

In the opinion of Bond Counsel, assuming continuing compliance by the Authority with certain covenants in the Indenture described herein, interest on the Series 1993 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes. HOWEVER, INTEREST ON THE SERIES 1993 BONDS WILL BE INCLUDED IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS THEREOF WHICH ARE INDIVIDUALS, TRUSTS, ESTATES OR CORPORATIONS. See the caption "TAX EXEMPTION" herein for a discussion of the alternative minimum tax and certain other provisions of the Internal Revenue Code of 1986, as amended, which may result in collateral federal income tax consequences to certain owners of the Series 1993 Bonds.

New Issue — Book-Entry Only

Ratings — See "RATINGS" herein

**\$140,000,000**

**North Texas Higher Education Authority, Inc.  
Student Loan Revenue Bonds**

**\$70,000,000**  
Series 1993A

**\$50,500,000**  
Series 1993B

**\$6,500,000**  
Series 1993C

**\$13,000,000**  
Series 1993D

Series 1993A Bonds Dated: Issue Date

Series 1993B, Series 1993C and 1993D Bonds Dated: May 1, 1993

Due: April 1, as shown on the inside cover hereof

The North Texas Higher Education Authority, Inc., Student Loan Revenue Bonds, Series 1993A, Series 1993B, Series 1993C and Series 1993D (collectively, the "Series 1993 Bonds") will be issued pursuant to a General Indenture, dated as of May 1, 1993 (the "General Indenture"), between North Texas Higher Education Authority, Inc., as the issuer (the "Authority"), and Ameritrust Texas National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of May 1, 1993 (the "First Supplemental Indenture"), between the Authority and the Trustee. The General Indenture and the First Supplemental Indenture, as supplemented and amended, shall be collectively referred to herein as the "Indenture."

The Series 1993A Bonds will bear interest at one or more Adjustable Rates (a "Weekly Rate" or an "Intermediate Term Rate") unless converted to a Fixed Interest Rate, each as defined herein. The Series 1993A Bonds will initially bear interest at a Weekly Rate. Interest on Series 1993A Bonds is payable on the first day of January, April, July and October of each year, commencing July 1, 1993, so long as the Series 1993A Bonds bear interest at a Weekly Rate, on each Proposed Conversion Date, on the first day of each April and October if the Series 1993A Bonds bear interest at a Fixed Interest Rate or at an Intermediate Term Rate with an Intermediate Term Period of 6 months or greater, and at maturity. The Series 1993A Bonds bearing interest at an Adjustable Rate are subject to mandatory tender for purchase on certain dates under the circumstances described herein. Series 1993A Bonds bearing interest at a Weekly Rate are subject to tender for purchase at the option of the Owners thereof on not less than seven days' notice as described herein.

The Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will all bear interest at Fixed Interest Rates. Interest on the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will be payable semiannually on each April 1 and October 1 of each year, commencing October 1, 1993.

The Series 1993 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases of beneficial ownership of the Series 1993 Bonds will be made in book-entry only form. Purchasers of beneficial ownership interests will not receive certificates representing their beneficial interests in the Series 1993 Bonds. Interest on all Series 1993 Bonds is payable by wire transfer to Cede & Co. If any interest payment date is not a Business Day, as defined herein, interest accrued to such payment date will be payable on the next Business Day with no additional interest accruing.

The Series 1993 Bonds are subject to redemption and acceleration prior to their respective scheduled maturity dates under the circumstances described herein.

The Series 1993 Bonds are being issued by the Authority for the purpose of (i) effecting a current refunding of the Authority's Student Loan Revenue Refunding Bonds, Series 1991 G; (ii) obtaining funds to make or acquire Eligible Student Loans; (iii) funding a Debt Service Reserve Fund; and (iv) paying certain costs incurred in connection with the issuance of the Series 1993 Bonds.

The Series 1993 Bonds are limited obligations of the Authority and, except to the extent payable from Series 1993 Bond proceeds and income from the investment thereof, are payable solely out of the net revenues, assets and funds pledged therefor under the Indenture. The Series 1993A Bonds (but no other Series 1993 Bonds) bearing interest at an Adjustable Rate are also payable from funds drawn by or on behalf of the Trustee under an irrevocable direct-pay letter of credit expiring May 1, 1998 (the "Letter of Credit") to be issued by STUDENT LOAN MARKETING ASSOCIATION (the "Credit Provider"). Issuance of the Series 1993A Bonds is conditioned upon delivery of the Letter of Credit by the Credit Provider. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF TEXAS, THE CITIES OF ARLINGTON OR DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF TEXAS, THE CITIES OF ARLINGTON OR DENTON, TEXAS OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF. THE AUTHORITY HAS NO TAXING POWER.

THE INDENTURE PROVIDES THAT BONDS ISSUED THEREUNDER, INCLUDING THE SERIES 1993 BONDS, BE DESIGNATED A PRIORITY CLASS, WITH CLASS I BONDS BEING THE HIGHEST PRIORITY, AND THE ORDER OF PRIORITY DESCENDING AS THE CLASS ROMAN NUMERAL INCREASES. THE SERIES 1993A BONDS INITIALLY CONSTITUTE CLASS I BONDS, THE SERIES 1993B BONDS CONSTITUTE CLASS II BONDS, THE SERIES 1993C BONDS CONSTITUTE CLASS III BONDS AND THE SERIES 1993D BONDS CONSTITUTE CLASS IV BONDS. EXERCISE OF REMEDIES BY A CLASS UPON A DEFAULT, INCLUDING PARTICULARLY ACCELERATION OF A PRIOR CLASS OF BONDS, OR EXERCISE OF REMEDIES BY THE CREDIT PROVIDER FOR THE SERIES 1993A BONDS FOLLOWING A DEFAULT UNDER THE CREDIT PROVIDER'S REIMBURSEMENT AGREEMENT, COULD ADVERSELY AFFECT THE ABILITY OF SUBORDINATE CLASSES OF BONDS TO RECEIVE PAYMENT OF DEBT SERVICE WHEN DUE.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SERIES 1993 BONDS. INVESTORS MUST READ THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 1993 Bonds are offered when, as and if issued by the Authority and received by the Underwriters named below, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approving legal opinions of the Attorney General of the State of Texas and of Fulbright & Jaworski L.L.P., Houston, Texas, Bond Counsel. Certain other legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Houston, Texas, Special Counsel for the Authority, and for the Underwriters by Kutak Rock, Denver, Colorado, Counsel to the Underwriters. The Series 1993 Bonds in definitive form are expected to be available for delivery in New York, New York for deposit at DTC on or about May 4, 1993.

**PaineWebber Incorporated**

**Banc One Capital Corporation**

**NationsBanc Capital Markets, Inc.**

Dated: April 22, 1993

**MATURITY SCHEDULES, INTEREST RATES AND PRICES**

**\$140,000,000**

**NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.  
STUDENT LOAN REVENUE BONDS**

**\$70,000,000 SERIES 1993A BONDS**

(Adjustable Rate)

\$39,500,000 Weekly Rate Term Bond Due April 1, 2005 at a price of 100%  
\$30,500,000 Weekly Rate Term Bond Due April 1, 2020 at a price of 100%  
Interest Rate of 2.65% Per Annum Through May 11, 1993 and Reset Thereafter

**\$50,500,000 SERIES 1993B BONDS**

(Fixed Rate)

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
1998	\$5,815,000	4.85%	100%
1999	8,455,000	5.05	100
2000	9,625,000	5.25	100
2001	7,705,000	5.35	100
2002	7,645,000	5.45	100
2003	7,305,000	5.55	100
2004	3,950,000	5.65	100

(Plus Accrued Interest)

**\$6,500,000 SERIES 1993C BONDS**

(Fixed Rate)

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2008	\$ 6,500,000	6.10%	100%

(Plus Accrued Interest)

**\$13,000,000 SERIES 1993D BONDS**

(Fixed Rate)

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2009	\$6,500,000	6.30%	100%
2010	6,500,000	6.30	100

(Plus Accrued Interest)

No dealer, broker, salesperson or other person has been authorized by the Authority, the Credit Provider, the Servicer, the Subservicers, the Guarantors or the Underwriters to give any information or to make any representation with respect to the Series 1993 Bonds other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The information set forth herein has been obtained from the Authority, The Depository Trust Company, the Credit Provider, the Servicer, the Subservicers, the Guarantors and other sources believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by, the Underwriters or the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any use of this Official Statement or sale of the Series 1993 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN CONNECTION WITH THE OFFERING OF THE SERIES 1993 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 1993 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 1993 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SERIES 1993 BONDS HAVE NOT BEEN REGISTERED WITH THE STATE OF FLORIDA.

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## SUMMARY STATEMENT

This Summary Statement, being part of the Official Statement, is subject in all respect to more complete information contained hereto. The offering of the Series 1993 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement. All terms used in this Summary Statement and not otherwise defined herein shall have the meanings specified in the Glossary attached hereto as Appendix II.

### **The Authority**

North Texas Higher Education Authority, Inc. (the "Authority"), a nonprofit corporation duly organized and existing under the laws of the State of Texas and acting on behalf of the Cities of Arlington and Denton, Texas. See the caption "THE AUTHORITY" in this Official Statement.

### **The Series 1993 Bonds**

The Authority's \$140,000,000 Student Loan Revenue Bonds (the "Series 1993 Bonds"), consisting of \$70,000,000 Series 1993A Bonds (the "Series 1993A Bonds"), \$50,500,000 Series 1993B Bonds (the "Series 1993B Bonds"), \$6,500,000 Series 1993C Bonds (the "Series 1993C Bonds") and \$13,000,000 Series 1993D Bonds (the "Series 1993D Bonds") will bear interest from the Issue Date in the case of the Series 1993A Bonds and May 1, 1993 in the case of the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds. The Series 1993A Bonds will bear interest at one or more Adjustable Rates until converted to a Fixed Interest Rate, and will initially bear interest at a Weekly Rate. The Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will bear interest at Fixed Interest Rates as shown on the inside cover page hereof. The Series 1993 Bonds will mature as shown on the inside cover page hereof, and will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof in the case of Fixed Rate Bonds and Intermediate Rate Bonds with an Intermediate Term Period of six months or more, and in denominations of \$100,000 plus integral multiples of \$5,000 in excess thereof in the case of Weekly Rate Bonds and Intermediate Rate Bonds with an Intermediate Term Period of less than six months. The Series 1993 Bonds will be issued pursuant to a

General Indenture, dated as of May 1, 1993 (the "General Indenture"), between the Authority and Ameritrust Texas National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of May 1, 1993 (the "First Supplemental Indenture"), between the Authority and the Trustee. The General Indenture and the First Supplemental Indenture, as further supplemented and amended, are collectively referred to herein as the "Indenture." See the caption "THE SERIES 1993 BONDS" in this Official Statement.

**Purpose**

The Series 1993 Bonds are being issued (i) to effect a current refunding of the Authority's Student Loan Revenue Refunding Bonds, Series 1991 G (the "Refunded Bonds"); (ii) to obtain funds to make or acquire Eligible Student Loans; (iii) to fund a Debt Service Reserve Fund; and (iv) to pay certain costs incurred in connection with the issuance of the Series 1993 Bonds. See the caption "APPLICATION OF PROCEEDS" in this Official Statement.

**Interest Payments**

Interest on the Series 1993A Bonds is payable on the first day of January, April, July and October of each year while the Series 1993A Bonds are Weekly Rate Bonds, on each Proposed Conversion Date, on the first day of each April and October if the Series 1993A Bonds become Fixed Rate Bonds or Intermediate Rate Bonds which have an Intermediate Term Period of six months or greater, and at maturity. Interest on the Series 1993B Bonds, the Series 1993C Bonds and Series 1993D Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 1993, and at maturity. Interest payable on any Interest Payment Date which is not a Business Day will be paid on the next succeeding Business Day. In such event, no additional interest shall accrue as a result of any such delay. See the caption "THE SERIES 1993 BONDS—Interest Payments" in this Official Statement.

**Establishment of Adjustable Interest Rates for Series 1993A Bonds**

The Series 1993A Bonds will initially bear interest at a Weekly Rate. The initial Weekly Rate will be as set forth on the inside cover hereof, effective through and including May 11, 1993. Subsequent Weekly Rates will be determined by the Remarketing Agent on each Tuesday, and will be effective on Wednesday, of each week, unless such days of the week are changed in accordance with the Indenture. Prior to conversion to a Fixed Interest Rate, the Series 1993A Bonds will continue to bear interest at either the Weekly Rate or at an Intermediate Term Rate as determined by the Authority and established by the Remarketing Agent in accordance with the Indenture. The Intermediate Term Period may be set for any duration, as provided in the Indenture. The Series 1993A Bonds are subject to mandatory tender on the first day of each Intermediate Rate Period and on the first day of a Weekly Rate Period following an Intermediate Rate Period. See the caption "THE SERIES 1993 BONDS—Establishment of Interest Rates for Series 1993A Adjustable Rate Bonds" in this Official Statement.

**Redemption**

The Series 1993 Bonds are subject to mandatory and optional redemption prior to their respective scheduled maturity dates as described herein. See the caption "THE SERIES 1993 BONDS—Redemption Provisions" in this Official Statement.

**Remarketing and Tender Agents for Series 1993A Bonds**

PaineWebber Incorporated will act as Remarketing Agent and Ameritrust Texas National Association will act as Tender Agent and Co-Authenticating Agent for the Series 1993A Bonds. Each may be replaced in accordance with the terms of the Indenture.

**Optional Tender of Weekly Rate Bonds**

Each Series 1993A Bond bearing interest at a Weekly Rate is subject to purchase, in whole or in part, at the request of the Owner thereof, on any Optional Tender Date, at a purchase price equal to the principal amount thereof plus interest accrued at the applicable rate or rates to the Purchase Date (the "Purchase Price"). See "SERIES 1993

**BONDS—Optional Tender of Series 1993A Weekly Rate Bonds" in this Official Statement.**

**Mandatory Tender of Adjustable Rate Bonds**

All Adjustable Rate Bonds must be tendered by the Owners thereof for repurchase at their Purchase Price, under the circumstances set forth herein, including on each Proposed Conversion Date, on the day which is five Business Days prior to the scheduled expiration of the Letter of Credit or replacement of the Letter of Credit with a substitute letter of credit, and upon the occurrence of certain events specified under the Reimbursement Agreement. See the caption "THE SERIES 1993 BONDS—Mandatory Tender of Adjustable Rate Bonds" in this Official Statement.

**Source of Revenue and Security**

The Series 1993 Bonds are secured by and are payable solely from the Trust Estate created by the Indenture. The Trust Estate includes Eligible Student Loans acquired with moneys held under the Indenture, and Bond proceeds and Net Revenues on deposit in certain of the funds and accounts established under the Indenture. Student Loan Marketing Association (as further defined in the Glossary, the "Credit Provider") will issue a Letter of Credit to further secure the Series 1993A Bonds. Issuance of the Series 1993A Bonds is conditioned upon issuance of the Letter of Credit by the Credit Provider. See the caption "SECURITY FOR THE SERIES 1993 BONDS" in this Official Statement.

**Priority**

The Indenture provides that Bonds of each Series must be designated a priority or priorities by Class, with Class I constituting the highest priority under the Indenture and priority decreasing by increasing Class roman numeral. The Series 1993A Bonds initially constitute Class I Bonds, the Series 1993B Bonds constitute Class II Bonds, the Series 1993C Bonds constitute Class III Bonds and the Series 1993D Bonds constitute Class IV Bonds; provided, however, that Series 1993A Bonds converted to bear interest at a Fixed Interest Rate shall, from and after their Fixed Rate Conversion Date, become and be deemed Class II Bonds. In addition, should the Authority enter into any interest rate exchange agreements, the payments due any counterparty will

be paid on a parity with Class II Bonds. Priority with respect to payment of Bonds at any particular time and exercise of various rights and remedies is based upon Class of Bonds in descending order of priority as described herein. Exercise of remedies by or on behalf of a prior Class upon a default, including particularly acceleration of a prior Class of Bonds, or exercise of remedies by the Credit Provider following a default under the Reimbursement Agreement, could adversely affect the ability of the Authority to pay debt service when due on subordinate Classes of Bonds. See the captions "SECURITY FOR THE SERIES 1993 BONDS" and "RISK FACTORS" in this Official Statement.

### **Initial Collateralization**

Upon the redemption of the Refunded Bonds, it is anticipated that the value of the Trust Estate pledged under the Indenture will be equal to approximately 116.0% of the aggregate principal amount of the Series 1993A Bonds and the Series 1993B Bonds, 110.0% of the aggregate principal amount of the Series 1993A Bonds, the Series 1993B Bonds and the Series 1993C Bonds and 99.5% of the aggregate principal amount of all Series 1993 Bonds. The Indenture does not require that these levels of collateralization be maintained. See the caption "PORTFOLIO INFORMATION" in this Official Statement.

### **Guarantee and Reinsurance**

All Student Loans must be guaranteed as to principal and interest by a Guarantor, including, but not limited to, Texas Guaranteed Student Loan Corporation ("TGSLC"), as described herein, and reinsured by the Secretary of Education for between 80% and 100% of claim payments made by the Guarantors. The Indenture permits other Guarantors under the circumstances provided therein. See the caption "THE GUARANTORS" in this Official Statement.

### **Additional Bonds**

The Indenture provides that Additional Bonds of any Class or Classes may be issued from time to time thereunder, provided that such issuance does not, among other things, adversely affect the rating of any Bonds previously issued and Outstanding.

See the caption "SECURITY FOR THE SERIES  
1993 BONDS—Additional Bonds" in this Official  
Statement.

# OFFICIAL STATEMENT

Relating to

**\$140,000,000**

**NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.**

**STUDENT LOAN REVENUE BONDS**

<b>\$70,000,000</b>	<b>\$50,500,000</b>	<b>\$6,500,000</b>	<b>\$13,000,000</b>
<b>SERIES 1993A</b>	<b>SERIES 1993B</b>	<b>SERIES 1993C</b>	<b>SERIES 1993D</b>

## INTRODUCTION

This Official Statement, which also includes the cover page, the inside cover page, the Summary Statement and the appendices hereto, provides information in connection with the issuance by North Texas Higher Education Authority, Inc. (the "Authority") of its Student Loan Revenue Bonds, consisting of \$70,000,000 Series 1993A Bonds (the "Series 1993A Bonds"), \$50,500,000 Series 1993B Bonds (the "Series 1993B Bonds"), \$6,500,000 Series 1993C Bonds (the "Series 1993C Bonds") and \$13,000,000 Series 1993D Bonds (the "Series 1993D Bonds"). The Series 1993A Bonds, the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds are collectively referred to herein as the "Series 1993 Bonds." The Series 1993 Bonds are to be issued pursuant to a General Indenture, dated as of May 1, 1993 (the "General Indenture"), between the Authority and Ameritrust Texas National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of May 1, 1993 (the "First Supplemental Indenture"), between the Authority and the Trustee. The General Indenture and the First Supplemental Indenture, as further supplemented and amended, are collectively referred to herein as the "Indenture." Additional bonds on a parity with all or certain of the Series 1993 Bonds or superior (but not superior to Class I Bonds) or subordinate thereto may be issued under the General Indenture ("Additional Bonds") as more fully described herein. The Series 1993 Bonds and any Additional Bonds issued under the Indenture are collectively referred to herein as the "Bonds."

The Indenture provides that Bonds issued thereunder, including the Series 1993 Bonds, be designated a priority Class, with Class I being the highest priority, and the order of priority decreasing as the Class roman numeral increases. The Series 1993A Bonds initially constitute Class I Bonds, the Series 1993B Bonds constitute Class II Bonds, the Series 1993C Bonds constitute Class III Bonds and the Series 1993D Bonds constitute Class IV Bonds; provided, however, that Series 1993A Bonds converted to bear interest at a Fixed Interest Rate shall, from and after their Fixed Rate Conversion Date, become and be deemed Class II Bonds. See the caption "SECURITY FOR THE SERIES 1993 BONDS—Certain Payment Priorities" in this Official Statement.

Bonds may be issued as either Fixed Rate Bonds or as Adjustable Rate Bonds. The Series 1993A Bonds are issued as Adjustable Rate Bonds, which may bear interest at either a Weekly Rate or an Intermediate Term Rate unless converted to a Fixed Interest Rate. The Series 1993A Bonds will initially bear interest at a Weekly Rate. The Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will be issued as Fixed Rate Bonds. See the caption "THE SERIES 1993 BONDS" in this Official Statement.

The Series 1993 Bonds are being issued (i) to effect a current refunding of the Authority's Student Loan Revenue Refunding Bonds, Series 1991 G (the "Refunded Bonds"); (ii) to obtain funds to make or acquire Eligible Student Loans (as defined below); (iii) to fund a Debt Service Reserve Fund; and (iv) to pay certain costs incurred in connection with the issuance of the Series 1993 Bonds.

The Authority is a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas duly organized and validly existing under the laws of the State of Texas (the "State") and is authorized to purchase and make Eligible Student Loans in accordance with the Higher Education Act of 1965, as amended (together with any regulations promulgated thereunder, the "Higher Education Act").

"Eligible Student Loans" are qualified loans made to students or parents of students to finance such students' post-secondary education. Eligible Student Loans made or acquired by the Authority and held under the Indenture must be made to students, or to parents for the benefit of students (each an "Eligible Borrower"), to finance such students' post-secondary education at eligible institutions (the "Eligible Institutions") and must have been originated by institutions which qualify as "eligible lenders" (the "Eligible Lenders") under the provisions of the Higher Education Act. To qualify for purchase, loans must (i) be either (a) guaranteed by an organization which is authorized by the Higher Education Act to act as a "guarantee agency" (each a "Guarantor") and designated as such under the Indenture, or (b) insured by the United States Department of Education through the Secretary of Education (the "Secretary") under the Higher Education Act and (ii) meet the other requirements for purchase established by the Indenture. Substantially all of the Eligible Student Loans the Authority may purchase must be made on behalf of residents of the State of Texas or persons attending Eligible Institutions in the State of Texas. No Student Loan will cease to be an Eligible Student Loan merely because the Authority, in its discretion, charges interest to the related Eligible Borrower at a rate less than the statutory maximum interest rate so long as the Authority delivers a Rating Confirmation to the Trustee prior to instituting such lesser charges.

Student Loan Marketing Association (as further defined in Appendix II hereto, the "Credit Provider") will issue an irrevocable direct-pay letter of credit (the "Letter of Credit") to further secure the Series 1993A Bonds. The Authority and the Credit Provider will enter into a Letter of Credit and Reimbursement Agreement, dated as of May 1, 1993 (the "Reimbursement Agreement"), pursuant to which the Credit Provider will issue the Letter of Credit in the face amount (such face amount as reduced and reinstated from time to time pursuant to the Letter of Credit being called the "Stated Amount") of \$73,452,055. Issuance of the Series 1993A Bonds is conditioned upon the issuance of the Letter of Credit by the Credit Provider. The Letter of Credit will expire by its terms on May 1, 1998. The Letter of Credit

will provide security only for the Series 1993A Bonds. The Trustee shall draw on the Letter of Credit to pay (a) interest on the Series 1993A Bonds as due, (b) principal of the Series 1993A Bonds when due, whether upon maturity, redemption or otherwise, and (c) the Purchase Price of Series 1993A Bonds delivered or deemed delivered to the Tender Agent as a result of an optional or mandatory tender and not remarketed by the Remarketing Agent. No drawing will be made on the Letter of Credit to pay debt service on or the purchase price of Series 1993A Bonds owned by the Credit Provider as a result of a drawing on the Letter of Credit ("Credit Provider Bonds") or owned by the Authority. See the caption "SECURITY FOR THE SERIES 1993 BONDS" in this Official Statement.

PaineWebber Incorporated will act as Remarketing Agent and Ameritrust Texas National Association, through its agent in New York, New York, will act as the Tender Agent for the Series 1993A Bonds. Each of the Remarketing Agent and the Tender Agent may be replaced in accordance with the terms of the Indenture.

Brief descriptions of the security for the Series 1993 Bonds, the Letter of Credit for the Series 1993A Bonds, the Reimbursement Agreement, the Authority, the Authority's Student Loan Program, the Credit Provider, Texas Guaranteed Student Loan Corporation ("TGSLC"), Higher Education Servicing Corporation (the "Servicer"), EduServ Technologies - North Carolina, Inc. ("EduServ"), UNIPAC Service Corporation ("UNIPAC"), the Servicing Agreement, the Subservicing Agreements and the Indenture are included in this Official Statement. All references to the Series 1993 Bonds, the Letter of Credit, the Reimbursement Agreement, the Guaranty Agreement, the Servicing Agreement, the Subservicing Agreements and the Indenture are qualified in their entirety by reference to such documents, copies of all of which are available for inspection in the respective offices of the Trustee and the Authority.

Capitalized terms used in this Official Statement that are defined in the Indenture and not otherwise defined herein shall have the respective meanings set forth in the Indenture, some of which are set forth in the Glossary contained in Appendix II hereto.

## **SECURITY FOR THE SERIES 1993 BONDS**

### **General**

The Series 1993 Bonds are limited obligations of the Authority secured by and payable solely from the Trust Estate established under the Indenture pursuant to which the Series 1993 Bonds are issued and, with respect only to the Series 1993A Bonds, funds drawn by the Trustee or the Tender Agent under the Letter of Credit. The Trust Estate consists of: (i) the Eligible Student Loans acquired by or on behalf of the Authority under the Indenture (the "Student Loans"), including any agreements and notes evidencing such Student Loans; (ii) all proceeds of the Bonds and Net Revenues in the Funds and Accounts until their use or release from the Funds and Accounts and (iii) any other property pledged to the Trust Estate. No other assets of the Authority are pledged to the payment of the Series 1993 Bonds.

## **Initial Collateralization**

Upon the redemption of the Refunded Bonds, it is anticipated that the value of the assets pledged under the Indenture will be approximately equal to 116.0% of the aggregate principal amount of the Series 1993A Bonds and Series 1993B Bonds, 110.0% of the aggregate principal amount of the Series 1993A Bonds, the Series 1993B Bonds and the Series 1993C Bonds and 99.5% of the aggregate principal amount of all Series 1993 Bonds. **The Indenture does not require that these levels of collateralization be maintained.**

## **Withdrawal of Excess Coverage**

At any time, but no more frequently than once every month, the Authority may deliver to the Trustee a Certificate executed by its Authorized Representative, evidencing the fact that there is then Excess Coverage, as defined in Appendix II to this Official Statement, on deposit under the Indenture and specifying the amount thereof. Promptly upon the Trustee's receipt of that Certificate, the Trustee will release such Excess Coverage to the Authority from the Restricted Yield Fund for any of its general corporate purposes. See the caption "ESTABLISHMENT OF FUNDS AND ACCOUNTS—Restricted Yield Fund" in Appendix II to this Official Statement.

## **Debt Service Reserve Fund**

As part of the Trust Estate, the Series 1993 Bonds are secured (subject to priority as described in this Official Statement) by the Debt Service Reserve Fund established under the Indenture. The Indenture requires that, at the time of issuance of the Series 1993 Bonds, the Debt Service Reserve Fund be funded in an amount equal to the Series 1993 Reserve Requirement, which will be an amount equal to two percent (2%) of the principal amount of all Series 1993 Bonds Outstanding from time to time, but not less than \$500,000. Amounts on deposit in the Debt Service Reserve Fund (other than amounts in excess of the Debt Service Reserve Requirement, which are to be transferred to the Restricted Yield Fund) are to be used to pay the principal of or interest on the Series 1993 Bonds, By Class in Descending Order of Priority, to the extent other moneys held and available under the Indenture are insufficient, and to reimburse the Credit Provider to the extent provided therein.

## **Credit Enhancement for the Series 1993A Bonds**

The Authority and the Credit Provider will enter into the Reimbursement Agreement pursuant to which the Credit Provider will issue its irrevocable direct-pay Letter of Credit in the amount (subject to reduction and reinstatement from time to time pursuant to the Letter of Credit) of \$73,452,055 (the "Stated Amount"). Such Letter of Credit secures only the Series 1993A Bonds bearing interest at an Adjustable Rate. Certain provisions of the Reimbursement Agreement and the Letter of Credit are summarized below. Reference should be made to the Reimbursement Agreement and to the Letter of Credit for full statements of their respective provisions.

## **Credit Provider Rights May Adversely Affect Other Series 1993 Bonds**

Under the Reimbursement Agreement and the Indenture, the Credit Provider, as credit enhancer of the Series 1993A Bonds, is entitled to exercise certain remedies which could adversely affect the rights of Owners of Series 1993 Bonds subordinate to the Series 1993A Bonds. Upon certain events under the Reimbursement Agreement, the Credit Provider is entitled to cause the Series 1993A Bonds to be redeemed, and is entitled to immediate reimbursement from the Trust Estate. Upon other events, the Credit Provider can cause a mandatory tender of Series 1993A Bonds, whereupon the Credit Provider is entitled to have Credit Provider Bonds resulting from such tender redeemed over approximately four years. See the captions "Letter of Credit," "Reimbursement Agreement" and "Certain Payment Priorities" below.

### **Letter of Credit**

The Letter of Credit is to be drawn on by the Trustee or Tender Agent at such times as are necessary to pay the principal of or interest on Series 1993A Bonds bearing interest at an Adjustable Rate when due, and to pay the Purchase Price of such Series 1993A Bonds to the extent other moneys are not available therefor. Unless earlier terminated in accordance with its terms, the Letter of Credit will expire on May 1, 1998. Unless the Letter of Credit is extended by the initial Credit Provider, Series 1993A Bonds bearing interest at an Adjustable Rate will be subject to mandatory tender or redemption upon its expiration or termination, as provided in the Reimbursement Agreement. Series 1993A Bonds bearing interest at an Adjustable Rate are also subject to mandatory tender upon the replacement of the Letter of Credit. See the captions "THE SERIES 1993 BONDS—Redemption Provisions" and "—Mandatory Tender of Adjustable Rate Series 1993A Bonds" in this Official Statement.

### **Reimbursement Agreement**

The Reimbursement Agreement provides, among other things, for the manner in which the Authority is required to reimburse the Credit Provider for drawings on the Letter of Credit, for payment of fees and expenses relative to the Letter of Credit and Reimbursement Agreement, and for remedies with respect to defaults by the Authority thereunder. The Reimbursement Agreement also contains covenants of the Authority relating to the Authority and its Student Loan Program.

If any of the following events occur which are described in the Reimbursement Agreement, then the Credit Provider shall be entitled to exercise certain rights and remedies as hereinafter described:

(a) the Authority shall fail to pay any amount payable under the Reimbursement Agreement when due;

(b) any representation or warranty made, or deemed to be made, by the Authority in the Reimbursement Agreement or by the Authority in connection with the Reimbursement Agreement shall prove to have been incorrect in any material respect;

(c) the Authority shall fail to perform or observe certain other material terms, covenants or agreements contained in the Reimbursement Agreement (other than as described in (d) below) on its part to be performed or observed, provided, if such failure is capable of being corrected, such failure must exist for thirty (30) calendar days following notice of the failure;

(d) the Authority shall fail to provide, or cause the Trustee and the Servicer to provide, a collateral ratio certificate to the Credit Provider when required, or shall fail to remedy any failure to maintain the collateral ratio at the level required by the Reimbursement Agreement within five Business Days of when due;

(e) certain adverse events shall occur with respect to the financial condition of a Guarantor or with respect to a guarantee agreement;

(f) certain events of bankruptcy or insolvency of the Authority shall occur;

(g) any material provision of the Reimbursement Agreement, the Indenture or the Bonds or the related documents shall at any time for any reason cease to be valid and binding on the Authority or the same is hereby contested by certain parties;

(h) any "Event of Default" under and as defined in the Indenture shall have occurred and be continuing; or

(i) certain judgments, writs, warrants of attachment or execution or similar process shall be issued or levied in respect of an obligation against any of the property of the Authority, and such judgment, writ or similar process shall not be released, vacated, stayed or fully bonded within certain permissible time periods.

If an event occurs under the Reimbursement Agreement described in clauses (a), (d), (f), (g) or (h) above, or if any other event described above occurs and such event could, in the reasonable judgment of the Credit Provider, have a material adverse effect on the Authority's ability to pay any amount due or to become due to the Credit Provider under the Reimbursement Agreement (including without limitation after a Term Out Event), then the Credit Provider may cause all Series 1993A Bonds to be redeemed and, to the extent applicable, paid by a drawing under the Letter of Credit, as provided therein. Upon any such redemption, the Credit Provider shall be entitled to immediate reimbursement from the Trust Estate and shall be entitled to direct all remedies with respect thereto. See the caption "Certain Payment Priorities" below.

Upon any of the events described in (a) through (i) above, whether or not described in the preceding paragraph, the Credit Provider shall be entitled to declare a "Term Out Event." In addition, a Term Out Event shall occur if the Letter of Credit expires or if the Credit Provider is not reimbursed for a draw upon its Letter of Credit and the Credit Provider declares a Term Out Event. Upon the occurrence of a Term Out Event, any Series 1993A Bonds not previously tendered or redeemed shall be subject to mandatory tender, shall be paid from the proceeds of a drawing on the Letter of Credit and shall thereupon become Credit Provider

Bonds. Such Credit Provider Bonds shall then be subject to mandatory redemption on an accelerated basis over approximately a four-year period.

### **Student Loan Marketing Association**

Student Loan Marketing Association (referred to herein as the "Credit Provider") is a stockholder-owned corporation established by the 1972 amendments to the Higher Education Act to provide liquidity, primarily through secondary market and warehousing activities, for lenders participating in the Federal Family Education Loan Program and the Health Education Assistance Loan Program. Under the Higher Education Act, the Credit Provider is authorized to purchase, warehouse, sell and offer participations or pooled interests in, or otherwise deal in, student loans, including, but not limited to, loans insured under the Federal Family Education Loan Program, and to make commitments for any of the foregoing. The Credit Provider is also authorized to buy, sell, hold, underwrite and otherwise deal in obligations of eligible lenders if such obligations are issued by such eligible lender for the purpose of making or purchasing federally guaranteed student loans under the Higher Education Act. As a federally chartered corporation, the Credit Provider's structure and operational authorities are subject to revision by amendments to the Higher Education Act or other federal enactments.

The United States of America is not a party to the Letter of Credit, nor has it in any way guaranteed the Credit Provider's obligations thereunder.

As of December 31, 1992, on a consolidated basis, the Credit Provider had total assets of approximately \$46.62 billion, total liabilities of approximately \$45.40 billion and total stockholders' equity of approximately \$1.22 billion. For the year ended December 31, 1992, the Credit Provider's net income was approximately \$394 million.

Title 31 U.S.C. Section 3713 establishes a priority in favor of the United States which would apply in certain types of insolvency proceedings. Priority would be given in these circumstances to the Credit Provider's obligation to the Federal Financing Bank which totalled \$4.8 billion as of December 31, 1992. However, the Credit Provider has provided for repayment of such debt through a fully funded, wholly owned subsidiary.

Reference is hereby made to the financial and other information concerning the Credit Provider contained in the Credit Provider's Information Statement, dated February 18, 1993 (including audited financial statements for the years ended December 31, 1992, 1991 and 1990). Copies of the February 18, 1993 Information Statement and any update and subsequent quarterly information statements are available without charge upon written request to the Communications and Investor Relations Division of Student Loan Marketing Association at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007, telephone (202) 298-3010.

### **Certain Payment Priorities**

The Indenture provides that Bonds issued thereunder, including the Series 1993 Bonds, be designated a priority Class, with Class I Bonds being the highest priority, and the order of priority decreasing as the Class roman numeral increases. The Series 1993A Bonds initially

constitute Class I Bonds, the Series 1993B Bonds constitute Class II Bonds, the Series 1993C Bonds constitute Class III Bonds and the Series 1993D Bonds constitute Class IV Bonds; provided, however, that Series 1993A Bonds converted to bear interest at a Fixed Interest Rate shall, from and after their Fixed Rate Conversion Date, become and be deemed Class II Bonds. In addition, should the Authority enter into any interest rate exchange agreements, the payments due any counterparty will be paid on a parity with Class II Bonds. At any time a current principal or interest payment is required to be made, it will be made first with respect to Bonds of the highest priority Class, and then in descending order of priority. In addition, the ability to control or pursue remedies is given "By Class in Descending Priority" as described in Appendix II to the Official Statement. **EXERCISE OF REMEDIES BY A SENIOR CLASS UPON A DEFAULT, INCLUDING PARTICULARLY ACCELERATION OF A SENIOR CLASS OF BONDS, OR EXERCISE OF REMEDIES BY THE CREDIT PROVIDER FOLLOWING A DEFAULT UNDER THE REIMBURSEMENT AGREEMENT (SEE THE CAPTION "SECURITY FOR THE SERIES 1993 BONDS—REIMBURSEMENT AGREEMENT" IN THIS OFFICIAL STATEMENT), COULD ADVERSELY AFFECT THE ABILITY OF SUBORDINATE CLASSES OF BONDS TO RECEIVE PAYMENT OF DEBT SERVICE WHEN DUE.**

### **Additional Bonds**

The Authority has covenanted not to create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Trust Estate pledged under the General Indenture, except that Additional Bonds may be issued from time to time, subject to the provisions of the General Indenture, subsequent to the issuance of the Series 1993 Bonds and superior to (but not superior to Class I Bonds), on a parity with or subordinate to one or more Classes of the Series 1993 Bonds; provided, among other things, that such issuance does not adversely affect the then current rating of any Bonds previously issued and Outstanding and the Authority obtains the consent of each Credit Provider or Liquidity Provider, if required by its reimbursement agreement. In addition, Interest Rate Exchange Agreements may also be secured under the General Indenture as provided therein; provided, among other things, such agreements do not adversely affect the then current rating of any Bonds previously issued and outstanding.

The Authority expressly reserves the right to adopt one or more additional general indentures for its purposes, including the purposes of its student loan program, and reserves the right to issue other obligations not secured by the General Indenture for such purposes.

## **PORTFOLIO INFORMATION**

### **Initial Cash Flows**

The Authority has prepared numerous initial cash flows (the "Initial Cash Flows"), using various assumptions and historical information, to illustrate under various stressful scenarios the expected receipt of revenues to be received by the Authority and the expected expenditures to be incurred in connection with the Series 1993 Bonds and the Student Loans held under the Indenture.

The Authority expects, and the Initial Cash Flows indicate, that the Net Revenues will be sufficient to pay principal of and interest on the Series 1993 Bonds when due, and also to pay the annual cost of all Trustee fees, servicing costs and other expenses related to the Series 1993 Bonds. With respect to the Series 1993B Bonds, the Initial Cash Flows indicate that the ratio of assets in the Trust Estate to liabilities represented by the principal amount of the Series 1993A Bonds and the Series 1993B Bonds upon the redemption of the Refunded Bonds will be equal to approximately 116.0%. With respect to the Series 1993C Bonds, the Initial Cash Flows indicate that the ratio of assets in the Trust Estate to liabilities represented by the principal amount of the Series 1993A Bonds, the Series 1993B Bonds and the Series 1993C Bonds upon the redemption of the Refunded Bonds will be equal to approximately 110.0%. With respect to the Series 1993D Bonds, the Initial Cash Flows indicate that the ratio of assets in the Trust Estate to liabilities represented by the principal amount of all Series 1993 Bonds upon the redemption of the Refunded Bonds will be equal to approximately 99.5%. For purposes of valuing the Student Loans in the Trust Estate, the Student Loans are valued at an amount equal to 100% of the outstanding principal thereof.

The expectations described in the preceding paragraph are based upon a number of assumptions with respect to the Student Loans acquired and held under the Indenture by the Authority, investments, defaults on such Student Loans and interest and principal repayments on such Student Loans. **The Initial Cash Flows were prepared using various assumptions which are based on certain known facts, current law and historical experience; however, actual results may vary greatly from those shown in the Initial Cash Flows, and no assurances can be given by the Authority or the Underwriters that the results shown in the Initial Cash Flows will actually be achieved.**

#### **Assumptions Regarding Student Loans**

On the Issue Date approximately \$70,000,000 in unpaid principal amount of Student Loans held in the trust estate for the Refunded Bonds will be transferred to and deposited in the Student Loan Fund. Those Student Loans will constitute approximately 52% of the total principal amount of Student Loans which ultimately are expected to be held in the Student Loan Fund. Those Student Loans are expected to have an average principal balance of approximately \$3,750 on the Issue Date with an estimated average repayment term of 78 months. Approximately 82% of those Student Loans have been made to students or parents of students attending a traditional 4-year college program, with approximately 12% and 6% made to students or parents of students attending 2-year schools and proprietary (trade) schools, respectively. The Authority assumes that the additional Student Loans to be acquired will have been made on behalf of students or parents of students attending 4-year schools, 2-year schools or proprietary schools in approximately the same ratio as the initial portfolio.

#### **Certain Factors Affecting Receipt of Revenues**

Actual revenues received from Student Loans and, therefore, the Authority's ability to pay promptly the annual amount of interest and principal payable on the Bonds will depend on various factors including, among others, the rate of loan origination, the average balance of the loan per borrower, the maturities and other terms of the Student Loans and the timely receipt

of payments of principal of and interest on such Student Loans and all payments of guarantee claims by the Guarantors. To the extent actual revenues received from Student Loans vary in timing or amount from the Initial Cash Flows, the ability of the Authority to pay principal of and interest on the Series 1993 Bonds could be adversely affected.

The following additional factors, among others, could cause revenues from Student Loans to be accelerated — possibly resulting in the mandatory redemption of all or a portion of the Series 1993 Bonds prior to their stated maturities as described under the caption "THE SERIES 1993 BONDS—Redemption Provisions" in this Official Statement: (i) A greater number of borrowers than anticipated default, become disabled, die or go into bankruptcy and, pursuant to and in accordance with a Guarantor's guarantee obligation, the Guarantor would be required to pay to the Authority the principal amount of, plus unpaid accrued interest on, such student loans; (ii) A greater number of loans are made to juniors, seniors and graduate students than projected and, therefore, such loans could enter repayment earlier than loans made to other students; (iii) A greater number of loans are made to students with courses of academic study of less than four years duration, which loans could have an accelerated repayment schedule and which loans have historically had a higher default ratio which may result in accelerated guarantee payments to the Authority, or conversely, may delay receipt of revenues or cause a greater number of claims to be rejected by a Guarantor; and (iv) A greater number than the projected number of student loans are made in smaller amounts than projected, thereby causing such student loans to be repaid sooner than anticipated.

The following additional factors could cause revenues from Student Loans to be reduced or delayed — possibly resulting in the Authority's inability to pay principal and interest on the Series 1993 Bonds when due: (i) A significant number of Student Loans are acquired by the Authority later than anticipated; (ii) A greater number of Student Loans than projected are made to students with less income than projected, which Student Loans might be repaid less quickly than Student Loans made to students with more income; (iii) A greater number of Student Loans are made in larger amounts than projected, thereby causing such Student Loans to be repaid over a longer period than anticipated; and (iv) A greater number of Student Loans go into deferment or forbearance or a greater number of students continue in school longer than anticipated.

## **RISK FACTORS**

*The following risk factors should be considered in the light of the fact that the Series 1993A Bonds are senior to the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds, that the Series 1993B Bonds are senior to the Series 1993C Bonds and the Series 1993D Bonds and that the Series 1993C Bonds are senior to the Series 1993D Bonds. See the caption "SECURITY FOR THE SERIES 1993 BONDS—Certain Payment Priorities" in this Official Statement.*

Payment of principal and interest on the Series 1993 Bonds is secured only by a lien on and pledge of assets in the Trust Estate. No credit facility has been provided to further secure timely payments of principal and interest on the Series 1993 Bonds (other than the Series 1993A Bonds while bearing interest at Adjustable Rates). No other assets of the Authority held under

other indentures are pledged to secure the Series 1993 Bonds, and the Authority's General Fund is not pledged to secure the Series 1993 Bonds.

In addition to the events described under the caption "PORTFOLIO INFORMATION" in this Official Statement which could adversely affect the receipt of revenues from student loans, the following factors may adversely affect the Authority's Student Loan Program:

(i) *Failure to Comply with Loan Origination and Servicing Procedures.* The Higher Education Act and the applicable Regulations thereunder require the lenders making Student Loans, guarantee agencies guaranteeing student loans and lenders servicing Student Loans to follow certain due diligence procedures in an effort to insure that Student Loans are properly made and disbursed to, and timely repaid by, the borrowers. The procedures to make, guarantee and service Student Loans are specifically set forth in the Code of Federal Regulations (particularly 20 C.F.R. §§ 206-208, 406, 411, 500 and 507) and no attempt has been made in the Official Statement to completely describe those procedures. Generally, however, those procedures require lenders to process completed loan applications, determine whether an applicant is an eligible borrower under the Higher Education Act, determine the loan amount, explain to the borrowers their responsibilities under the loan, have the borrower execute a promissory note, and finally disburse the loan proceeds. Once a borrower becomes delinquent in repaying a loan, a lender must perform certain collection procedures (primarily telephone calls and demand letters) which vary depending upon the length of time a loan is delinquent. These procedures are generally performed for the Authority by the Servicer and the Subservicers. Failure to follow such procedures may result in the Secretary's refusal to make reinsurance payments to a guarantee agency on such loans or in a guarantee agency's refusal to honor its guarantee on such loans to the Authority. Failure of guarantee agencies to receive reinsurance payments from the Secretary could adversely affect their ability to honor guarantee claims made by the Authority, and loss of guarantee payments to the Authority by guarantee agencies could adversely affect the receipt of revenues from Student Loans and the Authority's ability to pay principal and interest on the Series 1993 Bonds. Although the Authority has the right to resell the student loans to the lenders who improperly made the initial loans to a borrower or recover any lost guarantee payments from the Subservicers who failed to properly service loans, there is no guarantee that those attempts would be successful or that a lender or Subservicer could financially afford to pay for such losses.

(ii) *Financial Status of Guarantors.* In the event the financial status of the Guarantors and their ability to honor guarantee claims were to deteriorate over time, such event may result in a lowering of the rating on the Series 1993 Bonds by Moody's or reducing guarantee payments to the Authority. One of the primary reasons for a possible deterioration in a Guarantor's financial status is related to the amount and percentage of loans guaranteed by such Guarantor which were made to students attending proprietary or trade schools. Historically, proprietary school loans have defaulted at rates much higher than loans made to students or parents of students attending 4-year schools or 2-year schools. As described under the caption "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Federal Insurance and Reinsurance of

Guarantors" in Appendix I to this Official Statement, the percentage of federal reimbursement to a Guarantor is based upon the amount of federal reimbursement payments made to such Guarantor as a percentage of the principal amount of such Guarantor's guaranteed loans in repayment at the end of the preceding fiscal year. Higher than expected default claims against a Guarantor could reduce the amount of federal reimbursement to such Guarantor (but in no event less than 80% of any reimbursement claim), thus possibly causing such Guarantor to reduce its reserve fund below desired levels in order to pay guaranty claims. See the caption "THE GUARANTORS—General" in this Official Statement for a description of procedures recently enacted by Congress to provide financial assistance to Guarantors which experience certain financial difficulties.

(iii) *Sale of Student Loans Upon Event of Default.* If the Trustee had to liquidate all or a portion of the Student Loans upon the occurrence of an Event of Default, the Trustee may not be able to sell the Student Loans for their full par value. Therefore, even though the Trust Estate may be at or above parity at any given time, the possibility exists that the Trustee in the event of acceleration of the Series 1993 Bonds may not be able to sell the Student Loans and other assets in the Trust Estate for a sufficient amount to pay the principal and accrued interest on all Outstanding Series 1993 Bonds.

(iv) *Direct Lending.* Even though the proposals by the present administration for a direct student loan program funded by the federal government should not affect the Eligible Student Loans previously originated and currently held in the Trust Estate, the direct lending program may result in a reduction in Eligible Student Loans available for purchase by the Authority, causing earlier redemption of the Series 1993 Bonds. See "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION PROGRAM—Direct Federal Loans" in Appendix I hereto.

(v) *General Economic Conditions.* A downturn in the economy resulting in substantial layoffs either regionally or nationwide may result in an increase in defaults by borrowers in paying Student Loans, thus causing increased default claims to be paid by a Guarantor. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn in the economy would significantly reduce revenues to the Authority or a Guarantor's ability to pay default claims.

## THE SERIES 1993 BONDS

### General Description

The Series 1993A Bonds will bear interest from the Issue Date, the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will bear interest from May 1, 1993 and the Series 1993 Bonds will mature as shown on the inside cover page hereof. The Series 1993 Bonds are issuable only in fully registered form and in denominations of \$5,000 or any integral multiple thereof in the case of Fixed Rate Bonds and Intermediate Rate Bonds with an Intermediate Term Period of six months or more, and in denominations of \$100,000 plus integral

multiples of \$5,000 in excess thereof in the case of Weekly Rate Bonds and Intermediate Rate Bonds with an Intermediate Term Period of less than six months (the "Authorized Denominations").

The Series 1993 Bonds will be registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"). In the event the book-entry-only system is discontinued for the Series 1993 Bonds, the beneficial owners of such Series 1993 Bonds should be aware of the following restrictions on transfer and exchange which will then apply: the Authority will not be obligated to (i) register the transfer of or exchange any Series 1993 Bond during a period beginning on the date Series 1993 Bonds are selected for redemption and ending on the day of the mailing of a notice of redemption of Series 1993 Bonds selected for redemption; (ii) register the transfer of or exchange any Series 1993 Bond selected for redemption in whole or in part, except the unredeemed portion of a Series 1993 Bond being redeemed in part; or (iii) make any such exchange or transfer of any Series 1993 Bond during the period beginning on the Record Date and ending on the Interest Payment Date.

The principal of each Series 1993 Bond is payable to the Bondholder (initially Cede & Co. as nominee for DTC) upon presentation and surrender of the Series 1993 Bond at the principal corporate trust office of the Trustee. Interest on the Series 1993 Bonds is payable by the Trustee to Cede & Co. as nominee for DTC, as Bondholder of record. Interest on the Series 1993 Bonds is payable to beneficial owners of the Series 1993 Bonds according to the procedures described under the caption "THE SERIES 1993 BONDS—Book-Entry-Only System" in this Official Statement. Should the Authority discontinue the book-entry-only system for the Series 1993 Bonds and issue certificates to the beneficial owners, then interest will be payable by check or draft of the Trustee mailed to the person in whose name such Series 1993 Bond is registered at the close of business on the Record Date, or at the written request of the registered owner of \$1,000,000 or more in aggregate principal amount of any Series 1993 Bonds, which request must be delivered at least 10 days prior to the applicable Interest Payment Date and may provide that it will remain in effect unless and until changed or revoked in writing, by wire transfer.

### **Book-Entry-Only System**

**The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from DTC, and the Authority and the Underwriters take no responsibility for the accuracy thereof.**

DTC, New York, New York, is to act as securities depository for the Series 1993 Bonds. The Series 1993 Bonds are to be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate is to be issued for each maturity of the Series 1993 Bonds, as set forth in the cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A

of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 1993 Bonds under the DTC system must be made by or through Direct Participants, which are to receive a credit for the Series 1993 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1993 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 1993 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 1993 Bonds, except in the event that use of the book-entry system for the Series 1993 Bonds is discontinued.

To facilitate subsequent transfers, all Series 1993 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1993 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Series 1993 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1993 Bonds are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 1993 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 1993 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the issuer or trustee, as

appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1993 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the Series 1993 Bonds are to be made to DTC. Payments by Participants to Beneficial Owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 1993A Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 1993A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 1993A Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 1993A Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 1993A Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Series 1993 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

#### **References to Bondholders**

So long as DTC or its nominee is the Bondholder, references herein to the Owners or registered owners of the Series 1993 Bonds shall mean Cede & Co. or other nominee of DTC and shall not mean the Beneficial Owners of the Series 1993 Bonds.

#### **Interest Payments**

**Series 1993A Bonds.** Interest on Series 1993A Bonds is payable on the first day of January, April, July and October of each year while the Series 1993A Bonds are Weekly Rate Bonds, on each Proposed Conversion Date, on the first day of each April and October if the Series 1993A Bonds become Fixed Rate Bonds or Intermediate Rate Bonds which have an Intermediate Term Period of six months or greater, and at maturity. Interest on Adjustable Rate Bonds will be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed, unless the Intermediate Term Period is equal to or greater than six

months, in which case interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

*Series 1993B Bonds, Series 1993C Bonds and Series 1993D Bonds.* Interest on the Series 1993B Bonds, the Series 1993C Bonds and the Series 1993D Bonds will be payable on each April 1 and October 1, commencing October 1, 1993, and at maturity, and will be computed on the basis of a 360-day year consisting of twelve 30-day months.

In the case of any Interest Payment Date which is not a Business Day, interest accrued to such Interest Payment Date is payable on the next succeeding Business Day. In such event, no additional interest will accrue as a result of any such delay.

### **Redemption Provisions**

The Series 1993 Bonds are subject to redemption prior to their stated maturities as described below. The Series 1993 Bonds to be redeemed shall, except as otherwise described below, be selected by the Authority by any one of the following means: (i) By Class in Descending Priority, or (ii) pro rata among all Classes and pro rata as to maturities within a Class, or (iii) if neither (i) nor (ii) is utilized, then in any such order as the Authority shall determine, subject to receipt by the Trustee of a certificate of the Authority to the effect that the value of Student Loans credited to the Student Loan Fund and all cash and Investment Securities held in the Funds and Accounts (excluding amounts irrevocably set aside to pay particular Bonds), will not be less than each and all of the following sums after giving effect to such redemption: (a) with respect to Class I Bonds and Class II Bonds, at least 118% of the aggregate principal amount of such Classes of Bonds Outstanding, (b) with respect to the Class I Bonds, Class II Bonds and Class III Bonds at least 112% of the aggregate principal amount of such Classes of Bonds Outstanding and (c) with respect to Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds, at least 102% of the aggregate principal amount of such Classes of Bonds Outstanding. While the Series 1993 Bonds are book-entry only, the Trustee shall notify DTC if any Class or maturity is to be partially redeemed, and DTC will follow its procedures for effecting a partial redemption. Should the Authority or DTC discontinue the book-entry system and certificated bonds are issued to the Beneficial Owners, the Series 1993 Bonds to be redeemed within any Class or maturity shall be selected by the Trustee, as the Trustee deems fair and reasonable in its sole discretion.

(A) *Optional Redemption.* The Series 1993 Bonds will be subject to optional redemption prior to their scheduled maturity dates, in whole or in part, at the direction of the Authority in accordance with the following:

(1) Series 1993B Bonds, Series 1993C Bonds and Series 1993D Bonds maturing on or after April 1, 2004, will be subject to optional redemption on any date occurring on or after April 1, 2003, at the following Redemption Prices (expressed as a percentage of the principal amount being redeemed) plus accrued interest to the Redemption Date.

<u>Redemption Dates</u>	<u>Redemption Prices</u>
April 1, 2003 through March 31, 2004	102 %
April 1, 2004 through March 31, 2005	101
April 1, 2005 and thereafter	100

(2) Series 1993A Bonds bearing interest at an Adjustable Rate will be subject to optional redemption, in whole or in part, in accordance with the following:

(i) Weekly Rate Bonds will be subject to optional redemption on any date, at a Redemption Price of par plus accrued interest, if any.

(ii) Intermediate Term Bonds will be subject to optional redemption on any Proposed Conversion Date applicable thereto, at a Redemption Price of par plus accrued interest, if any.

(iii) Credit Provider Bonds will be subject to optional redemption on any date at a Redemption Price of par plus accrued interest, if any, and no redemption described in (i) or (ii) above shall occur if Credit Provider Bonds are then Outstanding.

(B) *Mandatory Redemption.* The Series 1993 Bonds (or only the Series 1993A Bonds in the case of (2) or (3) below) are subject to mandatory redemption, in whole or in part, in accordance with the following, in each case at a Redemption Price of par plus accrued interest to the date of redemption, without premium:

(1) On any date, to the extent required to insure compliance by the Authority with Section 148 of the Code, on the date set by an Authority Order, directing the Trustee to make redemption of a specified principal amount of Series 1993 Bonds.

(2) As to Series 1993A Bonds only, on any date following receipt by the Trustee of a written notice from the Credit Provider specifying that certain events of default have occurred and are continuing under the Reimbursement Agreement and directing that all of the Series 1993A Bonds be redeemed.

(3) As to Series 1993A Bonds only, on any date following receipt by the Trustee of written notice from the Credit Provider to the effect that the Credit Provider has not been reimbursed in full for an interest drawing under the Reimbursement Agreement and that, as a consequence thereof, the stated amount of the Letter of Credit will not be reinstated by such amount.

(4) As to Credit Provider Bonds only, over approximately four years following a Term Out Event. See the caption "SECURITY FOR THE SERIES 1993 BONDS—Credit Enhancement for the Series 1993A Bonds—Reimbursement Agreement" in this Official Statement.

(C) *Extraordinary Optional Redemption.* The Series 1993 Bonds are subject to extraordinary optional redemption in whole or in part at the option of the Authority, at a Redemption Price of par plus accrued interest to the date of redemption without premium:

(1) On any date, if the Authority reasonably determines that it is unable to acquire Eligible Student Loans, that the rate of return on Eligible Student Loans has materially decreased, or that the costs of administering the Student Loan Program have placed unreasonable burdens upon the ability of the Authority to perform its obligations under the Indenture, or in order to avoid a default under the Reimbursement Agreement; provided, however, that Series 1993 Bonds shall not be so redeemed from moneys derived from the voluntary sale, assignment or disposition of Student Loans by the Authority for such purpose.

(2) On any Bond Payment Date, from moneys held under the Indenture (including student loan repayments) which are not otherwise available or expected to be used to acquire Eligible Student Loans; provided, however, that Series 1993 Bonds shall not be so redeemed from moneys derived from the voluntary sale, assignment or disposition of Student Loans by the Authority for such purpose.

*Procedure for and Notice of Redemption.* When the Trustee receives notice from the Authority (or in certain instances the Credit Provider) of its election or direction to redeem Series 1993 Bonds pursuant to optional, mandatory or extraordinary redemption, but in each case, on the dates and at the Redemption Prices specified in the Indenture, the Trustee will give notice, in the name of the Authority, of the redemption of such Series 1993 Bonds. Such notice will specify the Series, Class and maturities of the Series 1993 Bonds to be redeemed, the Redemption Date and, if less than all the Series 1993 Bonds of any Series, Class and maturity are to be redeemed the respective portions of the principal amount thereof to be redeemed. Such notice will further state that on such date there will become due and payable upon each Series 1993 Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Series 1993 to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon will cease to accrue and be payable. Such notice will be given by first-class mail, not less than 15 days nor more than 60 days before the Redemption Date, in the case of Adjustable Rate Bonds, and not less than 30 days nor more than 60 days before the Redemption Date, in the case of Fixed Rate Bonds. Failure so to mail any such notice will not affect the validity of the proceedings for the redemption of Series 1993 Bonds with respect to which no such failure occurred. Such notice will be given to DTC so long as it is the registered owner of the Series 1993 Bonds.

*Payment of Redeemed Series 1993 Bonds.* Series 1993 Bonds or portions thereof so called for redemption will become due and payable on the Redemption Date so designated at the Redemption Price, plus interest accrued and unpaid to the Redemption Date. So long as the Series 1993 Bonds are book-entry only, the Trustee will pay the Redemption Price to DTC, which will follow its procedures for payment to Beneficial Owners. See the caption "Book-Entry-Only System" above. If the Authority or DTC discontinues the book-entry system and certificated bonds are issued to the Beneficial Owners, the Series 1993 Bonds must be presented

and surrendered at the office of the Trustee on the Redemption Date. If less than the entire principal amount of a Series 1993 Bond is called for redemption, the Authority will execute, the Authenticating Agent will authenticate and the Paying Agent will deliver, upon the surrender of such Series 1993 Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Series 1993 Bond so surrendered at the option of the Owner, Series 1993 Bonds of like Class, Series and maturity in any Authorized Denominations. If, on the Redemption Date, moneys for the redemption of all the Series 1993 Bonds or portions thereof of any like Series, Class and maturity to be redeemed, together with interest to the Redemption Date, is wired to DTC (while the Bonds are book-entry only) or held by the Paying Agent so as to be available therefor on said date and if notice of redemption has been mailed as aforesaid, then, from and after the Redemption Date, interest on the Series 1993 Bonds or portions thereof of such Class, Series and maturities so called for redemption will cease to accrue and become payable. If said moneys are not available on the Redemption Date, such Series 1993 Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

#### **Establishment of Interest Rates for Series 1993A Adjustable Rate Bonds**

The Series 1993A Bonds will initially bear interest at a Weekly Rate. The initial Weekly Rate will be as set forth on the inside cover page hereof, effective through and including May 11, 1993. Subsequent Weekly Rates will be determined by the Remarketing Agent on the Business Day next preceding the Adjustment Date (generally on each Tuesday), to be effective on the Adjustment Date (the Wednesday of each week). The Trustee will make available to Owners upon request information concerning the Weekly Interest Rate for each Weekly Rate Period.

The Series 1993A Bonds bearing interest at an Adjustable Rate will bear interest at the lesser of (1) the Maximum Rate or (2) rate which, in the judgment of the Remarketing Agent on the date of determination, would produce as nearly as possible a par bid in the secondary market on the Adjustment Date for a particular Rate Period. The interest rate on the Series 1993A Bonds may not exceed a Net Effective Interest Rate of 15% per annum. In the event that the Remarketing Agent for any reason fails to determine the Adjustable Rate, or the rate established by the Remarketing Agent is held to be invalid or unenforceable by a court of law for any Rate Period, the rate of interest borne by the Series 1993A Bonds for such Rate Period will be equal to 150 percent of the PSA Municipal Swap Index<sup>TM</sup> (or if such index is no longer available, then such other similar index as shall be permitted by the Indenture), as the same may be adjusted from time to time, until such time as a new Adjustable Rate is set by the Remarketing Agent.

#### **Determination of Subsequent Rate Periods**

Each Rate Period following the Initial Rate Period will be of the same type as the immediately preceding Rate Period unless changed by the Authority, subject to the provisions of the Indenture. If a change is proposed, there shall be delivered to the Trustee, the Credit Provider and the Remarketing Agent, at least 20 days before the Proposed Conversion Date, an

Authority Order, setting forth (i) the proposed Rate Period or Periods for the Adjustable Rate Bonds then subject to adjustment, (ii) the length of each such Rate Period, (iii) the aggregate principal amount of Adjustable Rate Bonds to which each such Rate Period will pertain, and (iv) the Maximum Rate for each such Rate Period. If fewer than all of the then Adjustable Rate Bonds are to have a new Proposed Conversion Date or are to have the same subsequent Rate Period, the Trustee shall notify DTC in the event the Series 1993 Bonds are book-entry only and DTC will follow its procedures to assign particular Adjustable Rate Bonds to be converted and, in the event the Authority or DTC has discontinued the book-entry only system and certificated bonds are issued to the Beneficial Owners, the Trustee shall select by any fair and reasonable means the Adjustable Rate Bonds to be assigned a particular Proposed Conversion Date, Rate Period and/or interest rate mode, taking into consideration the interest of the Authority that, to the extent possible, no individual Owner shall be required to surrender less than the entire principal amount of a single Adjustable Rate Bond held by such Owner.

On a Business Day no more than 21 days and no less than one day prior to the Proposed Conversion Date, the Remarketing Agent will determine the Adjustable Rate with respect to each new Rate Period. In the event that all of the Series 1993A Bonds designated for conversion are sold or remarketed on the Proposed Conversion Date and if the Favorable Opinion and the Rating Confirmation described below are delivered on the Proposed Conversion Date, the Proposed Conversion Date shall become the Conversion Date. If all the Series 1993A Bonds designated for conversion to an Intermediate Term Rate are not sold or remarketed by the Proposed Conversion Date, the conversion of the principal amount of the Series 1993A Bonds designated for conversion to an Intermediate Term Rate shall not occur, and the affected Bonds will bear interest at a Weekly Rate determined by the Remarketing Agent on the failed Proposed Conversion Date in the same manner as the interest rate with respect to Weekly Rate Bonds is determined, as set forth above, and such Series 1993A Bonds shall nonetheless be subject to mandatory tender on such date.

No change to a new Rate Period will become effective unless (1) there is filed with the Authority, the Trustee, the Credit Provider, the Tender Agent and the Remarketing Agent a Favorable Opinion, (2) prior to the Fixed Rate Conversion Date, the Credit Facility in effect on the Proposed Conversion Date has an interest component of its Stated Amount at least adequate to cover interest on the Series 1993A Bonds for the period required by the Rating Agency throughout the Rate Period proposed and (3) the Authority receives a Rating Confirmation.

#### **Optional Tender of Series 1993A Weekly Rate Bonds**

Each Weekly Rate Bond is subject to purchase, in whole or in part, at the request of the Owner thereof, on any Optional Tender Date, at the Purchase Price. While the Series 1993A Bonds are in book-entry-only form, tenders must be effected through DTC upon no less than seven (7) days notice to the Tender Agent. See the caption "Book-Entry-Only System" above. If the Authority or DTC discontinues the book-entry only system and certificated bonds are issued to the Beneficial Owners, to exercise the option to have a Weekly Rate Bond so purchased, such Owner must deliver a properly executed and completed Tender Notice to the Tender Agent at its office located in New York, New York, no later than 10:00 a.m., New York

City time, on a Business Day which is no less than the seventh (7th) calendar day preceding the Optional Tender Date. Optionally Tendered Bonds will be delivered to the Tender Agent on or prior to the Optional Tender Date, together with, in the case of a Weekly Rate Bond to be purchased prior to an Interest Payment Date and after the Record Date in respect thereof, a due-bill, in form satisfactory to the Tender Agent, for interest due on such Interest Payment Date. Such delivery shall be a condition precedent to payment of the Purchase Price for such Weekly Rate Bond. The exercise of an option by an Owner of a Weekly Rate Bond to have such Bond purchased is irrevocable and binding on such Owner and cannot be withdrawn. The Tender Agent's determination as to whether a Tender Notice has been properly completed, executed and delivered will be binding upon the Owner of such Bond. In the event of a failure of an Owner of Weekly Rate Bonds to deliver its Weekly Rate Bonds on or before the Optional Tender Date, the Owner will not be entitled to any payment (including any interest to accrue subsequent to the required purchase date) other than the Purchase Price for such undelivered Weekly Rate Bonds. Optionally Tendered Bonds will be purchased as of the applicable Optional Tender Date from remarketing proceeds or a drawing on the Credit Facility. Payment of the Purchase Price of any Optionally Tendered Bonds will be made in immediately available funds on the applicable Purchase Date. See the caption "Book-Entry-Only System" above.

#### **Mandatory Tender of Adjustable Rate Series 1993A Bonds**

All affected Adjustable Rate Bonds must be tendered by the Owners thereof for purchase at their Purchase Price under the circumstances set forth herein.

Except as otherwise provided, affected Owners are required to tender their Series 1993A Adjustable Rate Bonds for purchase as follows:

- (a) On each Proposed Conversion Date.
- (b) On the fifth Business Day prior to each Substitution Date and each scheduled expiration date of the Credit Facility; provided, that upon such mandatory tender, the affected Owners will be paid from the proceeds of a draw on the then-held Credit Facility and not from the proceeds of a draw on the substitute Credit Facility.
- (c) On any date established by the Trustee after the occurrence of a Term-Out Event.

The Trustee will give the registered owners (initially Cede & Co. as nominee of DTC) fifteen days notice of any mandatory tender. If notice is given to DTC, DTC will provide notice to Beneficial Owners in accordance with its procedures, and payment of the purchase price of the Adjustable Rate Bonds will be made to DTC and distributed to Beneficial Owners in accordance with its procedures. See the caption "Book-Entry-Only System" in this Official Statement.

If the Authority or DTC discontinues the book-entry system and certificated bonds are issued to the Beneficial Owners, notice will be given to such owners by first-class mail and they

will be required to deliver their Series 1993A Bonds for purchase to the Tender Agent at an office designated by the Tender Agent in New York, New York on the date on which such Series 1993 Bonds are required to be purchased and any Adjustable Rate Bonds required to be tendered for purchase that are not delivered and for which there has been irrevocably deposited with the Tender Agent in the Purchase Fund an amount of money sufficient to pay the Purchase Price thereof will be deemed to have been purchased by the Tender Agent and will constitute Undelivered Bonds. In the event of a failure by an Owner of Adjustable Rate Bonds to deliver its Adjustable Rate Bonds on or prior to the required date, said Owner will not be entitled to any payment (including any interest to accrue subsequent to the required Purchase Date) other than the Purchase Price for such Undelivered Bonds, and any Undelivered Bonds will no longer be entitled to the benefits of the Indenture, except for the payment of the Purchase Price therefor from amounts on deposit in the Undelivered Bond Payment Account.

The tender will not constitute a redemption of such Series 1993 Bonds or an extinguishment of the debt represented by such Series 1993 Bonds.

### **Purchase Fund**

The Tender Agent will establish the Purchase Fund and certain accounts therein. Only the Tender Agent and the Trustee will have any right of withdrawal from the Purchase Fund for the exclusive benefit of the purchasers and sellers (including the Credit Provider) of Bonds tendered for purchase and the Authority will have no legal, beneficial or equitable right, title or interest therein. A Remarketing Account, a Liquidity Account and an Undelivered Bond Payment Account will be established by the Tender Agent as trust accounts within the Purchase Fund.

Any moneys received by the Tender Agent from the Remarketing Agent for the purchase of Series 1993A Bonds or the sale of Credit Provider Bonds will be deposited into the Remarketing Account of the Purchase Fund, and any moneys received by the Tender Agent representing proceeds of drawings under the Letter of Credit will be deposited in the Liquidity Account of the Purchase Fund, and both will be paid out to tendering Owners in accordance with the Indenture. Amounts on deposit in the Purchase Fund will be held uninvested and without bearing interest.

### **Remarketing of Tendered Series 1993A Bonds**

The Remarketing Agent will use its best efforts to solicit purchases of Series 1993A Bonds which have been tendered for purchase or are subject to mandatory tender, at a price of par, plus accrued interest from the most recent Interest Payment Date, if any, subject, in all respects, to the terms and conditions of the First Supplemental Indenture. The Remarketing Agent will notify the Tender Agent of any Series 1993A Bonds which it does not expect to remarket. The Tender Agent will make a drawing on the Letter of Credit in an amount equal to the Purchase Price of unremarketed Series 1993A Bonds which have been tendered and shall use the proceeds of the drawing to pay the Purchase Price of tendered Series 1993A Bonds.

Any Remarketing Agent appointed will covenant that it will not withdraw or resign until such time as the Authority has appointed a replacement Remarketing Agent for the Series 1993A Bonds, the Trustee accepts the duties of Remarketing Agent, or a court of competent jurisdiction has appointed a replacement Remarketing Agent; provided, however, that from and after the date upon which all Series 1993A Bonds are Intermediate Term Bonds with an Adjustment Date at their maturity or have become Fixed Rate Bonds, no Remarketing Agent need serve.

**Credit Facility; Substitution of Credit Facility**

The Authority has covenanted and agreed that at all times when there are Series 1993A Bonds Outstanding (unless converted to a Fixed Interest Rate), a Credit Facility or substitute Credit Facility will be in place to secure the payment, when due, of the principal of and interest on the Series 1993A Bonds.

At such time as may be permitted by the Indenture and the Reimbursement Agreement, the Authority may cause to be delivered to the Trustee a substitute Credit Facility. The effective date of a substitute Credit Facility will coincide with a date established for a Mandatory Tender of the Bonds.

**APPLICATION OF PROCEEDS**

The proceeds of the Series 1993 Bonds, net of accrued interest, will be used (i) to effect a current refunding of the Refunded Bonds; (ii) to obtain funds to make or acquire Eligible Student Loans; (iii) to fund the Debt Service Reserve Fund; and (iv) to pay certain costs incurred in connection with the issuance of the Series 1993 Bonds, as described below:

Proceeds to refund Refunded Bonds	\$89,371,272
Deposit to the Acquisition Fund	46,854,328
Deposit to Debt Service Reserve Fund	2,800,000
Underwriting Discount	<u>974,400</u>
 Total	 <u>\$140,000,000</u>

The current refunding of the Refunded Bonds will be effected upon the date of issuance of the Series 1993 Bonds by deposit of the amount described above with the trustee for the Refunded Bonds. Such moneys will be used by such trustee to redeem the Refunded Bonds on June 1, 1993.

Simultaneously with the deposit described above, approximately \$70,000,000 in principal amount of Eligible Student Loans, approximately \$2,500,000 of accrued interest payments on such Eligible Student Loans and approximately \$19,000,000 of moneys and investments will be transferred to the Trustee and held as part of the Trust Estate. Certain moneys transferred from the trust estate for the Refunded Bonds will be used to pay the costs of issuing the Series 1993 Bonds and to make an initial deposit to the Operating Fund. In addition, approximately 30 days after the issuance of the Series 1993 Bonds, the remainder of the trust estate for the Refunded

Bonds will be deposited to the Trust Estate. The Authority expects to acquire additional Eligible Student Loans over a three-year period commencing after the issuance of the Series 1993 Bonds. Substantially all of the Eligible Student Loans to be acquired or transferred into the Trust Estate on or about the date of issuance of the Series 1993 Bonds are guaranteed by TGSLC (as defined below).

## **THE AUTHORITY**

### **General**

The Authority is a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas originally created under the Texas Non-Profit Corporation Act in 1971 under the name of "Dallas Schools Foundation." Said corporation was dormant from its incorporation in 1971 until 1978 when it was reorganized and its Articles of Incorporation were amended to change its name and purpose to the present name and purpose. The Authority's present purpose is to promote student access to higher education. The Authority is located at 201 E. Abram, Suite 800, Arlington, Texas 76010-1196, Telephone (817) 265-9158.

The Authority is authorized to (i) provide funds for the acquisition of Eligible Student Loans made to students at post-secondary educational institutions, and (ii) provide procedures for the servicing of such Eligible Student Loans in accordance with the Higher Education Act and the Education Code of the State (the "Education Code"). The Authority's Articles of Incorporation provide that after payments of expenses, debt service and the creation of reserves for the same, all revenues shall be utilized for the purchase of Eligible Student Loans, or, upon dissolution of the Authority, paid to the Federal Government. The Authority's activities are governed by the Education Code, the Higher Education Act and the Texas Non-profit Corporation Act.

The Authority is governed by a Board of Directors consisting of nine (9) Directors. Directors are appointed by either of the governing bodies of the Cities of Arlington or Denton, Texas, upon nomination by the Authority. Each of such governing bodies may also remove those Directors appointed by it. Directors serve two year staggered terms of office. Each of the Directors of the Authority is employed, full-time, in the occupations and positions set forth below. The members of the Board of Directors serve without compensation, except for the payment of expenses incurred in connection with the business of the Authority. The By-Laws of the Authority provide for the appointment of Advisory Directors by the Board of Directors. Advisory Directors serve two year terms and are entitled to all of the rights and powers of a Board member, except that Advisory Directors may not vote nor may they hold the offices of President or Vice-President. The Cities of Arlington and Denton each appoint an ex-officio member to the Board whose terms are non-expiring and who have no powers or voting rights.

## Board of Directors

<u>Name and Position Held</u>	<u>Principal Occupation</u>	<u>Term Expires (September 30)</u>
Mr. Governor E. Jackson President	Director of Student Financial Aid Texas Woman's University Denton, Texas (1)	1994
Dr. Lindsay Keffer Vice President	Assistant Director for Administration University of North Texas Denton, Texas (1)	1993
Dr. Wayne Duke Secretary/Treasurer	Vice-President for Student Affairs University of Texas at Arlington Arlington, Texas (1)	1993
Ms. Floreen B. Henry	Communication-Arts Department Chair and Professor of Foreign Language, Tarrant County Junior College, Fort Worth, Texas	1994
Mr. James Brock	President B H & W Manufacturing, Inc. Haltom City, Texas	1993
Mr. W. Jay Anderson	Financial Consultant A.G. Edwards & Co. Denton, Texas	1993
Ms. Neta Stallings	Vice President (Retired) First State Bank of Denton Denton, Texas (2)	1994
Mr. Jim D. Schultz	Senior Vice President and Director of Accounting and Finance Tandycrafts, Inc. Fort Worth, Texas	1994
Dr. Carl D. McDaniel, Jr.	Professor and Chairman of the Department of Marketing University of Texas at Arlington Arlington, Texas (1)	1993
Mr. Ken Woods	President International Aviation and Travel Academy Arlington, Texas (3)	1993

<u>Name and Position Held</u>	<u>Principal Occupation</u>	<u>Term Expires (September 30)</u>
Mr. John F. McGrane	Executive Director of Finance City of Denton Denton, Texas (4)	N/A
Mr. Jack Eastwood	Director of Finance City of Arlington Arlington, Texas (4)	N/A

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- (1) Eligible Institution
  - (2) Eligible Lender
  - (3) Advisory Director
  - (4) Ex-Officio Member

### **Plan for Doing Business**

The Authority operates its student loan program (the "Student Loan Program") pursuant to a plan for doing business (the "Plan for Doing Business") established by resolution of its Board of Directors. Pursuant to the requirements of the Higher Education Amendments of 1986, the Authority submitted its Plan for Doing Business to the Governor the State of Texas for approval. The Governor approved the Authority's Plan for Doing Business on March 3, 1987 and forwarded a copy thereof to the Department of Education as required by the Higher Education Amendments of 1986. The Authority must comply with its Plan for Doing Business in order to be entitled to receive Special Allowance Payments from the federal government in connection with the Eligible Student Loans purchased with Bond proceeds.

The Plan for Doing Business establishes the Authority's criteria for Eligible Lenders, Eligible Institutions and student borrowers.

### **Eligible Lenders**

Although the Plan for Doing Business does not designate a particular service area for the Authority, the Authority historically has purchased a majority of its loans from institutions located within the counties of Dallas, Denton, Tarrant and Wichita, all of which are located around the Dallas-Fort Worth metropolitan area in North Central Texas. According to information furnished by TGSLC, there are 19 lending institutions in the historical service area which are qualified under the Higher Education Act, hold contracts of insurance (the "Contract of Insurance") with the Secretary and hold lender participation agreements (the "Lender Participation Agreement") with TGSLC allowing Eligible Student Loans originated by them to be guaranteed by TGSLC.

## **Purchase of Eligible Student Loans by the Authority**

Any Eligible Lender that has a Contract of Insurance with the Secretary and/or a Lender Participation Agreement with TGSLC may participate in the Student Loan Program by (1) expressing an intent to develop a portfolio of Eligible Student Loans for sale to the Trustee, on behalf of the Authority, and (2) executing a loan purchase commitment (the "Loan Purchase Commitment") with the Authority.

Prior to the date on which Eligible Student Loans are to be purchased (the "Loan Acquisition Date"), an Eligible Lender will notify the Servicer of the actual amount of Eligible Student Loans offered by it for acquisition on such Loan Acquisition Date and the Authority will execute a loan purchase agreement (the "Loan Purchase Agreement") which will instruct the Trustee to acquire the Eligible Student Loans, following a review thereof for compliance with the terms of the Plan for Doing Business and the terms of the Loan Purchase Agreement.

Purchases of Eligible Student Loans will be made by the Trustee, on behalf of the Authority, subject to the terms of the Loan Purchase Agreement. Such Loan Purchase Agreement will contain representations, guarantees and warranties of the Eligible Lender, including among others, that the Student Loans offered for sale to the Authority have been originated and are in compliance with all applicable State and federal laws and regulations, and the then current Plan for Doing Business and operating procedures established by the Authority. Upon receipt of such Loan Purchase Agreement and the Eligible Student Loan documentation, the Trustee will make payment to the Eligible Lender on the Loan Acquisition Date.

The Authority anticipates that the Net Revenues derived with respect to the Student Loans and the earnings in the Funds and Accounts pledged to payment of the Bonds issued under the Indenture will be sufficient to pay expenses of the loan purchase program relative to the Student Loans and the principal of and interest on the Bonds when due.

Following the purchase of the Eligible Student Loans, the Servicer and the Subservicers described herein will be responsible for the servicing, collecting, accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the Guarantors or the insurance of the Secretary on the Student Loans.

### **Authority Financing Activities 1979-1992**

The table below summarizes the Authority's tax-exempt financing activities from 1979 through 1992. The assets and revenues pledged to such obligations are not available to pay any amount due on the Bonds, and, similarly, the Net Revenues and other amounts pledged to secure the Bonds are not available to make payments on the Authority's other obligations.

## Tax-Exempt Financings

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Outstanding Balance</u>
1979	Series A	\$ 10,000,000	\$ -0*
1982	Series A	11,845,000	-0*
1982	Series B	25,000,000	-0-
1983	Series A & B	50,000,000	-0-
1985	Series A	23,100,000	-0-
1987	Series 1987	98,000,000	87,750,000
1990	Series 1990	50,000,000	50,000,000
1991	Series A - F	153,500,000	153,500,000
1991	Series G	<u>90,000,000</u>	<u>90,000,000</u>
Total Tax-Exempt Financings		<u>\$517,445,000</u>	<u>\$381,250,000</u>

\*Funds Escrowed for Payment of Bonds at Redemption or Maturity.

In addition, the Authority has a \$100,000,000 line of credit for the purchase of student loans, which presently has no amount outstanding.

## THE GUARANTORS

**The information set forth below with respect to the Guarantors has been obtained from the respective Guarantor, and neither the Authority nor the Underwriter makes any representation as to its accuracy or completeness. The Series 1993 Bonds are not general, limited or moral obligations of the Guarantors, and the Guarantors have no obligation of any kind to pay the principal of, premium, if any, or interest on the Series 1993 Bonds.**

### General

The Indenture authorizes the Authority to purchase Eligible Student Loans or make Consolidation Loans which are guaranteed by TGSLC, United Student Aid Funds, Inc., Student Loan Guarantee Foundation of Arkansas, Oklahoma State Regents for Higher Education or any other entity approved by the Authority which guarantees student loans under the Higher Education Act and which has entered into an agreement with the Trustee and the Secretary for reinsurance of its guarantees of student loans and which does not adversely affect the then existing ratings of the Series 1993 Bonds (each, a "Guarantor"); provided that substantially all of the Eligible Student Loans must be made on behalf of residents of the State of Texas or persons attending Eligible Institutions located in the State of Texas. The Authority expects that substantially all of the Student Loans purchased, or Consolidation Loans acquired, and held under the Indenture will be guaranteed by TGSLC; however, the Indenture authorizes the Authority to purchase Eligible Loans and make Consolidation Loans which are guaranteed by other entities, as described above. A brief description of TGSLC is included in this Official

Statement immediately below, and the latest available audited and unaudited financial statements for TGSLC are attached to this Official Statement as Appendices IV and V. The information concerning TGSLC was provided to the Authority by TGSLC and has not been verified by the Authority or the Underwriters. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of such information.

The 1992 Amendments to the Higher Education Act enacted procedures to provide financial assistance to Guarantors which experience financial difficulties. Specifically, the Secretary is to collect information annually from each Guarantor to determine the Guarantor's solvency. Pursuant to the 1992 Amendments, if (i) the Guarantor's current reserve level falls below the federally required minimum for any two consecutive years, (ii) the Guarantor's federal reimbursement payments are reduced to 80% or (iii) the Secretary determines that the Guarantor's administrative or financial condition jeopardizes the Guarantor's ability to fulfill its responsibilities as a guarantor, the Secretary must require the Guarantor to submit and implement a management plan acceptable to the Secretary. The Guarantor must submit its management plan to the Secretary within 30 business days of any one of the listed conditions. The management plan must identify the means by which the Guarantor will improve its financial and administrative conditions to the required levels within 18 months. The 1992 Amendments further provide that if the Secretary has determined that a Guarantor is unable to meet its insurance obligations, the holder of loans insured by the Guarantor may submit insurance claims directly to the Secretary and the Secretary is to pay to the holder the full insurance obligation of the Guarantor, in accordance with insurance requirements no more stringent than those of the Guarantor. Such arrangements are to continue until the Secretary is satisfied that the insurance obligations have been transferred to another Guarantor who can meet those obligations or a successor will assume the outstanding insurance obligations. In addition, the 1992 Amendments provide that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to the Guarantor in order to assist the Guarantor in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders.

### **Texas Guaranteed Student Loan Corporation**

*General.* TGSLC is a nonprofit corporation created pursuant to Chapter 57 of the Education Code to function as the Guarantor in Texas under the Guarantee Agency Program established under the Higher Education Act. See the caption "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" in Appendix II to this Official Statement. TGSLC is located at 1609 Centre Creek Drive, Austin, Texas 78754, Telephone (512) 835-1900.

TGSLC is governed by a Board of Directors composed of 10 members of which nine are appointed by the Governor of Texas. The Texas Comptroller of Public Accounts or his designee serves as an ex-officio voting member of the Board of Directors. The current members of the Board of Directors, their principal occupations and terms of office are as follows:

## Board of Directors

<u>Name and Position Held</u>	<u>Principal Occupation</u>	<u>Term Ends (January 31)</u>
Alan V. Rash Chairman	Attorney El Paso, Texas	1995
Dr. Wright L. Lassiter, Jr. Vice Chairman	President El Centro College Dallas, Texas	1995
Dr. Barbara Reagan Secretary	Economic Consultant Dallas, Texas	1997
Dr. Teo Filo Jamie Chahin	Associate Vice President of Human Resources Southwest Texas State University San Marcos, Texas	1997
Lee Elliott Brown	Director of Affirmative Action and Contract Compliance City of Houston, Mayor's Office Houston, Texas	1997
Gary W. Bruner	Financial Consultant Southlake, Texas	1995
Christi L. Craddock	Student Member University of Texas Austin, Texas	1993
Mark Griffin	Executive Vice President/General Counsel The Griffin Companies Lubbock, Texas	1993
John Sharp	Comptroller, State of Texas Austin, Texas	Concurrent with term of office as Comptroller
J. Malon Southerland	Associate Vice President for Student Services Texas A&M University College Station, Texas	1993

The Directors of TGSLC serve without compensation, except for the reimbursement of actual expenses incurred in connection with the business of TGSLC.

***Management and Operations.*** The TGSLC staff consists of approximately 400 employees. The management of the business and affairs of TGSLC is vested in a management group under the direction of its President and Chief Executive Officer, Milton G. Wright. Mr. Wright joined TGSLC on February 12, 1993. Prior to that time, Mr. Wright served as the Guaranteed Loan Programs Divisional Vice President of the New York State Higher Education Services Corporation from 1985 to early 1993. From 1978 to 1984, he was Vice President and Community Reinvestment Officer of Manufacturers Hanover Trust, then the largest state-chartered bank in New York. Mr. Wright has also been Vice President and Director of Community Banking and Operations at Freedom National Bank of New York, and Vice President of Administration at Midwest National Bank of Indianapolis.

Reporting to Mr. Wright are the Executive Vice President and the Senior Vice Presidents of the four divisions of TGSLC described below. Currently, the position of Senior Vice President of the Corporate Operations Division is vacant.

Mr. Dan Pearson, Executive Vice President, has 13 years of auditing and management experience with the Comptroller of Public Accounts of the State of Texas. The last six years with the Texas Comptroller of Public Accounts were as Deputy Comptroller. In that position, Mr. Pearson was responsible for the operations of several divisions consisting of approximately 1,500 employees. Mr. Pearson has been with TGSLC as Deputy Executive Director or Executive Vice President since November, 1989 and as Acting President from February, 1992 until February, 1993.

Mr. Ellis E. Tredway, Senior Vice President of Corporate Finance, has 15 years of experience in accounting, auditing and budgeting, 10 years of which were in a management capacity. Mr. Tredway also comes to TGSLC from the Texas Comptroller of Public Accounts where his last position was Director of Budget and Internal Accounting and Chief Fiscal Officer. Mr. Tredway has been Director of Corporate Finance or Senior Vice President of Corporate Finance since December 1989.

Mr. B. William Skidmore, Senior Vice President of Marketing, has 13 years prior experience in financial aid and higher education finance. This includes experience in the banking industry with the Iowa College Aid Commission, where he was a Regional Manager, and most recently as Regional Vice President of United Student Aid Funds, Inc. In his role with United Student Aid Funds, Inc., he was responsible for the operational management of state guarantee agency servicing contracts in the eastern United States. Mr. Skidmore has been with TGSLC since January 1990.

Mr. William G. Stobie, Senior Vice President of Information Systems Services, has approximately 20 years of technical and management experience in data processing. For six years, Mr. Stobie was with the Texas Department of Human Resources where he was technical coordinator for a major system conversion from IBM to Univac and was manager of application development for all departments within the Department of Human Resources' systems with a

staff of 150 persons. Mr. Stobie has also been a consultant and entrepreneur in the field of data processing. His most recent experience prior to coming to TGSLC was Assistant Deputy Commissioner for Information Resources Management for the Texas State Board of Insurance. Mr. Stobie has been with TGSLC since January 1990.

TGSLC is authorized under applicable federal law to prescribe the terms and conditions under which Student Loans will be guaranteed by TGSLC in the State of Texas. TGSLC will guarantee loans made to eligible student borrowers by Eligible Lenders such as banks, credit unions, savings and loan associations, pension funds, insurance companies, educational institutions, and certain state agencies operating a Guaranteed Student Loan Program upon compliance with said terms and conditions. TGSLC entered into an agreement with the Secretary on November 21, 1980, for reinsurance against losses on Guaranteed Student Loans made under its program due to the student borrower's death, default, total and permanent disability or bankruptcy. Until September 30, 1985, TGSLC was eligible for 100% federal reimbursement regardless of its annual default rate, but thereafter its percentage of federal reimbursement at any time has been and will be determined by its then current annual default rate according to the following schedule:

<u>Annual Default Rate (1)</u>	<u>Federal Reimbursement</u>
0% to less than 5%	100%
Equal to or greater than 5%, but less than 9%	100% of claims up to 5% and 90% of claims equal to or greater than 5% but less than 9%
Equal to or greater than 9%	100% of claims up to 5%, 90% of claims equal to or greater than 5% but less than 9% and 80% of claims equal to or greater than 9%

(1) Annual default rates for purposes of the application for federal reinsurance are calculated by dividing reinsurance paid on claims filed during the federal fiscal year by the original guarantee amount of loans in repayment at the end of the preceding federal fiscal year.

Since the first student loan guarantee was issued by TGSLC in January 1981, total claims have been paid as of September 30, 1992 as follows:

<u>Type</u>	<u># of Loans</u>	<u># of Borrowers</u>	<u>Amount</u>
Death/Disability	5,823	1,844	\$ 17,610,412
Bankruptcy	3,203	466	10,990,007
Default	<u>327,364</u>	<u>70,356</u>	<u>882,401,319</u>
Total	336,390	72,666	\$911,001,738

The following chart provides a breakdown of the student loans by type of school (four-year, two-year and proprietary) guaranteed by TGSLC during each of its six preceding fiscal years:

**Annual Mix of Student Loans  
Net Guaranteed by TGSLC**

<u>Type of School</u>	<u>Fiscal Years Ended September 30</u>					
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Four-year schools	65 %	50 %	48 %	61 %	71 %	77 %
Two-year schools	11 %	9 %	8 %	8 %	10 %	9 %
Proprietary schools	24 %	41 %	44 %	31 %	19 %	14 %

The annual default rate for purposes of federal reimbursement for the fiscal years ended September 30, 1992, 1991 and 1990 was 8.85 %, 10.52 % and 11.13 %, respectively. TGSLC expects that the total annual default rate for the current fiscal year ending September 30, 1993 will be 6.5 %. Based upon the principal amount of defaulted loans on which TGSLC paid a default claim during the fiscal year ended September 30, 1992 pursuant to its guarantee obligations, 58 % were for proprietary school loans, 31 % were for four-year school loans and 11 % were for two-year school loans.

TGSLC is authorized under the Education Code to impose and collect insurance premiums from the student borrower in an amount not to exceed the maximum amount allowable under the Higher Education Act. TGSLC is required to engage in collection efforts under the Education Code on a loan on which it pays a default claim and is required to enforce standards and procedures for the exercise of due diligence by Eligible Lenders in the making, servicing and collecting of loans. TGSLC standards and procedures for the exercise of due diligence by Eligible Lenders are included in the *TGSLC Policy and Procedures Manual*.

**Reserve Fund.** The Education Code provides that TGSLC shall establish a reserve fund into which all moneys received by TGSLC shall be deposited. Within such reserve fund, TGSLC is required to establish an operating account and a guarantee account. The guarantee account is restricted to meeting claims of Eligible Lenders on defaulted loans and repaying indebtedness incurred for meeting claims of Eligible Lenders on defaulted loans. TGSLC may establish other accounts in the reserve fund as required or permitted by law.

The Education Code provides that insurance premium receipts, administrative cost allowance receipts, collections on defaulted Student Loan notes held by TGSLC, and investment earnings on the reserve fund (except investment earnings of the guarantee account earned after

September 30, 1983) shall be deposited in the operating account. Moneys in the operating account must be used to meet administrative and operating expenses.

The Education Code provides that federal money advanced for the purpose of establishing or strengthening the reserve fund shall be deposited to the guarantee account, together with corporate earnings not needed for the proper administration of the program, contributions, gifts, grants, federal reinsurance receipts and certain investment earnings on the guarantee account. TGSLC may pledge and utilize money in the guarantee account to repay indebtedness incurred for meeting the claims of Eligible Lenders on defaulted loans. The Education Code does not set a minimum amount which must be on deposit in the guarantee account. However, TGSLC is contractually obligated to maintain the guarantee account in an amount equal to not less than 1.5% of the outstanding and disbursed principal amount of student loans guaranteed by it until the loans subject to the contract are retired. On May 22, 1987, the Board of Directors affirmed its policy to maintain a 1.5% guarantee account ratio. Also on May 22, 1987, the Board of Directors of TGSLC adopted a resolution directing the staff of TGSLC to execute new "Standard Lender Participation Agreements" with all Eligible Lenders which make loans guaranteed by TGSLC. The new Standard Lender Participation Agreements require TGSLC to maintain amounts consisting of cash, cash equivalents, reinsurance receivables and marketable securities in the guarantee account in an amount not less than 1% of the outstanding amount of all TGSLC guaranteed student loans as long as any loans made under any such Standard Lender Participation Agreement are outstanding. TGSLC is contractually obligated to maintain the guarantee account at the 1.5% level until certain loans originated before the execution of the new Standard Lender Participation Agreements have been retired.

As of December 31, 1992, the estimated disbursed and outstanding principal amount of such student loans was \$2,086,306,104 (\$2,377,391,290 if the HEAF loans described in the following subsection are included) and the amount on deposit in the guarantee account was \$47,459,052 (including \$15,729,370 in federal receivables) (which was approximately 2.27% (2.00% if the HEAF loans described in the following subsection are included) of the disbursed and outstanding principal amount of such student loans).

There can be no assurance that the amounts in the reserve fund will be sufficient or that sufficient funds will otherwise be available to TGSLC to meet its operational needs and guarantee obligations.

*TGSLC's Assumption of Loans Originally Guaranteed by HEAF.* In 1991, another guarantee agency under the federal student loan program known as the Higher Education Assistance Foundation ("HEAF") began transferring its portfolio of guaranteed student loans to other guarantee agencies throughout the United States pursuant to an agreement between HEAF and the Department of Education relating to the termination of HEAF as a guarantee agency under the federal student loan program. On or about September 12, 1991, TGSLC entered into a "Loan Guarantee Transfer Agreement" (the "Transfer Agreement") with HEAF pursuant to which TGSLC agreed to accept and assume as its own obligations up to \$667 million in original principal amount of loans originally guaranteed by HEAF. The Transfer Agreement anticipated that approximately \$605 million in original principal amount of HEAF loans would be transferred to TGSLC before September 30, 1991. The Transfer Agreement was amended on

September 24, 1992 to provide that TGSLC would assume up to \$810 million of loans originally guaranteed by HEAF. The amended Transfer Agreement provided that an additional \$125 million would be transferred to TGSLC between October 1, 1991 and September 30, 1992, and the remaining \$80 million would be transferred to TGSLC between October 1, 1992 and September 30, 1993.

Pursuant to the Transfer Agreement, approximately \$602 million and \$132 million in original principal amount of HEAF loans were transferred to and assumed by TGSLC during fiscal years ending September 30, 1991 and 1992, respectively. Since that time, TGSLC has assumed no additional HEAF loans.

TGSLC believes the assumption of HEAF loans will have a significant long-term beneficial effect on TGSLC's financial status. The portfolio of HEAF loans transferred to and assumed by TGSLC are expected by TGSLC to have extremely low default characteristics based on the length of time such loans have been in repayment (seasoning), the high percentage of such loans which were made to students attending four-year schools, and the historically low default rate of such loans. It is expected that the addition of the HEAF loans will have a positive effect on TGSLC's reserve fund by reducing the expected overall default rate that determines the non-reinsured portion of claims. The formula used to calculate TGSLC's share of claims each year includes loans at their original disbursed value until they are paid in full, regardless of the then current outstanding principal balance. TGSLC believes that the addition of the HEAF loans positively affected this calculation for fiscal year ended September 30, 1992, and will continue to have a positive effect as long as the loans remain in repayment.

***No Liability to Bondholders.*** The information concerning TGSLC in this Official Statement has been provided for the sole purpose of describing TGSLC's function as Guarantor of certain of the Student Loans. TGSLC has no obligation or liability of any kind to the Bondholders to pay the principal of or interest on the Bonds.

***Miscellaneous.*** Liabilities created by TGSLC are not debts of the State of Texas and TGSLC may not secure any liability with funds or assets of the State. TGSLC is subject to the Texas Sunset Act (Chapter 325, Government Code) and, unless continued in existence as provided by such act, TGSLC will be abolished on September 1, 2001. If TGSLC is abolished, the Comptroller of Public Accounts of the State of Texas is required under the Education Code to serve as trustee to administer the assets of the TGSLC and satisfy its outstanding obligations.

## **SERVICING OF THE LOANS**

The information set forth below with respect to the Servicer and the Subservicers has been obtained from the Servicer and the Subservicers, respectively, and neither the Authority nor the Underwriters make any representation as to its accuracy or completeness.

## Higher Education Servicing Corporation

**General.** Prior to the delivery of the Bonds, the Authority will enter into a servicing agreement (the "Servicing Agreement") with the Higher Education Servicing Corporation (the "Servicer"), a non-profit corporation organized under the Texas Non-Profit Corporation Act in September 1978 to provide Texas higher education authorities with student loan billing and servicing, and to provide headquarters and administrative support services to such authorities. The Servicer is located at 201 East Abram, Suite 800, Arlington, Texas 76010-1196, Telephone (817) 265-9158 and is governed by a self-perpetuating five-member Board of Directors, one of whom is nominated by the Authority and two of whom were nominated by higher education authorities which are no longer active but with which the Servicer has had servicing agreements in the past. The present Board of Directors is as follows:

<u>Name and Position Held</u>	<u>Principal Occupation</u>
Mr. Marion L. Jacob President	Director of Student Financial Aid (Retired) University of Texas at Arlington
Dr. Jerry Lytle Vice President	Director of Placement (Retired) East Texas State University
Dr. Samuel Hamlett Secretary/Treasurer	Professor of Political Science (Retired) University of Texas at Arlington
Mr. Governor E. Jackson	Director of Student Financial Aid Texas Woman's University Denton, Texas (1)
Mrs. Kris Anne Vogelpohl	Secretary, Southwest Medical Association Auxiliary

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(1) Also serves as President and a member of the Board of Directors of the Authority.

The current staff of the Servicer consists of thirty permanent full-time, one permanent part-time and twenty part-time temporary employees. The following is a brief description of the qualifications of the professional staff:

Kathryn Bryan, Executive Director - Ms. Bryan has been employed by the Servicer since April 1983. She is active in state and regional professional organizations. Ms. Bryan has two years experience in financial aid administration as Director of Financial Aid for a business school in the State of Texas with sole responsibility for administration of the GSL program. Her background also includes 10 years experience in public accounting and 2 years in higher education administration. Ms. Bryan holds a B.S. degree, an M.S. degree in Business Education and an M.B.A. in Management degree all from East Texas State University

Joe B. Henry, Associate Executive Director - Dr. Henry has more than 25 years of experience in student financial aid administration at the institutional, state and national agency level. Prior to joining the Servicer he was Director, Corporate Services for the Texas Guaranteed Student Loan Corporation. He has a Ph.D. in Education from the University of Missouri at Columbia.

Susan Harrison, Director of Accounting - Mrs. Harrison's background includes eight years experience in private industry accounting office management and personnel. Mrs. Harrison holds a B.B.A. degree in Accounting from the University of Texas at Austin.

Paulette Walker, Director Loan Services - Ms. Walker has managerial responsibility for the Servicing Departments, comprised of customer service, skip tracing, claim filing and cures. She also provides statistical and reporting support to the Director of Accounting. She has ten years of student loan experience consisting of eight years at a loan servicer in Florida and two years at the state secondary market in Louisiana. Ms. Walker attended Oklahoma State University.

Elizabeth Garrett, Director of Acquisitions - Ms. Garrett has management responsibility for the Loan Acquisition and Loan Consolidation Departments. She has previous management experience with Southwestern Bell. Her most recent experience consists of ten years in banking, including student loan collections, Loan Officer and Vice President. Ms. Garrett has completed five courses from the American Institute of Banking.

***The Servicing Agreement.*** Under the Servicing Agreement, the Servicer has agreed to service the Student Loans on behalf of the Trustee and the Authority, and to comply with all legal requirements and other procedures promulgated by the Secretary, any Guarantor or the Authority in processing, collecting and otherwise servicing all Student Loans. Under the Servicing Agreement, all students loan notes purchased by the Authority will be held by the Trustee, except for those held pursuant to a custodian agreement executed by the Trustee and the Authority, and acknowledged by the Servicer.

Pursuant to the Servicing Agreement, the Servicer will review student loans to be purchased by the Authority and will use its best efforts to insure that the representations, guarantees and warranties of the sellers included in the student loan purchase agreements have been made and are evidenced by appropriate documentation. The Servicer will certify to the Trustee that to the best of its knowledge each student loan qualifies in all respects as an Eligible Student Loan under the Indenture, that each student loan bears interest at a rate not less than that permitted under the Indenture and that all documentation required by the student loan purchase agreement to accompany the student loan is present and in the proper form. As long as the Servicer maintains a best efforts standard in fulfilling this covenant, it is not responsible or liable for the loss or voiding of the insurance or the guarantee on any student loan when such loss or voiding has been caused by the action, or failure to act, on the part of an Eligible Lender or any other persons or entity.

The Servicer, under the Servicing Agreement, is required to collect amounts due from a seller of student loans which has failed to comply with the due diligence requirements of the

Secretary, a Guarantor or the Authority in originating, selling, servicing or transferring a student loan.

The Servicer will maintain a current document file for each borrower with an outstanding student loan. It will update the Student Borrowers' files according to the current enrollment status of the student borrowers after the registration dates for the fall and spring enrollment periods, and will request such information if it is not provided. Prior to the termination of the grace period on a student borrower's account, the Servicer will mail to the borrower a repayment schedule. If the Servicer has received notice that a student borrower has ceased enrollment in Eligible Institution on at least half-time basis, it will send the student borrower a statement of loan account and/or disclosure statement, as well as a coupon book. If the repayment of any student loan becomes delinquent, the Servicer will perform collection efforts as described in the Servicing Agreement.

The Servicer will prepare and send to the Trustee information to be added to the quarterly request for payment of all interest subsidies due and all special allowances payments. The Servicer is also responsible for depositing in its "lock box account" all payments received by it, and for transferring these to the Trustee, along with information regarding the origin of the funds. Servicing and collection reports pertaining to the student loans will be prepared and retained by the Servicer.

The Authority has agreed to hold the Servicer harmless for any insurance claim which the Secretary or Guarantor refuses to pay because of a failure on the part of the originating lender to exercise due diligence in the loan origination process. The Authority will indemnify and hold the Servicer harmless for any and all loss, damage, cost or expense (including reasonable legal expenses but excluding consequential damages), suit or other claims arising out of any acts performed by the Servicer, except those arising out of the Servicer's own negligence or that of its sub-agents or the Servicer's acts which are unauthorized or not within the scope of the Servicing Agreement. The Servicer will not be accountable or responsible for any action of the Authority or the Trustee.

The Servicer has agreed to provide internal accounting and to maintain corporate records for the Authority, to review monthly the flow of funds as set forth in the Indenture, to prepare documents, reports, tax returns, or any other required forms on behalf of the Authority. The Servicer has also agreed to prepare for adoption by the Authority all budgets or amendments thereto, to prepare reports, documents, agendas and meeting notices necessary for the affairs of the Authority's Board of Directors, and to keep and maintain all records of the meetings and business affairs of the Authority as directed by the Secretary of the Authority's Board of Directors.

The Authority will pay the Servicer monthly and will also reimburse it for any fees paid on behalf of the Authority pursuant to the Indenture. All fees or other obligations payable to the Servicer pursuant to the Servicing Agreement will be derived only from assets in the Trust Estate established in the Indenture.

Except for the Subservicing Agreements described herein, the Servicer has agreed not to subcontract its duties without the prior written consent of the Authority and the Trustee.

#### **EduServ Technologies-North Carolina, Inc.**

*General.* The Servicer has entered into a Servicing Agreement (the "EduServ Subservicing Agreement") with EduServ Technologies-North Carolina, Inc., previously known as Wachovia Student Financial Services, Inc., as subservicer ("EduServ"). EduServ is a wholly-owned subsidiary of EduServ Technologies, Inc., which has student loan servicing operations in St. Paul, Minnesota, Winston-Salem, North Carolina and Salt Lake City, Utah. The EduServ group is the largest servicer of student loans, servicing over 8 billion dollars of student loans, including federally insured loans for more than 500 lenders and campus-based student loan programs for more than 700 colleges and universities. EduServ has customers located in each of the 50 states, the U.S. Virgin Islands, Puerto Rico and the District of Columbia.

The information included herein relating to EduServ has been obtained from EduServ and has not been independently verified by the Authority or the Underwriters. The inclusion of this information is not, and should not be construed as, a representation by the Authority or the Underwriters of their respective counsel as to its accuracy or completeness or otherwise.

*The EduServ Subservicing Agreement.* The EduServ Subservicing Agreement was originally entered into in 1981 to provide for the subservicing of the Authority's student loans and may be canceled by the Servicer or EduServ upon 90 days' notice.

EduServ provides both "basic" and "full service" servicing options under the EduServ Subservicing Agreement. Substantially all of the student loans in the Trust Estate on the Issue Date for the Series 1993 Bonds are under basic servicing, which excludes note examination and claims filing. These functions are performed by the Servicer. The Servicer is responsible for auditing all processed records and for reporting any errors to EduServ within 60 days of receipt of the records. The Servicer will also retain responsibility for the preparation and submission of all governmental reports or requests for data, but EduServ will supply supporting data and reports. EduServ is not responsible for delays or failures in performance resulting from acts beyond its control.

EduServ has agreed to indemnify the Servicer for any actual monetary loss sustained by the Servicer as a result of EduServ's failure to perform its obligations under the EduServ Subservicing Agreement. EduServ is not liable for special, consequential or punitive damages. In the event the Servicer's records or other data are lost or damaged due to the failure of EduServ to exercise reasonable care, EduServ's liability will not exceed the reasonable cost of reproducing such records or data. The EduServ Subservicing Agreement and any or all rights of the Servicer stated therein may be assigned by EduServ without the consent of the Servicer.

#### **UNIPAC SERVICE CORPORATION**

*General.* The Servicer has additionally entered into a Guaranteed Student Loan Program Servicing Agreement (the "UNIPAC Subservicing Agreement") with UNIPAC Service

Corporation ("UNIPAC"), a Nebraska corporation headquartered in Aurora, Colorado. UNIPAC began its education loan servicing operations on January 1, 1978, and provides education loan servicing, time sharing, administration and other services to lenders, secondary market purchasers and guarantee agencies throughout the United States. In order to provide these services, UNIPAC has developed and maintains a computer mainframe and software system.

UNIPAC's due diligence schedule is conducted through automated letter generation. Telephone calls are made by an auto-dialer system. All functions are monitored by an internal quality control system to ensure their performance. Compliance training is provided on both a centralized and unit level basis. In addition, UNIPAC has distinct compliance and internal auditing departments whose functions are to advise and coordinate compliance issues.

UNIPAC is owned 80.5% by Union Bank and Trust Company of Nebraska. As of March 31, 1993, UNIPAC had approximately 700 employees in Aurora and had an office in Lincoln, Nebraska with approximately 100 employees. As of March 31, 1993, UNIPAC's full servicing volume was approximately \$3.0 billion for its full service clients. UNIPAC also has \$1 billion of servicing volume on its remote lender servicing system and \$1.7 billion of servicing volume on its remote guarantee system.

The information included herein relating to UNIPAC has been obtained from UNIPAC and has not been independently verified by the Authority or the Underwriters. The inclusion of this information is not, and should not be construed as, a representation by the Authority or the Underwriters of their respective counsel as to its accuracy or completeness or otherwise.

***The UNIPAC Subservicing Agreement.*** The UNIPAC Subservicing Agreement, originally entered on October 1, 1992, provides for an initial term of three years and may be renewed for an additional term of three years. No Student Loans currently in the Trust Estate are serviced under the UNIPAC Subservicing Agreement, but the Servicer expects several lenders in the Authority's Student Loan Program to commence selling student loans to the Authority which are currently serviced by UNIPAC, and the Servicer anticipates maintaining such student loans on the UNIPAC system.

When the Servicer delivers to UNIPAC Completed Student Loans (student loans for which loan processing has been completed and loan proceeds have been disbursed to the borrowers prior to the date of delivery) to be serviced, UNIPAC is responsible for providing data entry services of loan information, preparing inventories of documents in the file, and reconciling loans actually purchased on the sale date. When portfolios are converted to the UNIPAC system, the Servicer is responsible for performing promissory note examination and completion of the UNIPAC Data Entry Form, performing loan file review and analysis, and providing loan documents, the completed UNIPAC Data Entry Form, and loan file analysis to UNIPAC prior to the sale date.

Upon acceptance of any Completed Student Loan and after the sale date of the Completed Student Loan, UNIPAC will service such student loan in accordance with the Higher Education Act and Regulations. Specifically, UNIPAC has agreed to take all steps necessary to maintain

the insurance on student loans, to prepare and mail to the borrower all required statements, notices, disclosures and demands, to retain records for each student loan, to provide accounting for all transactions related to individual student loans, to process all deferments and forbearance, to process and update accordingly all address changes, to retain all documents received by UNIPAC, to take all steps necessary to file a claim for loss with a Guarantor when necessary and allowable by the Higher Education Act, to provide a Lender's Manifest of Student Loans and any other information required by the Guarantor, to provide other customary and appropriate services, to provide each student borrower with a coupon book to facilitate the making of payments, to exercise reasonable efforts to collect all payments due from the Secretary and the Guarantor, to comply with the procedures and requirements of the Higher Education Act with respect to the collection of delinquent loans, to exercise reasonable diligent efforts to collect any benefits payable by the Guarantor or otherwise payable, and to transfer or cause to be transferred to any trustee of a financing authority that is serviced by the Servicer all funds held in the account referred to in the UNIPAC Subservicing Agreement.

UNIPAC assumes no responsibility or liability for failure of the Servicer to exercise reasonable care or due diligence and the results thereof, in making or servicing a student loan prior to placing of the student loan on UNIPAC's system. UNIPAC also assumes no liability for the failure of any Borrower to repay his or her loan, nor the failure of the Guarantor to make payment of any principal and/or interest on any of the Student Loans, unless such failure is caused solely by UNIPAC's failure to exercise reasonable care in servicing the student loans in accordance with the UNIPAC Subservicing Agreement. Reasonable care means compliance with the Higher Education Act and the Regulations.

In the event a loan guarantee claim is rejected by a Guarantor due to the fault of UNIPAC, UNIPAC will promptly undertake cure procedures approved by the applicable Guarantor, for a period of up to six (6) months to attempt reinstatement of the guarantee. After this time period, if the guarantee is not reinstated, UNIPAC will reimburse the Authority for principal and interest and special allowance payments, if applicable, it has lost on the student loan. If the guarantee is reinstated, UNIPAC will reimburse the Authority for any amounts lost on the student loan prior to its reinstatement.

In addition, the Servicer and UNIPAC have agreed to indemnify each other for certain damages caused by the other party. The UNIPAC Subservicing Agreement may not be assigned by either party without the prior written consent of the other.

#### **TAX EXEMPTION**

The delivery of the Series 1993 Bonds is subject to an opinion of Fulbright & Jaworski L.L.P., Bond Counsel to the Authority ("Bond Counsel"), to the effect that interest on the Series 1993 Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of the issuance of the Series 1993 Bonds (the "Code"), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, existing regulations, published rulings, and court decisions. It should be noted that the statutes, regulations, rulings and court decisions on which such opinion is based are subject to change.

BOND COUNSEL'S OPINION WILL NOTE THAT INTEREST ON THE SERIES 1993 BONDS WILL BE A PREFERENCE ITEM FULLY INCLUDABLE IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF OWNERS OF THE SERIES 1993 BONDS WHICH ARE INDIVIDUALS, CORPORATIONS, TRUSTS OR ESTATES. ALTERNATIVE MINIMUM TAXABLE INCOME IS THE BASIS ON WHICH IS COMPUTED THE ALTERNATIVE MINIMUM TAX IMPOSED ON INDIVIDUALS, CORPORATIONS, TRUSTS, AND ESTATES BY SECTION 55 OF THE CODE AND THE ENVIRONMENTAL TAX IMPOSED ON CORPORATIONS BY SECTION 59A OF THE CODE.

In rendering the foregoing opinion, Bond Counsel has relied upon representations and certifications of the Authority pertaining to the use, expenditure, and investment of the proceeds of the Series 1993 Bonds and has assumed continuing compliance with the provisions of the Indenture subsequent to the issuance of the Series 1993 Bonds. The Indenture contains covenants by the Authority with respect to, among other matters, the use of the proceeds of the Series 1993 Bonds, the manner in which the proceeds of such Series 1993 Bonds are to be invested, the periodic calculations and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Series 1993 Bonds issued under the Indenture to be includable in the gross income for federal income tax purposes of the owners thereof from the date of the issuance of the Series 1993 Bonds.

Bond Counsel's opinion will note that the Indenture provides that prior to taking certain actions, including converting the interest rate on the Series 1993A Bonds to a Fixed Interest Rate, the Authority must have received an opinion of counsel nationally recognized in the field of municipal law to the effect that such action will not adversely affect the excludability of the interest on the Series 1993 Bonds issued under the Indenture from gross income of the owners thereof for federal income tax purposes (an "Opinion of Bond Counsel"). No opinion will be expressed as to the effect on the exclusion from gross income for federal income tax purposes of interest on the Series 1993 Bonds on and after the taking of any action under the Indenture which requires that the Authority will have received an Opinion of Bond Counsel, as such Opinion of Bond Counsel must be rendered in connection with such action and is dependent upon the occurrence of certain events in the future.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 1993 Bonds. Prospective purchasers of the Series 1993 Bonds should be aware that the ownership of tax-exempt obligations such as the Series 1993 Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with "Subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain

expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

## **UNDERWRITING**

The Series 1993 Bonds are being purchased for reoffering by PaineWebber Incorporated, Banc One Capital Corporation and NationsBanc Capital Markets, Inc. at an aggregate purchase price of \$139,025,600, being an amount equal to the par amount of the Series 1993 Bonds less an Underwriters' discount of \$974,400, plus accrued interest, if any, pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Authority and the Underwriters. The obligation of the Underwriters to accept delivery of the Series 1993 Bonds is subject to various conditions set forth in the Bond Purchase Agreement, and the Underwriters are obligated to purchase all of the Series 1993 Bonds if they purchase any of the Series 1993 Bonds.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 1993 Bonds to the public, and may offer and sell the Series 1993 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page hereof. After the initial public offering, the public offering price may be changed from time to time by the Underwriters.

The Authority has agreed to indemnify the Underwriters against certain liabilities relating to this Official Statement, or to contribute to payments the Underwriters may be required to make in respect thereof.

## **FINANCIAL STATEMENTS**

The general purpose financial statements for the Authority's fiscal year ended August 31, 1992 are included in Appendix III to this Official Statement.

The general purpose financial statements for TGSLC's fiscal year ended September 30, 1992, and the three-month period ended December 31, 1992 are included in Appendices IV and V to this Official Statement.

## **LEGAL MATTERS**

The validity and issuance of the Series 1993 Bonds are subject to the approving legal opinion of the Attorney General of the State of Texas and of Fulbright & Jaworski L.L.P., Bond Counsel. Certain legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., special counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock, Denver, Colorado.

## **CERTAIN LEGAL PROCEEDINGS**

There is currently no litigation pending or, to the knowledge of the Authority, threatened, which would have the effect of prohibiting the sale or delivery of the Series 1993 Bonds or the pledge of the Trust Estate as provided by the Indenture, or which would adversely affect the Authority's Student Loan Program or business and operations.

## **RATINGS**

Moody's Investors Service has assigned the Series 1993A Bonds its short-term rating of "VMIG 1" and its long-term rating of "Aaa." Moody's Investors Service has assigned the Series 1993B Bonds its long-term rating of "Aaa," the Series 1993C Bonds its long-term rating of "Aa" and the Series 1993D Bonds its long-term rating of "A." It should be noted that the short-term rating on the Series 1993A Bonds shall only be applicable to the Series 1993A Bonds so long as they bear interest at the Weekly Rate or certain Intermediate Term Rates. The ratings reflect only the view of such rating agency. Any explanation of the significance of the ratings may be obtained only from the rating agency. Information may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of such rating agency, circumstances so warrant. The Authority and the Underwriters have no obligation to bring to the attention of the Owners of the Series 1993 Bonds any downward revision or withdrawal of a rating. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 1993 Bonds.

## **OTHER MATTERS**

The information set forth herein has been obtained from the Authority's records and other sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. Any statement in this Official Statement including matters of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. This Official Statement is not to be construed as an agreement or contract between the Authority and the purchasers of any of the Series 1993 Bonds.

All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The distribution of this Official Statement has been duly authorized by the Authority.

NORTH TEXAS HIGHER EDUCATION  
AUTHORITY, INC.

By     /s/ Governor E. Jackson      
President

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## APPENDIX I

### DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

**This summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.**

#### **General**

The Federal Family Education Loan Program, formerly referred to as the Guaranteed Student Loan Program, established by title IV, part B of the Higher Education Act of 1965, as amended (the "Higher Education Act"), provides for a program of (i) direct federal insurance of student loans and (ii) reinsurance of student loans guaranteed or insured by a state agency or private nonprofit corporation. Since the passage of the Higher Education Act, over \$140 billion of loans have been made to students, including a record \$14.8 billion of new loans made to 4.5 million students during the federal government's 1992 fiscal year. Loans under the Federal Family Education Loan Program are made to undergraduate students, parents of dependent undergraduate students and graduate and professional students attending colleges, universities, and trade and technical schools. Several types of loans are currently authorized pursuant to the Federal Family Education Loan Program, including: (i) loans with respect to which the federal government makes the borrower's interest payments during certain in-school, grace and deferment periods described herein ("Subsidized Federal Stafford Loans"); (ii) supplemental loans with respect to which interest becomes due and payable prior to the commencement of principal repayment ("Unsubsidized Federal Stafford Loans"); (iii) loans by eligible institutions made directly to students with funds provided by the federal government ("Direct Federal Loans"); (iv) supplemental loans to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students ("Federal Supplemental Loans to Students"); (v) supplemental loans to parents of dependent students ("Federal PLUS Loans"); and (vi) loans to fund payment and consolidation of the borrower's obligations ("Federal Consolidation Loans").

#### **Legislative and Administrative Matters**

Since its enactment in 1965, both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. The Higher Education Act most recently was amended by enactment of the Higher Education Amendments of 1992 (the "1992 Amendments"), the general provisions of which became effective on July 23, 1992 and which extend the principal provisions of the Federal Family Education Loan Program to September 30, 1998 (or in the case of borrowers

who have received loans prior to that date, September 30, 2002, except that authority to make Federal Consolidation Loans expires on September 30, 1998). The significant changes to the Higher Education Act made by the 1992 Amendments were the creation of the Unsubsidized Federal Stafford Loan program, the authorization of a pilot program for the Direct Federal Loans, the removal of the borrowing limits on Federal PLUS Loans, the establishment of variable interest rates for new Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans (collectively, "Federal Stafford Loans") and the amendment of certain deferment and payment provisions. Certain of the provisions of the 1992 Amendments apply only to borrowers who did not have any outstanding Federal Family Education Loans outstanding as of certain effective dates enumerated in the 1992 Amendments ("New Borrowers"), while borrowers with existing Federal Family Education Loans outstanding as of such dates ("Existing Borrowers") remain subject to the provision of the Higher Education Act in effect prior to the 1992 Amendments. The vast majority of the Eligible Student Loans purchased by the Authority will have been made to Existing Borrowers.

The availability of various federal payments in connection with the Federal Family Education Loan Program is subject to federal budgetary appropriation. The Federal Family Education Loan Program presently costs the federal government approximately \$5 billion per year. In recent years, federal budgetary legislation had been enacted which had provided, subject to certain federal budget expenditures including expenditures in connection with the Federal Family Education Loan Program, for the recovery of certain advances previously made by the federal government to guarantors in order to achieve certain deficit reduction targets. The 1992 Amendments nullified these prior legislative measures. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation or regulatory actions upon expenditures by the Department of Education, upon the financial conditions of any Guarantor or upon the Authority's Student Loan Program.

Although there can be no assurance as to the impact of future legislative and administrative activity, the Authority is currently unaware of any proposal which, in its opinion, is likely to be adopted and which will, if enacted, materially and adversely affect its expectations as to the sufficiency of Net Revenues and amounts held in the Funds and Accounts established by the Indenture for the applications required thereby and as to its ability to comply with the provisions of the Indenture. The present administration, however, has indicated an interest in implementing a variety of changes in the student loan programs. If such changes were to include a widely implemented direct lending program, the role of lending institutions or secondary markets such as the Authority could be severely limited in the future.

### **Higher Education Act Amendments of 1990**

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) (the "1990 Reconciliation Act") contained major revisions to the Higher Education Act and the Congressional Budget Act affecting the Federal Family Education Loan Program. These changes included the Credit Reform Act of 1990, revisions to the budget process (including certain

revenue and spending limits) and new restrictions on the eligibility of education institutions in the Federal Family Education Loan Program.

Under the Credit Reform Act of 1990, beginning in fiscal year 1992, commencing October 1, 1991, the budgeted cost of the Federal Family Education Loan Program will include the present value of the long-term cost to the government of loans during the fiscal year (excluding administrative costs and certain incidental costs), regardless of how far into the future the costs will be incurred. The costs resulting from loan reinsurance commitments made prior to fiscal year 1992 will also be reflected in future budgets based on the years in which they are paid.

The 1990 Reconciliation Act made major changes in the provisions granting eligibility to educational institutions to participate in the Federal Family Education Loan Program. The 1990 Reconciliation Act eliminated eligibility for any institution with a default rate over 35 percent, with the exception of historically black colleges and certain tribal controlled community colleges. In addition, the 1992 Amendments extended a requirement originally enacted in the 1989 Budget Act excluding institutions with a default rate of over 30 percent from the Federal Supplemental Loan to Students program. Both of these changes were intended to eliminate from the Federal Family Education Loan Program many new loans with a high probability of default. Furthermore, the 1992 Amendments lower the default rate trigger for disqualifying schools to 25 percent beginning in fiscal year 1994.

### **Enforcement of Spending Limits**

To ensure that revenue levels and spending limits established in the 1990 Reconciliation Act are realized during the five-year period covered by the 1990 Reconciliation Act, the legislation creates a "pay-as-you-go" process that includes budget sequestration. The legislation divides the budget into three parts for this purpose -- receipts (e.g., tax revenues), discretionary spending and entitlement. The Federal Family Education Loan Program is considered an entitlement for this purpose.

If new entitlement spending would cause the entitlement spending limits of the 1990 Reconciliation Act to be breached in a fiscal year, the 1990 Reconciliation Act requires the President to order "across-the-board" cuts in entitlement to insure that the spending limits are met. Thus, new spending in Medicare, for example, could cause a sequester affecting the Federal Family Education Loan Program.

A sequester is ordered within 15 days of the end of the session of Congress that is underway at the beginning of the fiscal year. If legislation enacted in the next session of Congress would cause the spending limits to be exceeded, a sequester is ordered 14 days after enactment of that legislation, for legislation enacted before July 1 of the fiscal year. For legislation enacted after July 1, the following year's limits are reduced by the amount of the excess spending created by the new legislation in the current year.

New entitlement spending caused by economic conditions, interest rates or increased utilization do not violate the spending limits established by the 1990 Reconciliation Act. Only legislative actions creating new spending are covered. In fiscal years 1994 and 1995, the President is authorized to order a sequester if certain deficit targets are not met, even if no new entitlement legislation has been enacted.

A special sequestration rule applicable to the Federal Family Education Loan Program under prior law is maintained in the new budget process. See Section 256(c) of the Balanced Budget and Deficit Reduction Act of 1985, 2 U.S.C. 906(c) (the "1985 Budget Act"). Under Section 252B of the 1985 Budget Act, as amended, if specified reductions in the National Wood Act Program, the Special Milk Program and the Vocational Rehabilitation Program fail to achieve the required savings, the special sequestration rule for the Federal Family Education Loan Program applies. Under this special rule, any Federal Family Education Loan Program made in the fiscal year sequestration is in effect is subject to a reduced special allowance rate based on the 91-day Treasury bill plus 3.0 percent for the first four calendar years that the loan is outstanding and, for a Federal Stafford Loan, the borrower's loan origination fee is increased by 0.5 percent.

No assurance can be given that sequestration will not have an adverse affect on the Federal Family Education Loan Program in future years.

### **Qualified Student**

Generally, a Federal Family Education Loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (c) is not in default on a loan made pursuant to the Federal Family Education Loan Program, and (d) meets the applicable "need" requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations.

Each loan is to be evidenced by an unsecured note which provides for repayment of the principal amount of the loan in installments over a period of not less than five years (unless the student specifically requests a shorter period) nor more than ten years (other than Federal Consolidation Loans) beginning, in the case of Federal Stafford Loans, six months after the month in which the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution, or, in the case of Federal Supplemental Loans to Student and Federal Plus Loans, within 60 days after disbursement. In addition, the note securing the loan must provide that the periodic installments of principal need not be paid, but interest shall accrue and be paid, during any In-School Period, Grace Period or Forbearance Period, each as described below. All loans are, however, subject to prepayment by the borrower without penalty.

## **Subsidized Federal Stafford Loans**

The Higher Education Act provides for federal (i) insurance or reinsurance of eligible Subsidized Federal Stafford Loans, (ii) interest subsidy payments ("Interest Subsidy Payments") to eligible lenders with respect to certain eligible Subsidized Federal Stafford Loans, and (iii) special allowance payments ("Special Allowance Payments") representing an additional subsidy paid by the Secretary to the holders of eligible Subsidized Federal Stafford Loans. Subsidized Federal Stafford Loans represent approximately 75% of the principal amount of Federal Family Education Loans made in any fiscal year and are available solely to needy undergraduate, graduate and professional students.

Interest Rates. The interest rate on a borrower's Subsidized Federal Stafford Loan depends largely upon whether the borrower has any outstanding debt under the Federal Family Education Loan Program. As a rule, borrowers with outstanding debt retain the interest rate provided in their previous Subsidized Federal Stafford Loans. Subsidized Federal Stafford Loans for which the first disbursement is made on or after October 1, 1992 to a New Borrower will bear interest at an annually adjusted variable rate equal to the bond equivalent of 91-day Treasury Bills auctioned at the final auction held prior to June 1 of each year plus 3.10 percent, except that such rate may not exceed 9 percent. The Subsidized Federal Stafford Loan rate for New Borrowers is 6.94% through June 30, 1993. Existing Borrowers with outstanding balances of insured or guaranteed loans prior to October 1, 1992 bear interest at the following rates: (1) not to exceed 7 percent for borrowers with outstanding loans which bear interest at a rate not exceeding 7 percent, (2) 9 percent for borrowers with outstanding loans prior to July 1, 1988 which loans all bear interest at a rate exceeding 7 percent, (3) 8 percent for the period beginning on the date of the first disbursement and ending four years after the commencement of repayment and 10 percent thereafter for borrowers with outstanding loans prior to October 1, 1992, but not prior to July 1, 1988, subject, however, to a provision requiring annual discharge of principal to the extent that the sum of quarterly calculations of the amount by which interest calculated upon the rate of 10% per annum exceeds the amount which would result from application of a rate equivalent to the Treasury bill rate plus 3.25%. New loans made to Existing Borrowers after July 23, 1992 are also subject to an excess interest provision, the rate with which the quarterly calculation of interest is compared is the bond-equivalent to the 91-day Treasury Bill rate plus 3.10%, and any excess with respect to a loan for a period during which the Secretary is making Interest Subsidy Payments is credited to the Secretary.

Limitations on Borrowing Amounts. Subsidized Federal Stafford Loans are subject to certain limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. Furthermore, Subsidized Federal Stafford Loans are further limited to amounts not exceeding the student's total educational costs, less any other financial assistance for which the student qualifies (e.g. grants, loans or scholarships), less the expected family contribution, as determined pursuant to the

Higher Education Act. Such limitations, however, exclude loans made under the Federal Supplemental Loans for Students and the Federal PLUS Loan programs. In addition, the Secretary has discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education. Loans are disbursed to students in two or more installments, none of which may exceed one-half of the loan amount, with the interval between the first and second installment being not less than one-half the period of such period of enrollment.

Presently, New Borrowers as of July 1, 1993 enrolled in a program at an eligible institution whose length is at least one academic year may borrow up to \$2,625 for the first academic year, up to \$3,500 for the second academic year and up to \$5,500 for each additional academic year, subject to an aggregate limit of \$23,000. Students enrolled in institutions which offer programs whose lengths are less than one academic year are subject to reduced annual limits. Effective October 1, 1993, graduate or professional students may borrow up to \$8,500 per academic year, subject to an aggregate limit of \$65,500, inclusive of loans for undergraduate study. Existing Borrowers as of such dates remain subject to the borrowing limitations contained in the Higher Education Act prior to the 1992 Amendments. Such prior limitations were \$2,625 for the first two academic years and \$4,000 annually thereafter throughout the remainder of the students undergraduate study, subject to a \$17,250 aggregate limitation. Existing Borrowers may additionally borrow up to \$7,500 annually for graduate study, subject to a \$54,750 aggregate limit, inclusive of loans for undergraduate study.

Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Federal Stafford Loan program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Federal Stafford Loan funding to borrowers or the availability of Subsidized Federal Stafford Loans for secondary market acquisition.

Repayment. Repayment of principal on a Subsidized Federal Stafford Loan does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable In-School and Grace Period, as described below. Such In-School and Grace Periods may be waived by borrowers. In general, each Subsidized Federal Stafford Loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600 including principal and interest, unless the borrower and the lender agree to lesser payments. The 1992 Amendments authorize the Secretary to promulgate regulations, effective July 1, 1993, that require lenders to offer graduated or income-sensitive repayment schedules to all borrowers and permit the discharge of the remainder of a loan obligation not later than 25 years after commencement of repayment.

In-School, Grace and Deferment Periods. Periodic payments of principal on a Subsidized Federal Stafford Loan need not be paid during any period during which the borrower is pursuing

at least a half-time course of study at an eligible institution or is pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary, excluding medical internship or residency programs, or pursuant to a rehabilitation training program for individuals with disabilities (each an "In-School Period"), and for a period of six to 12 months thereafter, as described below (each, a "Grace Period"). Repayment of principal of an insured student loan must generally commence following a period of (a) not less than nine months or more than 12 months (with respect to loans for which the applicable interest rate is 7% per annum) and (b) not more than six months (with respect to loans for which the applicable interest rate is 9% per annum or 8% per annum and for loans to New Borrowers on or after July 1, 1988) after the student borrower ceases to pursue at least a half-time course of study. In addition, during certain other periods, not exceeding three years and subject to certain conditions, no principal repayments need be made when a New Borrower is seeking and unable to find full-time employment or for any reason which the lender determines has caused or will cause the borrower to have an economic hardship or for Existing Borrowers while the borrower is a member of the U.S. Armed Forces, an active duty member of the National Oceanic and Atmospheric Administration Corps, an Officer in the Public Health Service, a volunteer in the Peace Corps, under the Domestic Volunteer Service Act of 1973 or such similar programs or organizations, is a full-time teacher in a "teacher shortage area," is temporarily disabled or required to care for a disabled dependent, is unable to find employment or is required to care for a newborn or preschool child (each a "Deferment Period").

**Forbearance.** Forbearance is when a lender grants a borrower temporary relief from the borrower's obligation to repay their loan because the borrower is unable or unwilling to meet their payment obligations. Forbearance is usually used to prevent a loan from defaulting; however, under the 1992 Amendments, Guarantors holding defaulted loans may also use forbearance during collection on a defaulted loan. The 1992 Amendments require forbearance for a borrower who is serving a medical or dental residency or internship and does not qualify for a Deferment Period and for a period of up to three years for borrowers whose student loan debt burden equals or exceeds 20% of their gross income.

### **Interest Subsidy Payments Upon Subsidized Federal Stafford Loans**

The Secretary pays interest on Subsidized Federal Stafford Loans during In-School Periods and Grace Periods and during certain Deferment Periods. Deferment of principal payments is available to borrowers under conditions established by the Higher Education Act. During such periods, the Secretary makes interest subsidy payments to the owners of Subsidized Federal Stafford Loans equal to the amount of interest accruing on the unpaid balance thereof. The Higher Education Act provides that the owner of an eligible Subsidized Federal Stafford Loan is deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

## Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. Special Allowance Payments provide additional income to holders of eligible Federal Family Education Loans, which is meant to provide such holder with a more "equitable" return. The rates for Special Allowances Payments are based on formulas that differ according to the type of loan (Subsidized Federal Stafford Loan or Federal PLUS Loan and Federal Supplemental Loans to Students), the date the loan was originally made or insured and the type of funds used to finance such loan (tax-exempt or taxable). The formulas currently used to calculate Special Allowance Payment rates for Subsidized Federal Stafford Loans are set forth in the following table:

<u>Base Interest Rate on Loan</u>	<u>Annualized SAP Rate/ Pre-October 1980 Loans(1)</u>	<u>Annualized SAP Rate/ Post October 1980 Tax-Exempt Loans(1)</u>
7%	T-Bill - 3.5%	(T-Bill - 3.5%)/2: minimum 2.5%
8%	T-Bill - 4.5%	(T-Bill - 4.5%)/2: minimum 1.5%
9%	T-Bill - 5.5%	(T-Bill - 5.5%)/2: minimum 0.5%

(1) "T-Bill," as used in this table, means the average 13-week Treasury bill rate calculated as a "bond equivalent rate" in the manner applied by the Department of Education as referred to in Section 438 of the Higher Education Act.

As noted in the foregoing table, there are minimum Special Allowance Payment rates for Subsidized Federal Stafford Loans made on and after October 1, 1980 except for 427A Loans, which rates effectively ensure an overall minimum return of 9.5% on such Subsidized Federal Stafford Loans. The formula for Special Allowance Payment rates for Federal PLUS Loans and Federal Supplemental Loans to Students is similar to that for the newer Subsidized Federal Stafford Loans except that no such payments are made until the rate on the Federal PLUS Loans or Federal Supplemental Loans to Students exceeds a certain rate per annum according to the type of loan and based on when the loan was first disbursed. The rate of Special Allowance Payments for Subsidized Federal Stafford Loans first disbursed on or after October 1, 1992 is based on the 91-day Treasury bill rate plus 3.1%. The 1992 Amendments reaffirm that the Special Allowance Payment rate for loans financed through the issuance of tax-exempt bonds shall not be less than 9.5% minus the applicable interest rate on such loans. In order to be eligible for Special Allowance Payments on Federal Plus Loans and Federal Supplemental Loans to Students, the interest rate on Federal PLUS Loans first disbursed on or after October 1, 1992 must exceed 10% and the interest rate for Federal Supplemental Loans to Students first disbursed on or after October 1, 1992 the rate must exceed 11%. The Special Allowance Payment rates applicable to Federal Consolidation Loans are determined by using the new interest rate on the Federal Consolidation Loan, not the interest rates on the individual loans that were consolidated.

## **Federal PLUS and Federal Supplemental Loans to Students**

The Higher Education Act authorizes Federal PLUS Loans to be made to parents of eligible dependent students and Federal Supplemental Loans to Students to be made to certain categories of students. Only parents who do not have an adverse credit history are eligible for Federal PLUS Loans that have a first disbursement date on or after July 1, 1993. Federal Supplemental Loans to Students and Federal PLUS Loans are authorized to be used to help the borrower meet the expected family contribution used in the "financial need" test for the Subsidized Federal Stafford Loans. The basic provisions applicable to Federal PLUS and Federal Supplemental Loans to Students are similar to those of Subsidized Federal Stafford Loans with respect to the involvement of guarantors and the Secretary in providing federal reinsurance on the loans. However, Federal PLUS and Federal Supplemental Loans to Students differ from Subsidized Federal Stafford Loans, particularly because Interest Subsidy Payments are not available under the Federal PLUS Loans and the Federal Supplemental Loans to Students programs and Special Allowance Payments are more restricted.

Federal Supplemental Loans to Students limits for loans disbursed on or after July 1, 1993 will be dependent on the class year of the student and the length of the academic year. The annual loan limit for Federal Supplemental Loans to Students first disbursed on or after July 1, 1993 will range from \$4,000 for first and second year undergraduate borrowers to \$10,000 for graduate borrowers, with a maximum aggregate amount of \$23,000 for undergraduate borrowers and \$73,000 for graduate and professional borrowers. The only limit on the annual and aggregate amounts of Federal PLUS Loans first disbursed on or after July 1, 1993 is the student's unmet financial need. Federal PLUS and Federal Supplemental Loans to Students disbursed prior to July 1, 1993 are limited to \$4,000 per academic year with a maximum aggregate amount of \$20,000. Prior to October 17, 1986, the applicable loan limits were \$3,000 per academic year with a maximum aggregate amount of \$15,000. Federal PLUS Loans and Federal Supplemental Loans to Students are also limited, generally, to the cost of attendance minus other financial aid for which the student is eligible.

Interest rates on Federal PLUS Loans and Federal Supplemental Loans to Students depend upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. For Federal PLUS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12 or 14 percent per annum. A variable interest rate applies to Federal PLUS and Federal Supplemental Loans to Students made and disbursed on or after July 1, 1987 or made to refinance Federal PLUS Loans pursuant to the Higher Education Act. The variable interest rate for Federal PLUS Loans and Federal Supplemental Loans to Students made and disbursed on or after July 1, 1987 but prior to October 1, 1992 is determined on the basis of any 12-month period beginning on July 1 and ending on the following June 30, such that the rate shall be the bond-equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus 3.25 %, with a maximum rate of 12 % per annum. The variable interest rate for Federal PLUS Loans and Federal Supplemental Loans to

Students first disbursed on or after October 1, 1992 is based on the same 12-month period as Federal PLUS Loans and Federal Supplemental Loans to Students disbursed prior to October 1, 1992, except that 3.10% shall be added to the bond equivalent rate of 52-week Treasury bills auctioned prior to the applicable period, with a maximum rate of 11% per annum for Federal Supplemental Loans to Students, and a maximum rate of 10% per annum for Federal PLUS Loans. These new provisions apply regardless of whether a loan was issued to the borrower prior to October 1, 1992. Special Allowance Payments are available on variable rate Federal PLUS and Federal Supplemental Loans to Students only if the rate determined by the formula above would exceed the applicable allowed maximum rate, as described above.

The 1992 Amendments provide Federal Supplemental Loans to Students borrowers the option to defer commencement of repayment of principal until the commencement of repayment of Subsidized Federal Stafford Loans. Otherwise, repayment of principal of Federal PLUS and Federal Supplemental Loans to Students is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Subsidized Federal Stafford Loans. Repayment of interest, however, may be deferred only during certain periods of educational enrollments specified under the Higher Education Act. Further, whereas federal interest subsidy payments are not available for such deferments, the Higher Education Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower.

A borrower may refinance all outstanding Federal PLUS Loans under a single repayment schedule for principal and interest, with the new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such refinanced loan shall be the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a Federal PLUS Loan which was initially originated at a fixed rate prior to July 1, 1987 in order to permit the borrower to obtain the variable interest rate available on Federal PLUS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original Federal PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

### **Federal Consolidation Loans**

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan to simplify or lower monthly payments. Federal Consolidation Loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than Federal PLUS Loans made to "parent borrowers") selected by the borrower, as well as loans made pursuant to the Perkins (formally National Direct Student Loan) and Health Professional Student Loan programs. These loans are available only to borrowers who have aggregate outstanding student loan balances of at least \$7,500. The borrowers may not be delinquent by more than 90 days on any student loan payment; however, for applications received on or after January 1, 1993 delinquent

or defaulted borrowers are eligible to obtain consolidation loans if they agree to re-enter repayment through loan consolidation. Furthermore, borrowers may add additional loans to a Federal Consolidation Loan during the 180-day period following origination of the consolidation loan, and a married couple who agree to be jointly and severally liable will be treated as one borrower for purposes of loan consolidation eligibility. A Federal Consolidation Loan will be federally insured only if such loan is made in compliance with requirements of the Higher Education Act.

Federal Consolidation Loans bear interest at a rate which equals the weighted average of interest rates on the unpaid principal balance of outstanding loans, rounded to the nearest whole percent, with a minimum rate of 9%. Interest on Federal Consolidation Loans accrues and, for applications received prior to January 1, 1993, is to be paid without deferral. For applications received on or after January 1, 1993 the Secretary pays the interest during the deferral period. Borrowers may defer periodic payments of principal under certain circumstances that are more limited than those applicable to the loans being refinanced. Deferral of principal repayments is authorized for periods similar to those for Subsidized Federal Stafford Loans. Borrowers may elect to accelerate principal payments without penalty. The rate for Special Allowance Payments for Federal Consolidation Loans financed with tax-exempt funds is determined in the same manner as for Subsidized Federal Stafford Loans made on or after October 1, 1980. See "Special Allowance Payments," above. Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a Federal Consolidation Loan. However, a fee may be charged to the lender by the guarantor to cover the costs of increased or extended liability with respect to a Federal Consolidation Loan.

Repayment of Federal Consolidation Loans begins 60 days after discharge of all prior loans which are consolidated. Federal interest subsidy payments are not available with respect to Federal Consolidation Loans. Repayment schedules must include, for applications received on or after January 1, 1993, the establishment of graduated and income sensitive repayment plans, subject to certain limits applicable to the sum of the Federal Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. The lender may at its option include such graduated and income sensitive repayment plans for applications received prior to that date. Generally, depending on the total of loans outstanding, repayment may be scheduled over periods no shorter than ten but not more than twenty-five years in length. For applications received on or after January 1, 1993, the maximum maturity schedule is thirty years for consolidation loans of \$60,000 or more.

### **Unsubsidized Federal Stafford Loans**

The 1992 Amendments created the Unsubsidized Federal Stafford Loan program designed for students who do not qualify for Subsidized Federal Stafford Loans due to parental and/or student income and assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Federal Stafford Loans are essentially the same as those for the Subsidized Federal Stafford Loans. The interest rate, the annual loan limits and the Special

Allowance Payment provisions of the Unsubsidized Federal Stafford Loans are the same as the Subsidized Federal Stafford Loans. However, the terms of the Unsubsidized Federal Stafford Loans differ materially from Subsidized Federal Stafford Loans in that the federal government will not make Interest Subsidy Payments and the loan limitations are determined without respect to the expected family contribution. The borrower will be required to pay interest from the time of the loan or capitalize the interest until repayment begins. The authority for offering Unsubsidized Federal Stafford Loans became effective for periods of enrollment beginning on or after October 1, 1992.

### **Direct Federal Loans**

The institutions which may participate in the Direct Federal Loan program are to be selected from a cross-section of eligible institutions that have a certain loan volume and whose loan volume for the most recent fiscal year does not exceed 15% of the loan guarantees of any single guarantee agency. The Direct Federal Loans will generally have the same terms as Federal Stafford Loans, Federal Supplemental Loans to Student and Federal PLUS Loans ("Indirect Federal Loans"). Students at these participating institutions and their parents will not be eligible for Indirect Federal Loans. Direct Federal Loans will be available to students at these participating institutions from the period beginning July 1, 1994 and ending June 30, 1998. The participating institutions will be selected by January 1, 1994. The Direct Federal Loan program, if permanently enacted and widely implemented, could materially alter the Indirect Federal Loan programs in a manner which could restrict the future supply of Eligible Loans for purchase by secondary market participants such as the Authority.

### **Plan for Doing Business**

In order to be eligible for the receipt of Special Allowance Payments in respect of Federal Family Education Loans which have been financed by the holder with funds obtained through the issuance of tax-exempt obligations, the holder of such loans must receive approval by the governor of the state of a plan for doing business which complies with statutory requirements. The Authority has obtained approval of its Plan for Doing Business by the Governor of the State of Texas.

### **Federal Insurance and Reinsurance of Guarantors**

A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 180 days in the case of a loan repayable in monthly installments or for 240 days in the case of a loan repayable in less frequent installments.

If the loan in default is covered by federal loan insurance in accordance with the provisions of the Higher Education Act, the Secretary is to pay the insurance beneficiary the amount of the loss sustained thereby, upon notice and determination of such amount, within 90

days of such notification subject to reduction as described in the third and fourth following paragraphs.

If the loan is guaranteed by a guarantor, the eligible lender is reimbursed by the guarantor for 100% of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guaranty agreement and an annually renewable supplemental guaranty agreement with each guarantor which provides for federal reinsurance for amounts paid to eligible lenders by the guarantor with respect to defaulted loans.

Pursuant to such agreements, the Secretary is to reimburse a guarantor for 100% of the amounts expended in connection with a claim resulting from the death, bankruptcy, total and permanent disability of a borrower, the death of a student whose parent is the borrower of a Federal PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986 and who are unable to complete the programs in which they are enrolled due to school closure or borrowers whose borrowing eligibility was falsely certified by the eligible institution; such claims are not included in calculating a guarantor's claims rate experience for federal reinsurance purposes. The Secretary is also required to repay the unpaid balance of any loan if collection is stayed under the Bankruptcy Code and is authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Secretary. Further, the Secretary is to reimburse a guarantor for any amounts paid to satisfy claims not resulting from death, bankruptcy or disability subject to reduction as described in the following two paragraphs.

The amount of such reinsurance payment is subject to reduction based upon the annual claims rate of the guarantor calculated to equal the amount of federal reinsurance as a percentage of the original principal amount of guaranteed loans in repayment on the last day of the prior fiscal year. The formula is summarized below:

<u>Claims Rate</u>	<u>Federal Payment</u>
0% up to 5%	100%
5% up to 9%	100% of claims up to 5%; 90% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% and over up to 9%; and 80% of claims 9% and over

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

The Higher Education Act provides that, subject to compliance with the Higher Education Act, the full faith and credit of the United States is pledged to the payment of insurance claims

and such Act guarantees reinsurance is not subject to reduction. It further provides that guarantors shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, the 1992 Amendments provide that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of meeting such obligations or until a successor guarantor assumes such obligations. Federal reinsurance and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

### **Education Loans Generally Not Subject to Discharge in Bankruptcy**

Under the United States Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8) provides as follows:

- (a) A discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt:
  - (8) for educational benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution or for an obligation to repay funds received as an educational benefit, scholarship or stipend, unless --
    - (A) such loan benefit, scholarship or stipend overpayment first became due before seven years (exclusive of any applicable suspension of the repayment period) before the date of the filing of the petition; or
    - (B) excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

The 1990 Budget Reconciliation Act included language (Publication L101-508) amending the United States Bankruptcy Code to clarify the nondischargeability of educational loans under Chapter 13 bankruptcy filings. The legislative intent behind the nondischargeable status of education loans is twofold: first, to prevent abuse and fraud by student borrowers in declaring bankruptcy immediately after completion of school, but before accumulation of any attachable assets; and second, as a public policy issue to encourage and ensure the continued availability of credit and funding for educational borrowing.

## APPENDIX II

# GLOSSARY OF TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

## GLOSSARY

In addition to the other terms defined in the Official Statement, when used in the Section entitled "The Series 1993 Bonds" in the Official Statement and in the following Summary of Certain Provisions of the Indenture, the following terms have the meanings assigned to them herein (such definitions may vary in certain immaterial respects from such definitions as contained in the Indenture):

"Adjustable Rate" means either a Weekly Rate or an Intermediate Term Rate.

"Adjustable Rate Bonds" means those Bonds whose terms provide for the adjustment of the interest rate to be borne by such Bonds periodically prior to their stated maturity and for the mandatory tender of such Bonds upon such adjustment, and in the case of the Series 1993A Bonds, consists of the Weekly Rate Bonds and the Intermediate Rate Bonds.

"Adjusted Interest Rate" means a rate equal to the lowest rate which, in the judgment of the Remarketing Agent, would produce as nearly as possible a par bid (but not less than par, and without regard to accrued interest, if any), in the secondary market on the Adjustment Date for a particular Rate Period (or, if the Remarketing Agent for any reason fails to determine such rate or the rate established by the Remarketing Agent is held to be invalid or unenforceable by a court of law, the rate described in "The Series 1993 Bonds - Establishment of Interest Rates for Series 1993A Adjustable Rate Bonds").

"Adjustment Date" means the first day of each Rate Period.

"Authority Order" means a written order of the Authority executed by an authorized representative, requiring action on the part of any Indenture Agent, and certifying such action is in accordance with the Indenture and any applicable Reimbursement Agreement.

"Available Moneys" means, with respect to the Series 1993A Bonds, (i) moneys constituting proceeds of Bonds, moneys received by the Trustee as payments on an Interest Rate Exchange Agreement or moneys received by the Trustee as payments of Student Loans, including any guarantee, Special Allowance Payments, Interest Subsidy Payments and insurance payments in respect thereof, or the proceeds of sale of Student Loans maintained in a segregated Fund or Account (and proceeds from investments thereof), (ii) moneys held by the Trustee (and proceeds of the investment thereof) in a segregated Fund or Account for at least 123 days prior to the expiration of which no case under the United States Bankruptcy Code (Title 11 of the United States Code) shall have been commenced by the Authority without having been dismissed

subject to no further appeal as certified by an Opinion of Counsel delivered by the Authority, (iii) the proceeds of sale of any refunding obligations issued by the Authority, (iv) proceeds of the remarketing of any Bonds except a remarketing to the Authority, (v) any other moneys regarding which the Trustee will have received an Opinion of Counsel, recognized in bankruptcy matters, acceptable to the Authority and the Rating Agency, to the effect that payment of such moneys to Owners will not constitute a voidable preference under the provisions of Section 547 of the United States Bankruptcy Code; or (vi) the proceeds of any draw on a Credit Facility or Liquidity Facility.

"Board" or "Board of Directors" means the Board of Directors of the Authority.

"Bond Payment Date" means the date or dates specified in any Supplemental Indenture for payment of principal of or interest on the Bonds.

"Bond Year" means the period commencing on May 1 of each year (or, during the first Bond Year, commencing on the Issue Date) and extending through April 30 of the following year, so long as any of the Series 1993 Bonds are Outstanding.

"Bondholder," "Owner" or "owner" or words of similar import, when used with reference to a Bond means any person who will be the registered owner of any Outstanding Bond as set forth on the registration books maintained by the Registrar.

"Bonds" means any bonds issued by the Authority under that certain General Indenture dated as of May 1, 1993 between the Authority and the Trustee, as the same may be supplemented from time to time, including the Series 1993 Bonds.

"Business Day" means any day other than a Saturday, Sunday, legal holiday or any other day on which banking institutions in the City of New York, New York, or the city in which the principal corporate trust office of the Trustee is located, are generally authorized or obligated by law or executive order to close or are closed or rendered inoperable due to natural disaster, or on which the New York Stock Exchange or on which the office designated for presentation by each Credit Provider then providing a Credit Facility or by each Liquidity Provider then providing a Liquidity Facility for any of the Bonds is closed. Any payments required to be made on any day which is not a Business Day may be made instead on the next succeeding Business Day, and no interest will accrue on such payments in the interim (except as may otherwise be provided as to a particular Series or Class of Bonds in the related Supplemental Indenture and/or Reimbursement Agreement).

"By Class in Descending Priority" means any treatment of Bonds or the Owners thereof according to the priority of the Class of such Bonds, regardless of Series, with Class I Bonds being of the highest priority and the order of priority descending as the roman numeral identifying the class increases. Whenever the General Indenture provides for the consent, permission or direction by Owners on a certain matter "By Class in Descending Priority", it means that the Owners in the particular percentage of ownership described of the most senior

Class of Bonds then Outstanding under the General Indenture and affected by the matter under consideration will effect such consent, permission or direction; provided, however, that matters affecting only one Class of Bonds need be approved only by the Owners of the particular percentage of that Class of Bonds except as otherwise provided in the Indenture.

"Class" means a level of priority of Bonds, among all Series, as to security and order of payment of principal and interest from the Trust Estate, which will be further designated by Roman numeral designations, with I being the highest and descending in priority as the numerals increase.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and court decisions promulgated thereunder and pertaining thereto. Such regulations will also include any successor provision to any existing regulations thereafter promulgated by the Internal Revenue Service pursuant to Section 141 through 150 of the code applicable to the Bonds.

"Computation Date" means, with respect to each Series of Bonds which are not Federally Taxable Bonds, a date as of which Rebatale Arbitrage is calculated, which will be no later than one year after the Issue Date for a Series of Bonds and on the same day of each year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

"Conversion Date" means any date on which the interest rate mode applicable to any Adjustable Rate Bond (Weekly or Intermediate) is converted to another mode (Weekly, Intermediate, or Fixed) and each date on which an Intermediate Term Period succeeds another Intermediate Term Period.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the Authority and related to the authorization, sale and issuance of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, any bond insurance premiums, fees and expenses of any Credit Provider, underwriting fees, initial fees and charges of any Indenture Agent, legal fees, including bond counsel fees and expenses and underwriter's counsel fees and charges (if charged to the Authority), fees and disbursements of consultants and professionals, Authority staff travel and expenses related to an issue of Bonds, cost of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

"Credit Facility" means any form of credit enhancement purchased by the Authority for a Series of Bonds or for one or more Classes within a Series, including, without limitation, a letter of credit, bond insurance, a surety bond or standby bond purchase agreement, which will be identified in the Supplemental Indenture for such Series, and may include as part of the same facility, a liquidity component which, if issued separately, would constitute a Liquidity Facility.

"Credit Provider" means the issuer of a Credit Facility.

"Credit Provider Tender Date" means the date established by the Trustee for a mandatory tender of Series 1993A Bonds following its receipt of a Term-Out Notice from the Credit Provider.

"Debt Service" means, with respect to any particular Bond Year and any particular Series of Bonds, an amount equal to the sum of (i) all interest payable on such Bonds during such Bond Year, plus (ii) any Principal Installments of such Bonds during such Bond Year, plus (iii) any additional applicable premium payable on such Bonds during such Bond Year, but will not include the Purchase Price of Bonds relating to any Bonds bearing interest at an Adjustable Rate.

"Debt Service Reserve Requirement" means, as of any date of calculation, an amount equal to the aggregate of the amounts specified in each and every Supplemental Indenture authorizing the issuance of a Series of Bonds as the amount required to be deposited in the Debt Service Reserve Fund with respect to such Series of Bonds.

"Eligible Student Loan" or "Eligible Loan" means any student loan satisfying the requirements of the Higher Education Act and the General Indenture which is eligible to be made by the Authority to an eligible borrower or purchased by the Authority from a qualified lender to finance post-secondary education pursuant to the Higher Education Act and the Student Loan Program. No Student Loan will cease to be an Eligible Loan merely because the Authority, in its discretion, charges interest to the related borrower at a rate less than the statutory maximum interest rate, so long as the Authority delivers a Rating Confirmation to the Trustee prior to instituting the authorization for such lesser charges under the Student Loan Program.

"Excess Coverage" means, as of any date of calculation, and except as otherwise provided in a Supplemental Indenture, the amount by which the sum of the value of (a) the Student Loans (valued at par plus accrued interest and accrued Special Allowance Payments, if any) credited to the Student Loan Fund and (b) all cash and Investment Securities held in the Funds and Accounts (valued as set forth in the definition of "Investment Securities", plus accrued interest, but excluding amounts irrevocably set aside to pay particular Bonds) will exceed all of the following sums taken individually and not as an aggregate: (x) 118% of the sum of the principal and accrued interest on all Outstanding Class I and Class II Bonds; (y) 112% of the sum of the principal and accrued interest on all Outstanding Class I, Class II and Class III Bonds; and (z) 102% of the sum of the principal of and accrued interest on all Outstanding Bonds; all as evidenced in a certificate of an authorized representative of the Authority.

"Excess Interest" means as of the date of computation, the smallest amount that, if treated as reasonable costs (*i.e.*, taken into account in calculating yield) paid on that date, would reduce the yield on the Student Loans financed by a Series of Bonds which are not Federally Taxable Bonds to a yield that is not higher than the yield on the Bonds plus the Permitted Spread. For purposes of this definition only, yield on the Bonds of any Series and yield on the Student Loans

financed by any Series of Bonds will be calculated in accordance with Treas. Reg. §1.148-10(b)(2) or such other applicable regulation under the Code.

"Excess Interest Calculation Date" means, with respect to each Series of Bonds which are not Federally Taxable Bonds, a date as of which Excess Interest is calculated, which will be no later than one year after the Issue Date for a Series of Bonds and on the same day of each year thereafter while any of the Bonds of the Series is Outstanding, and the day upon which the last Bond of such Series is retired.

"Expiration Date" means the date on which the Credit Facility then in effect to secure the Series 1993A Bonds will, by its terms, expire.

"Favorable Opinion" means an Opinion of Bond Counsel to the effect that the action proposed to be taken is authorized or permitted by the General Indenture and any applicable Supplemental Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which are the subject of such opinion.

"Federally Taxable Bonds" means Bonds so designated by the Supplemental Indenture pursuant to which they are issued, the interest on which is not excludable from gross income for federal income tax purposes.

"First Supplemental Indenture" means the First Supplemental Indenture entered into between the Authority and the Trustee as of May 1, 1993, under which the Series 1993 Bonds are being issued.

"Fixed Interest Rate" means a fixed interest rate or rates applicable to any Series 1993 Bonds through maturity.

"Fixed Rate Bonds" means those Series 1993 Bonds which by their terms bear interest at Fixed Interest Rate or Rates.

"Fixed Rate Conversion Date" means the Conversion Date upon which the Authority converts the interest rate mode of some or all Adjustable Rate Bonds to a Fixed Interest Rate or Rates.

"Fixed Rate Period" means a Rate Period during which Series 1993A Bonds bear interest at a Fixed Interest Rate or Rates.

"Funds" means any of the funds created and established pursuant to the General Indenture, including the Funds and Accounts, the Rebate Fund, the Excess Interest Fund, and the Credit Proceeds Fund, but excluding the Purchase Fund and Operating Fund.

"Funds and Accounts" means the Revenue Fund, the Acquisition Fund, the Restricted Yield Fund, and the Debt Service Reserve Fund created pursuant to the General Indenture.

"General Indenture" means the General Indenture entered into by the Authority and the Trustee as of May 1, 1993, which will be supplemented from time to time when Bonds are issued. (The General Indenture has been supplemented by the First Supplemental Indenture under which the Series 1993 Bonds are being issued.)

"Governmental Obligations" means direct obligations of the United States and obligations, the principal and interest of which are guaranteed by the United States as to full and timely payment.

"Gross Proceeds" when used with respect to a Series of the Bonds that are not Federally Taxable Bonds, means "gross proceeds" of the Series within the meaning of Treas. Reg. §1.148-8T(d), including original proceeds, amounts received (including repayments of principal) as a result of investing the original proceeds of the Series, transferred proceeds, sinking fund proceeds, amounts invested in a reasonably required reserve or replacement fund, securities or obligations pledged by the Authority as security for payment of Debt Service on a Series of the Bonds, and any other amounts used to pay Debt Service on a Series of the Bonds, together with earnings from the investment of the foregoing.

"Guarantor" means (i) the Texas Guaranteed Student Loan Corporation, United Student Aid Funds, Inc., Student Loan Guarantee Foundation of Arkansas and Oklahoma State Regents for Higher Education, (ii) any successor to a Guarantor described in (i) which acts under the Higher Education Act and has an agreement with the Secretary for the Secretary's reimbursement of amounts expended by the Guarantor in discharge of insurance obligations on Eligible Student Loans after a Rating Confirmation and approval by the Authority, or (iii) any other entity approved by the Authority which guarantees student loans under the Higher Education Act or other Federal law and has entered into an agreement with the Trustee therefor and with the Secretary for reinsurance of its guarantees of student loans, upon receipt by the Authority and the Trustee of a Rating Confirmation, provided, however, that the Student Loan Guarantee Foundation of Arkansas and the Oklahoma State Regents for Higher Education shall not be deemed a Guarantor hereunder until they have entered into an agreement with the Trustee for the guarantee of student loans under the Higher Education Act or other federal law and with the Secretary for reinsurance of its guarantees of student loans.

"Higher Education Act" means Title IV, Part B of the Higher Education Act of 1965, as amended, or any successor federal act, and the regulations promulgated thereunder.

"Indenture" means the General Indenture, as supplemented by the First Supplemental Indenture and any future supplemental indentures.

"Indenture Agent" means the Trustee, the Paying Agent, the Registrar, the Authenticating Agent, the Tender Agent (all of which shall initially be Ameritrust Texas National Association) and any such additional agent as may be authorized pursuant to a Supplemental Indenture, or any or all of them as may be appropriate.

"Interest Rate Exchange Agreement" means a contract providing for an interest rate cap, floor, swap or other similar instrument entered into pursuant to and referred to in the General Indenture.

"Interest Subsidy Payments" means interest subsidy benefits payable by the Secretary under the Higher Education Act, or similar payments authorized from time to time by federal law.

"Intermediate Rate Bond" means any Series 1993A Bond bearing interest at an Intermediate Term Rate.

"Intermediate Term Period" means a Rate Period of greater than one week and less than maturity.

"Intermediate Term Rate" means a fixed rate applicable to Series 1993A Bonds, for an Intermediate Term Period, established in accordance with the provisions of the First Supplemental Indenture.

"Investment Rating" means an investment having a rating of (1) "P1" from Moody's in the event it has a term of (or is redeemable at the option of the holder within) twelve months or less, (2) at least "A2" and "P1" from Moody's in the event it has a term of (or is redeemable at the option of the holder within) more than 12 months but no more than 24 months, and (3) at least "Aa2" and "P1" from Moody's in the event it has a term of (or is redeemable at the option of the holder within) more than 24 months.

"Investment Securities" means, for purposes of investing funds relating to the Series 1993 Bonds, the following categories of securities, which may be further restricted by the terms of the Reimbursement Agreement with the Credit Provider:

(1) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America. Such obligations will be valued at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Authority);

(2) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depository institution, including the Trustee or any of its affiliates, provided that, at the time of deposit or purchase such depository institution has senior debt rated "Aa2" or higher by Moody's and, if commercial paper is outstanding, commercial paper which is rated "P1" by Moody's. Such deposits and certificates of deposit will be valued at par less any withdrawal penalties;

(3) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Home Loan Mortgage Corporation; the Export-Import Bank of the United States; the Federal National Mortgage Association; the Government National Mortgage Association; the Federal Home Loan Bank; provided that each such obligation is rated "Aaa" by Moody's; or any agency or instrumentality of the United States of America which will be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor. Such obligations will be valued at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous business day by at least two dealers in such obligations selected by the Authority);

(4) Repurchase agreements with a maturity of no more than 24 months with (a) banks (which may include the Trustee) which are members of the Federal Deposit Insurance Corporation and whose senior debt meets the Investment Rating, which such agreements are (i) secured by securities the principal and interest of which are guaranteed by the United States or any of its agencies (without regard to maturity) (ii) are free and clear of any claims by third parties and (iii) are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the repurchaser) approved by the Authority, as the agent solely of, or in trust solely for the benefit of, the Trustee and (iv) are margined at least 102% valued weekly by the Trustee or the third party custodian and (v) are "repurchase agreements" as defined in the Bankruptcy Amendments and Federal Judgship Act of 1984, as amended, and provided that upon the occurrence of an Event of Default under the Indenture, all funds may be withdrawn thereunder, without penalty, by requiring a repurchase. Repurchase agreements will be valued at par;

(5) Repurchase agreements with a maturity of no more than 24 months between the Trustee and another entity whose senior debt meets the Investment Rating in which one of the parties has agreed to purchase investment securities described in items 1 and 3 above on a specified date and the other party has agreed to repurchase the investment securities at the same price plus accrued interest on a later date, in which the market value of the investment securities purchased is in excess of the amount of the repurchase agreement, and in which the investment securities are so purchased and held separately from all other investment securities, in trust, in order to complete the contractual commitment. Repurchase agreements will be valued at par;

(6) Shares in a no-load investment company registered under the Federal Investment Company Act of 1940 which meets the Investment Rating whose shares are registered under the Federal Securities Act of 1933, whose only investments are obligations described in items 1, 3, 4 or 7, the dollar-weighted average maturity of which will not exceed 120 days, and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. Such obligations will be valued at par;

(7) Obligations of an agency or instrumentality of the United States which meets the Investment Rating;

(8) Marketable obligations of any state or political subdivision or municipal corporation thereof which (a) are general obligations of the issuer thereof, (b) are issued by an issuer which has general taxing powers the use of which is pledged or otherwise covenanted to provide sufficient moneys to pay such obligations, and (c) are rated Aa or better by Moody's;

(9) Revenue obligations, income from which is not taxable under Section 103(a) of the Code, issued by any state or political subdivision or municipal corporation which are rated "Aa2" or better by Moody's, and if such obligations have a short-term rating, the rating is in one of the two highest rating categories designated by Moody's. Obligations described in items (7), (8) and (9) will be valued at the average of the bid and asked price as reported the previous Business Day by The Wall Street Journal (but if such information is unavailable, such obligations will be valued at the bid price as quoted the previous Business Day by at least two dealers in such obligations selected by the Authority);

(10) Commercial paper rated "P1" by Moody's and which matures not more than 270 days after the date of issuance provided that the issuer's senior unsecured debt is rated Aa or better by Moody's. Such obligations will be valued at par;

(11) A collective investment fund which meets the Investment Rating that is created as provided by Regulation 9 of the Office of the Comptroller of the Currency and that is invested in the items described in (1), (3), and (5) above; and

(12) Any other investment allowed by law and approved in writing in advance by the Credit Provider and Moody's. Such obligations will be valued at par.

Notwithstanding the foregoing, investments described in subparagraphs (10), (11) and (12) will not include any "margin security" as such term is defined in Regulation T of the Board of Governors of the Federal Reserve System or any "margin stock" as such term is defined in Regulation G, U or X of the Board of Governors of the Federal Reserve System.

"Investments" has the meaning stated in Treas. Reg. §1.148-8(e) and includes:

(1) a share of stock in a corporation or a right to subscribe for or to receive such a share,

(2) any obligation, including United States Treasury bonds, notes, and bills and bank deposits, whether or not certificated or interest bearing, but excluding obligations the interest on which is, in the Opinion of Bond Counsel, excludable from

the gross income of any owner thereof under the Code or the Internal Revenue Code of 1954, as amended to the date of issuance of such obligation,

(3) any annuity contract, or any other deferred payment contract acquired to fund an obligation of the issuer, or

(4) any other property held for investment.

"Issue Date" means the date a Series of Bonds is delivered to the initial purchasers in exchange for the purchase price of the Series of Bonds.

"Liquidity Facility" means any facility designed to provide for the payment of the Purchase Price of any Adjustable Rate Bonds upon tender thereof.

"Liquidity Provider" means the issuer of a Liquidity Facility.

"Mandatory Tender Date" means any Proposed Conversion Date, any Substitution Date, any Expiration Date and any Credit Provider Tender Date.

"Maximum Rate" means the lesser of (a) the maximum rate permitted by applicable law, or, (b) with respect to Adjustable Rate Bonds, in the event any Credit Facility is then in effect, the rate supportable by the interest component of that Credit Facility for the period required by the Rating Agency to obtain a rating on the Bonds equal to that of the Credit Provider.

"Moody's" means Moody's Investors Service, a Delaware corporation, its successors and assigns.

"Net Effective Interest Rate" -- the figure obtained by dividing the amount of the "net interest cost" of a Series of the Bonds by the aggregate total number of "bond years" of all Bonds of the Series and then dividing such quotient by ten (10) and expressing the result as a rate of interest in per cent per annum. The term "net interest cost" will mean the total of all interest to accrue and come due thereon through the final scheduled maturity date thereof, plus any discount or minus any premium included in the price paid therefor; provided, however, with reference to floating rate public securities, the term "net interest cost" will mean the total of all interest to accrue from the date of delivery and, come due thereon through any date net interest cost is calculated thereon, plus, in the case of a discount, the figure obtained by multiplying the dollar amount of the discount by a fraction the numerator of which is the aggregate number of bond years to the date of such net interest cost calculation and the denominator of which is the aggregate number of bond years to the scheduled final maturity date of the floating rate public securities, or minus, in the case of a premium, the figure obtained by multiplying the dollar amount of the premium by a fraction the numerator of which is the aggregate number of bond years to the date of such net interest cost calculation and the denominator of which is the aggregate number of bond years to the scheduled final maturity date of the floating rate public securities. The term "discount" with reference to a Series of the Bonds will mean the principal

amount (par value) of the Series of Bonds plus any accrued interest to the date of delivery minus the total sum of money paid to the Authority. The term "premium" with reference to a Series of the Bonds will mean the total sum of money paid to the Authority for the Series of Bonds minus the principal amount (par value) thereof, and also minus any accrued interest to the date of delivery. The term "bond years," when used in this definition, with reference to each separate Bond will mean the figure obtained by dividing the principal amount (par value) of each such Bond, by one-thousand (1000) and multiplying such quotient by the number of years from the date interest commences to accrue thereon to its scheduled maturity date or, with respect to floating rate public securities, by the number of years from the date net interest cost commences to accrue thereon to the earlier of the date of maturity thereof or any date interest on such floating rate public securities is calculated. Net interest cost and bond years will be calculated as if the face amount of Bonds required to be redeemed on each sinking fund redemption date were scheduled to mature on such earlier date and net interest cost will include any redemption premium required to be paid on any such mandatory redemption date. No other forms of compensation, whether due upon an optional or mandatory prepayment or redemption, will be included in net interest cost.

"Net Revenues" means all payments, proceeds, charges and other income received by the Trustee from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to interest (including Interest Subsidy Payments) on any Student Loan and any Special Allowance Payment received by the Trustee with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts, and all payments received by the Authority pursuant to an Interest Rate Exchange Agreement, less amounts due and owing the Indenture Agents.

"Opinion of Bond Counsel" means a written opinion from an attorney or firm of attorneys of recognized standing with respect to the tax status of obligations of municipal, state and public agencies, selected by the Authority.

"Opinion of Counsel" means a written opinion of an attorney at law or firm of attorneys selected by the person obliged to deliver an opinion on the subject in question, reasonably acceptable to the person who is to receive the same, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Optional Tender Date" means, during a Weekly Rate Period, any Business Day specified by an Owner for purchase of any Weekly Rate Bond which is at least seven calendar days after notice of such tender is given by or on behalf of the Owner to the Tender Agent in accordance with the Indenture.

"Optionally Tendered Bonds" means any Series 1993A Weekly Rate Bonds optionally tendered for purchase.

"Outstanding" when used with reference to Bonds, will mean, as of any date, all Bonds, including any Bonds held in custody for the benefit of any Credit Provider, theretofore or thereupon being authenticated and delivered under the General Indenture except:

(1) any Bond canceled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(2) on or after any purchase date for Bonds subject to tender pursuant to the provisions of any Supplemental Indenture, all Bonds or portions thereof (excluding any Bonds held in custody for the benefit of any Credit Provider) which are tendered or deemed to have been tendered for purchase, provided that moneys (Available Moneys in the case of the Series 1993A Bonds not converted to a Fixed Interest Rate) sufficient for such purchase are on deposit with the Trustee or the Tender Agent;

(3) any Bond in lieu of or in substitution for which other Bonds will have been authenticated and delivered pursuant to the General Indenture; and

(4) any Bond paid or deemed to have been paid as provided in the section regarding Defeasance in the General Indenture.

"Paying Agent" means the Trustee or any other commercial bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the First Supplemental Indenture.

"Permitted Spread" means the difference between the Yield on the Bonds of a Series and the Student Loans financed with proceeds of the Series as may be required or permitted under the Code.

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would have been retired by such future date by reason of the payment when due and application in accordance with the General Indenture of Sinking Fund Payments payable before such certain future date, plus (ii) any Sinking Fund Payments due on such certain future date, plus (iii) the principal component of the Redemption Price of the Bonds then having been called for redemption on such certain future date.

"Principal Payment Date" means, with reference to any Series or portion of a Series of Bonds, the date upon which a Principal Installment on such Bonds becomes payable.

"Program Expenses" means (i) the fees and expenses of each Indenture Agent; (ii) the fees and expenses of any remarketing agent then acting under a Supplemental Indenture with respect to Adjustable Rate Bonds; (iii) the fees and expenses of a Credit Provider or a Liquidity Provider following the date of issuance of any Class or Series of Bonds for which a Credit Facility or Liquidity Facility is in place; (iv) the fees of the Servicer under any servicing

agreement; (v) the fees and expenses of the Authority incurred in connection with the preparation of Opinions of Counsel and Opinions of Bond Counsel and other authorized reports or statements attributable to the Bonds and the Student Loans acquired; (vi) transfer fees, purchase premiums and loan origination fees on Student Loans held by the Authority and acquired (or by the Trustee on behalf of the Authority); (vii) fees and expenses associated with the delivery of a substitute Credit Facility or Liquidity Facility under a Supplemental Indenture; (viii) fees and expenses associated with (but not payments under) an Interest Rate Exchange Agreement; (ix) the costs of remarketing any of the Adjustable Rate Bonds, which costs will be limited to (A) fees and expenses of the financial advisors to the Authority in connection with a remarketing, (B) the fees and expenses of attorneys representing the parties in connection with a remarketing (excluding the attorneys for the Credit Provider), (C) the cost of printing in connection with a remarketing, (D) the fees and expenses of accountants in connection with a remarketing, (E) the fees of any Rating Agency then rating the Bonds, (F) travel expenses of officers and directors of the Authority incurred in connection with a remarketing of Adjustable Rate Bonds and the related proceedings taken by the Authority, and (G) miscellaneous reasonable and customary expenses, in each case, as such costs were incurred; and (x) expenses incurred for the Authority's maintenance and operation of its Student Loan Program as a direct consequence of the General Indenture, the Bonds or the Eligible Student Loans acquired by the Authority under the General Indenture; including the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants and other professionals, attributable to such maintenance and operation, marketing expenses for the Student Loan Program and a prorated portion of the rent, personnel compensation, office supplies and equipment, travel expenses and other lawful payments made to members of the Board. Program Expenses will not include Costs of Issuance.

"Proposed Conversion Date" means the Business Day indicated in the written notice of the Authority given pursuant to the First Supplemental Indenture, on which the Authority proposes to effect a conversion of the interest rate mode applicable to any Series 1993A Bonds (Weekly or Intermediate) to another mode (Weekly, Intermediate, or Fixed) or proposes a new Intermediate Term Period to succeed an Intermediate Term Period.

"Purchase Date" means, with respect to the Series 1993A Bonds, any date established for the mandatory or optional tender of Adjustable Rate Bonds, established in accordance with the terms of the First Supplemental Indenture.

"Purchase Price" means, with respect to the Series 1993A Bonds, the price due to a tendering Owner of any Adjustable Rate Bond, being the principal amount thereof, plus interest accrued at the applicable rate or rates to the Purchase Date.

"Rate Period" means a period of time during which all or a specified principal amount of Series 1993A Bonds will bear interest at a specified Adjustable Rate.

"Rating Agency" means Moody's and any other nationally recognized securities rating agency to the extent such agency has been requested by the Authority to issue a rating on the Bonds or any Series thereof and such agency has issued and continues to maintain a rating on

such Bonds at the time in question at the request of the Authority. Neither all Bonds issued under the General Indenture, nor all Classes of Bonds that may be issued within a certain Series of Bonds, nor all Bonds within a given Class, need be rated by the same rating agency or agencies.

"Rating Confirmation" means a letter from each Rating Agency then providing a rating for particular Bonds, confirming that the action proposed to be taken by the Authority will not, in and of itself, have the effect of reducing or withdrawing the rating then applicable to any Bonds.

"Rebatable Arbitrage" means as of any Computation Date, the amount of "rebatable arbitrage" with respect to a Series of Bonds which are not Federally Taxable Bonds, determined in accordance with Treas. Reg. §1.148-2.

"Record Date" means, with respect to any installment of interest due on an Interest Payment Date, (i) the fifteenth day of the month preceding each Interest Payment Date for Fixed Rate Bonds, or (ii) the Business Day preceding each Interest Payment Date for Weekly Rate Bonds or Intermediate Rate Bonds.

"Regulations" means the regulations adopted from time to time either by the Secretary pursuant to the Higher Education Act or by any Guarantor.

"Reimbursement Agreement" means any reimbursement or similar agreement by and between the Authority and any Credit Provider or Liquidity Provider with respect to a particular Series or Class of Bonds.

"Revenues" means all payments, proceeds, charges and other income received by the Trustee from or on account of any Student Loan (including scheduled, delinquent and advance payments of and any insurance proceeds with respect to, interest (including Interest Subsidy Payments) on any Student Loan and any Special Allowance Payment received by the Trustee with respect to any Student Loan) and all interest earned or gain realized from the investment of amounts in the Funds and Accounts, and all payments received by the Authority pursuant to an Interest Rate Exchange Agreement.

"Secretary" means the Secretary of the United States Department of Education.

"Series" means all of the Bonds authenticated and delivered upon original issuance in a simultaneous transaction, pursuant to the same Supplemental Indenture and designated as a Series in such Supplemental Indenture regardless of variations in maturity, interest rate, Class, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the General Indenture. For purposes of determining Rebatable Arbitrage, Excess Interest, and the permissible Yield on Investments in the Restricted Yield and Acquisition Funds, however, a Series will mean all of

the Bonds authenticated and delivered upon original issuance in a simultaneous transaction or within 31 days, whether they are designated as the same Series in the Supplemental Indenture.

"Series 1993 Bonds" means the Series 1993A Bonds, the Series 1993B Bonds, the Series 1993C Bonds, and the Series 1993D Bonds, collectively, issued under the General Indenture, as supplemented by the First Supplemental Indenture.

"Series 1993 Reserve Requirement" means an amount equal at all times to 2% of the principal amount of the Series 1993 Bonds Outstanding, but not less than \$500,000.

"Servicer" means Higher Education Servicing Corporation, a non-profit corporation, or any successor designated in a Supplemental Indenture.

"Servicing Agreement" means that certain Servicing Agreement dated as of May 1, 1993 among the Trustee, the Authority, and the Servicer, under which the Servicer has agreed to service Student Loans in the Trust Estate.

"Sinking Fund Payment" means, as of any particular date of calculation, the amount required to be paid by the Authority on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Authority by reason of the maturity of a Bond or by call for redemption at the election of the Authority.

"Special Allowance Payments" means certain incentive payments received by the Authority pursuant to the Higher Education Act.

"State" means the State of Texas.

"Student Loan" means any Eligible Loan made or acquired by the Authority and held in the Trust Estate.

"Student Loan Program" means the program for the financing of the origination or acquisition of Eligible Student Loans for post-secondary education established by the Authority, as the same may be amended from time to time consistent with the Higher Education Act and the General Indenture, but only to the extent that such program is financed through the issuance of Bonds or obligations to be refunded thereby or from amounts otherwise available out of the moneys and assets held or pledged pursuant to the General Indenture.

"Student Loan Purchase Agreement" means an agreement to sell Eligible Loans to the Authority, executed by the seller, the Trustee, and the Authority, and substantially in the form set forth in the Servicing Agreement, as the same may be amended from time to time.

"Subservicer" means, initially, EduServ Technologies - North Carolina, Inc. and UNIPAC Service Corporation, or any additional subservicer or successor as subservicer selected by the Servicer, with prior written notice to the Rating Agency and a Rating Confirmation.

"Supplemental Indenture" means any Indenture supplemental to or amendatory of the General Indenture, executed by the Authority and the Trustee and effective in accordance with the General Indenture.

"Tender Price" means the par amount of any Series 1993A Bond, plus interest to, but not including the Optional Tender Date or Mandatory Tender Date, as applicable, with respect to such Bond.

"Term-Out Event" means, with respect to the Series 1993A Bonds, the occurrence of the expiration date of the Credit Facility then in effect, according to its terms, without the Authority's delivery to the Trustee of a substitute Credit Facility or the receipt of a Term-Out Notice from the Credit Provider.

"Term-Out Notice" means that certain written notice received by the Trustee and the Authority from the Credit Provider pursuant to its Reimbursement Agreement that a Term-Out Event as defined therein has occurred.

"Term-Out Redemption" means the mandatory sinking fund redemption and related redemptions of Credit Provider Bonds to occur after a Term-Out Event and resulting mandatory tender.

"Undelivered Bonds" means, with respect to the Series 1993A Bonds which are not book-entry only, any Adjustable Rate Bond for which a demand that such Bonds be repurchased by the Authority on a designated Purchase Date has been made or which are subject to mandatory tender for purchase, and which are not, in fact, delivered for repurchase on the specified Purchase Date by the Owners thereof, but as to which the Purchase Price has been set aside on the Purchase Date.

"Weekly Rate" means an Adjusted Interest Rate applicable to Series 1993A Bonds, which is in effect for a Weekly Rate Period, established in accordance with the provisions of the First Supplemental Indenture.

"Weekly Rate Bond" means any Series 1993A Bond bearing interest at a Weekly Rate.

"Weekly Rate Period" means any Rate Period which commences on a Wednesday and ends on a Tuesday of the next succeeding week, subject to adjustment pursuant to the provisions of the First Supplemental Indenture; provided, however, that the final Weekly Rate Period applicable to any Weekly Rate Bond will also terminate at maturity or upon earlier redemption.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

This summary is qualified in all respects by reference to the General Indenture and the First Supplemental Indenture, which contain complete descriptions of all the terms and conditions pursuant to which the Series 1993 Bonds are issued and may vary in certain immaterial respects from this summary. The General Indenture creates a Trust Estate for the Bonds, including the Series 1993 Bonds. Copies of the General Indenture and the First Supplemental Indenture are available from the Authority. Capitalized terms not otherwise defined herein have the meanings set forth in the General Indenture, the First Supplemental Indenture, or the Glossary.

### **ESTABLISHMENT OF FUNDS AND ACCOUNTS**

The General Indenture provides for the establishment of the following Funds which are to be held by the Trustee and maintained in accordance with the provisions of the General Indenture:

- (1) Student Loan Fund;
- (2) Revenue Fund;
- (3) Restricted Yield Fund;
- (4) Debt Service Reserve Fund;
- (5) Acquisition Fund; and
- (6) Credit Proceeds Fund.

Upon Authority Order, the Trustee will create and establish a Rebate Fund and Excess Interest Fund, both of which will be held by the Trustee but will be outside of the Trust Estate, and the Owners, any Credit Provider and any Liquidity Provider will have no right, title, or interest therein or thereto.

The Purchase Fund and the Operating Fund referred to in the General Indenture are outside of the Trust Estate, and neither is available to pay Debt Service on the Bonds.

#### **Student Loan Fund**

The Trustee will credit all Student Loans transferred to the Trustee from other trust estates of the Authority, and all Eligible Loans purchased from lenders or made by the Authority (the latter being consolidation loans) to the Student Loan Fund. The Student Loan Fund will hold only Student Loans and no other assets of any kind whatsoever.

## **Acquisition Fund**

The Trustee will deposit to the Acquisition Fund the amounts set forth in any Supplemental Indenture. Moneys in the Acquisition Fund will be used to purchase or make Eligible Loans, and to the extent of any deficiency after applying the money in the Revenue Fund and the Restricted Yield Fund, to the same purposes as those Funds.

## **Revenue Fund**

The Trustee will deposit in the Revenue Fund the amounts described in any Supplemental Indenture, any other amounts deposited thereto on Authority Order, and all Revenues, including earnings on amounts in the Funds and Accounts, except as specified herein, all payments of principal and interest, Special Allowance Payments, if any, together with any tuition refunds, repurchase payments from sellers, funds transferred to the Trustee from the Servicer's or Subservicers' separate bank accounts maintained pursuant to any servicing agreement, insurance and guaranty payments and proceeds from the sale of Student Loans. Money in the Revenue Fund will be kept separate and apart from all other Funds.

On the first Business Day of each January, April, July, and October, money in the Revenue Fund will be used and transferred to other funds or persons in the following order of priority:

- (1) to pay the Credit Provider and Liquidity Provider, if any, the fees and expenses then due and payable with respect to any Credit Facility and Liquidity Facility;
- (2) to pay any remarketing agent the quarterly remarketing fee then due and payable;
- (3) to make a deposit for the succeeding quarter in the Operating Fund pursuant to Authority Order;
- (4) to pay extraordinary fees and expenses of the Trustee;
- (5) to make a deposit to the Debt Service Reserve Fund to the extent needed to make the balance in such fund equal to the Debt Service Reserve Requirement; and
- (6) to reimburse a Credit Provider or to pay the interest and any principal on the Bonds then due and payable and to make payments of any amounts due on an Interest Rate Exchange Agreement, in the following order of priority:

FIRST, to reimburse a Credit Provider for a draw on its Credit Facility to pay principal or interest on any Class I Bond, or if the Credit Provider fails to honor a properly presented draw on its Credit Facility or if no Credit Facility is in

effect with respect of such payment, to pay interest or principal on any Class I Bond then due and payable;

**SECOND**, to reimburse a Credit Provider for a draw on its Credit Facility to pay principal and interest on any Class II Bond, or if the Credit Provider fails to honor a properly presented draw on its Credit Facility or if no Credit Facility is in effect with respect of such payment, to pay interest or principal on any Class II Bond then due and payable, and to pay amounts due from the Authority pursuant to any Interest Rate Exchange Agreement, ratably and without preference;

**THIRD**, to reimburse a Credit Provider for a draw on its Credit Facility, or if the Credit Provider fails to honor a properly presented draw on its Credit Facility or if no Credit Facility is in effect with respect of such payment, to pay interest or principal on any Bond (other than Class I or Class II Bonds) then due and payable by Class in Descending Priority;

(7) to reserve three months' interest on the Fixed Rate Bonds on deposit in the Revenue Fund if the date of transfer is not an Interest Payment Date for such bonds or the next Business Day after an Interest Payment Date;

(8) to reserve an amount to remain on deposit in the Revenue Fund equal to the Principal Installment due on the Bonds within one year, unless a Principal Installment is paid on the date of transfer, in which case, no amount need be reserved on deposit in the Revenue Fund for such purpose; and

(9) to the extent of any amounts remaining following the foregoing transfers, payments and reservations, the remainder shall be transferred to the Restricted Yield Fund.

Additionally, the Trustee will use the moneys in the Revenue Fund on any date for the following purposes in the following order of priority, subject to the restrictions of any Supplemental Indenture:

(1) to reimburse the Credit Provider for a draw on the Credit Facility to pay principal or interest on any Bond, or if the Credit Provider fails to honor a properly presented draw on its Credit Facility or if no Credit Facility is in effect with respect of such payment, to pay interest or principal on any Bond then due and payable which payment is not otherwise provided for, in the same priority as described in the preceding paragraph;

(2) at the written direction of the Authority, to deposit to the Rebate Fund an amount which, when added to the amount already in the Rebate Fund, equals Rebatable Arbitrage on any date of calculation;

(3) at the written direction of the Authority, to deposit to the Excess Interest Fund an amount which, when added to the amount already in the Excess Interest Fund, equals Excess Interest on any date of calculation;

(4) to pay the Credit Provider and Liquidity Provider, if any, any amounts then due and payable with respect to any Credit Facility and Liquidity Facility;

(5) to make a transfer to the Operating Fund for Program Expenses pursuant to an Authority Order and in accordance with the General Indenture or to pay extraordinary fees and expenses of the Trustee; and

(6) to pay Costs of Issuance.

Provided the Debt Service Reserve Fund is fully funded and the Authority has reserved enough money to pay principal and interest next coming due on the Bonds, the Authority may also use money in the Revenue Fund to purchase or make Eligible Loans.

### **Restricted Yield Fund**

The Trustee will deposit in the Restricted Yield Fund all amounts required to be transferred thereto from the Revenue Fund and all amounts transferred from any other trust estate of the Authority. The moneys in the Restricted Yield Fund will be invested in Investment Securities as provided in the General Indenture, and any earnings on or income from such investments will be deposited in the Restricted Yield Fund. The Authority will not direct the Trustee to invest money in the Restricted Yield Fund in any Investment, if as a result of such investment the Yield from the Issue Date of a Series of Bonds of all Investments acquired with money in the Restricted Yield Fund derived from proceeds of such Series, whether then held or previously disposed of, exceeds the Yield of the Series. Notwithstanding the foregoing, money in the Restricted Yield Fund may also be used to purchase Eligible Loans.

The Trustee will use the moneys in the Restricted Yield Fund for the following purposes in the following order of priority:

(1) to the extent there is a required deposit or transfer on any date from the Revenue Fund, the moneys in the Restricted Yield Fund may be utilized instead;

(2) if a "Term-Out Event" is declared in accordance with the applicable Reimbursement Agreement, on each April 1 after a Term-Out Event to redeem Credit Provider Bonds;

(3) on any date, to purchase or make Eligible Loans, as more fully set forth in the General Indenture; and

(4) to transfer money to the Authority provided there is Excess Coverage.

## **Debt Service Reserve Fund**

The Trustee will deposit in the Debt Service Reserve Fund the Series 1993 Debt Service Reserve Requirement, any additions thereto if additional Bonds are issued, and any transfers thereto from the Revenue Fund or Restricted Yield Fund. Amounts on deposit in the Debt Service Reserve Fund will be applied in conjunction with the final payment of the principal of and interest on the last Outstanding Bonds.

Moneys in the Debt Service Reserve Fund are required to be used to pay principal and interest on the Series 1993 Bonds and to reimburse a Credit Provider for a drawing on its Credit Facility or a Liquidity Provider for a drawing on its Liquidity Facility, to the extent there are insufficient moneys in the Revenue Fund, Restricted Yield Fund, and Acquisition Fund.

## **Credit Proceeds Fund**

The first source of payment of principal and interest on the Bonds secured by a Credit Facility will be the designated subaccount in the Credit Proceeds Fund. The Trustee will deposit into the designated subaccount in the Credit Proceeds Fund the proceeds of each drawing on that Credit Facility (other than drawings to provide the Purchase Price of tendered Bonds) immediately upon receipt. The Trustee will draw under such Credit Facility in accordance with its terms in time and amount sufficient to provide for the payment of principal of and interest on the Bonds secured by that Credit Facility on each Bond Payment Date, whether at maturity or upon earlier proceedings for redemption or acceleration, or otherwise, in an amount equal to the full amount of the interest or principal coming due on such date with respect to such Bonds then Outstanding (except with respect to Bonds then registered to the order or in the name of such Credit Provider or the Authority). The Trustee will, following deposit of such proceeds into the Credit Proceeds Fund, apply the amounts in such Fund solely to pay such principal and interest on the Bonds as they become due.

Amounts on deposit in the Credit Proceeds Fund will not be commingled with any other fund or account established under the General Indenture. The Trustee will have the sole right of withdrawal from the Credit Proceeds Fund, and the Authority will have no legal, beneficial or equitable right, title or interest therein. The Credit Proceeds Fund is established solely for the benefit of the Owners (except the Authority and the Credit Provider as to Bonds purchased with the proceeds of drawings under that Credit Facility), from time to time, of the Bonds secured by a Credit Facility.

Notwithstanding anything contained in the General Indenture to the contrary, the Trustee only will make payments of principal or Redemption Price or Purchase Price of and interest on Bonds secured by a Credit Facility at maturity, first, from moneys drawn from the Credit Facility and, second, to the extent necessary, from Available Moneys, or, if insufficient, then from other moneys in the Funds and Accounts established under the General Indenture.

## **Excess Interest Fund**

No later than ninety days after each Excess Interest Calculation Date, the Authority will determine or cause to be determined, the Excess Interest as of the preceding Excess Interest Calculation Date and shall deliver such calculation to the Trustee and the Credit Provider, along with a statement of a party or parties competent to make such determination, independent of the Authority to the effect that

(1) such party has made a review of the records of account and schedules required by this Section in accordance with generally accepted auditing standards, and

(2) during the course of such review nothing came to the attention of such party that would lead it to believe that such records and schedules were not prepared in accordance with the provisions of the General Indenture, or, if anything did come to the attention of such party, summarizing such discrepancies.

The first time such calculation shows the existence of Excess Interest, the Authority will direct the Trustee to establish an Excess Interest Fund and to transfer an amount equal to such Excess Interest from the following funds, in the following order of priority: (1) Restricted Yield Fund, (2) Revenue Fund, and (3) Acquisition Fund. Thereafter, within ninety days after each Excess Interest Calculation Date, the Authority will take the following actions:

(1) If the amount on deposit in the Excess Interest Fund is less than the Excess Interest as of the preceding Excess Interest Calculation Date, the Authority will notify the Trustee, who will transfer sufficient funds to the Excess Interest Fund so that the amount on deposit is equal to Excess Interest from the following Funds in the following order of priority: Restricted Yield Fund, Revenue Fund, and Acquisition Fund.

(2) If the amount on deposit in the Excess Interest Fund is greater than the Excess Interest, the Authority will instruct the Trustee to transfer to the Restricted Yield Fund money sufficient to cause the amount on deposit in the Excess Interest Fund to be equal to the Excess Interest as of such Excess Interest Calculation Date.

Unless the Authority obtains an Opinion of Bond Counsel to the effect that such payments are not required in order to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes, the Authority covenants to direct the Trustee to withdraw from the Excess Interest Fund and remit to the United States Treasury Yield Adjustment Payments in such manner and amounts and on such dates as may be required or permitted by Section 148 of the Code.

Additionally, the Authority may direct the Trustee to transfer a specified amount from the Excess Interest Fund to the Restricted Yield Fund at any time, upon providing the Trustee with the following: (1) a Favorable Opinion concerning such transfer; or (2) an Authority Order directing the Trustee to forgive indebtedness on all or a portion of the Student Loans specified

in such Authority Order in an amount equal to the amount to be transferred and the implementation of such Authority Order by the Trustee.

Records of the determinations with respect to the above covenant and the Excess Interest Fund will be retained by the Authority until six years after the retirement of all of the Bonds.

The Authority's payment of Yield Adjustment Payments to the United States is additional consideration for the purchase of the Bonds by the initial purchasers thereof and the loan of money represented thereby, and is for the purpose of preserving the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Authority shall exercise reasonable diligence to assure that no error in the calculations required by the General Indenture is made and, if such an error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including the payment to the United States of America of any delinquent amounts owed to it, interest thereon, and any assessed penalty.

Amounts in the Excess Interest Fund will only be used for the purposes specified in the General Indenture, and will not be available for any other purpose, including, but not limited to, payment of Debt Service on the Bonds or reimbursement of any Credit Facility or Liquidity Facility.

#### **Rebate Fund**

No later than ninety days after each Computation Date, the Authority will determine, or cause to be determined, the Rebatable Arbitrage as of the preceding Computation Date and will deliver such calculation to the Trustee and the Credit Provider, along with a statement of a party or parties competent to make such determination, independent of the Authority to the effect that

(1) such party has made a review of the records of account and schedules required by the General Indenture in accordance with generally accepted auditing standards, and

(2) during the course of such review, nothing came to the attention of such party that would lead it to believe that such records and schedules were not prepared in accordance with the provisions of the General Indenture or, if anything did come to the attention of such party, summarizing such discrepancies.

The first time such calculation shows the existence of Rebatable Arbitrage, the Authority will direct the Trustee to establish a Rebate Fund and to transfer an amount equal to such Rebatable Arbitrage from the following funds, in the following order of priority: (1) Restricted Yield Fund, (2) Revenue Fund, and (3) Acquisition Fund. Thereafter, within ninety days after each Computation Date, the Authority will take the following actions:

(1) if the amount on deposit in the Rebate Fund is less than the Rebatable Arbitrage as of the preceding Computation Date, the Authority will notify the Trustee, who will transfer sufficient funds to the Rebate Fund so that the amount on deposit is equal to Rebatable Arbitrage from the following Funds in the following order of priority: Restricted Yield Fund, Revenue Fund, and Acquisition Fund.

(2) If the amount on deposit in the Rebate Fund is greater than the Rebatable Arbitrage, the Authority may instruct the Trustee to transfer to the Restricted Yield Fund money sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebatable Arbitrage as of such Computation Date.

Unless the Authority obtains an Opinion of Bond Counsel to the effect that such payments are not required in order to preserve the exclusion from gross income of interest on the Bonds, the Authority covenants to, and will, withdraw from the Rebate Fund and remit to the United States Treasury (in such manner and on such dates as may be required or permitted by Section 148(f) of the Code) the minimum amounts required by Section 148(f) of the Code to be rebated to the United States.

#### **Extraordinary Transfers to Rebate Fund and Excess Interest Fund**

By noon on the Business Day preceding the maturity of the last Bond of a Series, the Authority will determine or cause to be determined the Rebatable Arbitrage and Excess Interest expected on the date of such maturity and will deliver its calculations to the Trustee. On the date of receipt of such calculation, the Trustee will:

- (1) first, transfer any required Rebatable Arbitrage to the Rebate Fund,
- and
- (2) second, transfer any Excess Interest to the Excess Interest Fund.

The Trustee will transfer the required amounts from each of the following Funds in the following order of priority: (1) Restricted Yield Fund, (2) Revenue Fund, and (3) Acquisition Fund.

#### **Operating Fund**

The Authority is entitled to withdraw quarterly in advance and as needed, in accordance with the Indenture, moneys from the Revenue Fund, Restricted Yield Fund, and Acquisition Fund to pay Program Expenses. Pending disbursement of the moneys to pay Program Expenses, the Authority will cause moneys to be deposited in a bank account of its selection designated as the "Operating Fund". The Operating Fund will be used to pay Program Expenses of the Student Loan Program.

The amount deposited in the Operating Fund by transfer from the Revenue Fund and, if necessary, from the Restricted Yield or Acquisition Funds, and the schedule of deposits will be determined by the Authority, but Program Expenses expended in any one Fiscal Year will not exceed the amount provided for in the Indenture, unless the Authority receives a Rating Confirmation confirming that a specified increase in Program Expenses will not affect the rating on the Series 1993 Bonds.

### **Investment of Funds**

The Trustee will invest money held for the credit of any Fund held by the Trustee hereunder as directed in writing (or orally, confirmed in writing) by the Authority or its designee, to the fullest extent practicable and reasonable, but only in Investment Securities which will mature or be redeemable at the option of the holder, in any event, prior to the respective dates when the money held for the credit of such Fund will be required for the purposes intended and in accordance with the investment and maturity limitations set forth in the following paragraph.

Money held for the credit of the Credit Proceeds Fund will be invested only in Governmental Obligations which mature at the lesser of 30 days or when needed or Investment Securities rated "P1" by Moody's having a maturity of one day. Any money the Trustee holds pending disbursement to a Bondholder will be invested only in Governmental Obligations which mature at the lesser of 30 days or when needed or Investment Securities rated "P1" by Moody's having a maturity of one day. Any money held by the Tender Agent in any account in the Purchase Fund will not be invested.

The Investment Securities purchased will be held by the Trustee and will be deemed at all times to be part of such Fund or combination of Funds, and the Trustee will inform the Authority of the details of all such investments. The Trustee will use its best efforts to sell or present for redemption any Investment Securities purchased by it as an investment whenever it will be necessary to provide money to meet any payment from the applicable Fund.

Notwithstanding the foregoing, the Trustee will not be responsible or liable for any losses on investments made by it or sold by it under the General Indenture or for keeping all Funds held by it fully invested at all times, its only responsibility being to comply with the investment instructions of the Authority or its representative in a non-negligent manner and to invest in Investment Securities. The Authority will be solely responsible to insure that the investments which the Authority or its representative directs the Trustee to make will not affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

The Trustee will determine the cash available in the Funds and Accounts established under this Indenture on the Business Day which is on or prior to the five Business Days prior to any Bond Payment Date. If at such time, the Trustee determines that the available moneys in the Funds and Accounts established with it are insufficient for the respective purpose for which the Funds and Accounts were established, taking into consideration the obligations of

payment from each Fund or Account as of such Bond Payment Date, the Trustee will so notify the Authority or its agent, and, after the expiration of two Business Days, unless otherwise directed, the Trustee may sell, to the extent possible on the open market, an amount of Investment Securities as may be required to meet such deficiency or anticipated deficiency and due notice of such sale will be given to the Authority and each Credit Provider within 15 calendar days after making such sale, and the Trustee will not be liable for any loss resulting from such sale.

When reference is made to the amount on deposit or required to be on deposit at any one time in any Fund established under the General Indenture, such reference will include (i) cash on deposit in such fund and (ii) the value of Investment Securities held in such fund.

## COVENANTS

The Authority has covenanted and agreed with the Trustee and the Owners of the Bonds as follows:

### **Student Loan Program**

The Authority has made the following specific covenants regarding its Student Loan Program:

(1) it will at all times permit only an eligible lender under the Higher Education Act to act as Trustee under the General Indenture; that it will cause the Trustee to acquire and hold Student Loans (and a security interest therein) in its own name as Trustee under the General Indenture and in the capacity of an eligible lender; that it will not cause or permit the Trustee to dispose of or deliver any Student Loans or any security interest in any such Student Loans to any party who is not an eligible lender so long as the Higher Education Act or Regulations require an Eligible Lender to be the owner or holder of Student Loans.

(2) it will cause the Trustee to maintain the "Lender Participation Agreement," "Agreement to Participate" and the "Contract of Insurance" required under the "Student Loan Program" (as such terms are defined in the Higher Education Act), and, through the Trustee, will materially and diligently enforce its rights thereunder, and will not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection therewith which in any manner will adversely affect the rights of the Owners and any Credit Provider or Liquidity Provider.

(3) it will, or through its Servicer and Subservicers will, diligently collect all principal and interest payments on all the Student Loans held under the General Indenture (except to the extent loans are forgiven in lieu of making payments of Excess Interest to the federal government), and all Interest Subsidy Payments, insurance and guarantee claims and Special Allowance Payments, if any, which relate to such Student Loans. The

Authority, or through its Servicer or Subservicers, will cause the filing and assignment of such claims (within the time prescribed by the Higher Education Act and the Regulations) by the Trustee. The Authority will comply with the Higher Education Act and the Regulations, which apply to the Student Loan Program and to such Student Loans.

(4) it will at all times operate under a Plan of Doing Business which is in conformity with the Higher Education Act and applicable State law and will take no action to jeopardize the right to receive Special Allowance Payments with respect to the Student Loans acquired with the proceeds of the Bonds.

(5) No amount in the Funds and Accounts will be expended or applied for the purpose of financing an Eligible Student Loan, and no Eligible Student Loan will be financed under the General Indenture, unless (except to the extent that a variance from such requirements is required by an agency or instrumentality of the United States of America insuring or guaranteeing the payment of such Eligible Student Loan) the Authority has determined that:

(a) the payment of the principal of and interest on the Eligible Student Loan is either (A) fully insured by the Secretary as evidenced by a certificate of insurance issued under the provisions of the Higher Education Act, or (B) guaranteed by a Guarantor and the Secretary is required, at the time of financing, by the Higher Education Act to reimburse such Guarantor in accordance with the Higher Education Act for amounts expended by such Guarantor in discharge of its insurance obligation on such Eligible Student Loan;

(b) the interest rate on such Eligible Student Loan at the time of acquisition is the maximum rate of interest then permitted under the Higher Education Act, as evidenced by its related promissory note (unless the Authority accepts a lower interest rate after the Authority delivers a Rating Confirmation to the Trustee prior to instituting the authorization for such lesser charges under the Student Loan Program); and

(c) the Eligible Student Loan is subject to being repurchased by the seller if such Eligible Student Loan does not comply with the standards of the Authority under its Student Loan Purchase Agreements.

(6) it will duly and properly service all Student Loans and enforce the payment and collection of all payments of principal and interest (except to the extent loans are forgiven in lieu of making payments of Excess Interest to the federal government) or will cause such servicing to be done by the Servicer or any successor Servicer evidencing, in the judgment of the Authority, the capability and experience necessary to adequately service Eligible Student Loans in accordance with regulations issued under the Higher Education Act, provided a Servicer may contract out part of its duties.

(7) all moneys deposited into the Acquisition Fund on the Issue Date will be applied on or before June 1, 1996, to the acquisition of Eligible Loans, except that such date may be extended if a Rating Confirmation is obtained. Student Loans will not be purchased after June 1, 1996, except that such date may be extended if a Rating Confirmation is obtained.

The Authority may at any time sell, assign, transfer or otherwise dispose of a Student Loan at a price (i) in excess of the principal amount thereof (plus accrued borrower interest) or in excess of the purchase price paid by the Authority for such Student Loan (less principal amounts received with respect to such Student Loan); (ii) equal to the principal amount thereof (plus accrued borrower interest), when the amounts on deposit in the Funds and Accounts and the Student Loans in the Student Loan Fund, are at least equal to the principal amount of the Outstanding Bonds plus accrued interest or in order to pay current Debt Service on the Bonds or to avoid any default in the payment obligations of the Authority under any Reimbursement Agreement or otherwise; or (iii) lower than the principal amount thereof (plus accrued borrower interest) when the Authority delivers to the Trustee and the Credit Provider a Rating Confirmation.

The Authority may exchange with any purchaser one or more Eligible Student Loans for one or more Eligible Loans (of approximately the same aggregate principal amount and accrued interest) of a borrower who is the obligor on other Eligible Student Loans. The Authority may at any time and from time to time exchange Eligible Student Loans for other Eligible Student Loans having an aggregate principal amount and interest rate not less than the aggregate principal amount and interest rate of the Eligible Student Loans being exchanged, for the purpose of consolidating Student Loans of a single borrower within one indenture.

### **Accounts and Records**

The Authority has covenanted to keep or cause to be kept, proper books of record and account in which complete and accurate entries will be made of all of its transactions relating to the Student Loans and all Funds established by the Indenture which shall at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than 25% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing. The Authority will annually, within 120 days after the close of each fiscal year, file with the Trustee and Moody's audited financial statements for such fiscal year.

### **Compliance with Reimbursement Agreements**

The Authority has covenanted to comply with the conditions of any Reimbursement Agreement with a Credit Provider or Liquidity Provider and that such agreement will control in the event of any conflict with the Indenture, if it restricts the rights and powers of the Authority to a greater extent than the Indenture.

## **Tax Covenants**

The Authority has covenanted in the First Supplemental Indenture that it will not use the proceeds of the Series 1993 Bonds or any other amounts or invest any moneys on deposit in any Funds under the Indenture or take any other action or permit any action to be taken which would adversely affect the exclusion from gross income of interest on any Series 1993 Bond for federal income tax purposes.

The First Supplemental Indenture includes specific covenants of the Authority to prevent the Series 1993 Bonds from becoming "arbitrage bonds", as such term is used in the Code. With respect to the Series 1993 Bonds, the Authority has covenanted:

(1) to expend the proceeds of the Series 1993 Bonds and the investment earnings thereon for the purposes set forth in the Indenture and not to expend in excess of two percent of the amount received by the Authority from the issuance of the Series 1993 Bonds.

(2) to invest (directly or indirectly) all Gross Proceeds of the Series 1993 Bonds in Investments so that the yield on all such Investments is no greater than the yield on the Bonds, except for Investments that are (a) held during the first 90 days after the Issue Date; (b) acquired with income from investment of proceeds from the sale of the Bonds, to the extent such Investments are held during the first year after receipt of such income; (c) acquired with amounts held for the credit of the Revenue Fund, to the extent such Investments are held during the first 13 months after the date of deposit of such amounts in the Revenue Fund; (d) Eligible Loans; (e) acquired with proceeds from principal repayments on Eligible Loans or income from such Investments, to the extent such Investments are held during the first 90 days after receipt of such payments; and (f) Investments interest on which is excludable from gross income of the holder thereof for federal income tax purposes;

(3) to invest Gross Proceeds in Investments with a yield greater than the yield on the Series 1993 Bonds only if the aggregate purchase price of all such Investments does not exceed 150% of the amount of principal and interest on the Series 1993 Bonds due in that year;

(4) not to buy or sell Investments at other than an arms length price, or to enter into any other transaction which would reduce the amount required to be paid to the United States as Rebutable Arbitrage;

(5) not to use any money to pay principal of or interest on the Series 1993 Bonds, or pledge (or permit to be pledged) or otherwise restrict any money, funds, or Investments so as to give reasonable assurance of their availability for such purpose, or to apply any proceeds from the sale of the Series 1993 Bonds or income from the investment thereof, directly or indirectly, to pay principal of or interest on any

indebtedness of the Authority, any other governmental entity which is included within the Authority, or any corporate or other instrumentality of the Authority or any such governmental entity; and

(6) to use directly or indirectly at least 90% of the face amount of the Series 1993 Bonds less any amount deposited to a reserve fund to make or finance Eligible Student Loans under a program where each loan is for a program of post-secondary education of a resident of the State enrolled at an Eligible Institution under the Higher Education Act or at an Eligible Institution located in the State.

#### SUPPLEMENTAL INDENTURES NOT REQUIRING THE CONSENT OF OWNERS

For any one or more of the following purposes and at any time or from time to time, a Supplemental Indenture not requiring the consent of Owners but requiring the consent of each Credit Provider or Liquidity Provider, if the applicable Reimbursement Agreement so requires, may be executed and delivered by the Authority and the Trustee for the following purposes:

(1) to close the General Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the General Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(2) to add to the covenants and agreements of the Authority in the General Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the General Indenture as theretofore in effect;

(3) to add to the limitations and restrictions in the General Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the General Indenture as theretofore in effect;

(4) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the General Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the General Indenture;

(5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Indenture, of the Net Revenues or of any other revenues or assets;

(6) to modify any of the provisions of the General Indenture in any respect whatever, but only if (i) such modification will be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Indenture will cease to be Outstanding, and (ii) such Supplemental Indenture will be specifically

referred to in the text of all Bonds authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(7) to authorize the issuance of one or more Series of Bonds and to prescribe the terms and conditions upon which such Bonds may be issued;

(8) to create additional special trust accounts for the further securing of all Bonds or all Bonds of a Class or Series issued pursuant to the General Indenture if along with such Supplemental Indenture there is filed an Opinion of Bond Counsel to the effect that the creation and operation of such account will in no way impair the existing security of the Owner of any Outstanding Bond;

(9) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provisions in the General Indenture;

(10) to insert such provisions clarifying matters or questions arising under the General Indenture as are necessary or desirable and are not contrary to or inconsistent with the General Indenture as theretofore in effect;

(11) to provide for additional duties of the Trustee in connection with the Student Loans;

(12) to satisfy the requirements of a Rating Agency in order to obtain, maintain or improve the rating on any of the Bonds;

(13) to provide for the orderly sale or remarketing of Bonds;

(14) to make any other change which, in the judgment of the Trustee acting in reliance on an Opinion of Bond Counsel is necessary or desirable to maintain the tax status of the Bonds (other than Federally Taxable Bonds);

(15) to make any change which, in the judgment of the Trustee acting in reliance upon an Opinion of Counsel, to the extent the Trustee deems such opinion desirable, is not to the prejudice of the Trustee or the Owners; or

(16) to make any change that affects only the rights of a Credit Provider or Liquidity Provider which has issued a Credit Facility or Liquidity Facility with respect to any of the Bonds, with the prior written consent of such Credit Provider or Liquidity Provider.

## SUPPLEMENTAL INDENTURES EFFECTIVE UPON CONSENT OF OWNERS

Except for the supplemental indentures which may be issued without Owner consent, as described in the preceding section, any modification of or amendment to the General Indenture and of the rights and obligations of the Authority, a Credit Provider or Liquidity Provider under a Supplemental Indenture, and of the Owners of the Bonds of any particular Series, may be made by a Supplemental Indenture, with the written consent: (i) of the Owners of at least a majority in principal amount of the Bonds by Class in Descending Priority Outstanding at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least a majority in aggregate principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given and (iii) in case the modification or amendment changes the terms of any Sinking Fund Payment, of the Owners of at least 100% in principal amount of the Bonds of the particular Class, Series and maturity entitled to such Sinking Fund Payment and Outstanding at the time such consent is given.

In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership, bankruptcy, or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider will be considered as the Owner of 100% of such Series of Bonds or Class within that Series of Bonds for the purpose of consenting to any modification of or amendment to the Indenture, if so required by the applicable Reimbursement Agreement.

If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds.

No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond (which consent will not be deemed to be effected by a Credit Provider or Liquidity Provider), or will reduce the percentages or otherwise affect the Classes of Bonds, the consent of the Owners of which is required to effect any such modification or amendment, or will change or modify any of the rights or Obligations of any Indenture Agent without its written assent thereto. For the purposes of this paragraph, a Series will be deemed to be affected by a modification or amendment of the General Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any

modification or amendment and any such determination will be binding and conclusive on the Authority, any Credit Provider or Liquidity Provider, and all Owners of Bonds.

#### EVENTS OF DEFAULT

Each of the following events is an "Event of Default":

(1) payment of the principal, Purchase Price or Redemption Price, if any, on any Bond when and as the same becomes due, whether at maturity or upon call for redemption or otherwise, is not made when and as the same becomes due; or

(2) payment of any installment of interest on any of the Bonds will not be made when and as the same becomes due; or

(3) the Authority fails or refuses to comply with the provisions of the General Indenture, or defaults in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the General Indenture or in any Supplemental Indenture or the Bonds, and such failure, refusal or default continues for a period of 45 days after written notice thereof by the Trustee or the Owners of not less than 25% in principal amount of the Outstanding Bonds; or

(4) with respect to any Series of Bonds, any Event of Default pursuant to the Supplemental Indenture authorizing such Series occurs; or

(5) with respect to any Series of Bonds secured by a Credit Facility or Liquidity Facility, the related Credit Provider or Liquidity Provider delivers written notice to the Trustee to the effect that the Authority has failed to reimburse such Credit Provider or Liquidity Provider following a drawing under its Credit Facility or Liquidity Facility pursuant to the terms of its Reimbursement Agreement as and when such reimbursement becomes due and payable, and pursuant to the terms of the applicable Reimbursement Agreement, it is requiring that such Bonds be accelerated.

#### Remedies

Upon the occurrence and continuance of any Event of Default specified in paragraphs (1), (2) or (5) of "Events of Default" above, the Trustee will promptly notify the Authority, the Credit Provider, any Liquidity Provider, any counterparty to an Interest Rate Exchange Agreement and each Indenture Agent of the existence of such Event of Default and shall proceed in its own name to protect and enforce the rights of the Owners by such of the following remedies, as the Trustee, being advised by counsel shall deem most effective to protect and enforce such rights. Upon the occurrence and continuance of an Event of Default specified in paragraphs (3) or (4), the Trustee may (or, if instructed by the Owners of Bonds of the requisite class and principal amount will) proceed in its own name, subject to the provisions of the General Indenture, to protect and enforce the rights of the Owners by such of the following

remedies, as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners, including the right to require the Authority to carry out the covenants and agreements as to, and the assignment of, the Student Loans and to require the Authority to carry out any other covenants or agreements with Owners and to perform its duties as prescribed by law;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds;

(4) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or

(5) upon the occurrence of an Event of Default specified in paragraphs (1) or (2) or (5) of "Events of Default" above, the Trustee will if such Event of Default occurs with respect to the most senior Class of Bonds then Outstanding, and in the case of any Event of Default specified in (3) or (4), the Trustee may, upon the written direction of the Owners of Bonds of the requisite Class and principal amount, after written notice to the Authority, to the extent required by law, declare the principal of the most senior Class of the Bonds then Outstanding to be immediately due and payable, whereupon the principal and the accrued interest on such Bonds will, without further action, become and be immediately due and payable. If all defaults have been cured, then, the Trustee may annul such declaration and its consequences; provided each Credit Facility or Liquidity Facility for the Bonds previously in effect is fully reinstated and in full force and effect.

If Bonds secured by a Credit Facility are accelerated, the Trustee will make a drawing on the Credit Facility concurrently with such acceleration for the principal and accrued interest on such Bonds then due. Such drawing shall be made notwithstanding any right of the Credit Provider to control remedies provided in the General Indenture, and the Trustee will not require any indemnity for making such drawing.

In the enforcement of any rights and remedies under the General Indenture, the Trustee will be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Authority for principal, interest or otherwise, under any provisions of the General Indenture or a Supplemental Indenture or of the Bonds, with interest on overdue payments at the rate of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses (including without

limitation pretrial, trial and appellate attorney fees), and to collect from the Authority any moneys adjudged or decreed to be payable, provided, however any recovery against the Authority is limited to the Trust Estate.

Upon the occurrence of any Event of Default, and on the filing of suit or other commencement of judicial proceedings to enforce the rights of the Owners under the General Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and of the assets of the Authority relating to the Student Loan Program, pending such proceedings, with such powers as the court making such appointment will confer.

Except upon the occurrence and during the continuance of an Event of Default under the General Indenture, the Authority expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the General Indenture, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interest in and to the Student Loans and the proceeds of any collections therefrom, and neither the Trustee nor any Owner will in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

In the selection of Trust Estate assets to be used in the payment of Bonds (whether upon default, redemption or mandatory tender) or the payment of Trust Estate obligations to any Credit Provider or Liquidity Provider (except as provided in the following sentence) the Authority will determine, in its absolute discretion, and will instruct the Trustee by Authority Order, which Trust Estate assets will be applied to such payment and will not be liable to any Owner or Credit Provider or Liquidity Provider by reason of such selection and application. In the event that the Authority fails to deliver to the Trustee such Authority Order, the Trustee will select and liquidate or sell Trust Estate assets as provided in the following paragraph, and will not be liable to any Owner, Credit Provider, Liquidity Provider or the Authority by reason of such selection, liquidation and sale.

Whenever moneys are to be applied, irrespective of and whether other remedies authorized under the General Indenture will have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms as the Trustee may deem appropriate and as may be required by law and apply the proceeds thereof. Upon such sale, the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale will be a perpetual bar both at law and in equity against the Authority, each Credit Provider, each Liquidity Provider, the Owners, and all other persons claiming such properties. No purchaser at any sale will be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency or regularity of any such sale. Nevertheless, if so requested by the Trustee, the Authority will ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such

instruments as may be necessary or, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

To the extent that funds are not otherwise available to pay amounts due to a Credit Provider or Liquidity Provider under its Reimbursement Agreement, and unless otherwise provided in a Supplemental Indenture, the Trustee, at the request and in the sole discretion of the Authority, will convey or sell and deliver Student Loans purchased with assets of the Trust Estate to the Credit Provider in partial or complete satisfaction of such obligations of the Authority, subject to the acceptance of such Student Loans by the Credit Provider or Liquidity Provider at their value.

### **Direction of Proceedings**

Whenever it is provided in the General Indenture that the Owners of the Bonds will enjoy certain rights, be permitted to exercise certain remedies or to direct the Trustee to take certain actions, the following provisions will control. Upon the occurrence of an Event of Default described in (3) or (4), under "Events of Default," the Owners of not less than 100% in principal amount of the Bonds of the most senior Class then Outstanding, or, upon the occurrence of an Event of Default described in (1), (2) or (5) under "Events of Default", the Owners of the majority of the principal amount of the Bonds of the most senior Class then Outstanding, will have the right to direct the Trustee to take all or any of the remedial actions described under the caption "Remedies." In the event that such Owners have previously given to the Trustee notice of an Event of Default and have afforded the Trustee a reasonable opportunity, following the offer to the Trustee of security and indemnity satisfactory to it against the fees, costs, expenses and liabilities to be incurred therein or thereby, either to proceed to exercise the powers granted in the General Indenture, or to pursue a remedy described therein, and the Trustee has refused or neglected to comply with such request, then the Owners of the requisite percentage of the most senior Class then Outstanding may exercise such rights.

In the event that a Credit Provider has issued a Credit Facility or a Liquidity Provider has issued a Liquidity Facility respecting all of a Series of Bonds or Class within that Series of Bonds and unless the Credit Provider or Liquidity Provider is then in receivership, bankruptcy, or reorganization or is then continuing wrongfully to dishonor drawings under the Credit Facility or Liquidity Facility, upon the occurrence of any Event of Default or any other event described below, the Credit Provider or, in the event there is no Credit Provider, the Liquidity Provider (provided amounts are owing to the Liquidity Provider under the applicable Reimbursement Agreement) will be considered as the owner of 100% of such Series of Bonds or Class within that Series of Bonds solely for the purpose of directing the actions of the Trustee. All rights and remedies described in this paragraph will apply not only following the occurrence of an Event of Default, but also following the occurrence of any event which gives rights to a Credit Provider or Liquidity Provider upon the occurrence of an event of default under the Reimbursement Agreement with that Credit Provider or Liquidity Provider. Notwithstanding anything else herein, if the Trustee receives contrary direction from the Owners, the Credit Provider, and the Liquidity Provider for the same Class or Series of Bonds, it will act on the

direction of the Credit Provider provided (1) the direction complies with the requirements of the General Indenture (including the provisions of satisfactory indemnity), and (2) the Credit Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Credit Facility. If the conditions for direction by the Credit Provider are not met, the Trustee will act on the direction of the Liquidity Provider provided (1) the direction complies with the requirements of the General Indenture (including the provisions of satisfactory indemnity), (2) the Liquidity Provider is not then in receivership, bankruptcy or reorganization or continuing to dishonor wrongfully a drawing on the Liquidity Facility, and (3) amounts are owing to the Liquidity Provider under the applicable Reimbursement Agreement. If the conditions for direction by the Credit Provider and Liquidity Provider are not met, the Trustee will act on the direction of the Owners, provided the direction complies with the requirements of the General Indenture.

#### **Remedies Available to Credit Provider Absent Event of Default under Indenture**

In circumstances where the Credit Provider directs redemption of all Series 1993A Bonds and payment for such Bonds is made from the Credit Facility following certain events under the Reimbursement Agreement, the Credit Provider may direct the Trustee to pursue remedies described above in order to reimburse the Credit Provider, notwithstanding the fact that no Event of Default will exist (subject to subsection (5) above) under the Indenture.

#### **Priority of Payments After Default**

In the event that upon the occurrence and during the continuance of any Event of Default, the funds held by the Trustee and Paying Agents are insufficient for the payment of principal, Redemption Price of and interest then due on the Bonds, such funds (other than funds held for the payment of particular Bonds pursuant to the provisions in the Indenture for defeasance of Bonds or Bonds which have theretofore become due at maturity) and any other amounts received or collected by the Trustee, after providing for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or another Indenture Agent in the performance of their respective duties under the General Indenture (except that no lien will attach to the proceeds of any drawing under a Credit Facility or Liquidity Facility or on any remarketing proceeds for the payment of such fees, charges and expenses), will be applied as follows:

- (1) Unless the principal of all of the Bonds will have become or have been declared due and payable:

**FIRST:** To the payment to the persons entitled thereto of all installments of interest then due on Class I Bonds in the order of the maturity of such installments, and, if the amount available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on

such installment, to the persons entitled thereto, without any discrimination or preference.

**SECOND:** To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class I Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class I Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

**THIRD:** To the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class I Bonds other than as a reimbursement for payment of principal and interest on Class I Bonds.

**FOURTH:** Except as provided by Supplemental Indenture, to the payment to the persons entitled thereto of the unpaid interest, principal or Redemption Price of any Class II Bonds and of the unpaid amounts on any Interest Rate Exchange Agreements and, if the amounts available are not sufficient to pay in full all Interest Rate Exchange Agreement amounts owing and Class II Bonds due, then to the payment thereof ratably, according to the amounts due on such date, to the persons entitled thereto (but to interest on Class II Bonds prior to principal), without any discrimination or preference.

**FIFTH:** To the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class II Bonds other than as a reimbursement for payment of principal and interest on Class II Bonds.

**SIXTH:** To the payment to the persons entitled thereto of all installments of interest then due on Class III Bonds in the order of maturity of such installments, and, if the amount available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

**SEVENTH:** To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class III Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class III Bonds due, then to the payment thereof ratably, according to the amounts of the principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

**EIGHTH:** To the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class III Bonds other than as a reimbursement for payment of principal and interest on Class III Bonds.

**NINTH:** To the payment to the persons entitled thereto of all installments of interest then due on Class IV Bonds in the order of the maturity of such installments, and if the amount available are not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

**TENTH:** To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Class IV Bonds which have become due and, if the amounts available are not sufficient to pay in full all the Class IV Bonds due, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

**ELEVENTH:** To the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class IV Bonds other than as a reimbursement for payment of principal and interest on Class IV Bonds.

**TWELFTH:** With respect to Bonds by Class in Descending Priority, commencing with Class V, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments (and if the amount available will not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference) and then to the payment of the unpaid principal or Redemption Price which will have become due and, if the amounts available will not be sufficient to pay such principal or Redemption Price in full, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds has become or has been declared due and payable, first to the payment of the principal and interest then due and unpaid upon the Class I Bonds without preference of priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Class I Bonds over any other Class I Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Class I Bonds; second, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class I Bonds other than as a reimbursement for payment of principal and interest on Class I Bonds; third, except as otherwise provided by Supplemental Indenture, to the payment of amounts then due and unpaid upon Interest Rate Exchange Agreements and principal and interest then unpaid on any Class II Bonds, without preference of priority of principal over interest or Interest Rate Exchange Agreement amounts over principal and interest, ratably, according to the

amounts due to the persons entitled thereto without any discrimination or preference; fourth, to the payment of any amounts then due and owing on a Credit Facility or Liquidity Facility for Class II Bonds other than as a reimbursement for payment of principal and interest on Class II Bonds, and, finally, to the payment of the principal and interest then due and unpaid upon the remaining Bonds by Class in Descending Priority without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond of one Class over any other Bond of that same Class, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds within a Class; provided a Credit Provider or Liquidity Facility for a class of Bonds shall be paid all amounts due and owing to it prior to any payment on Bonds subordinate to the Bonds secured by such Credit Facility or Liquidity Facility.

(3) If the principal of all the Bonds has been declared immediately due and payable, and if such declarations thereafter have been rescinded and annulled, then, subject to the provisions of the General Indenture, the moneys will be applied in accordance with the provisions of the General Indenture.

(4) With respect to any payment made under the Indenture, in the event the Bonds on which a payment is to be made are secured by a Credit Facility, payment of principal and interest on such Bonds will be made from a drawing on the Credit Facility as set forth in the Indenture and the Credit Provider will be reimbursed for the drawing in the priority given to such Bonds in paragraphs (1) and (2) above.

Whenever moneys are to be applied by the Trustee, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion determines, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, will constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Authority, to any Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the General Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which will be an Interest Payment Date unless the Trustee deems another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date will cease to accrue.

#### **Limitation on Rights of Bondholders**

Except as otherwise specifically provided under the caption "Events of Default -- Direction of Proceedings", no Owner of any Bond will have any right to institute any suit,

action, mandamus or other proceeding in equity or at law or for the protection or enforcement of any right under the General Indenture. It is understood and intended that, except as otherwise above provided, no one or more Owners of the Bonds have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the General Indenture, or to enforce any right with respect to the Bonds or the General Indenture, except in the manner provided, and that all proceedings at law or in equity will be instituted, had and maintained in the manner provided and for the benefit of Owners of the Outstanding Bonds.

Each Owner of any Bond by his acceptance thereof will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Indenture or any Supplemental Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable pretrial, trial and appellate attorneys fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph will not apply to any suit instituted by the Trustee.

#### **Notice of Event of Default, Acceleration**

The Trustee will give to all of the Owners, the Authority and each Credit Provider and Liquidity Provider notice of each Event of Default known by a trust officer in the corporate trust department of the Trustee within ninety (90) days after actual knowledge of the occurrence thereof, unless such Event of Default has been remedied or cured before the giving of such notice; provided, that, the Trustee will be protected in withholding such notice from the Owners if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Owners. Each such notice of Event of Default will be given by the Trustee by mailing written notice thereof: (i) to all Owners of Bonds, as the names and addresses of such Owners appear upon the books for registration and transfer of Bonds as kept by the Trustee, and (ii) to such other persons as is required by law.

The Trustee will give to all Owners, the Authority and each Credit Provider and Liquidity Provider notice of acceleration of the Bonds as soon as possible, but in any event no later than the second Business Day after an acceleration.

#### **TRUSTEE AND OTHER INDENTURE AGENTS**

Ameritrust Texas National Association has been appointed as Trustee. By executing the General Indenture, the Trustee has accepted the trusts and obligations imposed upon it by the General Indenture and has agreed to perform such trusts and obligations, but only upon and subject to the express terms of the General Indenture.

The Indenture contains various limitations on the liability of the Trustee. The Trustee is not liable for reliance in good faith on certificates, reports or opinions furnished to it under the Indenture, and the Trustee is under no obligation or duty to perform any act at the request of a Credit Provider or the Owners of the Bonds or to institute or defend any suit in respect thereof unless indemnified to its satisfaction. The Indenture provides that the Trustee may rely on the Authority and the Servicer in connection with the performance of certain of its duties as the owner of Student Loans. The Trustee has covenanted that it is an Eligible Lender and will remain so during the time it has legal title to any Financed Eligible Loans, that it will comply with the Act, and that it will comply with all its contractual obligations under contracts with the Secretary and the Guarantors.

The Trustee may at any time resign and be discharged of the duties and obligations created by the General Indenture by giving not less than sixty (60) days' written notice to the Authority and each Credit Provider, and mailing notice thereof specifying the date when such resignation will take effect, to the registered Owners, and such resignation will take effect upon the day specified in such notice unless a successor has been appointed prior to such date, in which event such resignation will take effect immediately on the appointment of such successor. Notwithstanding the foregoing, no resignation of the Trustee will become effective until a successor Trustee has been appointed to and accepted its appointment and each Credit Facility and Liquidity Facility has been properly transferred to the successor Trustee in accordance with their respective terms.

The Authority is required to remove the Trustee if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorney-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority, provided that consent of the Credit Provider has been obtained if required by the terms of the related Reimbursement Agreement. The Authority may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as is determined in the sole discretion of the Authority by filing with the Trustee an instrument signed by an Authorized Representative. The Authority is required to remove the Trustee if directed to do so by a Credit Provider providing a Credit Facility for the most senior Class of Bonds which has such right pursuant to the applicable Reimbursement Agreement, by filing with the Trustee an instrument signed by an Authorized Representative and the Credit Provider. Notwithstanding the foregoing, no removal of the Trustee will become effective until a successor has been appointed and has accepted such appointment, and each Credit Facility and Liquidity Facility then in effect has been properly transferred to a successor Trustee in accordance with their respective terms.

## DEFEASANCE

If the Authority pays or causes to be paid to the Owners of the Bonds, the principal or Redemption Price and interest to become due thereon at the times and in the manner stipulated in the Bonds and in the General Indenture, and pays or causes to be paid (i) to each Indenture Agent its fees, costs and expenses, (ii) to each Credit Provider and Liquidity Provider all

amounts owing under each Credit Facility or Liquidity Facility or Reimbursement Agreement relating thereto, (iii) to each remarketing agent all amounts owing under each remarketing agreement, and (iv) to each party to any Interest Exchange Agreement all amounts owing to it, then the pledge of the Trust Estate, including any Net Revenues and other moneys, securities, funds and property pledged and all other rights granted will be discharged and satisfied. In such event, the Trustee will, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Indenture Agents will pay over or deliver to the Authority all moneys or securities held by them pursuant to the General Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment.

Except as otherwise provided in any Supplemental Indenture, all Bonds will, prior to the maturity or Redemption Date thereof, be deemed to have been paid and no longer Outstanding if in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption on said date of such Bonds, (ii) there has been deposited with the Trustee either moneys in an amount which will be sufficient, or noncallable and nonprepayable Governmental Obligations (including any Governmental Obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and interest on which when due, without reinvestment, will provide moneys which together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal of and interest to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, verified as to sufficiency by a report of an accountant, (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority has given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds, and (iv) an opinion of Bond Counsel to the effect that such defeasance is authorized under the terms of the General Indenture, and, if the General Indenture is to be discharged, all conditions precedent to a discharge of the General Indenture have been satisfied, and (v) an Opinion of Counsel acceptable to each Rating Agency with respect to bankruptcy matters to the effect that payments to the Owners from such moneys and Governmental Obligations will not constitute an avoidable preference under Sections 547 and 550 of the Bankruptcy Code in the event a petition for relief is filed by or against the Authority, and such other matters as may be required by such Rating Agency. Neither Governmental Obligations or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Governmental Obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal of or Redemption Price, if any, and interest on said Bonds; but any cash received from such principal or interest payments on such Governmental Obligations deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in Governmental Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any,

and interest to become due on said Bonds on and prior to such maturity date thereof, as the case may be, and interest earned from such reinvestments will be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge; provided, however, that such reinvestment may be effected only upon receipt by the Trustee of a Favorable Opinion.

Except as otherwise provided in any Supplemental Indenture, all Bonds, will, prior to the Redemption Date thereof, be deemed to have been paid and no longer Outstanding if (i) the Credit Facility with respect of such Bonds remains in effect through the Redemption Date, (ii) the Authority has given notice of redemption of the Bonds, which redemption will take place no later than 45 days from the date the Bonds are deemed to have been paid, and (iii) there has been deposited with the Trustee moneys in an amount which, when added to the other moneys in the General Indenture certified to be available by the Authority, is certified by the Authority to be sufficient to pay the principal and interest on the Bonds to the Redemption Date. In the event the Bonds are Adjustable Rate Bonds, for periods in which the interest rate has not been determined, a 15 percent rate will be assumed. The Trustee will deposit the moneys to be set aside for payment of the Redemption Price of the Bonds in a separate redemption account or pursuant to a separate escrow agreement, if the Authority so designates, and will use the money for the purpose of reimbursing the Credit Provider for a drawing on the Credit Facility. The money will be invested only in Governmental Obligations which mature prior to the Redemption Date. The Trustee will not terminate the Credit Facility or release the money in the redemption account until the Bonds have been redeemed in full with either a drawing on the Credit Facility or, if there is a failure to pay under the Credit Facility, the moneys in the redemption account.

The deposit required by the preceding two paragraphs may be made with respect to any Series or Class of Bonds, or a portion thereof, within any particular maturity, in which case such maturity of Bonds will no longer be deemed to be Outstanding under the terms of the General Indenture, and the Owners of such defeased Bonds will be secured only by such trust funds and not by any other part of the Trust Estate, and the General Indenture will remain in full force and effect to protect the interests of the Owners of Bonds remaining Outstanding thereafter. Notwithstanding the foregoing and the definition of "Bondholder" "Owner," or "owner," the provisions of the Indenture relating to optional purchases with respect to Adjustable Rate Bonds and to payment, registration, transfer and redemption of Bonds shall remain in effect until final maturity or the Redemption Date of the Bonds.

In addition to the foregoing provisions, bonds or interest installments for the payment of which moneys have been set aside and are held in trust by the Indenture Agents (through deposits by the Authority of funds for such payment or otherwise) will, upon maturity or upon the Redemption Date established therefor, be deemed to have been paid and no longer Outstanding. Should the Bonds no longer be book-entry only and any of the Bonds not be presented for payment when due, the Trustee will retain from any moneys transferred to it for the purpose of paying said Bonds so due, for the benefit of the Owners thereof, a sum of money sufficient to pay such Bonds when the same are presented by the Owners thereof for payment (upon which sum the Trustee will not be required to pay interest). All liability of the Authority to the Owners of such Bonds and all rights of such Owners against the Authority under the

Bonds or under the Indenture will thereupon be and become limited to amounts on deposit with the Trustee and set aside for such payment, and the sole right of such Owners will thereafter be against such deposit. The Trustee will bear no duty or liability to the Owners of such nonpresented Bonds other than to disburse funds from such deposit upon presentation of the appropriate Bond. If any Bond is not presented for payment within the period of three years following its maturity, the Trustee will turn over the money theretofore held by it for payment of such Bond to the State pursuant to Tex. Prop. Code §72 and §74 (Vernon Supp. 1989).

From and after the date of payment in full of all Bonds Outstanding, the Authority will have the right to receive payments with respect to all Student Loans.

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APPENDIX III

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

Combined Financial Statements

August 31, 1992

(With Independent Auditors' Report Thereon)

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Peat Marwick

Certified Public Accountants

200 Crescent Court  
Suite 300  
Dallas, TX 75201-1885

INDEPENDENT AUDITORS' REPORT

Board of Directors  
North Texas Higher Education Authority, Inc.:

We have audited the accompanying combined balance sheet of North Texas Higher Education Authority, Inc. (Authority) as of August 31, 1992, and the related combined statements of revenue, expenses and changes in fund balances and cash flows for the year then ended. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of North Texas Higher Education Authority, Inc. at August 31, 1992, and its revenue, expenses and changes in its fund balances and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*KPMG Peat Marwick*

November 6, 1992



Member Firm of  
Klynveld Peat Marwick Goerdeler

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

Combined Balance Sheet

August 31, 1992

With Comparative Totals at August 31, 1991

Assets	1992					Surplus Funds	Clearing Fund	Totals (Memorandum Only)	
	1991 ABC	1991 DEF	Debt issue 1991 G	1990	1987			1992	1991
Cash and cash equivalents	\$ 17,123,810	17,350,668	8,021,467	10,103,411	16,127,570	2,179,019	3,302,166	74,208,111	27,961,723
Marketable securities, at cost (note 3)	8,931,789	8,204,201	4,006,218	4,506,377	11,145,000	920,000	-	37,713,585	107,618,840
Accrued interest and other accounts receivable	1,036,650	1,921,352	1,440,197	670,906	1,176,448	36,630	10,641	6,292,824	8,299,756
Unremitted student loan principal and interest collections due (to) from other funds	363,097	502,871	473,720	479,336	814,141	-	(2,633,165)	-	-
Amounts due (to) from other funds	(32,352)	(64,975)	(64,335)	(221,797)	(1,041,255)	1,424,714	-	-	-
Student loan notes receivable (note 4), less allowance for doubtful accounts of \$1,382,397 in 1992 and \$1,178,460 in 1991	45,790,238	48,341,836	76,976,241	36,919,211	64,254,339	-	-	272,281,865	244,876,426
Prepaid expenses	103,944	109,391	39,606	-	-	-	-	252,941	263,677
Loan acquisition premiums, less accumulated amortization of \$2,018,768 in 1992 and \$1,165,040 in 1991 (note 1)	213,069	202,913	591,638	29,242	64,829	-	-	1,101,691	985,828
Deferred bond issue expense, less accumulated amortization of \$332,028 in 1992 and \$170,729 in 1991	350,648	350,647	155,742	334,758	429,802	-	-	1,621,597	1,777,737
Intangible assets:									
Goodwill, less accumulated amortization of \$122,921 in 1992 and \$24,894 in 1991 (note 2)	-	-	1,249,454	-	-	-	-	1,249,454	1,347,481
Premium for guarantee on assumption of certain student loans (note 2)	<u>3,471,670</u>	<u>528,330</u>	-	-	-	-	-	<u>4,000,000</u>	<u>4,000,000</u>
	\$ <u>77,352,563</u>	<u>77,447,234</u>	<u>92,889,948</u>	<u>52,821,444</u>	<u>92,970,874</u>	<u>4,560,363</u>	<u>679,642</u>	<u>398,722,068</u>	<u>397,131,468</u>
<b>Liabilities and Fund Balance (Deficit)</b>									
Liabilities:									
Accounts payable	\$ 63,918	56,191	70,129	30,206	72,113	32,379	-	324,936	302,155
Collections on student loans not yet applied	-	-	-	-	-	-	679,642	679,642	2,160,335
Accrued commitment fees	-	-	-	-	-	7,377	-	7,377	21,528
Accrued interest payable	1,567,362	1,567,362	600,492	333,607	663,519	-	-	4,732,342	5,499,054
Bonds payable, less unamortized original issue discount of \$2,420,314 in 1992 and \$2,676,328 in 1991 (note 5)	<u>75,939,554</u>	<u>75,939,553</u>	<u>90,000,000</u>	<u>49,795,408</u>	<u>87,155,171</u>	-	-	<u>378,829,686</u>	<u>378,573,672</u>
Total liabilities	<u>77,570,834</u>	<u>77,563,106</u>	<u>90,670,621</u>	<u>50,159,221</u>	<u>87,890,803</u>	<u>39,756</u>	<u>679,642</u>	<u>384,573,983</u>	<u>386,556,744</u>
Fund balances (deficit)	(218,271)	(115,872)	2,219,327	2,662,223	5,080,071	4,520,607	-	14,148,085	10,574,724
Commitments and contingencies (notes 5, 6 and 7)	\$ <u>77,352,563</u>	<u>77,447,234</u>	<u>92,889,948</u>	<u>52,821,444</u>	<u>92,970,874</u>	<u>4,560,363</u>	<u>679,642</u>	<u>398,722,068</u>	<u>397,131,468</u>

See accompanying notes to combined financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.  
 Combined Statement of Revenue, Expenses and Changes in Fund Balances (Deficit)  
 Year ended August 31, 1992  
 With Comparative Totals for Year Ended August 31, 1991

	1992					Surplus Funds	Clearing Fund	Totals (Memorandum Only)	
	1991 ABC	1991 DEF	Debt issue 1991 G	1990	1987			1992	1991
<b>Revenue:</b>									
Interest on student loans (note 4)	\$ 3,503,689	3,595,686	4,862,754	3,419,235	5,834,197		-	21,215,561	15,934,258
Interest on investments	1,314,575	1,390,080	1,385,019	358,708	928,306	224,982	-	5,601,670	3,124,491
Special allowance payments (note 4)	530,001	505,645	713,010	418,475	725,256			2,892,387	2,529,061
	<u>5,348,265</u>	<u>5,491,411</u>	<u>6,960,783</u>	<u>4,196,418</u>	<u>7,487,759</u>	<u>224,982</u>		<u>29,709,618</u>	<u>21,587,810</u>
<b>Expenses:</b>									
Interest on debt	4,547,589	4,547,589	3,359,272	1,885,052	3,366,881			17,706,383	14,492,234
Loan servicing fees	460,906	500,829	557,439	282,982	593,599			2,395,755	1,908,463
Payments for administrative and operating expenses to Higher Education Servicing Corporation	130,140	130,140	330,000	173,720	639,888	170,000		1,573,888	1,104,388
Provision for writedown of investment in Harris County, Texas Housing Finance Corporation bonds (note 3)	-	-	-	-	1,820,000			1,820,000	-
Amortization of deferred debt issuance expense	39,984	39,984	11,708	38,840	30,783			161,299	95,713
Trustee fees	20,400	20,400	30,263	35,168	50,716	71,740		228,687	164,020
Commitment fees (note 6)	-	-	-	-	-	128,210		128,210	127,881
Letter of credit fees (note 7)	-	-	472,692	222,134	275,691			970,517	600,082
Remarketing fees	24,438	24,438	112,500	69,375	109,187			339,938	165,914
Liquidity facility fee (note 7)	65,077	65,077	-	-	-			130,154	43,938
Bond insurance expense (note 7)	163,135	163,135	-	-	-			326,270	106,034
Amortization of goodwill	-	-	98,027	-	-			98,027	24,894
Miscellaneous expense	27,025	28,876	25,004	29,096	49,453	97,605		257,129	198,901
	<u>5,478,764</u>	<u>5,520,468</u>	<u>4,996,905</u>	<u>2,736,367</u>	<u>6,936,198</u>	<u>467,555</u>		<u>26,136,257</u>	<u>19,032,462</u>
Excess (deficiency) of revenue over expenses before transfers	(130,499)	(29,057)	1,963,878	1,460,051	551,561	(242,573)		3,573,361	2,555,348
Transfers between funds	-	-	97,657	(2,669)	2,669	(97,657)		-	-
Fund balances at beginning of year	(87,772)	(86,815)	157,792	1,204,841	4,525,841	4,860,837		10,574,724	8,019,376
Fund balances (deficit) at end of year	\$ <u>(218,271)</u>	<u>(115,872)</u>	<u>2,219,327</u>	<u>2,662,223</u>	<u>5,080,071</u>	<u>4,520,607</u>		<u>14,148,085</u>	<u>10,574,724</u>

See accompanying notes to combined financial statements.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

Combined Statement of Cash Flows

Year ended August 31, 1992

With Comparative Totals for the Year Ended August 31, 1991

	1992					Surplus Funds	Clearing Fund	Totals (Memorandum Only)	
	1991 ABC	1991 DEF	1991 G	1990	1987			1992	1991
Cash flows from operating activities:									
Excess (deficiency) of revenues over expenses	\$ (130,499)	(29,057)	1,963,878	1,460,051	551,561	(242,573)	-	3,573,361	2,555,348
Noncash items included in excess (deficiency) of revenue over expenses:									
Amortization of deferred bond issue expense and original issue discount	141,717	141,717	11,708	57,629	64,701	-	-	417,472	210,986
Amortization of loan acquisition premiums	148,113	148,649	350,703	80,872	112,661	-	-	840,998	685,231
Amortization of goodwill	-	-	98,027	-	-	-	-	98,027	24,894
Provision for writedown of investment in Harris County, Texas Housing Finance Corporation bonds	-	-	-	-	1,820,000	-	-	1,820,000	-
Changes in assets and liabilities:									
(Increase) decrease in accrued interest and other accounts receivable	315,937	656,186	(564,018)	512,657	842,213	219,574	24,383	2,006,932	(1,844,150)
(Increase) decrease in prepaid expenses	594	(4,853)	13,261	-	-	1,734	-	10,736	(225,126)
Increase (decrease) in accounts payable	19,692	(68,230)	41,816	(1,047)	13,554	16,996	155,178	177,959	(612,814)
Increase (decrease) in collections on student loans not yet applied	-	-	-	-	-	-	(1,635,871)	(1,635,871)	1,563,368
(Increase) decrease in unremitted student loan principal and interest collections	8,120	(87,380)	116,204	418,022	82,728	-	(537,694)	-	-
Increase in accrued commitment fees	-	-	-	-	-	(14,151)	-	(14,151)	-
Increase (decrease) in accrued interest payable	54,273	54,273	(317,755)	(245,434)	(312,069)	-	-	(766,712)	2,440,769
Net cash flows provided by (used in) operating activities	557,947	811,305	1,713,824	2,282,750	3,175,349	(18,420)	(1,994,004)	6,528,751	4,798,506
Cash flows from investing activities:									
Collection of student loan notes receivable	11,217,751	12,379,190	9,102,861	8,824,339	15,131,457	-	-	56,655,598	37,043,459
Purchase of student loan notes receivable	(16,141,508)	(13,061,894)	(49,422,296)	(633,325)	(4,802,014)	-	-	(84,061,037)	(35,169,114)
Payment of student loan acquisition premiums	(189,771)	(155,251)	(611,839)	-	-	-	-	(956,861)	(459,100)
Purchase of marketable securities	(91,790)	(1,064,201)	-	(3,506,377)	(6,165,000)	-	-	(10,827,368)	(120,745,164)
Proceeds from sale of marketable securities	16,551,791	14,542,129	45,784,772	-	1,783,931	250,000	-	78,912,623	20,946,324
Purchase of West Texas Higher Education Trust Estate, net of cash acquired	-	-	-	-	-	-	-	-	(82,974,023)
Net cash flows provided by (used in) investing activities	11,346,473	12,639,973	4,853,498	4,684,637	5,948,374	250,000	-	39,722,955	(181,357,618)

(Continued)

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

Combined Statement of Cash Flows, Continued

	1992					Surplus Funds	Clearing Fund	Totals	
			Debt issue		(Memorandum Only)				
	1991 ABC	1991 DEF	1991 G	1990	1987			1992	1991
Issuance of bonds	\$ -	-	-	-	-	-	-	243,500,000	
Increase in note payable to bank	-	-	-	-	-	-	-	10,685,000	
Reduction of note payable to bank	-	-	-	-	-	-	-	(60,635,000)	
Original issue discount paid	-	-	-	-	-	-	-	(1,891,970)	
Bond issue costs paid	-	-	(5,318)	-	-	-	(5,318)	(973,476)	
Other	-	-	-	-	-	-	-	7,155	
Amounts due to (from) other funds	(259,559)	315,111	(40,096)	38,175	(52,710)	(921)	-	-	
Net cash flows provided by (used in) financing activities	(259,559)	315,111	(45,414)	38,175	(52,710)	(921)	(5,318)	190,691,709	
Transfers between funds	-	-	97,657	(2,669)	2,669	(97,657)	-	-	
Net increase (decrease) in cash and cash equivalents	11,644,861	13,766,389	6,619,565	7,002,893	9,073,682	133,002	(1,994,004)	46,246,388	
Cash and cash equivalents at beginning of year	5,478,949	3,584,279	1,401,902	3,100,518	7,053,888	2,046,017	5,296,170	27,961,723	
Cash and cash equivalents at end of year	\$ 17,123,810	17,350,668	8,021,467	10,103,411	16,127,570	2,179,019	3,302,166	74,208,111	
Supplemental cash flow information:									
Interest paid	\$ 4,391,663	4,391,663	3,677,027	2,111,696	3,645,031	-	-	18,217,080	
								12,228,114	

See accompanying notes to combined financial statements.

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NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

Notes to Combined Financial Statements

August 31, 1992

(1) Summary of Significant Accounting Policies

(a) Organization

North Texas Higher Education Authority, Inc. (the Authority) is a nonprofit corporation organized on September 28, 1978, under the laws of the State of Texas. The purpose of the Authority is to provide funds for the purchase of student loans at the post-secondary educational level, and to provide procedures for the servicing of such loans as required for continued participation in the Guaranteed Student Loan Program under the Higher Education Act of 1965 as amended (see note 4). Funding for the Authority has been provided by the sale of tax-exempt bonds (see note 5). Proceeds of the debt are used to purchase student loans originated by eligible lenders located within the authorized service area which were made to eligible students for attendance at eligible institutions. The Authority is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Higher Education Servicing Corporation (HESC), a tax-exempt, nonprofit Texas corporation, services the student loans for the Authority. HESC is responsible for student loan processing, collecting, accounting and reporting and providing administrative headquarters as well as administrative support functions for the Authority under the terms of a servicing agreement.

Two computer service bureaus perform many of the duties involving student loan processing and collecting for HESC under the terms of servicing agreements. The related service fees are passed through to the Authority by HESC. In addition, HESC receives stipulated amounts for services rendered in the administration of the agreement with the Authority and for providing services as described above.

(b) Fund Accounting

The Authority's transactions are presented for financial reporting purposes in a single fund for each debt issue outstanding. The debt indentures specify that transactions are to be recorded in various trust "funds" within a particular debt issue, but these requirements do not result in any restrictions on the use of assets for the general purpose of the respective debt issues. Accordingly, separate funds within each debt issue are not considered necessary for financial reporting purposes. At the time that a debt issue has been fully repaid, the remaining assets can be transferred to another fund with outstanding debt or to a "surplus" fund. The clearing fund is used to process student loan collections among debt issues.

(c) Investment Policy

In accordance with the debt indentures, the Authority is generally required to invest available monies in United States Government and certain governmental agency obligations, and/or in interest-bearing time deposits of one or more banks located within the State of Texas. To the extent such investments are not insured by an agency or instrumentality of the United States Government, they must be secured as defined in

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

the debt indentures. Interest income from such investments is deposited in a specified trust "fund" and used solely for those purposes for which the respective trust "funds" were established. Marketable securities, which have not suffered a decline other than temporary, are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income.

(d) Loan Acquisition Premiums

The Authority frequently pays a loan acquisition premium when acquiring loans from financial institutions. Such premiums are capitalized and amortized, using the interest method, over the life of the related loans, which have been estimated by the Authority to be between three and four years. The amortization expense has been recorded as an adjustment to the yield of the loans purchased.

(e) Bond Issue Expense and Discount

Bond issue expense and discount are being amortized over the term of the related bonds using the interest method.

(f) Trustees

Ameritrust, as Trustee, performs the duties involving the acquisition and holding of student loans in the Authority's name, the investment and disbursement of monies as directed by the Authority, and the servicing and redemption of the bonds for Series 1987 and 1990. Sequor National Bank Texas performs similar duties for the Series 1991ABC, 1991DEF and 1991G bonds.

(g) Excess Income

All income of the Authority after payment of expenses, debt service and the creation of reserves will be utilized for the purchase of additional student loan notes or, upon dissolution or liquidation of the Authority, will be transferred to the Treasury of the United States.

(h) Cash Flow Reporting

The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Authority uses the indirect method to present cash flows from operating activities.

(i) Collections on Student Loans Not Yet Applied

Collections on student loans not yet applied represent cash received by the Authority but not yet credited to individual accounts.

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

(j) "Memorandum Only" Totals

Included on the accompanying financial statements are total columns captioned "Memorandum Only" to indicate that they are presented for informational purposes. The memorandum totals are not intended to present fairly the financial position and results of operations of the Authority, taken as a whole. The 1991 balances are displayed only to facilitate financial analysis and do not include all disclosures necessary to present the financial position of the Authority at August 31, 1991 and its revenues, expenses and changes in fund balances and its cash flows for the year then ended in accordance with generally accepted accounting principles.

(k) Reclassifications

Certain amounts from the August 31, 1991 combined financial statements have been reclassified to conform with the August 31, 1992 presentation.

(2) Acquisitions

In May 1991, the Authority acquired all the assets of the West Texas Higher Education Authority, Inc. (WTHEA) 1985 Series A and C trust estate and the 1986 Series A and B trust estate for approximately \$55,100,000 net of cash acquired. This acquisition was accounted for as a purchase. Accordingly, the purchase price has been allocated to the assets acquired based on the estimated fair values at the date of acquisition. The NTHEA 1991 Series A and D bonds totaling \$31,500,000 refunded the WTHEA 1985 Series A and C bonds. In addition the NTHEA 1991 Series B and E bonds totaling \$72,000,000 refunded the WTHEA 1986 Series A and B bonds.

Due to past servicing violations certain student loans acquired in the purchase in which the borrower has defaulted may not be eligible for repayment when presented to the guarantor. Because of this contingency, the credit provider, AMBAC Indemnity Corporation ("AMBAC") has agreed to guarantee payments up to \$4,000,000 in total to the 1991 trust estates for the purpose of mitigating a potential payment deficiency on the bonds, resulting from such contingency, in the event of a defeasance, redemption, acceleration or final maturity of such bonds. Any such deficiency will be reduced as the aggregate market value of the trust estate increases.

In June 1991, the Authority acquired the assets of the WTHEA 1988 Series trust estate for approximately \$27,800,000 net of cash acquired. This acquisition was accounted for as a purchase. Accordingly, the purchase price has been allocated to the assets acquired based on the estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired (goodwill of \$1,372,375) is being amortized on the straight-line basis over 14 years which is the life of the bonds. Goodwill amortization amounted to \$98,027 and \$24,894 in 1992 and 1991, respectively. The NTHEA 1991 Series G bonds totaling \$90,000,000 refunded the WTHEA Series 1988 bonds.

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## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

(3) Marketable Securities

Carrying amounts and approximate market values of securities at August 31, 1992 and 1991 are summarized as follows:

	1992		1991	
	<u>Carrying value</u>	<u>Market value</u>	<u>Carrying value</u>	<u>Market value</u>
Certificates of deposit	\$ -	-	200,000	200,000
U. S. Treasury state and local government series	920,000	920,000	970,000	970,000
Banque Indoseuz				
Repurchase Agreement	13,435,991	13,435,991	43,073,919	43,073,919
Shearson Lehman				
Repurchase Agreement	4,006,218	4,006,218	49,790,990	49,790,990
Various Texas and Washington				
Housing and Education Revenue Bonds	17,671,376	17,884,886	10,083,931	10,126,558
Harris County, Texas				
Housing Finance Corporation Bonds	3,500,000	1,680,000	3,500,000	1,820,000
Allowance for permanent impairment or value	<u>(1,820,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 37,713,585</u>	<u>37,927,095</u>	<u>107,618,840</u>	<u>105,981,467</u>

The 1987 Bond Series purchased \$3.5 million of Harris County, Texas Housing Finance Corporation tax-exempt, AAA rated, variable rate bonds. The guarantor was Mutual Benefit Life Insurance Company ("Mutual Benefit"). The Insurance Commissioner for the State of New Jersey filed for a Consent Order for the Rehabilitation of Mutual Benefit which was granted July 16, 1991. As a result of this order, there is no liquidity facility in effect which means the bonds can no longer be remarketed nor can the guarantee be utilized for the mandatory bond redemption provisions. Based upon evidence which became apparent during the year ended August 31, 1992, the Authority has reduced its carrying value of the bonds in 1992 to \$1,680,000 based upon current market quotes. Additionally, the Authority is considering a claim against the sales agent of the bonds seeking to recover any losses incurred by the Authority with respect to the bonds. Any recoveries as a result of any claims will be considered a gain contingency which would be recorded when such recovery becomes probable.

(4) Student Loan Notes Receivable

The student loan notes receivable represent loans to students who, when the loans were originated, were enrolled in post-secondary institutions. In general, the notes bear interest at rates ranging from 7% to 12% and are payable by the student following a specified grace period after graduation or termination from the institution. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over an average period of four to ten years.

(Continued)

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

Student loan notes which do not conform to the terms of the purchase agreement between the Authority and the original lender may be returned to the lending institution for reimbursement of principal, interest and costs incurred while held by the Authority.

The U.S. Government pays the Authority the interest on student loans from the date of acquisition until the end of the grace period. In addition, for certain eligible loans, a special allowance is paid at the end of each quarter which represents supplemental interest on outstanding insured loans. The special allowance is calculated using an annual rate which is determined periodically and is based on the average interest rate for ninety-one day U.S. Treasury Bills which was 3.96% at August 31, 1992.

Student loan notes purchased by the Authority have been either insured by the U.S. Government or guaranteed by the Texas Guaranteed Student Loan Corporation. The guarantors are protected by Federal reinsurance from the Federal Guaranteed Student Loan Program under the U.S. Department of Education. Generally, the U.S. Department of Education pays the guarantor 100% of the balance of the defaulted student loans. However, as the guarantor's default rate increases, the Federal reinsurance rate is graduated downward to as low as 80%. The guarantor's percentage is restored to 100% at the beginning of each annual reporting period. The loans are guaranteed provided applicable program requirements have been met by the original lender and any subsequent purchasers of the loans and all applicable due diligence requirements have been performed with respect to such loans. Numerous loans purchased from West Texas Higher Education Authority (WTHEA) went into default and when submitted for payment to the guarantor were rejected due to alleged servicing violations which accrued prior to the Authority's ownership. In 1991, the Authority established an allowance for possible loan losses in both the 1991ABC, 1991DEF and 1991G funds.

(5) Bonds Payable

The Authority has outstanding eight series of bonds, The North Texas Higher Education Authority, Inc. Student Loan Bonds Series A and Series B, Student Loan Revenue Refunding Bonds Series 1982A, 1990 and 1991G, and Student Loan Revenue Bonds Series 1987, 1991ABC and 1991DEF.

All references to "funds" in the following paragraphs relate to trust "funds" required by the bond indentures rather than funds used for financial reporting purposes.

The Series 1982A bonds represented a refunding of the Series A and Series B bonds. A portion of the Series 1982A bond proceeds was escrowed and has been placed in an irrevocable trust for the payment of all of the principal and interest on the Series A and B bonds. The trust holds only cash and direct obligations of the U.S. Government which are invested in such a manner that sufficient cash flows will be provided that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the bonds. The Series A and B bonds are considered extinguished for financial reporting purposes, effective March 1982, even though the Authority is not legally released from being the primary obligor under the bond obligations. Therefore, in accordance with Statement of Financial Accounting Standards No. 76, "Extinguishment of Debt," the escrow fund and

(Continued)

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

Series A and B bonds are not reflected in the accompanying combined financial statements. The student loan notes and certain other assets of Series A and B were transferred to Series 1982A. Excess cash and investments were transferred to the Surplus Fund.

In June 1989, approximately \$3,460,000 was escrowed and has been placed in an irrevocable trust in the same manner as the Series A and B bonds discussed above to be used to pay all of the principal and interest on the Series 1982A bonds. Likewise, the escrow fund and Series 1982A bonds are not reflected in the accompanying combined financial statements. After the placement of the funds in trust, excess cash and investments approximately \$2,300,000 remained. This amount is included with the Surplus Funds in the accompanying combined balance sheet and its use is restricted by the Series 1982A bond indenture until the bonds are defeased.

The Series A bonds, with an unpaid balance of \$3,600,000 at August 31, 1992, bear interest at rates ranging from 6.1% to 6.4%. Interest on the Series A bonds is payable semiannually on the first of June and December.

The Series 1982A, with an unpaid balance of \$2,895,000 at August 31, 1992, bear interest at 13.5%. Interest is payable semiannually on the first of June and December.

The Series 1987 bonds were issued on November 4, 1987. Proceeds were used to acquire student loans. The interest rates on the bonds are as follows:

<u>Principal amount</u>	<u>Interest mode</u>	<u>Interest rate</u>	<u>Year of maturity</u>
\$ 87,750,000	Variable	3.79%	2005

The interest rate for the bonds represent the average rate for the year ended August 31, 1992. The actual rates ranged from 2.6% to 5.7%.

The Series 1990 bonds were issued April 2, 1990. Proceeds were used to acquire student loans. The interest rates on the bonds are as follows:

<u>Principal amount</u>	<u>Interest mode</u>	<u>Interest rate</u>	<u>Year of maturity</u>
\$ 41,000,000	Variable	3.75%	2005
9,000,000	Variable	3.75%	1999

The interest rate for the bonds represent the average rate for the year ended August 31, 1992. The actual rates ranged from 2.20% to 6.35%.

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

The Series 1991ABC and 1991DEF bonds were issued April 25, 1991. Proceeds were used to acquire student loans from WTHEA.

1991 Series A and D

<u>Principal amount</u>	<u>Interest mode</u>	<u>Interest rate</u>	<u>Year of maturity</u>
\$ 5,000,000	Fixed	6.5%	1998
7,500,000	Fixed	6.5	1999
3,250,000	Fixed	6.875	2002

1991 Series B and E

3,000,000	Fixed	6.30	1994
3,500,000	Fixed	6.375	1995
4,000,000	Fixed	6.50	1996
4,000,000	Fixed	6.625	1997
3,000,000	Fixed	7.00	2000
4,250,000	Fixed	7.00	2001
4,250,000	Fixed	7.00	2002
10,000,000	Fixed	7.25	2003

1991 Series C and F

25,000,000	Variable	3.75%	2020
------------	----------	-------	------

The interest rate on the variable rate bonds represent the average rate for the year ended August 31, 1992. The actual rates ranged from 2.2% to 6.35%.

The Series 1991G bonds were issued June 7, 1992. Proceeds were used to acquire student loans.

<u>Principal amount</u>	<u>Interest mode</u>	<u>Interest rate</u>	<u>Year of maturity</u>
\$ 90,000,000	Variable	3.75%	2005

The interest rate for the bonds represent the average rate for the year ended August 31, 1992. The actual rates ranged from 2.2% to 6.35%.

The Series 1987, 1990, 1991ABC, 1991DEF and 1991G bonds are limited obligations of the Authority secured by and payable solely from "net revenues" of the Authority. Under the indentures, "net revenues" generally consist of "revenues" (all revenues plus loan repayments) less all maintenance and operating expenses. Additionally, the Authority can only acquire student loans which are insured by a Federal or state student loan guarantee agency with the bond proceeds.

(Continued)

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## Notes to Combined Financial Statements

(6) Line of Credit

In May 1989, the Authority obtained a \$100,000,000 line of credit from the Student Loan Marketing Association ("Sallie Mae") to be used to purchase student loans from eligible lenders. In August 1992, the Authority obtained an amended \$100,000,000 line of credit from Sallie Mae to be used to purchase student loans from eligible lenders. Borrowings under the line of credit generally bear interest at the thirteen-week U.S. treasury bill rate plus 1.3%, subject to modifications as provided in the line of credit agreement. The Authority must pay a quarterly commitment fee on any unused portion of the line of credit. The maturity date for any borrowings under the Agreement is August 17, 1993. There were no amounts outstanding under this line of credit at August 31, 1992.

(7) Third-Party Commitments

Under the terms of the Series 1987 bond indenture, the Authority has entered into a letter of credit agreement with Fuji Bank under which Fuji Bank issued an irrevocable direct pay letter of credit until 1997. Under the agreement the Authority may borrow up to \$91,897,090 to fund any amounts needed to pay principal and accrued interest of any Series 1987 bonds which mature in accordance with the terms of the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available.

Under the terms of the Series 1990 bond indenture, the Authority has entered into a letter of credit agreement with Sallie Mae under which Sallie Mae has issued an irrevocable direct pay letter of credit until March 31, 1995. Under the agreement the Authority may borrow up to \$52,219,178 to fund any amounts needed to pay principal and accrued interest of any Series 1990 bonds which mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee based on a percentage of the amount available.

Under the terms of the Series 1991ABC and 1991DEF bond indentures, AMBAC Indemnity issued a municipal bond insurance policy relating to each series of the bonds. Under the terms of the municipal bond insurance policy, AMBAC Indemnity guarantees timely payment of principal and interest on the bonds. The Authority pays a bond insurance fee on the amount of the bonds outstanding. Additionally, in order to ensure the availability of funds for the timely purchase of Series 1991 C and F bonds, the Authority entered into a Standby Bond Purchase Agreement (Liquidity Facility) with Sallie Mae. At August 31, 1992 the Liquidity Facility totaled \$52,013,698 which includes \$50,000,000 of principal and \$2,013,698 for interest. The Authority is required to pay a quarterly commitment fee based on the amount of the Liquidity Facility through April 1, 1996.

Under the terms of the Series 1991G bond indenture, the Authority has entered into a letter of credit agreement with Mitsubishi Bank under which Mitsubishi Bank has issued an irrevocable direct pay letter of credit until June 14, 1993. Under the agreement, the Authority may borrow up to \$92,988,493 to fund any amounts needed to pay principal and accrued interest of any Series 1991G bonds which mature in accordance with the indenture. The Authority is required to pay a quarterly commitment fee on the amount available.

APPENDIX IV

TEXAS GUARANTEED STUDENT LOAN CORPORATION  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1992 AND 1991

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Texas Guaranteed Student Loan Corporation

We have audited the accompanying balance sheets of the Texas Guaranteed Student Loan Corporation (a Texas public non-profit corporation) as of September 30, 1992 and 1991, and the related statements of revenue, expenses and changes in fund balance, and cash flows for the years ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Texas Guaranteed Student Loan Corporation as of September 30, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



Austin, Texas  
January 7, 1993

**Texas Guaranteed Student Loan Corporation**  
*Balance Sheets*  
September 30, 1992, and 1991

<u><b>Reserve Fund</b></u>	<u><b>1992</b></u>	<u><b>1991</b></u>
 <b>Assets</b>		
Cash & Cash Equivalents	\$22,409,812	\$11,941,284
Receivables:		
Reinsurance	3,582,028	13,484,272
Administrative Cost Allowance	3,188,180	4,074,552
Guarantee Fees	2,093,666	1,647,922
Accrued Interest & Other	1,296,713	2,463,953
Marketable Securities, Net	16,114,821	12,232,355
Recoverable Non-reinsured Claims	11,892,416	11,263,548
Property, Plant & Equipment, Net	4,268,358	4,849,420
Other Assets	<u>111,446</u>	<u>196,702</u>
 <b>Total Assets</b> . . . . .	 <u><b>\$ 64,957,440</b></u>	 <u><b>\$ 62,154,008</b></u>
 <b>Liabilities</b>		
Accounts Payable and Accrued Liabilities	\$ 3,250,086	\$ 2,457,706
Due to Department of Education	8,249,486	6,410,885
Reinsurance Fee Payable	1,593,958	2,037,011
Escrow	1,244,101	256,132
Notes Payable	3,598,208	345,055
Allowance for Claims	25,510,000	34,034,000
Federal 422 Advances	<u>6,919,569</u>	<u>6,919,569</u>
 <b>Total Liabilities</b> . . . . .	 <u><b>\$ 50,365,408</b></u>	 <u><b>\$ 52,460,358</b></u>
 <b>Fund Balance</b> . . . . .	 <u><b>\$ 14,592,032</b></u>	 <u><b>\$ 9,693,650</b></u>
 <b>Total Liabilities &amp; Fund Balance</b> . . . . .	 <u><b>\$ 64,957,440</b></u>	 <u><b>\$ 62,154,008</b></u>

The accompanying notes are an integral part of the financial statements.

**Texas Guaranteed Student Loan Corporation**  
**Statements of Revenue and Expenses and Changes in Fund Balance**  
**September 30, 1992, and 1991**

<u>Reserve Fund</u>	<u>1992</u>	<u>1991</u>
 <b>Revenue</b>		
Guarantee Fee Revenue	\$14,181,251	\$13,586,365
Recovery Revenue	10,771,353	7,149,948
Administrative Cost Allowance	6,969,650	7,064,605
Supplemental Preclaims	3,327,863	1,979,705
Loan Servicing Fees	2,758,822	3,897,883
Investment Revenue	1,967,675	2,205,120
Rehabilitation Recovery Revenue	623,829	1,446,489
Other Revenue	<u>94,692</u>	<u>198,360</u>
 <b>Total Revenue</b> . . . . .	 <b>\$ 40,695,135</b>	 <b>\$ 37,528,475</b>
 <b>Expenses</b>		
Operations	\$25,768,349	\$21,938,162
Provision for Loan Defaults	5,449,662	10,443,314
Reinsurance Fee	3,484,825	3,566,851
Depreciation	<u>1,093,917</u>	<u>1,163,290</u>
 <b>Total Expenses</b> . . . . .	 <b>\$ 35,796,753</b>	 <b>\$ 37,111,617</b>
 <b>Excess Revenue Before Cumulative Effect</b> <b>in Accounting Method Change</b> . . . . .	 <b>\$ 4,898,382</b>	 <b>\$ 416,858</b>
 <b>Cumulative Effect of Change in Accounting</b> <b>Method for Guarantee Fee Recognition</b> . . . . .	 <b>\$ <u>0</u></b>	 <b>\$ <u>8,568,028</u></b>
 <b>Excess Revenue</b> . . . . .	 <b>\$ 4,898,382</b>	 <b>\$ 8,984,886</b>
 <b>Fund Balance Beginning</b> . . . . .	 <b>\$ <u>9,693,650</u></b>	 <b>\$ <u>708,764</u></b>
 <b>Fund Balance Ending</b> . . . . .	 <b>\$ <u>14,592,032</u></b>	 <b>\$ <u>9,693,650</u></b>

The accompanying notes are an integral part of the financial statements.

**Texas Guaranteed Student Loan Corporation**

Statements of Cash Flows  
September 30, 1992, and 1991

<u>Reserve Fund</u>	<u>1992</u>	<u>1991</u>
<u>Cash Flows from Operating Activities:</u>		
Excess Revenue . . . . .	\$ 4,898,382	\$ 8,984,886
<u>Adjustments to Reconcile Excess Revenue to Net Cash:</u>		
Cumulative Effect of Account Method Change	0	(8,568,028)
Recoverable Claim Payments for Non-Reinsured Loans, Net	2,298,896	5,305,037
Provision for Loan Defaults	5,449,662	10,443,314
Depreciation	1,093,917	1,163,290
Claim Payments for Non-Reinsured Portion of Loans	(14,059,495)	(14,159,022)
Payments on Loan Servicing Cures	(2,213,063)	(1,432,264)
Other Adjustments	51,402	(132,877)
(Increase) Decrease in Operating Assets:		
Receivables	10,881,244	5,391,526
Other Assets	85,256	(97,952)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	792,380	935,223
Due to Department of Education	1,838,601	1,551,899
Escrow	987,969	(1,339,883)
Reinsurance Fee Payable	(443,053)	677,314
<b>Net Cash Provided by Operating Activities . . . . .</b>	<b><u>\$ 11,662,098</u></b>	<b><u>\$ 8,722,463</u></b>
<u>Cash Flows from Investing Activities:</u>		
Proceeds from Sale of Assets	\$ 15,897	\$ 33,950
Purchases of Property, Plant and Equipment	(580,154)	(688,596)
Purchases of Marketable Securities	(11,000,522)	(11,150,973)
Proceeds From Sale of Marketable Securities	7,118,056	3,061,224
<b>Net Cash Used in Investing Activities . . . . .</b>	<b><u>\$ (4,446,723)</u></b>	<b><u>\$ (8,744,395)</u></b>
<u>Cash Flows from Financing Activities:</u>		
Proceeds from Notes Payable	\$ 3,617,520	\$ 132,400
Principal Payments on Notes Payable	(364,367)	(334,213)
<b>Net Cash Provided by (Used in) Financing Activities . . . . .</b>	<b><u>\$ 3,253,153</u></b>	<b><u>\$ (201,813)</u></b>
Increase (Decrease) in Cash and Cash Equivalents	\$ 10,468,528	\$ (223,745)
Cash and Cash Equivalents, Beginning	11,941,284	12,165,029
<b>Cash and Cash Equivalents, End . . . . .</b>	<b><u>\$ 22,409,812</u></b>	<b><u>\$ 11,941,284</u></b>

The accompanying notes are an integral part of the financial statements.

**1] ORGANIZATION AND OPERATIONS**

**Initial structure:** The Texas Guaranteed Student Loan Corporation (TGS LC) is a Texas public non-profit corporation organized under the provisions of House Bill 38 of the 66th Texas Legislature to operate as a guaranty agency under the Federal Guaranteed Student Loan Program. TGS LC was organized in February 1980 with initial loan guarantee operations beginning in January 1981. TGS LC is subject to the Texas Sunset Act. The Comptroller of Public Accounts serves as trustee to administer its assets and satisfy all outstanding obligations. The Texas Higher Education Coordinating Board contributed a one-time appropriation of \$1,500,000 which was utilized to provide the total funds necessary for TGS LC to become a self-sustaining entity.

**Purpose:** The Federal Guaranteed Student Loan Program (Program) under which TGS LC operates was established by Congress as a means of making loans available to students attending colleges, universities and postsecondary educational and vocational schools. The Program provides for TGS LC to guarantee the repayment of principal and accrued interest to lenders for each eligible student loan. TGS LC is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, been paid. TGS LC also informs lenders of the Program requirements and encourages lender participation.

**2] SIGNIFICANT ACCOUNTING POLICIES**

**Fund accounting:** The accounts of TGS LC are maintained in accordance with the principles of fund accounting. This is a system under which resources are classified for accounting and reporting purposes into funds established according to their purpose. TGS LC maintains a single purpose and has therefore established only one fund to date. This fund is titled the Reserve Fund in order to be consistent with federal regulation terminology. Separate accounts are maintained within the fund in compliance with state legislative requirements. Accordingly, all financial transactions have been recorded into either the guarantee depository account described below or the operating account.

**Guarantee depository account:** TGS LC is required by House Bill 38 of the 66th Texas Legislature to maintain a guarantee depository account whereby federal advances, required matching amounts, reinsurance, and additional amounts determined by management, if any, must be restricted to meet obligations to pay default claims.

The Board of Directors has established a policy of maintaining depository account assets at a minimum of 1.5% of the principal outstanding on loans guaranteed in

conjunction with similar requirements established through various secondary market bond agreements. Management has maintained these designated assets at amounts in excess of the minimum in order to satisfy short-term cash flow needs. Accordingly, the actual percentage of these assets in relation to principal outstanding on loans on which TGS LC originated the guarantee as of September 30, 1992 and 1991, are detailed below:

As of September 30	1992	1991
Outstanding loans (TGS LC originated)	\$2,016,404,318	\$1,924,144,862
	x 1.5%	x 1.5%
Amount required	\$30,246,065	\$28,862,173
Cash & cash equivalents	19,001,969	9,174,155
Accrued interest & other receivables	322,615	255,042
Reinsurance receivables	3,582,028	13,484,272
Marketable securities	16,114,821	12,232,355
Designated assets	\$39,021,433	\$35,145,824
Actual %	1.94%	1.83%
Outstanding loans (including HEAF loans transferred in)	\$2,338,269,126	\$2,254,144,862
Actual %	1.67%	1.56%

**Cash and cash equivalents:** For purposes of the statement of cash flows, TGS LC considers as cash equivalents, certificates of deposits scheduled to mature within six months and all money market account assets.

**Marketable Securities:** Marketable securities consisting of U.S. Government and agency obligations are recorded at cost net of unaccrued premium or discount, which is recognized as investment revenue over the remaining lives of these securities.

**Recoverable non-reinsured claims:** TGS LC estimates anticipated collections on defaulted non-reinsured loans, net of estimated future related costs, based upon historical experience.

**Property, plant and equipment:** Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line method using estimated useful lives

of three to ten years for vehicles, equipment, capital leases, furniture and software, and fifteen years for the building.

**Guarantee fee revenue:** Guarantee fee revenue is recognized to the extent that it exceeds estimated cost of processing future defaults on current loan guarantees.

**Software:** Internal development costs associated with software utilized in TGSLC operations are expensed as incurred. Purchased software is capitalized in accordance with the property, plant and equipment policy.

**Income taxes:** TGSLC is exempt from federal income taxes under Internal Revenue Code Section 509(a)(1) except for unrelated business income.

**3] REINSURANCE**

Pursuant to the Higher Education Act of 1965 (the "Act"), Section 428, federal reinsurance of default claims filed will be paid to TGSLC according to the following schedule:

Annual Default Rate	Federal Reinsurance
0% to less than 5%	100%
5% to less than 9%	100% of claims up to 5% and 90% of claims equal to or greater than 5% but less than 9%.
9% or greater	100% of claims up to 5%, 90% of claims equal to or greater than 5% but less than 9% and 80% of claims equal to or greater than 9%

Annual default rates for purposes of the application for federal reinsurance are calculated by dividing reinsurance paid on claims filed during the year by the original guarantee amount of loans in repayment at the end of the preceding year. The annual default rates were 8.85% and 10.52% for the years ended September 30, 1992 and 1991, respectively.

**4] ADMINISTRATIVE COST ALLOWANCE**

Pursuant to Section 428 of the Act, TGSLC is eligible to receive payment from the federal government of up to 1% of the total loans processed for guarantee as an administrative cost allowance to offset certain administrative expenses which TGSLC incurs. Loans processed for guarantee during the years ended September 30, 1992 and 1991, totaled \$696,965,011 and \$706,460,539,

respectively.

**5] MARKETABLE SECURITIES**

The approximate market value of TGSLC's marketable securities as of September 30, 1992 and 1991, was \$17,132,188 and \$12,399,063, respectively.

**6] PROPERTY, PLANT AND EQUIPMENT**

The components included within property, plant and equipment are provided below:

As of September 30	1992	1991
Building	\$2,318,636	\$2,301,575
Equipment	5,702,800	5,615,350
Equipment under capital lease	174,990	57,471
Furniture	1,472,120	1,449,785
Vehicles	48,326	66,008
Software	2,119,433	2,003,755
	11,836,305	11,493,944
Less-Accumulated depreciation	(7,976,466)	(7,053,043)
	3,859,839	4,440,901
Land	408,519	408,519
	\$4,268,358	\$4,849,420

**7] REINSURANCE FEE**

Effective October 1, 1986, a reinsurance fee is required to be remitted to the federal government based on a percentage of total loans processed for guarantee during the year according to the following schedule:

Annual Default Rate	Federal Reinsurance
0% to less than 5%	.25%
5% or greater	.50%

**8] ESCROW**

Federal regulations permit TGSLC to provide electronic

funds transfer services to lenders and schools, and loan servicing for lenders on a fee basis. In providing these services, TGS LC has temporary custody of loan proceeds and student loan borrower payments which are included within cash and cash equivalents in the accompanying balance sheets, and as a liability titled Escrow. Current TGS LC policy specifies that these funds be physically segregated.

The balance in the electronic funds transfer escrow account as of September 30, 1992 and 1991, was \$1,051,198 and \$31,246, respectively. The balance in the loan servicing escrow account as of September 30, 1992 and 1991, was \$192,903 and \$224,886, respectively.

**9] NOTES PAYABLE**

TGS LC has the ability to borrow short-term on margin, up to 90% of the market value of its marketable securities portfolio, at a cost of 1/4% above the Prudential-Bache broker call rate. An outstanding balance of \$3,500,000 exists at September 30, 1992 accruing 6% interest per annum.

In addition, installment notes and capital lease agreements exist for various data processing equipment. Future payments total \$98,208.

**10] ALLOWANCE FOR CLAIMS**

An estimated allowance for loan defaults in excess of amounts covered by federal reinsurance is made through an annual charge to operations. Actual default payments in excess of federal reinsurance are charged against the allowance as incurred. Each year, TGS LC's management analyzes the Corporation's default experience since inception, trends in the loan portfolio, projections of future activity and defaults as they impact reinsurance rates, and anticipated recoveries net of related future costs to determine a reasonable allowance estimate.

In September 1991, TGS LC entered into an agreement to guarantee approximately \$602 million in loans formerly guaranteed by the Higher Education Assistance Foundation (HEAF) with balances in repayment approximating \$471 million. The effect of this agreement on the non-reinsured portion of future claims is included in the allowance estimate, net of potential reimbursements to the U.S. Department of Education (ED).

In addition, as indicated in Note 2, *Guarantee fee revenue*, TGS LC includes in the allowance estimated costs of processing future claims on existing loan guarantees.

Finally, the allowance includes an estimate of uncurable, rejected claims and related items that may be subrogated to TGS LC as the result of its loan servicing activity.

TGS LC serviced a student loan portfolio (approximately 90% of which it also guaranteed) of \$166,101,684 and \$287,940,318 as of September 30, 1992 and 1991, respectively.

**11] FEDERAL 422 ADVANCES**

To assist in establishing an adequate reserve, the federal government, through ED, in accordance with Section 422(c) of the Act, committed to TGS LC over a five-year period ended September 30, 1985, a total of \$9,329,329. In addition, the net balance of federal advances of \$1,069,159 originally made to another guarantor on behalf of Texas prior to the existence of TGS LC was also transferred to TGS LC. In November 1989, ED effected a return of advances in the amount of \$3,478,919 by withholding this amount from its monthly reinsurance payments. After this money was withheld, \$6,919,569 remained in advances. All federal advances are shown as a liability which is refundable to the government upon demand.

**12] LEASE COMMITMENTS**

As of September 30, 1992, TGS LC is leasing various equipment and facilities under operating lease agreements. Rental expense for the years ended September 30, 1992 and 1991, was \$1,040,142 and \$1,157,683, respectively. Future minimum lease payments under the agreements are as follows:

.....	
Fiscal Year	
.....	
1993	\$1,199,387
1994	769,490
1995	187,772
1996	140,977
1997 and thereafter	303,124
.....	

**13] RETIREMENT BENEFITS**

TGS LC has a defined contribution retirement plan which covers substantially all employees. The Corporation's contributions to the plan are based on a percentage of gross annual salaries. Total contributions were \$731,126 and \$682,225 for the years ended September 30, 1992 and 1991, respectively.

**14] SUBSEQUENT EVENT**

In November 1992, TGS LC established a \$15,000,000 revolving line of credit with Bank One, Texas, N.A. maturing January 1994 bearing interest at the Bank One,

Texas Base Rate, currently 6% per annum, collateralized by present and future accounts receivable. Proceeds from the credit line will be used by TGSLC to provide short-term working capital funds to finance claim payments while awaiting the receipt of reinsurance from ED. Subsequent to September 30, 1992, TGSLC began utilizing the line of credit.

### **15] CREDIT RISK**

Statement of Financial Accounting Standards No. 105 requires disclosure of maximum credit risk exposure. The Corporation's credit risk is inherent principally in student loan guarantees.

Current outstanding guaranteed student loans, including loans transferred to TGSLC, are composed of 65% four-year schools, 26% proprietary schools and 9% two-year schools. The maximum credit risk exposure to the Corporation for these outstanding student loan guarantees approximates \$467 million at September 30, 1992, net of federal reinsurance should all outstanding guaranteed loans default simultaneously.

TEXAS GUARANTEED STUDENT LOAN CORPORATION  
UNAUDITED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 1992

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**Texas Guaranteed Student Loan Corporation**  
**Balance Sheets**  
**(Unaudited)**

<u>Reserve Fund</u>	<u>12/31/92</u>	<u>09/30/92</u>
<b>Assets</b>		
Cash & Cash Equivalents	\$ 25,317,859	\$ 22,409,812
Receivables:		
Reinsurance	15,729,370	3,582,028
Administrative Cost Allowance	4,332,685	3,188,180
Guarantee Fees	236,525	2,093,666
Accrued Interest & Other	1,362,393	1,296,713
Marketable Securities, Net	18,090,539	16,114,821
Recoverable Non-reinsured Claims	11,909,016	11,892,416
Property, Plant & Equipment, Net	4,080,735	4,268,358
Other Assets	<u>185,328</u>	<u>111,446</u>
<b>Total Assets.....</b>	<b>\$ <u>81,244,450</u></b>	<b>\$ <u>64,957,440</u></b>
 <b>Liabilities</b>		
Accounts Payable and Accrued Liabilities	\$ 2,298,095	\$ 3,250,086
Due to Department of Education	4,885,039	8,249,486
Reinsurance Fee Payable	2,389,813	1,593,958
Escrow	9,706,967	1,244,101
Notes Payable	13,088,061	3,598,208
Allowance for Claims	24,604,817	25,510,000
Federal 422 Advances	<u>6,919,569</u>	<u>6,919,569</u>
<b>Total Liabilities.....</b>	<b>\$ <u>63,892,361</u></b>	<b>\$ <u>50,365,408</u></b>
<b>Fund Balance.....</b>	<b>\$ <u>17,352,089</u></b>	<b>\$ <u>14,592,032</u></b>
<b>Total Liabilities &amp; Fund Balance.....</b>	<b>\$ <u>81,244,450</u></b>	<b>\$ <u>64,957,440</u></b>

**Texas Guaranteed Student Loan Corporation**  
**Statements of Revenue and Expenses and Changes in Fund Balance**  
**For The Three Months Ended**  
**(Unaudited)**

<u>Reserve Fund</u>	<u>12/31/92</u>	<u>12/31/91</u>
<b>Revenue</b>		
Guarantee Fee Revenue	\$ 3,750,000	\$ 3,667,500
Recovery Revenue	3,647,572	1,902,246
Administrative Cost Allowance	1,144,505	1,576,928
Supplemental Preclaims	1,019,800	505,520
Loan Servicing Fees	392,636	800,984
Investment Revenue	614,477	525,802
Other Revenue	<u>35,058</u>	<u>42,802</u>
<b>Total Revenue.....</b>	<b>\$ <u>10,604,048</u></b>	<b>\$ <u>9,021,782</u></b>
<b>Expenses</b>		
Operations	\$ 6,154,212	\$ 5,503,779
Provision for Loan Defaults	609,981	1,725,750
Reinsurance Fee	795,855	788,464
Depreciation	<u>283,943</u>	<u>290,172</u>
<b>Total Expenses.....</b>	<b>\$ <u>7,843,991</u></b>	<b>\$ <u>8,308,165</u></b>
<b>Excess Revenue.....</b>	<b>\$ 2,760,057</b>	<b>\$ <u><u>713,617</u></u></b>
<b>Fund Balance Beginning.....</b>	<b>\$ <u>14,592,032</u></b>	
<b>Fund Balance Ending.....</b>	<b>\$ <u><u>17,352,089</u></u></b>	

**Texas Guaranteed Student Loan Corporation**  
**Statements of Cash Flows (Unaudited)**  
**For The Period Ended**

<u>Reserve Fund</u>	<u>12/31/92</u>	<u>09/30/92</u>
<u>Cash Flows from Operating Activities:</u>		
Excess Revenue .....	\$ 2,760,057	\$ 4,898,362
 <i>Adjustments to Reconcile Excess Revenue to Net Cash:</i>		
Recoverable Claim Payments for Non-Reinsured Loans, Net	(24,017)	2,298,896
Provision for Loan Defaults	609,981	5,449,662
Depreciation	283,943	1,093,917
Claim Payments for Non-Reinsured Portion of Loans	(1,061,563)	(14,059,495)
Payments on Loan Servicing Cures	(429,584)	(2,213,063)
Other Adjustments	0	51,402
(Increase) Decrease in Operating Assets:		
Receivables	(11,516,986)	10,881,244
Other Assets	(73,882)	85,256
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(951,991)	792,380
Due to Department of Education	(3,364,447)	1,838,601
Escrow	8,462,866	987,969
Reinsurance Fee Payable	795,855	(443,053)
 <i>Net Cash Provided by (Used In) Operating Activities.....</i>	 \$ (4,509,768)	 \$ 11,662,098
 <u>Cash Flows from Investing Activities:</u>		
Proceeds from Sale of Assets	\$ 0	\$ 15,897
Purchases of Property, Plant and Equipment	(96,320)	(580,154)
Purchases of Marketable Securities	(3,975,718)	(11,000,522)
Proceeds From Sale of Marketable Securities	2,000,000	7,118,056
 <i>Net Cash Used in Investing Activities.....</i>	 \$ (2,072,038)	 \$ (4,446,723)
 <u>Cash Flows from Financing Activities:</u>		
Proceeds from Notes Payable	\$ 13,000,000	3,617,520
Principal Payments on Notes Payable	(3,510,147)	(364,367)
 <i>Net Cash Provided by Financing Activities.....</i>	 \$ 9,489,853	 \$ 3,253,153
Increase in Cash and Cash Equivalents	\$ 2,908,047	\$ 10,468,528
Cash and Cash Equivalents, Beginning	22,409,812	11,941,284
 <i>Cash and Cash Equivalents, End .....</i>	 \$ 25,317,859	 \$ 22,409,812

**Texas Guaranteed Student Loan Corporation**  
**Reserve for Loan Defaults**  
**(Unaudited)**

	<u>12/31/92</u>		<u>09/30/92</u>		<u>09/30/91</u>
Outstanding Loans	\$ 2,086,306,104	\$	2,016,404,318	\$	1,924,144,862
	x 1.5%		x 1.5%		x 1.5%
Amount Required	\$ 31,294,592	\$	30,246,065	\$	28,862,173
Cash & Cash Equivalents	\$ 13,332,566	\$	19,001,969	\$	9,174,155
Accrued Interest & Other Receivables	306,577		322,615		255,042
Reinsurance Receivable	15,729,370		3,582,028		13,484,272
Marketable Securities	18,090,539		16,114,821		12,232,355
Designated Assets	\$ 47,459,052	\$	39,021,433	\$	35,145,824
Designated Assets:					
Actual %.....	2.27%		1.94%		1.83%
Outstanding Loans (Including HEAF Transfers)	\$ 2,377,391,290		2,338,269,126		2,254,144,862
Designated Assets:					
Actual %.....	2.00%		1.67%		1.56%

**FULBRIGHT & JAWORSKI  
L.L.P.**

A REGISTERED LIMITED LIABILITY PARTNERSHIP  
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WRITER'S DIRECT DIAL NUMBER:  
713/651-3612

          Date          

**D R A F T**

Re: North Texas Higher Education Authority, Inc. Student Loan Revenue Bonds, Series 1993A, Series 1993B, Series 1993C, and Series 1993D in the aggregate principal amount of \$140,000,000

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WE HAVE ACTED AS BOND COUNSEL for North Texas Higher Education Authority, Inc. (the "Authority") for the purpose of rendering our opinion as to the legality and validity of the issuance of the bonds described above (the "Bonds") under the laws of the State of Texas and the status of interest on the Bonds under the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and for no other purpose. The Bonds, are issued pursuant to and secured under a General Indenture dated May 1, 1993 between the Authority and Ameritrust Texas National Association, as trustee, as supplemented by a First Supplemental Indenture dated May 1, 1993 (collectively, the "Indenture").

WE HAVE NOT BEEN REQUESTED to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the Authority. Our examinations into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the laws of the State of Texas; a transcript of certified proceedings of the Authority relating to the authorization and issuance of the Bonds, including the Resolution authorizing the issuance of the Bonds; the Indenture; customary certifications and opinions of officials of the Authority and other pertinent showings; and an examination of the Bonds executed and delivered initially by the Authority, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that the Bonds have been duly authorized by the Authority in compliance with the laws of the State of Texas now in force, including particularly Chapter 53 of the Texas Education Code and Article 717k, Texas Revised Civil Statutes, both as amended, and the Bonds issued in compliance with the provisions of the Indenture are valid and legally binding

obligations of the Authority, payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, or the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the Authority with the provisions of the Indenture and in reliance upon representations and certifications of the Authority made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for Federal income tax purposes, pursuant to Section 103 of the Code, existing regulations, published rulings, and court decisions thereunder.

WE CALL TO YOUR ATTENTION THE FACT THAT INTEREST ON THE BONDS WILL BE A PREFERENCE ITEM FULLY INCLUDABLE IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS OF THE BONDS WHICH ARE INDIVIDUALS, CORPORATIONS, TRUSTS OR ESTATES. Alternative minimum taxable income is the basis on which is computed the alternative minimum tax imposed on individuals, corporations, trusts, and estates by Section 55 of the Code and the environmental tax imposed on corporations by Section 59A of the Code.

WE EXPRESS NO OPINION herein as to the treatment for federal income tax purposes of the interest paid the credit provider for the Bonds or the effect on the excludability from gross income for federal income tax purposes of any action taken under the Indenture which requires that the Authority shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Indenture provides that prior to taking certain actions, including converting the interest rate on the Bonds to an Intermediate or Fixed Rate on a Conversion Date (as defined in the Indenture), the Authority must have received such an opinion.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business

in the United States, "S" corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Fulbright & Jaworski L.L.P.

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