligations. When in the fall of 2007 a total lack of liquidity developed in the auction rate markets, our then current interest rates jumped precipitously for a significant period of time, and even though the refunding of those bonds by the issuance of the Bonds in July of 2008 has been temporarily helpful, the portfolio has not had sufficient time to recover financially until another liquidity crisis hit. Beginning in September 2008, the liquidity crunch caused a severe widening of the spread between the taxable weekly rate and the benchmark 1-month LIBOR swap rate. At its peak, such spread was over 4.3%, or over \$48,000 in additional weekly interest cost. The taxable spread has since narrowed, however, it is still well above historical levels. We are uncertain if when or ever, the spread between the weekly taxable rate will trade at or slightly above the 1-month LIBOR. We are evaluating alternatives to eliminate this basis risk.

While these are substantial amounts of money, we at Atlantic Housing Foundation believe that future income streams will be adequate to sustain all of the projects which were financed by the issuance of the above Bonds. We further believe that as a result of the refunding accomplished in mid 2008, we will slowly improve our cash position and be able to pay currently our future obligations. It may take us another year in order to fully accomplish that and simultaneously be able to adequately operate and maintain the projects themselves which is of paramount importance.

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