

## NOT A NEW ISSUE

This Official Statement Supplement No. 1 (the "Supplement") sets forth certain information supplemental to that contained in the Official Statement dated June 28, 1985 (the "Official Statement") relating to the below-captioned bonds (the "Bonds") issued by Southwest Higher Education Authority, Inc. (the "Issuer"). This Supplement presents certain information concerning events that have occurred and information that has become available from June 28, 1985 to the date hereof and should be read together with the Official Statement (a copy of the front portion of which is attached hereto as Attachment A). To the extent the information in this Supplement conflicts with the information in the Official Statement, this Supplement shall govern. Unless otherwise defined in this Supplement, all terms used herein shall have the meanings those terms have in the Official Statement. This Supplement has not been reviewed or approved by the Issuer, and the Issuer is not responsible for its contents.

**\$49,295,000**

**SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.  
Variable Rate Demand Higher Education Revenue Bonds  
(Southern Methodist University Project) Refunding Series 1985**

The Bonds are limited special obligations of the Issuer as described in the Official Statement.

From January 4, 1999, payments of principal of and interest due on the Bonds will be additionally secured by an irrevocable direct-pay letter of credit (the "Credit Facility") issued to the Trustee for the benefit of the registered owners of the Bonds by

**LANDESBANK HESSEN-THÜRINGEN GIROZENTRALE, NEW YORK BRANCH**

Unless extended by Landesbank Hessen-Thüringen Girozentrale, New York Branch (the "Credit Provider"), the Credit Facility will terminate on January 2, 2000, or earlier under certain conditions described herein, and may be replaced by a substitute Credit Facility as permitted by the Indenture.

In connection with the delivery of the Credit Facility, the Bonds will be subject to mandatory tender for purchase on January 4, 1999. It is expected that remarketed Bonds, secured by the Credit Facility, will be available for delivery on or about January 4, 1999, in book-entry form through DTC in New York, New York.

The Date of this Supplement is December 30, 1998.

**Goldman, Sachs & Co.  
as Remarketing Agent**

## OUTSTANDING BONDS

The Bonds were issued on July 24, 1985, in the aggregate principal amount of \$49,295,000 of which \$49,200,000 remains outstanding. The Crossover occurred on the Crossover Date of July 1, 1987.

## THE CREDIT FACILITY

The Credit Facility will be issued by the Credit Provider. The following summarizes certain provision of the Credit Facility, to which document, in its entirety, reference is made for the complete provisions thereof. The provisions of any substitute Credit Facility and related Credit Agreement may be different from those summarized below.

The Credit Facility will be in all respects an irrevocable obligation of the Credit Provider. The Credit Facility will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds plus 50 days' interest thereon at the rate of 15% per annum (the "Letter of Credit Amount"). The Trustee, upon compliance with the terms of the Credit Facility, is authorized and directed to draw an aggregate amount not exceeding the Letter of Credit Amount, of which (i) an aggregate amount not exceeding the Principal Portion may be drawn upon with respect to payment of the unpaid principal amount of the Bonds or the portion of the purchase price thereof equal to the principal amount of Bonds tendered or deemed tendered for purchase pursuant to the Indenture (hereinafter referred to as "Tendered Bonds") and (ii) an aggregate amount not exceeding the Interest Portion (but no more, in the case of any drawing, than an amount equal to the interest accrued on the Bonds (not in excess of 15% per annum) for the immediately preceding 50 days) may be drawn upon with respect to payment of interest accrued on the Bonds or the portion of the purchase price of Tendered Bonds representing interest thereon. The Letter of Credit Amount shall be reduced from time to time upon notice from the Trustee of the payment or redemption of Bonds by (x) in the case of the amount referred to in clause (i) above, by the aggregate principal amount of the Bonds so paid or redeemed and (y) in the case of the amount referred to in clause (ii) above, an amount that bears the same proportion to the Initial Principal Portion. All drafts drawn under and in compliance with the terms of the Letter of Credit will be duly honored by the Credit Provider with its own funds.

On the seventh day following each drawing thereunder to pay scheduled interest on the Bonds on an Interest Payment Date, and effective as of the date of such drawing, the amount so drawn on the Credit Provider shall be restored to the amount available to be drawn thereunder in respect of payment of interest on the Bonds (including the portion of the purchase price thereof representing accrued interest thereon) unless the Trustee shall have received written notice from the Credit Provider theretofore that an Event of Default under the Reimbursement Agreement has occurred and is then continuing and demanding that the Bonds be declared immediately due and payable. If, after any drawing hereunder to pay the purchase price of Tendered Bonds, such drawing is repaid in full to the Credit Provider, the portion of the purchase price of such Tendered Bonds so drawn shall be restored to the amount of principal and interest, respectively, available to be drawn thereunder, which restoration shall be conclusively evidenced by the Credit Provider's release of the Tendered Bonds purchased with such drawing to the Remarketing Agent (as defined in the Indenture). Subject to the two preceding sentences, drawings in respect of payments hereunder honored by the Credit Provider shall not, in the aggregate, exceed the Letter of Credit Amount and each drawing honored by the

Credit Provider hereunder shall reduce the Letter of Credit Amount.

The initial Credit Facility will terminate on the termination Date. "Termination Date" shall mean the earliest of (i) January 2, 2000, (ii) the date on which the Credit Provider receives notice from the Trustee that the principal amount of and interest on all of the Bonds shall have been paid in full or provision for such payment has been made and (iii) the date on which the Letter of Credit is surrendered to the Credit Provider by the Trustee for cancellation following receipt of an Alternate Letter of Credit or an Alternate Credit Facility (each as defined in the Indenture) or following the Fixed Rate Effective Date or a change of the Interest Reset Period (each as defined in the Indenture) in accordance with the Indenture.

### **THE CREDIT PROVIDER**

The Credit Provider is the New York Branch of Landesbank Hessen-Thüringen Girozentrale ("Helaba"). With effect from July 1, 1992, Helaba was renamed "Landesbank Hessen-Thüringen". At that date, the Treaty on the Formation of a Joint Savings Bank Organization between the federal states Hesse and Thüringen came into force. The former Hessische Landesbank was formed in 1953 by the merger of Hessische Landesbank Darmstadt (founded 1940), Nassauische Landesbank Wiesbaden (founded 1840) as well as of Landeskredikasse zu Kassel (founded 1832).

Helaba is a legal entity under public law. The owner and guarantor of Helaba is the Savings Banks and Giro Association Hesse-Thuringia (Sparkassen-und Giroverband Hessen-Thüringen-SGVHT), a joint institution of the municipal savings banks and their guarantors in Hesse and Thuringia in their capacity as general supervisory authority for the savings banks. Executive bodies of Helaba are the Board of Guarantors, the Supervisory Board and the Board of Managing Directors.

In accordance with its Charter, Helaba exercises the function of a central bank for the Hessian and Thuringian savings banks. For the savings banks, Helaba represents a considerable asset. It therefore has the duty to provide a benefit in addition to the payment of an annual dividend by intensifying cooperation.

Headquartered in Frankfurt/Main and Erfurt, Helaba concentrates on wholesale financial services offering comprehensive banking facilities for multinational corporations, central banks, public sector entities, and other financial institutions. Helaba has branch offices in London, New York and Grand Cayman and wholly owned subsidiaries in Luxembourg, Dublin, Amsterdam and Zurich. Representatives offices are being maintained in Warsaw, Budapest, Prague, Madrid, Brussels, Paris and Hong Kong.

In fiscal 1997, the operating result before risk provisions of the Helaba group was DM 548 million, 16.8% above the previous years and exceeding DM 500 million for the first time in the Bank's history. Operating results after risk provisions (FY1997; DM 104 million) were DM 444 million, an increase of DM 60 million or 15.7% over FY 1996. The increase was due primarily to a 4.8% increase in net interest income to DM 1.2 billion, a 40.4% increase in net revenues from commissions and service charges to DM 173 million and a 42.1% increase in financial transactions to DM 27 million.

In contrast, cost increases slowed from FY 1996, contributing to a 62.9% expense ratio, down 2.93% from the FY 1996 level of 64.8%. Administrative expenses, personnel expenses, non-personnel expenses and depreciation amounted to DM 924 million (FY1996: MD 864 million). Personnel expenses rose moderately (4%) to DM 466 million. Total staff in FY1997 was 3,096 (FY1996: 3,153).

Despite higher taxes of DM 276 million (FY1996: DM 224 million), the net income for the year was DM 153 million (FY1996: DM 101 million). Of this amount, DM 100 million was allocated to earnings reserves and DM 53 million was allocated to distributable profit. Resulting return on equity for the Helaba group was 16.5%.

The consolidated balance sheet total of the Helaba group amounted to DM 208.4 billion at the end of 1997, up 8% over the previous year's figure and exceeding DM 200 billion for the first time. Business volume increased 6.6% to DM 189.3 billion, based on growth in asset management, real estate, structured finance and relatively low risk provisions (FY1997: DM 71 million) for Asian exposure due to the Bank's minimal exposure (FY1997: DM 560 million) there.

The New York Branch of Helaba, licensed under New York law, provides a full range of wholesale commercial banking services in the New York City metropolitan area and throughout the United States. Upon written request, Helaba will provide without charge a copy of its most recent Annual Report. Requests should be directed to the following: Landesbank Hessen-Thüringen Girozentrale, New York Branch, 420 Fifth Avenue, 24th Floor, New York, NY 10018, Tel: (212) 703-5200, Fax: (212) 703-5256.

Helaba currently has a long-term credit rating by Moody's Investors Service, Inc. of "Aaa" and by Standard & Poor's Rating Group of "AAA", as well as short-term ratings of "P-1" by Moody's and "A-1+" by Standard & Poor's.

Helaba has supplied information relating to it in the previous paragraphs. Helaba does not accept any responsibility for any information contained in this Official Statement other than the information relating to Helaba.

**NOTE: The official (Frankfurt fixing) exchange rate on December 31, 1997, the last trading day in 1997, was DM 1.7921 = US \$1.00**

### **THE LOAN AGREEMENT**

In connection with the issuance by the Issuer of several other series of obligations for Southern Methodist University a Master Indenture has been entered into for the benefit of all "Securities" authenticated thereunder. The Agreement will be authenticated as a "Security" under the Master Indenture and an amendment will be made to the Agreement adding as an Event of Default under the Agreement an "Event of Default" under the Master Indenture.

## **CONTINUING DISCLOSURE**

Southern Methodist University, as the "obligated person" has made undertakings to provide annual financial information and operating data with respect to other obligations issued by the Issuer on its behalf. The latest filing was made at the end of November 1998. No undertaking is required and none will be made with respect to the Bonds.

## **LEGAL MATTERS**

In connection with the original issuance of the Bonds, Hutchison Brice Boyle & Brooks, Dallas, Texas, Bond Counsel, rendered an opinion with respect to the validity and tax-exemption of the Bonds. Bond Counsel has not been asked to reconfirm or update such opinion.

The substitution of the Credit Facility for the letter of credit currently securing the Bonds is subject to receipt by the Trustee of an opinion of Vinson & Elkins, LLP, Dallas, Texas to the effect that the substitution of the Credit Facility for the letter of credit currently securing the Bonds will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

## **MISCELLANEOUS**

Any statements in this Supplement or in the Official Statement involving matters of opinion, whether or not expressly so stated, are intended to be such and not representations of fact. Neither this Supplement nor the Official Statement is to be construed as a contract or agreement between the Issuer, the Remarketing Agent or the Credit Provider and the purchasers or owners of any of the Bonds.

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# ATTACHMENT A

## NEW ISSUE

*In the opinion of Bond Counsel, interest on the Bonds is exempt from present federal income taxes under existing statutes, currently effective regulations, published rulings and court decisions.*

## \$49,295,000

### **SOUTHWEST HIGHER EDUCATION AUTHORITY, INC. Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985**

The Bonds, which have a stated maturity of July 1, 2015, are being issued by, and are special obligations of, Southwest Higher Education Authority, Inc., and are not general obligations of the State of Texas or of any political subdivisions thereof.

The Bonds are payable, except to the extent payable out of Bond proceeds, or income from the temporary investment thereof, solely from revenues derived under a Loan Agreement with

## Southern Methodist University



From the original issuance of the Bonds (i) until July 24, 1993 (or such earlier date as described herein), or (ii) under certain conditions, until the conversion of Bonds to a Fixed Interest Rate without other security, the Bonds shall be payable from moneys drawn under an Irrevocable Letter of Credit issued by

### **The Sanwa Bank, Limited New York Branch**

Subject to certain limitations and conditions described herein, an Alternate Security may be substituted for the Letter of Credit issued by The Sanwa Bank, Limited, New York Branch.

From July 1, 1985 to July 1, 1987 (the "Initial Period"), the Bonds will bear interest at 6.00% per annum. The Bonds are not subject to optional redemption or tender prior to July 1, 1987, but must be tendered on July 1, 1987 to The Bank of New York, New York, New York, Trustee, as Tender Agent, unless the holder notifies the Tender Agent in writing that he wishes to retain such Bond.

During the Initial Period, interest will be paid on each January 1 and July 1, commencing January 1, 1986, on the basis of a 360-day year composed of twelve 30-day months by check mailed to the registered owners. The Bonds shall be issued in \$5,000 denominations or integral multiples thereof during the Initial Period. The provisions applicable to the Bonds after the Initial Period are summarized herein.

**The Bonds are priced at par, plus accrued interest.**

*The Bonds are offered for delivery when, as and if issued and subject to the unqualified approval of Hutchison Price Boyle & Brooks, Bond Counsel, Dallas, Texas. Certain legal matters will be passed on for Southern Methodist University by its Vice President for Legal Affairs and its counsel, Andrews & Kurth, Dallas, Texas. Certain legal matters will be passed upon for The Sanwa Bank, Limited, New York Branch by its counsel, Webster & Sheffield, New York, New York and Tokyo Kokusai Law Offices, Tokyo, Japan. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, Dallas, Texas. It is expected that the Bonds will be delivered on or about July 24, 1985.*

## **Goldman, Sachs & Co.**

Dated: June 28, 1985

The information contained in, or incorporated by reference in, this Official Statement has been obtained by the Southwest Higher Education Authority, Inc. from Southern Methodist University, The Sanwa Bank, Limited, New York Branch and other sources which are deemed reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information, and nothing contained in, or incorporated by reference in, this Official Statement is, or shall be relied on as, a promise or representation by the Authority or by the Underwriters. This Official Statement is submitted in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

No dealer, salesman or any other person has been authorized by Southwest Higher Education Authority, Inc., Southern Methodist University, The Sanwa Bank, Limited, New York Branch or the Underwriters to give any information or to make any representation other than as contained in, or incorporated by reference in, this Official Statement in connection with the offering described herein and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities other than those described on the cover page or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and such Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment accounts) and others at prices lower than the initial public offering price. In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of the 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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\$49,295,000

SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.

Variable Rate Demand  
Higher Education Revenue Bonds

(Southern Methodist University Project)  
Refunding Series 1985

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INTRODUCTION

This Official Statement, including the cover page and the Appendices, is provided to furnish information in connection with the issuance and sale of Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985, in an aggregate principal amount of \$49,295,000 (the "Bonds") by the Southwest Higher Education Authority, Inc. (the "Issuer"), a nonprofit corporation organized pursuant to Section 53.35(b) of the Texas Education Code, as amended (the "Act"), as a duly constituted authority to act on behalf of the City of University Park, Texas. The Bonds will be issued under the terms of a bond resolution, adopted by the Issuer on June 28, 1985 (the "Bond Resolution"), authorizing the issuance and sale of the Bonds. The Bonds are issued pursuant to and secured by a Trust Indenture, dated as of July 1, 1985 (the "Indenture"), between the Issuer and The Bank of New York, New York, New York, as trustee (the "Trustee").

Under the terms of a loan agreement dated as of July 1, 1985 (the "Agreement"), by and between the Issuer and Southern Methodist University, a nonprofit corporation organized under the laws of the State of Texas ("SMU"), the Issuer will lend to SMU the net proceeds of the sale of the Bonds for the purpose of refunding the Issuer's Variable Rate Daily Demand Higher Education Revenue Bonds (Southern Methodist University Project) Series 1984 (the "Series 1984 Bonds") and paying costs of issuance of the Bonds.

The Bonds will be limited special obligations of the Issuer. The interest on the Bonds is payable (i) until the date on which the Series 1984 Bonds are to be redeemed and no later than July 1, 1987 (the "Crossover Date"), out of Bond proceeds or the income from the temporary investment thereof in an escrow fund (the "Escrow") established with the Trustee, and, if required, from funds drawn under the Letter of Credit or an Alternate Security (each hereinafter defined) and (ii) on and after the Crossover Date, solely from funds drawn under the Letter of Credit or an Alternate Security and the revenues derived by the Issuer pursuant to the Agreement. The principal of the Bonds is payable from funds drawn under the Letter of Credit or an Alternate Security.

## Irrevocable Letter of Credit and Alternate Security

The Sanwa Bank, Limited, New York Branch (the "Credit Bank"), will deliver to the Trustee an Irrevocable Letter of Credit dated as of July 24, 1985 (the "Letter of Credit"), pursuant to a Letter of Credit and Reimbursement Agreement dated as of July 1, 1985 between SMU and the Credit Bank (the "Reimbursement Agreement"). The Letter of Credit will secure the Bonds from their date of delivery, and terminates and expires on the close of business on July 24, 1993, unless earlier terminated or extended as described in "The Letter of Credit". So long as the Letter of Credit, or an Alternate Security as hereinafter described, shall be in effect, the Trustee is authorized and required under the Indenture (to the extent other Available Moneys, as hereinafter defined, are not available) to draw under the Letter of Credit for the purpose of paying the principal of and interest on the Bonds and to pay the purchase price due as a result of the exercise of any Owner's right to demand the purchase of such Owner's Bonds upon proper notice and tender thereof, as described below. Under the Letter of Credit, the Trustee may draw on the Credit Bank an aggregate amount equal to the principal of all Bonds outstanding and the amount of interest applicable to the Interest Reset Period for the Bonds, calculated for the Initial Period (as hereinafter defined) at the rate of interest borne by the Bonds and thereafter at the rate of 15% per annum, the highest rate allowed by law.

SMU is allowed to provide a substitute letter of credit, other credit facilities, or its own credit ("Alternate Security") for the Letter of Credit provided that the Trustee receives written evidence from Standard & Poor's Corporation ("S&P") or Moody's Investors Service, Inc. ("Moody's"), or their successors, to the effect that such rating agencies have reviewed the proposed Alternate Security and that when the proposed Alternate Security becomes effective, such rating agencies' rating on the Bonds will be at least equal to such rating agencies' rating at such time on the outstanding debt of the Credit Bank; provided, further, however, the substitution of SMU's own credit may be accomplished if the long-term unsecured debt of SMU is rated investment-grade or higher by Moody's or S & P. In the event the Alternate Security is a pledge of SMU's own credit, the Bonds are subject to mandatory tender for purchase on the date such Alternate Security becomes effective. See "THE BONDS - Mandatory Tender for Purchase".

### **Bonds Secured by Escrow through Crossover Date**

On the date of delivery of and payment for the Bonds, the Trustee will deposit into the Escrow created pursuant to the Indenture the proceeds of the Bonds after payment of all costs of issuance, all as more specifically set forth in the Indenture. The Trustee will have irrevocable instructions to invest the Escrow in certain obligations in-

such denominations and maturing at such times so as to generate amounts sufficient to pay all interest on the Bonds prior to the Crossover Date and further to pay, on the Crossover Date, the amount necessary to refund and discharge the Series 1984 Bonds.

The Bonds initially offered hereby are subject to mandatory tender on July 1, 1987 unless the holder of any Bonds notifies the Trustee in writing of such holder's election to retain such Bonds on and after such date. The Bonds are not subject to optional redemption or purchase prior to July 1, 1987.

#### Purchase on Owner's Demand

Prior to a conversion to a Fixed Interest Rate, the Bonds shall be purchased on the demand of the Owner thereof at the respective Payment Times, as set forth in "THE BONDS - Interest Reset Periods" herein. Initially, the Bonds are to be purchased on July 1, 1987 at a purchase price equal to the principal amount thereof plus accrued interest to the purchase date. On and after July 1, 1987, the Interest Reset Period for the Bonds will be Daily, subject to further conversion as set forth in "THE BONDS - Interest Reset Periods."

Initially, interest on the Bonds will be paid on July 1 and January 1 of each year, commencing January 1, 1986. Interest on the Bonds will accrue from July 1, 1985, to July 1, 1987 (the "Initial Period") at the rate specified on the cover of this Official Statement. After such date, the interest rate borne by the Bonds during each applicable Interest Reset Period will be determined by the Remarketing Agent as of the applicable Interest Determination Date. See "THE BONDS - Interest Provisions" and "Interest Reset Periods." In no event shall the interest rate borne by the Bonds exceed 15% per annum.

The interest rate borne by the Bonds is subject to conversion to a Fixed Interest Rate. The Bonds are not subject to any such conversion until July 1, 1987. If conversion to a Fixed Interest Rate occurs, Owners of such Bonds so converted will no longer have the right to tender their Bonds to the Tender Agent for purchase, as described herein; interest on such Bonds will be payable semiannually on each January 1 and July 1 following conversion; and the Letter of Credit with respect to the Bonds may terminate. See "THE BONDS - Fixed Interest Rate."

The Bonds will be subject to mandatory tender for purchase upon conversion to a Fixed Interest Rate, change in the Interest Reset Period then in effect (other than a change from 7 Day to Daily or from Daily to 7 Day), Expiration of the Letter of Credit, or the substitution of SMU's credit as Alternate Security for the Bonds, all as described herein. See "THE BONDS - Mandatory Tender for Purchase."

Brief descriptions of the Issuer, the Bonds, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement, the Agreement and the Indenture follow. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Agreement, the Letter of Credit, the Reimbursement Agreement, the Remarketing Agreement and the Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the forms thereof included in such documents, all of which are available for inspection at the principal office of the Trustee.

Appendix A to this Official Statement has been prepared by and contains information concerning SMU. Appendix B to this Official Statement has been prepared by the Credit Bank and contains and incorporates by reference information concerning the Credit Bank. The Issuer has not participated in the preparation of the Appendices or reviewed the accuracy of the information contained therein. The Issuer has consented to the use of this Official Statement; but has not made any investigation of the facts contained herein other than with respect to the information set forth under the caption "THE ISSUER."

### THE ISSUER

The Southwest Higher Education Authority, Inc. is a non-profit corporation organized and existing pursuant to Section 53.35(b) of the Texas Education Code, as amended (the "Act"), as a duly constituted authority to act on behalf of the City of University Park, Texas (the "City"). Pursuant to the Act, the Issuer is empowered to make loans to any "institution of higher education," as defined in the Act, for the purpose of providing "educational facilities" and "housing facilities," all as defined in the Act and facilities incidental, subordinate or related thereto or appropriate in connection therewith and to issue refunding bonds for the purposes set forth in the Indenture.

The Issuer is governed by a board of directors consisting of seven members appointed by the City Council of the City. Members of the board of directors of the Issuer serve without compensation. The Issuer does not have a staff and has outstanding only the Series 1984 Bonds being refunded by the Bonds.

The Issuer has not undertaken or assumed any responsibility for the matters contained in this Official Statement, except solely as to matters relating to the Issuer.

The Bonds are special limited obligations of the Issuer payable solely from draws under the Letter of Credit (or any Alternate Security), certain amounts held under the Indenture (including the amounts in the Escrow) and from amounts paid by SMU under the Agreement, and shall not be deemed to constitute a general obligation or liability of the

Issuer or the City, their officers or employees. The Bonds are not and shall not be in any way a debt or liability of the State of Texas, the City or any other political subdivision thereof and do not and shall not create or constitute any indebtedness, liability or obligation of said State, or of any political subdivision thereof, either legal, moral or otherwise. The Bonds do not now and shall never constitute a charge against the general credit of the Issuer or the City.

### SERIES 1984 BONDS

On June 13, 1984, the Series 1984 Bonds were delivered in an aggregate principal amount of \$51,000,000. The net proceeds of the Series 1984 Bonds have been used and are to be used for the purpose of financing the renovation of existing facilities, the purchase of certain properties near the campus, and the acquisition and construction of certain additional facilities and equipment, all as further described in Appendix A. The Series 1984 Bonds are to be refunded and the lien of the trust indenture securing such Series discharged on the Crossover Date.

### SECURITY FOR THE BONDS

#### Escrow Pledge

The net proceeds of the Bonds are to be deposited in the Escrow for the purpose of refunding the Series 1984 Bonds on the Crossover Date. Until the Crossover Date, the Bonds are secured by a pledge of the Escrow, the proceeds of which are to be used to pay all interest on the Bonds prior to the Crossover Date, and by the Letter of Credit, as further described below.

#### Irrevocable Letter of Credit

On the date of delivery of and payment for the Bonds, the Credit Bank will deliver to the Trustee the Letter of Credit. The Letter of Credit terminates and expires on the close of business on July 24, 1993, unless extended or earlier terminated as described herein under the caption "Letter of Credit." The Trustee is authorized and required under the Indenture to draw under the Letter of Credit or an Alternate Security to the extent Available Moneys are not otherwise available for the purpose of paying the principal of and interest on the Bonds, and, so long as a declaration of acceleration of the Bonds has not been made by the Trustee, the purchase price due as the result of any exercise of the Owner's right to demand the purchase of Bonds.

Under the Letter of Credit, the Trustee may draw on the Credit Bank an aggregate amount equal to the principal of all Bonds then secured by the Letter of Credit and outstanding and up to 195 days' interest on such Bonds calculated during the Initial Period at the rate of interest

borne by the Bonds and thereafter at the rate of 15% per annum, the maximum rate allowed by law. Such drawings are to be made by presentation of documents containing or accompanied by certain certifications by the Trustee as required by the Letter of Credit. The number of days of interest coverage under the Letter of Credit is subject to change by the Credit Bank, at the request of SMU, upon a change in the Interest Reset Period applicable to the Bonds. See "THE BONDS - INTEREST RESET PERIODS."

### Reserve Fund

The Board has established a reserve fund (the "Reserve Fund") with respect to the Bonds in the amount of \$5,400,000 which will be funded on the Crossover Date from the reserve fund presently existing and securing the Series 1984 Bonds. The Reserve Fund shall be held as a reserve for the payment of principal of and interest on the Bonds when and if other funds on deposit in the Bond Fund established with respect to the Bonds shall not be sufficient for such purposes.

### Payments by SMU Under the Agreement

The Bonds are also secured by a lien on and pledge of the amounts paid or payable by SMU to the Issuer under the Agreement (except for amounts received by the Issuer under indemnification provisions and that portion representing the costs and charges of the Trustee or any paying agent for the Bonds) which amounts, together with other available funds, are intended to be equal to the principal, interest and redemption premiums, if any, and any Reserve Fund requirements, with respect to the Bonds. In addition to the Series 1984 Bonds, SMU has approximately eight million dollars of different issues of bonds and notes outstanding which are obligations of SMU and have liens on certain sources of revenues for their payment which will be superior to its obligations under the Agreement. See Appendix A hereto for additional information.

## THE BONDS

### General

The Bonds will initially be dated July 1, 1985, bearing interest from such date, and will mature on July 1, 2015. Bonds issued in exchange for or upon registration of transfer of Bonds on or after the first Interest Payment Date thereon will be dated as of the Interest Payment Date next preceding the date of the Trustee's authentication thereof, unless the date of such authentication shall be an Interest Payment Date, in which case they will be dated as of such Interest Payment Date; provided that if interest on the Bonds shall be in default, Bonds issued in exchange for or upon the registration of transfer of Bonds will be dated the date to which interest has been paid in full on the Bonds, or if no interest has been paid on the Bonds, July

1, 1985. Principal of and premium, if any, on the Bonds will be payable in lawful money of the United States of America at the Principal Office of the Paying Agent upon presentation of the Bonds. Bonds shall be delivered in the denomination of \$5,000 or any integral multiple thereof during the Initial Period, if the Bonds are converted to the Fixed Interest Rate, and if the Interest Reset Period is 180 days or more; and in the denomination of \$100,000 or any integral multiple thereof if the Interest Reset Period is 90 days or less (each being an "Authorized Denomination"). Payment of interest on the Bonds shall be made to the Owner thereof by check or draft mailed to the Owner at each Owner's address as it appears on the registration books maintained on behalf of the Issuer on the Record Date for each Interest Reset Period, or at such other address as is provided to the Paying Agent in writing by such Owner. If the Interest Reset Period is 90 days or less, payment of interest on the Bonds may, at the option of an Owner of at least \$500,000 principal amount of Bonds, be transmitted by wire transfer to such Owner's U.S. bank account. The Bonds may be transferred or exchanged for Bonds in Authorized Denominations at the Principal Office of Registrar, without cost, except for any tax or other governmental fee or charge with respect thereto.

The Bank of New York is initially Trustee, Registrar, Tender Agent and Paying Agent. Its Principal Office is in New York, New York. The Registrar, Tender Agent and Paying Agent and any co-paying agent, may be removed or replaced by the Issuer at the direction of SMU.

Goldman, Sachs & Co. has been appointed Remarketing Agent by SMU. The Principal Office of the Remarketing Agent is in New York, New York. The Remarketing Agent may be removed or replaced by SMU with the consent of the Trustee, and the Credit Bank and with notice to the Issuer.

### Interest Provisions

Payment Dates and Computation. Initially, interest on the Bonds will be paid on January 1 and July 1 of each year, commencing January 1, 1986. In the event of conversion of the Bonds to a Fixed Interest Rate, interest will be paid January 1 and July 1 of each year after conversion to a Fixed Interest Rate. In the event the Interest Reset Period is changed to an Interest Reset Period which has a different Interest Payment Date or Dates, interest will be paid on the Interest Payment Date or Dates shown under "THE BONDS - Interest Reset Periods." Interest on the Bonds during the Initial Period will be computed on the basis of a 360 day year composed of twelve 30 day months. Thereafter, interest on the Bonds will be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed, except, when the Interest Reset Period shall be 180 days or longer, or in the event of conversion to a Fixed Interest Rate, interest will be computed on the basis of a 360 day year composed of twelve 30 day months. When the Interest Reset Period is 90 days or less, the interest paid on each

Interest Payment Date will cover the period from and including the last Interest Payment Date to and including the day preceding such Interest Payment Date.

Determination of Rate. Unless the interest rate on the Bonds shall have been converted to the Fixed Interest Rate, the interest rate borne by the Bonds during each Interest Reset Period will be determined by the Remarketing Agent as of the Interest Determination Date with respect to such Interest Reset Period. Additionally, with respect to Interest Reset Periods of 30 days or longer, the Remarketing Agent will calculate a minimum rate (the "Minimum Rate") prior to the Interest Determination Date, all as further described below under "The Bonds - Interest Reset Periods." The interest rate borne by the Bonds will be equal to the Variable Rate Index (the "Variable Rate Index"), but in no event less than the Minimum Rate, if a Minimum Rate shall have been calculated. The Variable Rate Index shall mean an index, maintained by the Remarketing Agent, which shall be the average interest rate of a component issue register comprised of at least five issues of obligations (i) the interest on which is exempt from federal income taxation; (ii) having a demand purchase or redemption feature comparable to that borne by the Bonds; and (iii) having a comparable rating from Moody's Investors Service, or its successors ("Moody's") or from Standard & Poor's Corporation, or its successors ("S&P") for obligations with maturities corresponding to the applicable Interest Reset Period, or their respective equivalent ratings which may be hereafter assigned by such rating agencies to comparable securities. The Remarketing Agent may delete or add component issues to the Variable Rate Index from time to time as it may deem necessary in order to keep the Variable Rate Index as representative as possible of the current market interest rate for securities comparable in security, liquidity and creditworthiness to the Bonds, whenever necessitated by changes in market conditions or issuance procedures. The Remarketing Agent shall notify the Trustee by telephone, telex, or telegram, or other electronic or wire communication, and, upon request, promptly confirm by mail, each such change of component issues in the Variable Rate Index.

In the event a new interest rate is not determined on the appropriate Interest Determination Date or (except if the Interest Reset Period is Daily) on one of the two Business Days thereafter, the interest rate on the Bonds for the ensuing Interest Reset Period shall be the same as the interest rate for the prior Interest Reset Period. If the Interest Reset Period is one year or longer, the Trustee will notify the Owners of the Bonds by mail of the interest rate determined by the Remarketing Agent for the ensuing Interest Reset Period.

The determination of the interest rate borne by the Bonds by the Remarketing Agent will be conclusive and binding upon the Issuer, SMU, the Credit Bank, the Trustee and the Owners of the Bonds.



## Interest Reset Periods

Procedure for Change in Interest Reset Period. The Interest Reset Period of Bonds may be changed on an Interest Payment Date on which the Bonds are subject to redemption from the Interest Reset Period then in effect to any of the other Interest Reset Periods shown in the table below at the direction of the Issuer given at the request of SMU with an opinion of Bond Counsel which states in substance that such change in an Interest Reset Period and resultant interest rate is authorized or permitted by the Indenture, and that a change in the Interest Reset Period will not adversely affect the exemption from federal income taxation of interest on the Bonds. Moreover, prior to a change in the Interest Reset Period, certain other conditions set forth in the Indenture must be satisfied, including delivery of certain notices to the Owners of the Bonds and, in certain circumstances, delivery of an amendment to the Letter of Credit increasing or decreasing the amount which may be drawn by the Trustee in respect of interest and the portion of purchase price corresponding to interest. Upon a change in Interest Reset Period (other than from Daily to 7 Day or 7 Day to Daily), Bonds are subject to mandatory tender for purchase on the effective date thereof at the principal amount thereof plus an amount equal to any premium which would be payable on such date upon optional redemption. See "THE BONDS - Mandatory Tender for Purchase" and "Redemption."

Prior to the effective date of a new Interest Reset Period of 180 days or longer, the Issuer (at the direction of SMU) may rescind the direction to change the Interest Reset Period, in which event the then applicable Interest Reset Period will remain in effect; provided that if such notice of rescission is given after the mailing by the Trustee of the notice to Owners, the Bonds will nevertheless be subject to mandatory tender for purchase by the Tender Agent pursuant to the Indenture notwithstanding any notice from an Owner that he wishes to retain his Bonds as described under "THE BONDS - Mandatory Tender for Purchase".

Interest Rate. The interest rate to be borne by the Bonds upon a change in Interest Reset Period will be determined by the Remarketing Agent in accordance with the Indenture. The interest rate to be borne by the Bonds upon such change will be equal to the Variable Rate Index applicable to the Bonds for such Interest Reset Period, but in no event less than the Minimum Rate.

Features. The Record Date, Interest Payment Date, Interest Accrual Year, Interest Determination Date, First Day of Interest Reset Period, Notice of Tender Time, Letter of Credit Drawing Time, Tender Time and Payment Time for each Interest Reset Period will be determined as shown in the table on the following page:

**TABLE OF INTEREST RESET PERIODS**

| Interest Reset Period | Record Date   | Interest Payment Date   | Interest Accrual Year   | Interest Determination Date   | First Day of Interest Reset Period  | Notice of Tender Time  | Letter of Credit Drawing Time  | Tender Time  | Payment   |
|-----------------------|---|---|---|---|---|--|--|--|---|
| Initial Period        | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1   | A year of 360 days consisting of 12 months each consisting of 30 days           | N/A   | N/A   | By 5:00 p.m. on June 15, 1987  | 12:00 noon on the Business Day prior to July 1, 1987   | By 4:00 p.m. on the second Business Day prior to July 1, 1987            | By 2:30 p.m. July 1, 1987   |
| Daily                 | Business Day preceding any Interest Payment Date                        | First Business Day of each Calendar Month   | A year of 365 or 366 days, as appropriate for the actual number of days elapsed | Each Business Day provided that unless reset the rate shall be the same as the prior Business Day   | The first day following the Interest Determination Date   | By 11:00 a.m. on any Business Day other than the Business Day on which the Interest Reset Period is changed to Daily | 1:00 p.m. on the Business Day Notice of Tender is given  | By 1:00 p.m. on the Business Day Notice of Tender is given               | As soon as practicable in no event later than 4 p.m. on the Business Day Notice of Tender is given          |
| 7 Day                 | Business Day preceding any Interest Payment Date                        | First Business Day of each Calendar Month   | A year of 365 or 366 days, as appropriate for the actual number of days elapsed | Each Tuesday unless not a Business Day in which event the preceding Business Day  | The Wednesday following the Interest Determination Date   | By 5:00 p.m. on the Business Day that is the seventh calendar day prior to Tender Time                               | 5:00 p.m. on the Business Day next preceding the Business Day specified in the Notice of Tender Time | By 12:00 noon on the Business Day specified in the Notice of Tender Time | As soon as practicable in no event later than 4 p.m. on the Business Day specified in Notice of Tender time |
| 30 Day                | Business Day preceding any Interest Payment Date                        | First Business Day of each Calendar Month   | A year of 365 or 366 days, as appropriate for the actual number of days elapsed | Minimum Rate established not less than 4 Business Days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | First Business Day of each Calendar Month   | By 5:00 p.m. on third Business Day prior to Tender Time  | 5:00 p.m. on the Business Day next preceding the Interest Payment Date                               | By 12:00 noon on the Interest Payment Date                               | As soon as practicable, in no event later than 4 p.m. on the Interest Payment Date                          |
| 60 Day                | Business Day preceding any Interest Payment Date                        | Commencing on the first Business Day of the Second Calendar Month following the Calendar Month of the Conversion and the first Business Day of each alternate Calendar Month thereafter | A year of 365 or 366 days, as appropriate for the actual number of days elapsed | Minimum Rate established not less than 4 Business Days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | First Business Day of the Second Calendar Month following the Calendar Month of the Conversion and the first Business Day of each alternate Calendar Month thereafter | By 5:00 p.m. on third Business Day prior to Tender Time  | 5:00 p.m. on the Business Day next preceding the Interest Payment Date                               | By 12:00 noon on the Interest Payment Date                               | As soon as practicable, in no event later than 4 p.m. on the Interest Payment Date                          |
| 90 Day                | Business Day preceding any Interest Payment Date                        | First Business Day of each July, October, January and April   | A year of 365 or 366 days, as appropriate for the actual number of days elapsed | Minimum Rate established not less than 15 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period         | First Business Day of each July, October, January and April   | By 5:00 p.m. on thirteenth day prior to Tender Time  | 5:00 p.m. on the Business Day next preceding the Interest Payment Date                               | By 12:00 noon on the Interest Payment Date                               | As soon as practicable, in no event later than 4 p.m. on the Interest Payment Date                          |

**TABLE OF INTEREST RESET PERIODS**  
(Continued)

| <b>Interest Reset Period</b> | <b>Record Date</b>  | <b>Interest Payment Date</b> | <b>Interest Accrual Year</b>  | <b>Interest Determination Date</b>  | <b>First Day of Interest Reset Period</b> | <b>Notice of Tender Time</b>                                | <b>Letter of Credit Drawing Time</b>                                    | <b>Tender Time</b>   | <b>Payment Time</b>                       |
|------------------------------|---|------------------------------|---|---|---|---|---|--|---|
| 180 Day                      | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1    | A year of 360 days consisting of 12 months each consisting of 30 days | Minimum Rate established not less than 30 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | Each July 1 and January 1                 | By 5:00 p.m. on June 15 or December 15                      | 12:00 noon on the Business Day next preceding the Interest Payment Date | By 4:00 p.m. on the second Business Day prior to the Interest Payment Date | By 2:30 p.m. on the Interest Payment Date |
| Annual                       | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1    | A year of 360 days consisting of 12 months each consisting of 30 days | Minimum Rate established not less than 30 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | July 1 of each year                       | By 5:00 p.m. on June 15                                     | 12:00 noon on the Business Day next preceding the Interest Payment Date | By 4:00 p.m. on the second Business Day prior to the Interest Payment Date | By 2:30 p.m. on the Interest Payment Date |
| 3 Year                       | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1    | A year of 360 days consisting of 12 months each consisting of 30 days | Minimum Rate established not less than 30 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | July 1 of each third year                 | By 5:00 p.m. on June 15 prior to next Interest Reset Period | 12:00 noon on the Business Day next preceding the Interest Payment Date | By 4:00 p.m. on the second Business Day prior to the Interest Payment Date | By 2:30 p.m. on the Interest Payment Date |
| 5 Year                       | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1    | A year of 360 days consisting of 12 months each consisting of 30 days | Minimum Rate established not less than 30 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | July 1 of each fifth year                 | By 5:00 p.m. on June 15 prior to Interest Reset Period      | 12:00 noon on the Business Day next preceding the Interest Payment Date | By 4:00 p.m. on the second Business Day prior to the Interest Payment Date | By 2:30 p.m. on the Interest Payment Date |
| 10 Year                      | Fifteenth day of the Calendar Month preceding any Interest Payment Date | Each July 1 and January 1    | A year of 360 days consisting of 12 months each consisting of 30 days | Minimum Rate established not less than 30 days prior to first day of each Interest Reset Period; Rate to be determined by 12:00 noon on Business Day preceding First Day of Interest Reset Period | July 1 of each tenth year                 | By 5:00 p.m. on June 15 prior to next Interest Reset Period | 12:00 noon on the Business Day next preceding the Interest Payment Date | By 4:00 p.m. on the second Business Day prior to the Interest Payment Date | By 2:30 p.m. on the Interest Payment Date |

Notices. The Trustee must give notice by mail to the Owners of the Bonds of a change in an Interest Reset Period prior to the effective date of such change. Such notice must be given not less than 15 days prior to the effective date of such change if the Interest Reset Period then in effect is Daily or 7 Day and the proposed new Interest Reset Period is Daily or 7 Day, and not less than 30 days prior to the effective date of such change in all other cases.

Such notice will state:

(a) that the Interest Reset Period with respect to the Bonds will be changed;

(b) the length of the new Interest Reset Period;

(c) the effective date of such change;

(d) the Interest Payment Date or Dates on which interest on the Bonds will be payable after the effective date of the changed Interest Reset Period;

(e) whether the Letter of Credit or an Alternate Security with respect to the Bonds will be in effect after such effective date;

(f) that all Outstanding Bonds not tendered for purchase on or prior to such effective date will be deemed to have been purchased on the effective date of the changed Interest Reset Period, except Bonds with respect to which the Owner has directed Issuer not to purchase as described herein;

(g) the time by which Owners desiring to retain their Bonds must deliver notice to the Trustee; and

(h) the interest rate determined by the Remarketing Agent to be borne by the Bonds after the change in Interest Reset Period or the date by which such rate will be determined.

(Clauses (f) and (g) above shall not apply if the Interest Reset Period is changed from Daily to 7 Day or from 7 Day to Daily).

#### Fixed Interest Rate

Procedures for Conversion to Fixed Interest Rate. The interest rate borne by the Bonds may be converted to a Fixed Interest Rate on a date on which the Bonds are subject to redemption at the direction of the Issuer (given at the request of SMU) specifying the effective date of the Fixed Interest Rate (which shall be a Business Day not less than 45 days from the date the Issuer gives such direction). The Issuer's

direction must be accompanied by an opinion of Bond Counsel stating that such conversion to a Fixed Interest Rate is authorized or permitted by the Indenture and that such conversion will not adversely affect the exemption from federal income taxation of the interest on the Bonds. Not later than 12:00 noon on the Business Day prior to the effective date of the Fixed Interest Rate, the Remarketing Agent will compute the Fixed Interest Rate in accordance with the Indenture. Upon conversion to a Fixed Interest Rate, Bonds are subject to mandatory tender for purchase on the effective date of the Fixed Interest Rate at the principal amount thereof plus accrued interest and an amount equal to any premium which would be payable on such date upon optional redemption. See "THE BONDS - Mandatory Tender for Purchase" and "Redemption".

The Trustee will give a notice of conversion to a Fixed Interest Rate to the Owners of the Bonds by mail at least 30 days prior to the effective date of the Fixed Interest Rate, which directs the Owners of the Bonds to deliver the notice described under "THE BONDS - Mandatory Tender for Purchase" not later than 5:00 p.m. on the 15th day prior to the effective date of the Fixed Interest Rate if such Owners desire to retain such Bonds following the effective date of the Fixed Rate.

Prior to the effective date of the Fixed Interest Rate, the Issuer (at the direction of SMU) may, and in the event (i) the opinion of Bond Counsel relating to the conversion to the Fixed Interest Rate is not confirmed on the date of such conversion, or (ii) the Trustee receives notice from the Remarketing Agent that all Bonds tendered have not been remarketed, the Issuer shall, rescind the direction to convert the interest rate borne by the Bonds to the Fixed Interest Rate, in which event the Interest Reset Period then in effect will remain in effect; provided that if such notice of rescission is given after the mailing by the Trustee of the notice described in the preceding paragraph, the Bonds will nevertheless be subject to mandatory tender for purchase by the Tender Agent pursuant to the Indenture notwithstanding any notice from an Owner that he wishes to retain his Bonds.

Determination of Fixed Interest Rate. The Fixed Interest Rate will be a rate equal to the Fixed Interest Index. The Fixed Interest Index will be calculated by the Remarketing Agent and based upon yield evaluations (on the basis of full coupon securities trading at par with a term approximately equal to the time remaining until the maturity of the Bonds) of not less than ten component issues selected by the Remarketing Agent, which issues (i) qualify under Section 103(a) of the Code (including industrial development bonds) so that the interest thereon is exempt from federal income taxation, and (ii) have a rating by Moody's or S&P in the same category as the general unsecured long-term credit rating of SMU or its successors, or if the Bonds or the debt obligations of SMU are then unrated, as securities of comparable creditworthiness to similar securities of SMU or its successors or if a

Letter of Credit or Alternate Security is in place and securing the Bonds during such period as they bear interest at the Fixed Interest Rate, having the same long-term credit rating as the issuer of the Letter of Credit or Alternate Security. The specific issues included in the component issues may be changed from time to time by the Remarketing Agent in its discretion, subject to the foregoing standards. In the event that the Remarketing Agent no longer computes, or fails to compute, the Fixed Interest Index and no other qualified municipal securities evaluation service can be appointed by the Issuer, the Fixed Interest Index shall be determined by the Trustee and shall be 95% of the yield, evaluated at par on the basis of a term approximately equal to the time remaining until the maturity of the Bonds, of United States Treasury bonds, and such determination by the Trustee shall be conclusive and binding upon the Issuer, SMU, the Credit Bank and all Bondholders.

Termination of Letter of Credit. After the effective date of the Fixed Interest Rate with respect to the Bonds, the Letter of Credit may terminate and be tendered by the Trustee to the Credit Bank for cancellation in accordance with its terms. SMU and the Credit Bank may agree to allow the Letter of Credit to continue as security for the Bonds after the effective date of the Fixed Interest Rate or SMU may provide an Alternate Security (which includes a pledge of its own credit) to secure the Bonds.

#### Purchase on Owner's Demand

After the Initial Period and prior to conversion to a Fixed Interest Rate, any Bond will be purchased on the demand of the Owner thereof at the Payment Time as set forth in "THE BONDS - Interest Reset Periods", at a purchase price equal to the principal amount thereof plus accrued interest to the purchase date, if any, upon delivery to the Tender Agent at its Principal Office at or prior to the Notice of Tender Time as set forth in "THE BONDS - Interest Reset Periods", of a properly completed Notice of Tender in substantially the form prescribed by the Indenture. If the Interest Reset Period for the Bonds is Daily, it shall not be necessary for the Owner of such Bond to deliver a written Notice of Tender to the Tender Agent. In such case, the Owner of such Bonds may give telephonic notice of his intention to tender Bonds to the Tender Agent at or prior to the Notice of Tender Time, which notification shall constitute a Notice of Tender. If telephonic Notice of Tender is given, the Tender Agent's interpretation of the telephonic instructions will be conclusive and binding upon the Owner of such Bonds. The Tender Agent may refuse to honor a tender of Bonds if the Notice of Tender is not properly given in accordance with the foregoing.

The Owner of Bonds described in a Notice of Tender must deliver such Bonds (with instruments of transfer complying with the Indenture) at the principal office of the Tender Agent at or prior to the Tender

Time. An Owner of Bonds who fails to deliver such Owner's Bond for purchase at or prior to the Tender Time will be deemed to have tendered such Bond in accordance with the Indenture. See "THE BONDS - Failure to Deliver Tendered Bonds".

In the event the Interest Reset Period is 90 days or less, payment for Bonds purchased at the option of the Owners thereof will be made in immediately available funds; otherwise, such payment may be made in next day funds.

#### Mandatory Tender for Purchase

Events Requiring Purchase. The Bonds shall be subject to mandatory tender for purchase by Tender Agent on July 1, 1987, at the principal amount thereof. The failure of any Owner of the Bonds to tender Bonds for purchase shall result in such Bonds being deemed to have been tendered on such date. Notwithstanding the foregoing there shall not be deemed tendered for purchase (i) Bonds for which the Trustee shall have received directions that the same are not to be purchased from the Owner thereof in accordance with the Indenture, and (ii) Bonds issued in exchange for or upon the registration of Bonds referred to in the preceding clause (i).

The Bonds will be subject to mandatory tender for purchase by the Tender Agent on the date that is the effective date of the Fixed Interest Rate and on the Interest Payment Date that is the effective date of a change in Interest Reset Period (other than a change from Daily to 7 Day or from 7 Day to Daily), in either case at the principal amount thereof plus accrued interest, if any, to the purchase date and an amount equal to any premium which would be payable on such date in the event of an optional redemption. The failure of an Owner of a Bond to tender such Bond for purchase will result in such Bond being deemed to have been tendered. See "THE BONDS - Failure to Deliver Tendered Bonds". Notwithstanding the foregoing, there will not be deemed tendered for purchase Bonds with respect to which the Trustee shall have received directions that such Bond is not to be so purchased from the Owner thereof as hereinafter described.

The Bonds will be subject to mandatory tender for purchase by the Tender Agent on the Interest Payment Date next preceding the Expiration of the Letter of Credit at the principal amount thereof and an amount equal to any premium which would be payable on such date upon optional redemption. The failure of an Owner of a Bond to tender such Bond for purchase will result in such Bond being deemed to have been tendered on such Interest Payment Date. See "THE BONDS - Failure to Deliver Tendered Bonds". Notwithstanding the foregoing there will not be deemed tendered for purchase (i) Bonds with respect to which the Trustee shall have received written direction that any Bond is not to be so purchased from the Owners thereof as described below, and (ii) Bonds issued in

exchange for or upon the registration of transfer of Bonds referred to in clause (i).

The Bonds shall be subject to mandatory tender for purchase by the Tender Agent on the Interest Payment Date next preceding SMU's substitution of an instrument evidencing its unconditional obligation to pay all amounts due under the Agreement as an Alternate Security for the Bonds, at the principal amount thereof plus an amount equal to any premium which would be payable on such date upon optional redemption. The failure of any Owner to tender such Bonds for purchase shall result in such Bonds being deemed to have been tendered on such Interest Payment Date. See "THE BONDS - Failure to Deliver Tendered Bonds". Notwithstanding the foregoing, there shall not be deemed tendered for purchase: (i) Bonds with respect to which the Trustee shall have received written directions that the same are not to be so purchased from the Owner thereof as described below; and (ii) Bonds issued in exchange for or upon registration of transfer of Bonds referred to in the preceding clause (i).

**Right to Retain Bonds.** An Owner may direct the Tender Agent not to purchase any Bonds to be purchased in connection with a conversion of the Bonds to a Fixed Interest Rate or a change in the Interest Reset Period with respect to the Bonds by delivering to the Trustee at its Principal Office at or before the time specified in the notice delivered to such Owner by the Trustee with respect to such conversion or change an instrument in writing, executed by such Owner, which (i) states that such person is an Owner of the Bonds and specifies the number and denomination of Bonds so owned; (ii) acknowledges that the interest rate borne by such Bonds is to be converted to a Fixed Interest Rate or that the Interest Reset Period is to be changed; (iii) if appropriate, states that such Owner has knowledge that the Letter of Credit will expire on a date following such conversion or change and that such expiration may result in a reduction or withdrawal of the ratings of the Bonds then in effect; (iv) as appropriate, states that such Owner has knowledge that following such conversion or change, such Bonds will no longer be subject to purchase at the demand of the Owner thereof or will only be subject to purchase at the times specified; and (v) directs the Tender Agent not to purchase such Bonds. Any such instrument delivered to the Trustee as described in this paragraph will be irrevocable with respect to such Bonds for which such instrument is delivered, and will be binding upon subsequent Owners of such Bonds; but such instrument will have no effect upon any subsequent mandatory purchase of such Bonds.

An Owner may direct the Tender Agent not to purchase any Bonds to be purchased in connection with the Expiration of the Letter of Credit, by delivering to the Trustee at its principal office at or before the time specified in the notice delivered to the Trustee with respect to such expiration, an instrument, executed by such Owner, which (i) states that such person is an Owner of Bonds and specifies the number and



denomination of such Bonds so owned; (ii) states that such Owner has knowledge that the Letter of Credit will expire in the next succeeding Interest Reset Period; (iii) states that such Owner has knowledge that the Expiration of the term of the Letter of Credit may result in a reduction or withdrawal of the ratings on the Bonds then in effect; and (iv) directs the Tender Agent not to purchase such Bonds. Any such instrument delivered to the Trustee in accordance with this paragraph will be irrevocable with respect to such Bonds for which such instrument was delivered and will be binding upon subsequent Owners of such Bonds; but such instrument shall have no effect upon any subsequent mandatory purchase of such Bonds.

An Owner may direct the Tender Agent not to purchase any Bonds to be purchased in connection with the substitution of SMU's credit as an Alternate Security, by delivering to the Trustee at its principal office at or before the time specified in the notice delivered to the Trustee with respect to such expiration, an instrument, executed by such Owner, which (i) states that such person is an Owner of Bonds and specifies the number and denomination of such Bonds so owned; (ii) states that such Owner has knowledge of the substitution of SMU's credit as an Alternate Security; (iii) states that such Owner has knowledge that such substitution may result in a reduction or withdrawal of the ratings on the Bonds then in effect; and (iv) directs the Tender Agent not to purchase such Bonds. Any such instrument delivered to the Trustee in accordance with this paragraph will be irrevocable with respect to such Bonds for which such instrument was delivered and will be binding upon subsequent Owners of such Bonds; but such instrument shall have no effect upon any subsequent mandatory purchase of such Bonds.

#### Failure to Deliver Tendered Bonds

Notwithstanding any failure by an Owner of Bonds to deliver Bonds as to which a Notice of Tender has been given as described under "THE BONDS - Purchase on Owner's Demand" or to deliver Bonds deemed tendered as described under "THE BONDS - Mandatory Tender for Purchase" on or prior to the date of such purchase, such Bonds will be deemed to have been tendered, and funds necessary to purchase such Bonds will be set aside for such Owner and held by the Tender Agent without liability for interest thereon. From and after the date of purchase, Bonds held by such Owner selected by the Trustee in its discretion in a principal amount equal to the Bonds deemed tendered will be deemed to be no longer Outstanding under the Indenture, and such Owner will look only to the funds previously set aside and held by the Tender Agent for payment.

Upon delivery of a Bond which was not timely delivered, the Owner thereof shall be entitled to receive the amount held on his behalf by the Tender Agent, but no interest shall accrue thereon from and after the date of purchase.

## Purchase of Bonds - Payment

When Bonds delivered to the Tender Agent are to be purchased as described herein, such Bonds will be purchased from the Owners thereof at a purchase price of 100% of the principal amount thereof plus accrued interest, if any, to the purchase date, but solely from the following sources in the following order, neither the Issuer nor the Tender Agent having an obligation to use funds from any other source:

(a) Available Moneys (as defined in the Indenture) deposited in the Bond Fund;

(b) proceeds of the sale of such Bonds as a result of remarketing thereof;

(c) moneys furnished to the Tender Agent representing moneys received under the Letter of Credit; and

(d) any other moneys available for the purpose.

## Remarketing

Except as provided in the immediately following paragraph, when Bonds are subject to tender for purchase, the Remarketing Agent will offer for sale and use its best efforts to sell the Bonds so tendered. Any such sale thereof will be made at the Payment Time, at a price equal to the principal amount thereof plus accrued interest, if any.

If a Letter of Credit is in effect and was drawn upon to pay the purchase price of the Bonds, such Bonds shall not be delivered to the Remarketing Agent for redelivery to a purchaser unless the Letter of Credit has been reinstated in the amount of the purchase price and is available to be drawn upon with respect to payments of principal of, interest on and purchase price with respect to, such Bonds.

## No Sales after Default

There will be no sales of Bonds by the Remarketing Agent, as described herein, if there has occurred and is continuing an Event of Default described under the caption "THE INDENTURE - Defaults" of which the Remarketing Agent has notice.

## Redemption

Optional Redemption. When the Bonds have an Interest Reset Period of less than one year, such Bonds will be subject to redemption, in whole or in part, by the Issuer at the direction of SMU, on any Interest Payment Date at the principal amount thereof.

The Bonds having an Interest Reset Period of one year will be subject to redemption, in whole or in part, by the Issuer at the direction of SMU on any Interest Payment Date which is the First Day of an Interest Reset Period at the principal amount thereof. The Bonds are not subject to optional redemption until the Crossover Date.

After conversion to a Fixed Interest Rate or if the Interest Reset Period is 3 years or longer, the Bonds may be redeemed prior to maturity by the Issuer at the direction of SMU on or after the dates set forth below, either as a whole at any time, or in part from time to time on any Interest Payment Date, upon payment in each case of the principal amount of the Bonds to be redeemed, the redemption premium, if any, determined as set forth below, and unpaid accrued interest to the redemption date:

(a) if on conversion to a Fixed Interest Rate there remain at least 20 years until the maturity of the Bonds, such Bonds may be redeemed on or after the July 1 next following the 10th anniversary of the date of conversion to a Fixed Interest Rate, with a redemption premium commencing at 3% on such July 1, declining and being reduced by 1% on each anniversary of such July 1 until it reaches zero;

(b) if on conversion to a Fixed Interest Rate there remain at least 15 years but less than 20 years until the maturity of the Bonds, such Bonds may be redeemed on or after the July 1 next following the eighth anniversary of the date of conversion to a Fixed Interest Rate, with a redemption premium commencing at 2% on such July 1, declining and being reduced by 1% on each anniversary of such July 1, until it reaches zero;

(c) if on conversion to a Fixed Interest Rate there remain at least 10 years but less than 15 years until the maturity of the Bonds, such Bonds may be redeemed on or after the July 1 next following the fifth anniversary of the date of conversion to a Fixed Interest Rate, with a redemption premium commencing at 2% on such July 1, declining and being reduced by 1% on each anniversary of such July 1 until it reaches zero;

(d) if on conversion to a Fixed Interest Rate there remain at least five years but less than 10 years until the maturity of the Bonds, or upon conversion of the Interest Reset Period to 10 years, such Bonds may be redeemed on or after the July 1 next following the third anniversary of the date of conversion to a Fixed Interest Rate or the date of conversion to a 10 year Interest Reset Period, with a redemption premium commencing at 1% on such July 1, declining and being reduced to zero on the first anniversary of such July 1; and

(e) if on the date of conversion to a Fixed Interest Rate there remain less than 5 years until the maturity of the Bonds, or upon conversion of the Interest Reset Period to 3 years or 5 years, such Bonds may be redeemed on or after the July 1 next following the first anniversary of the date of conversion to a Fixed Interest Rate or the date of conversion to a 3 year or 5 year Interest Reset Period, with a redemption premium commencing at 1% on such July 1, declining and being reduced to zero on the first anniversary of such July 1.

Extraordinary Optional Redemption. The Bonds also may be redeemed as a whole at any time, but only after the Crossover Date, upon the exercise by SMU of its option to prepay all amounts due under the Agreements pursuant to the provisions of the Agreements (i) if SMU is required by legislative, judicial or administrative action of any jurisdiction or authority to operate in any manner inconsistent with the stated goals or policies of SMU, or (ii) as a result of the receipt of Contributions (as such term is defined in the Indenture). The Bonds subject to redemption as described in subpart (i) of this paragraph will be redeemable in whole at any time upon payment of the principal amount thereof and unpaid accrued interest to the redemption date. The Bonds subject to redemption as described in subpart (ii) of this paragraph will be redeemable in whole at any time, or in part on any Interest Payment Date upon payment of the principal amount thereof and unpaid accrued interest to the redemption date.

Payment. When Bonds are to be redeemed as described herein such Bonds will be paid solely from the following sources in the following order:

- (a) Available Moneys deposited in the Bond Fund;
- (b) moneys drawn under the Letter of Credit; and
- (c) any other moneys available for the purpose.

Selection and Notice. A redemption of Bonds will be a redemption of the whole or of any part of the Bonds designated by SMU. If less than all the Bonds shall be called for redemption under any provision of the Indenture permitting such a redemption, the particular Bonds or portions thereof to be redeemed will be selected by the Trustee, in such manner as the Trustee in its discretion may deem proper, in the principal amount designated to the Trustee by SMU, or otherwise as required by the Indenture. In the event a Bond is in a denomination larger than the minimum Authorized Denomination a portion of such Bond may be redeemed but only in a principal amount equal to an Authorized Denomination. A new Bond or Bonds representing the unredeemed principal balance of any such Bond will be issued to the registered Owner thereof without charge. If the Owner of any Bond selected for redemption shall

fail to present such Bond to the Paying Agent for payment and exchange as described in subpart (i) of this paragraph, such Bond will, nevertheless, be due and payable on the redemption date to the extent of the principal amount called for redemption.

In the event any of the Bonds are called for redemption, the Trustee will give notice, in the name of the Issuer, of the redemption of such Bonds. The notice will (i) specify the Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which will be the principal office of the Paying Agent) and, if less than all of the Bonds are to be redeemed, the numbers of the Bonds, and the portions of Bonds, to be redeemed, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds to be redeemed shall cease to bear interest. Such notice shall be given by first-class mail not more than 60 and not less than 30 days prior to the redemption date to the Owners of the Bonds to be redeemed.

After an Event of Default described under the caption "THE INDENTURE - Defaults," there will be no redemption of less than all Bonds then Outstanding.

#### THE LETTER OF CREDIT

The following is a summary of certain provisions of the Letter of Credit, to which reference is hereby made.

##### General

The Letter of Credit is an irrevocable obligation of the Credit Bank to pay the Trustee, upon presentation of appropriate documents and certifications, an aggregate amount up to the principal of and the appropriate number of days' accrued interest on the outstanding Bonds then secured by the Letter of Credit pursuant to the Indenture (such amount, as from time to time adjusted as provided below, hereinafter called the "Available Credit"). The Letter of Credit automatically terminates at the close of business on the earliest of (i) July 24, 1993 (unless the term of the Letter of Credit is extended by the Credit Bank pursuant to the terms of Letter of Credit), (ii) the provision of an Alternate Security, (iii) the occurrence of an Event of Default under the Indenture which requires an acceleration of the Bonds, immediately following the drawing on the Letter of Credit required by such acceleration, (iv) the conversion of the Bonds to the Fixed Interest Rate (unless the Credit Bank expressly consents to the continuation of the Letter of Credit), and (v) the date none of the Bonds remain outstanding. The Available Credit with respect to the Letter of Credit will be decreased from time to time (i) immediately following the Credit Bank honoring a drawing under the Letter of Credit relating to principal

by an amount equal to the amount of such drawing and (ii) immediately upon receipt of notice by the Credit Bank, from the Trustee, of any reduction in the outstanding principal amount of the Bonds.

Reductions with respect to any drawing to pay interest on the Bonds will be reinstated automatically unless the Trustee receives notice in writing from the Credit Bank on or before the eighth day after such drawing was paid that an Event of Default under the Reimbursement Agreement has occurred and that the amount of such drawing shall not be reinstated. Reductions with respect to any drawing to pay the purchase price of Bonds delivered to the Trustee as a result of the exercise of an Owner's right to have Bonds purchased shall be reinstated upon reimbursement of the amounts drawn. Bonds purchased with the proceeds of any such drawing will be held by the Credit Bank or its designated custodian pursuant to the Custody Pledge and Security Agreement (the "Security Agreement").

### THE REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Reimbursement Agreement, to which reference is hereby made.

#### Reimbursement by SMU to the Credit Bank

SMU has agreed to pay to the Credit Bank (i) an amount equal to the amount of any drawings under the Letter of Credit; (ii) certain fees; (iii) charges and expenses paid or incurred by the Credit Bank with respect to the transactions contemplated by the Reimbursement Agreement; and (iv) interest on amounts to be paid by SMU under the Reimbursement Agreement determined as provided therein.

The obligations of SMU under the Reimbursement Agreement are absolute, unconditional and irrevocable.

#### Right of Credit Bank to Direct Trustee to Declare Bonds Due and Payable

The Credit Bank may, at its election, upon the occurrence of any Event of Default specified below, notify the Trustee that an Event of Default has occurred and request the Trustee to declare the principal of all outstanding Bonds immediately due and payable as provided in the Indenture. Upon the occurrence of any Event of Default, the Credit Bank may proceed to enforce all other remedies available to it.

#### Events of Default

The following are "Events of Default" under the Reimbursement Agreement: (a) the occurrence of an "Event of Default" under the Agreement or any other applicable Bond Document (as defined in the

Reimbursement Agreement); or (b) the failure by SMU to pay any amounts due under the Reimbursement Agreement; or (c) the failure by SMU to perform or observe any other term, covenant or agreement contained in the Reimbursement Agreement, provided that the failure of SMU to perform certain of such covenants shall not be deemed an Event of Default unless SMU shall have failed to cure such nonperformance within thirty days after notice given to SMU by the Credit Bank; or (d) any warranty, representation or other written statement made by or on behalf of SMU contained in the Reimbursement Agreement, the Security Agreement or in any of the Bond Documents, or in any instrument furnished in compliance with or in reference to any of the foregoing, is false or misleading in any material respect on any date as of which made; or (e) any provision of the Reimbursement Agreement, the Note (executed with respect to the Reimbursement Agreement), the Security Agreement or any of the Bond Documents shall at any time for any reason be declared to be invalid or nonbinding in accordance with its terms on SMU, or shall be declared to be null and void, or a proceeding shall be commenced by SMU, seeking to establish the invalidity or unenforceability thereof, or SMU shall deny that it has any further liability or obligation thereunder; or (f) (i) SMU shall (1) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, (2) admit in writing its inability to pay its debts generally as they become due, (3) make a general assignment for the benefit of creditors, (4) be adjudicated a bankrupt or insolvent, or (5) commence a voluntary case under the applicable Federal bankruptcy or insolvency laws of the United States of America or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding, or action shall be taken by it for the purpose of effecting any of the foregoing; or (ii) if without the application, approval or consent of SMU, a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of SMU, an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, or the appointment of a trustee, receiver, liquidator or custodian or the like of SMU, or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by SMU, in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment or (B) continue undismissed, or pending and unstayed, for any period of thirty consecutive days; or (g) any judgment or order for the payment of money in an amount which would have a materially adverse effect on the financial condition of SMU, shall be rendered against SMU and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of ten

consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

## THE REMARKETING AGREEMENT

The following is a summary of certain provisions of the Remarketing Agreement, to which reference is hereby made.

### Remarketing Agent and Term

Under the Remarketing Agreement and the Indenture, Goldman, Sachs & Co. is appointed as Remarketing Agent for the Bonds. The Remarketing Agent may at any time resign or be discharged of the duties and obligations created by the Remarketing Agreement by giving at least 14 Business Days' notice to SMU, the Issuer and the Trustee. The Remarketing Agent shall be removed at any time by SMU, with the consent of the Trustee and the Credit Bank, which consent may not be unreasonably withheld. Notice of any such removal shall be given to the Remarketing Agent, the Issuer, the Credit Bank and the Trustee. A successor Remarketing Agent may be appointed from time to time by SMU, with the consent of the Trustee and the Credit Bank, which consent may not be unreasonably withheld.

### Remarketing

Owners shall have the right to exercise their right to have Bonds purchased on demand as described above. Upon receipt by the Remarketing Agent of notice of the exercise of such right, the Remarketing Agent shall use its best efforts to offer for sale and to sell such Bond at 100% of the principal amount thereof plus accrued interest, if any, to the Purchase Date unless such Bond is not required to be offered for sale pursuant to the provisions of the Indenture and the Remarketing Agreement.

## THE AGREEMENT

The following is a summary of certain provisions of the Agreement, reference to which is hereby made.

### Issuance of the Bonds; Deposit of Proceeds into Escrow

The Issuer is issuing the Bonds to provide for the refunding of the Series 1984 Bonds on the Crossover Date. The net proceeds from the sale of the Bonds (after payment of costs of issuance) will be deposited in the Escrow to be invested and expended as provided below. See "THE INDENTURE - Escrow Fund".



## Payments Required Under the Agreement

At or prior to the applicable Payment Time for the Bonds, SMU agrees to pay to the Trustee (subject to the credits hereinafter described) for the account of the Issuer, a sum equal to the amount payable on such date as the principal of, premium, if any, and interest on the Bonds; provided that any amount drawn under the Letter of Credit or any Alternate Security with respect to such principal and interest, together with other Available Moneys then on deposit in the Bond Fund and available for such payment, will be credited against the payment due from SMU on such date. In addition, SMU also agrees to pay the fees and expenses of the Issuer, the Trustee and any paying agents in connection with the Bonds.

## Unconditional Obligation

The obligations of SMU to make the payments under the Agreement are absolute and unconditional, irrespective of any defense, rights of set-off, recoupment or counterclaim it might have against the Issuer, the Credit Bank or the Trustee until such time as the principal of, premium, if any, and interest on all outstanding Bonds have been fully paid or payment has been provided for in accordance with the Indenture.

## Events of Default

The following are events of default under the Agreement:

(a) failure by SMU to pay any amount that has become due and payable pursuant to any provision of the Agreement with respect to principal of, premium, if any, or interest on the Bonds at the times specified herein;

(b) failure by SMU to pay when due the purchase price of Bonds tendered pursuant to the Indenture;

(c) failure by SMU to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Agreement, other than a failure resulting in an Event of Default under (a) or (b); for a period of thirty days after written notice, specifying such failure and requesting that it be remedied, given to SMU by the Issuer, the Trustee or the Credit Bank; provided, however, if the failure stated in the notice cannot, in the opinion of SMU with the consent of the Trustee and the Credit Bank (which consent shall not be unreasonably denied), be feasibly corrected within the 30-day period, no Event of Default shall have occurred if corrective action is instituted within the 30-day period and diligently pursued in good faith until the occurrence of the earlier of (i) the correction of the default and (ii) 180 days after SMU shall have received written notice of such default;

(d) certain events of bankruptcy, insolvency, liquidation or reorganization involving SMU; or

(e) an Event of Default under the Indenture.

Upon the happening of an Event of Default the Trustee may by notice to SMU declare all amounts payable under the Agreement to be immediately due and payable and take any other action available to the Trustee.

## THE INDENTURE

The following is a summary of certain provisions of the Indenture, reference to which is hereby made.

### Assignment and Pledge

Pursuant to the Indenture, the Issuer will assign to the Trustee all of its right, title and interest in and to the Agreement and to moneys payable thereunder (except its rights to receive notices, certificates, requests, requisitions, directions and other communications under the Agreement and to receive certain expense and indemnification payments), including its rights to the Escrow, as security for the payment of the principal of, premium, if any, and interest on the Bonds.

### Escrow Fund

The Indenture provides for the establishment of the Escrow to be held by the Trustee wherein the net proceeds of the sale of the Bonds are to be deposited to be used, with the investment earnings thereon, (i) before the Crossover Date, for the payment of interest on the Bonds, and (ii) on the Crossover Date, for the payment of the principal of the Series 1984 Bonds being refunded.

### Reserve Fund

The Indenture further provides for the establishment of a Reserve Fund into which there will be deposited from the Series 1984 Bonds Reserve Fund on the Crossover Date the amounts heretofore stated. Following the Crossover Date, and while any Bonds are outstanding, the Reserve Fund will be held as a reserve for the payment of principal and interest on the Bonds when and if other funds on deposit in the Bond Fund are not sufficient for such purposes. Only Available Moneys shall be deposited in the Reserve Fund and any amounts paid from the Reserve Fund will be restored by SMU, if not earlier, in twelve equal monthly installments. If an Event of Default under the Indenture occurs, the Trustee will first apply all moneys in the Reserve Fund to the payment of the Bonds affected, reducing the amount drawn under the Letter of Credit or Alternate Security by the amounts so available.

## Application of the Bond Fund

There is created under the Indenture a Bond Fund and, within the Bond Fund, a separate Letter of Credit Account. Payments under the Agreement, amounts drawn by the Trustee under the Letter of Credit for payment of the principal of and interest on the Bonds when due and proceeds of refunding obligations will be deposited in the Bond Fund. While any Bonds are Outstanding (as such term is defined in the Indenture), moneys in the Bond Fund will be used solely for the payment of the principal of and premium, if any, and interest on the Bonds when due or, in some circumstances, for payment of the purchase price of Bonds, subject to the prior claim of the Trustee to the extent described under the caption "THE INDENTURE - Pledge and Security" and except as otherwise set forth in the Indenture.

Funds for the payment of the principal of and premium, if any, and interest on the Bonds shall be derived from the following sources in the order of priority indicated:

- (a) Available Moneys deposited in the Bond Fund;
- (b) moneys drawn under the Letter of Credit; and
- (c) any other moneys available for the purpose.

## Investment of Funds

Moneys in the Bond Fund (other than moneys drawn under the Letter of Credit) will, at the direction of SMU, be invested in securities or obligations as specified in the Indenture.

## Defaults

Each of the following events will constitute an "Event of Default" under the Indenture:

- (a) a failure to pay the principal of or premium, if any, on the Bonds when the same shall become due and payable at maturity or upon redemption;
- (b) a failure to pay an installment of interest on any of the Bonds when the same shall become due and payable or if (i) there is no Letter of Credit in effect and (ii) interest is payable semiannually, a failure to pay an installment of interest on any of the Bonds for a period of one Business Day after such interest has become due and payable;

(c) a failure to pay an amount due in respect of the purchase price of any Bonds tendered to Tender Agent pursuant to the Indenture for a period of one Business Day after such payment has become due and payable;

(d) the Trustee's receipt of notice from the Credit Bank of an Event of Default under the Reimbursement Agreement with a direction that the Bonds be accelerated;

(e) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a), (b) and (c) above) contained in the Bonds or in the Indenture on the part of the Issuer to be observed or performed, which failure shall continue for a period of ninety days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Issuer and SMU by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Credit Bank or the Owners of not less than 25% in principal amount of the Bonds then Outstanding, unless the Trustee (if such notice was given at the discretion of the Trustee), or the Trustee and the Credit Bank (if such notice was given at the request of the Credit Bank), or (with the consent of the Credit Bank) the Trustee and Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the Credit Bank, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer, or SMU on behalf of the Issuer, within such period and is being diligently pursued;

(f) an Event of Default under the Agreement.

#### Acceleration; Other Remedies

Upon the occurrence and continuance of an Event of Default, (i) the Trustee shall, if the Event of Default is (A) described in (a), (b) or (c) in the immediately preceding subsection and a drawing under the Letter of Credit properly made by the Trustee has been wrongfully dishonored by the Credit Bank and an Alternate Security has not been substituted for the Letter of Credit within fifteen days after such Event of Default or (B) described in (d) in the immediately preceding subsection and (ii) the Trustee may, in all cases not described in clause (i), by written notice to the Issuer, SMU and the Credit Bank, declare the Bonds to be immediately due and payable, whereby they shall, without further action, become and be immediately due and payable, anything in the Indenture or in such Bonds to the contrary

notwithstanding, and the Trustee will give notice thereof by mail to all Owners of Outstanding Bonds.

The provisions of the immediately preceding paragraph are subject to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable, and before a drawing under the Letter of Credit or any judgment or decree for the payment of the moneys due will have been obtained or entered as hereinafter provided, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which will have become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum specified in the Bonds) and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Issuer and the Trustee, and all Events of Default under the Indenture other than nonpayment of the principal of the Bonds which shall have become due by said declaration shall have been remedied, then the Trustee may, if the Credit Bank consents, waive such Event of Default and such declaration and its consequences will be rescinded and annulled.

Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, with the prior written consent of the Credit Bank, and upon the written direction of the Credit Bank, or of Owners of not less than 25% in principal amount of the Bonds then Outstanding and the prior written consent of the Credit Bank and receipt of indemnity to its satisfaction, shall, in its own name and as Trustee of an express trust: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners of Bonds, and require the Issuer, the Credit Bank or SMU to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Act, the Agreement, the Letter of Credit and the Indenture; provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Agreement, or the Indenture, as the case may be; (b) bring suit upon the Bonds; or (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds.

#### Defeasance

Any Bond shall be deemed to be paid within the meaning of the Indenture when (a) payment of the principal of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity, tender for purchase or upon redemption as provided herein) either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee in trust and

irrevocably setting aside exclusively for such payment (1) moneys (which shall constitute Available Moneys if a Letter of Credit is then in effect) sufficient to make such payment and/or (2) Government Obligations (which shall constitute the Available Moneys if a Letter of Credit is then in effect) maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment; and (b) all necessary and proper fees, compensation and expenses of the Trustee, the Registrar, the Paying Agent and any co-paying agent pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond shall be deemed to be paid thereunder, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing paragraph, no deposit under clause (a)(ii) of the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until: (a) proper notice of redemption of such Bonds previously shall have been given in accordance with the Indenture, or in the event said Bonds are not to be redeemed within the next succeeding sixty days, until SMU shall have given the Trustee on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds in accordance with the Indenture that the deposit required by (a)(ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on said Bonds, plus interest thereon to the due date thereof; or (b) the maturity of such Bonds.

#### Supplemental Indentures

The Issuer and the Trustee may, without the consent of or notice to any of the Owners of Bonds, enter into indentures supplemental to the Indenture for any of the following purposes: (a) to cure any formal defect, omission, ambiguity or inconsistency in the Indenture; (b) to add to the covenants and agreements of Issuer in the Indenture other covenants, agreements, or to surrender any right or power reserved or conferred upon Issuer, and which shall not adversely affect the interests of the Owners of the Bonds; (c) to confirm, as further assurance, any pledge of or lien on the moneys, securities or funds subject to the lien of the Indenture; (d) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended; (e) to modify, alter, amend or supplement the Indenture in any other respect which in the judgment of Trustee is not materially adverse to the Owners of the Bonds; (f) to any extent not otherwise permitted hereunder, to change the Interest Reset Period, to implement the Fixed

Interest Rate or to evidence or give effect to the delivery of an Alternate Security; (g) to add such covenants or requirements as may be necessary to avoid a Determination of Taxability (as defined in the Indenture); (h) to add such covenants or requirements as may be necessary to obtain, maintain or improve any rating of the Bonds by either Moody's or S & P; and (i) to provide for issuance of Bonds in uncertificated form. Before Issuer and Trustee shall enter into any Supplemental Indenture relating to the items mentioned above, there shall have been delivered to Trustee, SMU and Credit Bank an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon Issuer in accordance with its terms and will not adversely affect the exemption from federal income taxation of interest on the Bonds.

In all other cases, the Owners of not less than 60% in aggregate principal amount of the Bonds then outstanding shall have the right to consent to and approve the execution by the Issuer and the Trustee of such other supplemental indentures, as shall be deemed necessary or desirable by the Issuer; provided, that no such modification or alteration shall permit, without the consent of the Owners of 100% in aggregate principal amount of the Bonds outstanding: (a) a change (other than a change in Interest Reset Period or a Conversion to Fixed Interest Rate) in the times, amounts or currency of payment of the principal of or interest on any outstanding Bond, a change in the terms of the purchase thereof by Tender Agent, or a reduction in the principal amount or redemption price of any outstanding Bond or the rate of interest thereon, or (ii) the creation of a claim or lien upon, or a pledge of, the Revenues (as defined in the Indenture) ranking prior to or on a parity with the claim, lien or pledge created by the Indenture (except as specifically provided in the Indenture, or (iii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required for any modification, alteration, amendment or supplement to the Agreement.

No supplemental indenture shall become effective without the consent of SMU and the Credit Bank (or any issuer of an Alternate Security).

Subject to the terms and provisions contained in the Indenture, the Owners of all the Bonds shall have the right to modify, alter, amend or supplement the indenture in any respect, by delivering to Issuer, Credit Bank, Trustee and SMU a written instrument or instruments, executed by or on behalf of such Owners, containing a form of Supplemental Indenture which sets forth such modifications, alterations, amendments and supplements. If within thirty (30) days of such delivery, no notice of objection shall have been delivered by Issuer, Trustee or SMU to such

Owners at an address specified in such written instrument, such Supplemental Indenture shall be deemed to have been approved and confirmed by Issuer and Trustee, to the same extent as if actually executed and delivered by Issuer and Trustee, and to have been approved by SMU, and such Supplemental Indenture shall thereupon become and be for all purposes in full force and effect without further action by Issuer, Trustee or SMU. The foregoing provisions are, however, subject to the following conditions: (i) no such Supplemental Indenture shall in any way affect the limited nature of the obligations of Issuer under the Indenture or shall adversely affect any of its rights hereunder; (ii) no such Supplemental Indenture shall affect Trustee's rights, duties and immunities hereunder without Trustee's consent thereto; (iii) no such Supplemental Indenture shall be to the prejudice of Paying Agent, Registrar or Remarketing Agent and such Supplemental Indenture shall have been consented to by the Credit Bank as required by the Indenture; and (iv) there shall have been delivered to Issuer, Trustee, SMU and the Credit Bank an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with their respective terms, will, upon the expiration of the aforesaid thirty (3) day period, be valid and binding upon Issuer in accordance with its terms and will not adversely affect the exemption from federal income taxation of interest on the Bonds.

#### Amendment of the Agreement

The Issuer and SMU may, with the consent of the Trustee and the Credit Bank but without the consent of, or notice to, the Owners of the Bonds, enter into any amendment, change or modification of the Agreement, as may be required (i) by the provisions of the Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission, (iii) in connection with any other change which will not be to the prejudice of the Owners of the Bonds.

Before Issuer shall enter into, and Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement described above, there shall have been delivered to Issuer, Trustee and the Credit Bank an opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon Issuer and SMU in accordance with its terms and will not adversely affect the exemption of interest on the Bonds from federal income taxation.

Except in the case of modifications, alterations, amendments or supplements referred to above, Issuer shall not enter into, the Trustee shall not consent to, any amendment, change or modification of the Agreement without the written approval or consent of the Credit Bank and



the Owners of not less than 60% in aggregate principal amount of the Bonds, provided, however, that, unless approved in writing by the Owners of all Bonds, nothing herein contained shall permit, or be construed as permitting, a change in the payment obligations of SMU under the Agreement. If at any time Issuer or SMU shall request the consent of Trustee to any proposed modification, alteration, amendment or supplement, Trustee shall cause notice thereof to be given in the manner provided in the Indenture with respect to the Supplemental Indentures.

#### Amendment of the Letter of Credit

The Trustee may, without the consent of or notice to the Owners of Bonds consent to any amendment, change or modification of the Letter of Credit or any Alternate Security, which is not to the prejudice of the Owners of Bonds or the Trustee, as determined by the Trustee upon advice of counsel. In no case, however, shall the Trustee, without the consent of the Owners of all Bonds then outstanding and secured by a Letter of Credit or Alternate Security, consent or agree to any amendment, change or modification of such Letter of Credit or any Alternate Security that would permit any additional termination or cancellation events under such Letter of Credit or any Alternate Security or a reduction in or a postponement of payments under such Letter of Credit or any Alternate Security.

#### OTHER PROPOSED 1985 FINANCING

SMU has had preliminary discussions with the Issuer and with Goldman, Sachs & Co. regarding a possible tax-exempt financing for certain new educational facilities. This financing, presently estimated to be between \$40 million and \$50 million, would be accomplished during the 1985 calendar year and would be separate and distinct from the Bonds offered hereby. In conjunction with this proposed financing, SMU has held discussions with financial institutions and presently contemplates a tax-exempt bond issue secured by a letter of credit.

#### UNDERWRITING

Goldman, Sachs & Co., as Underwriters, have agreed, subject to certain conditions, to purchase the Bonds and have agreed to pay on delivery a purchase price for the Bonds equal to \$48,691,136.25, which represents 98.775% of the aggregate principal amount of the Bonds, plus accrued interest from July 1, 1985 through the date of delivery. The Underwriters are obligated to purchase all the Bonds if any of the same are purchased. SMU has agreed to indemnify the Issuer and the Underwriters against certain civil liabilities.

Goldman, Sachs & Co. also has been appointed the Remarketing Agent under the Remarketing Agreement (see earlier discussion under "THE REMARKETING AGREEMENT"), pursuant to which Goldman, Sachs & Co.

undertakes certain obligations and will receive compensation as set forth therein.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and such Bonds may be offered and sold to certain dealers (including dealers depositing Bonds in investment accounts) and others at prices lower than the initial public offering price.

#### TAX EXEMPTION

In the opinion of Hutchison Price Boyle & Brooks, interest on the Bonds is exempt from federal income taxation under existing statutes and currently effective regulations, published rulings and court decisions.

In rendering such opinion, Hutchison Price Boyle & Brooks has relied upon certain representations, warranties and covenants of SMU and has assumed that the proceeds of the Bonds will be applied in accordance with such representations, warranties and covenants.

#### APPROVAL OF LEGAL PROCEEDINGS

Legal matters with regard to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of Hutchison Price Boyle & Brooks, Bond Counsel, Dallas, Texas, which opinion will be printed on the Bonds and will be substantially in the form set forth in Appendix C.

Certain legal matters will be passed upon for SMU by its Vice President for Legal Affairs and its counsel, Andrews & Kurth, Dallas, Texas. Certain legal matters will be passed upon for the Credit Bank by Webster & Sheffield and by Tokyo Kokusai Law Offices. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, Dallas, Texas.

#### MISCELLANEOUS

The foregoing summaries or descriptions of provisions of the Letter of Credit, the Indenture, the Agreement, the Remarketing Agreement, the Reimbursement Agreement and the Security Agreement, and all references to other materials not purporting to be quoted in full are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of the Letter of Credit, the Indenture, the Agreement, the Remarketing Agreement, the Reimbursement Agreement and the Security Agreement may be obtained from the Trustee.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates will be realized. Information and financial data in this Official Statement and Appendix A hereto concerning SMU has been selected and prepared by or on behalf of SMU for inclusion herein. Information and financial data in this Official Statement, Appendix B hereto, including information incorporated by reference, concerning the Credit Bank, has been selected and prepared by or on behalf of the Credit Bank for inclusion herein. The Issuer does not assume any responsibility as to the accuracy or completeness of any such information or financial data relating to SMU or the Credit Bank contained herein.

SOUTHWEST HIGHER EDUCATION  
AUTHORITY, INC.

/s/ James B. Gardner  
President

/s/ Thomas Max Nygaard  
Secretary