

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

Atlantic Housing Foundation has approximately \$58,470,000 outstanding 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 \$35,665,000 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. Earlier this year we had disclosed that 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. As a consequence, on January 15, 2009, a draw in the amount of \$1,464,216.39 was made from the subordinated debt service reserve fund to pay the full subordinated bond debt service amount then due. With respect to the July 15, 2009 payment on the subordinated bonds, a draw in the amount of \$664,359.49 was made from the subordinated debt service reserve fund and \$860,279.59 came from the guaranteed investment contract representing the subordinated debt service reserve fund, and \$8,823.42 from the GIC interest earnings.

Update on Stoney Creek Apartments located in Columbia, South Carolina

This 196-unit apartment complex is currently pledged as additional collateral for the Subordinated Bondholders in an amount of \$5,000,000. In March and April 2009, we had discussions with several national multifamily brokerage firms. The broker's opinions of value for Stoney Creek were \$4.0 to \$4.25 million. In May and June 2009, we solicited proposals to refinance the property. A financing term sheet was received from CB Richard Ellis for \$3.14 million. This proposal fell short of the \$5,000,000 owed. We determined that the better course of action was to wait for market conditions to improve before attempting to sell or refinance the asset.

Update on the Property Tax Lawsuit with Walker Appraisal District

Applications for property tax exemption were filed with the Walker County Appraisal District ("WCAD") following the acquisition by Arbors I and Arbors II. The applications were denied by WCAD, and Arbors I and Arbors II exercised their administrative appeals to the Appraisal Review Board of Walker County, which upheld the denials. Pursuant to the provisions of the Texas Tax Code, Arbors I and Arbors II then filed suit in the Walker County District Court. Summary judgment was granted to the WCAD in each case, denying the exemptions. Those denials have been appealed to the Tenth Court of Appeals in Waco, Texas, and briefs have been submitted. On April 15, 2009, oral arguments were made at the Tenth Court of Appeals in Waco, Texas. To date, the Tenth Court of Appeals has not made a ruling.

Change in Remarketing Agent

In April 2009, a change in the remarketing agent was made from George K. Baum to Stern Brothers. The change was made in an attempt to improve pricing on the weekly taxable and tax-exempt rates of

the Senior Bonds. By way of background, 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, and as of late August 2009, is priced comparably with the benchmark 1-month LIBOR swap rate.

We at Atlantic Housing Foundation continue to believe that future income streams will be adequate to sustain all of the projects which were financed by the issuance of the 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 our future obligations when due. 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.

September 30, 2009