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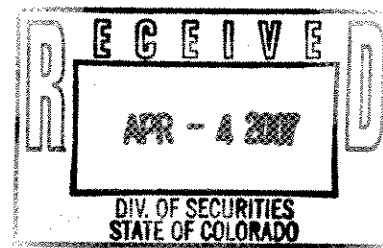
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April 4, 2007

VIA HAND DELIVERY

David Swafford
Colorado Division of Securities
1560 Broadway, Suite 900
Denver, CO 80202



Fallbrook Metropolitan District
Subordinate Capital Appreciation
Limited Tax General Obligation Bonds
Series 2007

Dear Mr. Swafford:

Fallbrook Metropolitan District is a duly and regularly created, organized and existing special district and political subdivision of the State of Colorado, existing as such under and by virtue of the Colorado Special District Act, Title 32, Article 1, Colorado Revised Statutes, as amended. Fallbrook Metropolitan District (the "Issuer") is proposing to issue its Subordinate Capital Appreciation Limited Tax General Obligation Bonds, Series 2007 (the "Bonds") for the purpose of financing the acquisition of public improvements.

The purpose of this letter is to request that the Colorado Commissioner of Securities (the "Commissioner") exempt the Bonds from the registration requirements of the Colorado Municipal Bond Supervision Act, Title 11, Article 59, Part 1, Colorado Revised Statutes, as amended (the "Act"). Pursuant to Section 11-59-110(3) of the Act, the Commissioner may exempt specified bonds or transactions from the registration requirements of Section 11-59-106 of the Act if the Commissioner finds that application of the registration requirement for such bonds or transactions "is not necessary in the public interest and for the protection of investors."

The proposed Bonds are being structured as capital appreciation bonds ("CABs"). As you are aware from prior discussions on this topic, a CAB is issued in an original principal amount. The original principal amount of a CAB does not bear interest in the same manner as "current interest" bonds; rather, the CAB accretes in value at a specified rate, similar to the accrual of interest on current interest bonds. The accretion in value of a CAB (i.e., what would

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constitute unpaid interest on current interest bonds, but on CABS is the “Accreted Amount”) is periodically compounded and added to the original principal amount of the CAB, resulting in an “Accreted Value” for such CAB as of any date on which it is calculated.

CABs are generally structured such that the Accreted Value of the bond at final maturity equals an even dollar amount. In order to have the Accreted Value at final maturity result in an even dollar amount, the original principal amount of the CABs sold must inevitably be an uneven dollar amount, and the Accreted Value on any date prior to maturity is also an uneven dollar amount.

The Act requires districts to register their bonds, unless otherwise exempted therefrom. Rule 59-10.3 promulgated under the Act (the “Rule”) provides that “an issue of bonds by a district is exempt from all of the provisions of section 11-59-106 provided that the bonds are issued in denominations of not less than \$500,000 each, in integral multiples of not less than \$1,000....” As described above, because they are structured as CABs with original principal amounts of uneven dollar amounts, it is not possible for the Bonds to be purchased in even dollar denominations of \$500,000 and integral multiples of \$1,000 in excess thereof. Accordingly, the District is applying for a registration exemption for the Bonds pursuant to Section 11-59-110(3) of the Act.

As previously indicated, the Commissioner may exempt specified bonds and transactions from the registration requirements of Section 11-59-106 of the Act if the Commissioner finds that application of the registration requirement for such bonds or transactions “is not necessary in the public interest and for the protection of investors.”

We believe that the underlying intent of the Rule is to limit purchases of bonds to those investors with enough financial expertise and sophistication to advance a minimum of \$500,000 for any single purchase of bonds and, therefore, compliance with the portion of the rule referring to \$1,000 increments in excess thereof (thus necessitating an even dollar amount which cannot be achieved with CABs) is not necessary to fulfill the intent of the Rule. We propose that, to comply with the spirit and intent of the Rule, the Bonds shall be subject to the restriction that purchases shall be made only in denominations of not less than \$500,000 of the then current Accreted Value on the date of such purchase (the “Restriction”). Since the Accreted Value of the Bonds on the date of issuance is equal to the original principal amount (i.e., because the Accreted Amount on such date is zero), by stating the denomination in terms of “then current Accreted Value,” all investors in the Bonds would be required to pay at least \$500,000 in order to make a purchase of any Bonds on any given date, including on the original date of issuance.

It is our contention that, based on the foregoing reasons and with the Restriction described above, the Bonds satisfy the spirit and intent of the Rule and that it “is not necessary in the public interest and for the protection of investors” that the Bonds be registered under the Act.

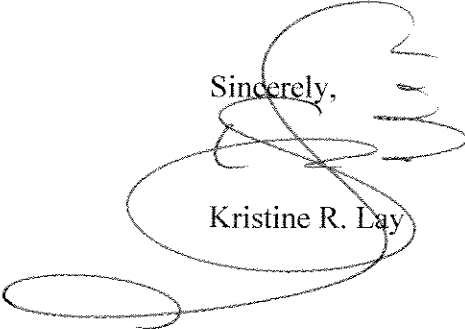
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Enclosed is a draft of the proposed order exempting the Bonds from registration under the Act. I will also e-mail the order to you in Word format so that you can make any changes to the order that you deem necessary or appropriate.

Thank you for your consideration of this matter. If you have any questions or need additional information, please feel free to contact me.

Sincerely,



Kristine R. Lay

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Enclosures