

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations. In the opinion of such Special Tax Counsel, under existing laws, interest on the 2004B Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds.

\$10,000,000
NEW MEXICO FINANCE AUTHORITY
Cigarette Tax Revenue Bonds
(UNM Health Sciences Center Project),
Series 2004B
(Weekly Rate)

Dated: Date of Delivery**Price:** 100%**CUSIP Number:** 64711M YX9**Due:** April 1, 2019

The New Mexico Finance Authority (the “NMFA”) is issuing its Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate) (the “2004B Bonds”) in fully-registered form only, without coupons. The Depository Trust Company (“DTC”) will act as securities depository for all of the 2004B Bonds through its nominee, Cede & Co. The 2004B Bonds will be issued as fully registered bonds without coupons, in denominations of \$100,000 and multiples of \$5,000 in excess thereof and when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the 2004B Bonds will be made in book-entry form only.

The 2004B Bonds will be issued under and secured by a General Indenture of Trust (the “General Indenture”), dated as of April 1, 2004, by and between the NMFA and Bank of Albuquerque, N.A., as trustee for the 2004B Bonds (the “Trustee”), as supplemented by a First Supplemental Indenture of Trust (the “First Supplemental Indenture”), dated as of April 1, 2004, by and between the NMFA and the Trustee, and a Second Supplemental Indenture of Trust (the “Second Supplemental Indenture” and, together with the General Indenture and the First Supplemental Indenture, the “Indenture”), dated as of September 1, 2004, by and between the NMFA and the Trustee. Principal of and interest on the 2004B Bonds will be payable to DTC, or its nominee, as owner of the 2004B Bonds, by the Trustee as Paying Agent (the “Paying Agent”). Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the 2004B Bonds.

Initially, the 2004B Bonds will bear interest from the date of delivery through September 29, 2004, at a rate established by the Underwriter prior to the issuance of the 2004B Bonds and thereafter will bear interest at the Weekly Rate (as described herein) until the date on which the interest rate determination method is converted to a Long-Term Interest Rate or Rates (as described herein). While the 2004B Bonds bear interest at the Weekly Rate, interest will be payable monthly in arrears on the first Business Day of each month, commencing November 1, 2004. Upon satisfaction of certain conditions, the NMFA has the ability to convert the interest rate on the 2004B Bonds from the Weekly Rate to a Long-Term Interest Rate. ***This Official Statement provides information concerning the 2004B Bonds prior to conversion to a Long-Term Interest Rate. Owners and prospective purchasers of the 2004B Bonds should not rely on this Official Statement for information relating to any conversion of the 2004B Bonds to a Long-Term Interest Rate, but should look solely to the offering document used in connection with any such conversion.***

The 2004B Bonds will be subject to redemption and tender for purchase, as described in this Official Statement.

Pursuant to a Standby Bond Purchase Agreement (the “Initial Standby Agreement”), Bank of America, N.A. (the “Bank”) has agreed under certain circumstances to purchase all 2004B Bonds bearing interest at a Weekly Rate that are tendered for purchase at the option of the holders thereof or that are subject to mandatory tender for purchase and are not remarketed by the Remarketing Agent. The Initial Standby Agreement does not secure the payment when due of principal of and interest on the 2004B Bonds and does not provide liquidity support for the 2004B Bonds if the 2004B Bonds are converted to a Long-Term Interest Rate. The commitment of the Bank under the Initial Standby Agreement will terminate on October 1, 2007, unless earlier extended or terminated. ***Under certain circumstances, the Bank’s commitment under the Initial Standby Agreement may terminate early without prior notice or opportunity to tender.*** The NMFA also may replace the Initial Standby Agreement with an Alternate Standby Agreement issued by a different liquidity facility provider, as described herein.

J.P. Morgan Securities Inc. will distribute the 2004B Bonds in the initial offering and initially will act as Remarketing Agent for the 2004B Bonds.

The 2004B Bonds are being issued by the NMFA for the purpose of financing a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico, and paying costs of issuance of the 2004B Bonds. The principal of and interest on the 2004B Bonds are payable from and secured by a distribution of certain cigarette excise taxes imposed and collected in the State of New Mexico (as further described herein, the “Revenues”), another such distribution deposited in the Credit Enhancement Account held by the NMFA, and certain funds and accounts held under the Indenture. The 2004B Bonds are secured by a lien on the Revenues and amounts in the Credit Enhancement Account on a parity with the NMFA’s Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004A issued on April 1, 2004, in the initial principal amount of \$39,035,000 (the “2004A Bonds”). Additional bonds in a maximum principal amount of \$10,965,000 may be issued pursuant to the Indenture at a future date with a lien on the Revenues and amounts in the Credit Enhancement Account on a parity with the lien of the 2004A Bonds and the 2004B Bonds. Payment of the principal of and interest on the 2004B Bonds will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2004B Bonds.



The 2004B Bonds, together with interest on the 2004B Bonds, are not an indebtedness of the State of New Mexico (the “State”), the University of New Mexico (the “University”) or the NMFA but are special limited obligations of the NMFA payable solely from and secured solely by the Revenues, other moneys in certain funds and accounts created under the Indenture, and amounts deposited in the Credit Enhancement Account. The NMFA has no taxing powers. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA, the University or any political subdivision of the State. The principal of and interest on the 2004B Bonds do not constitute or give rise to any personal liability on the part of the members, directors or officers of the NMFA.

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel. Certain legal matters with respect to the tax status of the interest paid on the 2004B Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on by the Office of the Attorney General of the State of New Mexico and by Virtue Najjar & Brown PC, Santa Fe, New Mexico, for the NMFA, by Sutin, Thayer & Browne A Professional Corporation, as disclosure counsel to the NMFA, and by Squire, Sanders & Dempsey L.L.P., Phoenix, Arizona, as counsel to the Bank. Hogan & Hartson, L.L.P., Denver, Colorado, has acted as counsel to the Underwriter and Remarketing Agent. Certain legal matters will be passed on for MBIA Insurance Corporation by its counsel, Kutak Rock LLP, Omaha, Nebraska. Western Financial Group, LLC has acted as financial advisor to the NMFA in connection with the 2004B Bonds. It is expected that the 2004B Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 22, 2004.

JPMorgan

Dated: September 14, 2004.

No dealer, salesman, or other person has been authorized to give any information or to make any representation, other than the information contained in this Official Statement, in connection with the offering of the 2004B Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA, the University or the Underwriter. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information contained in this Official Statement has been obtained from the NMFA, the University and other sources that are believed to be reliable. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, the University or others since its date.

IN CONNECTION WITH THE OFFERING OF THE 2004B BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The 2004B Bonds have not been registered under the Securities Act of 1933 in reliance upon exemptions contained in that Act. The registration and qualification of the 2004B Bonds in accordance with applicable provisions of the securities laws of the states in which the 2004B Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the 2004B Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

NEW MEXICO FINANCE AUTHORITY

409 St. Michael's Drive
Santa Fe, New Mexico 87505
telephone: (505) 984-1454
telecopy: (505) 984-0002

Board of Directors

Stephen R. Flance, Chairman
William F. Fulginiti, Vice-Chairman
Samuel O. Montoya, Secretary
Craig Reeves, Treasurer

Gary Bland
John Carey
Ron Curry
Randy Harris
Rick Homans
James Jimenez
James L. McDonough
Joanna Prukop

Executive Director

William C. Sisneros

NMFA Counsel

Office of the Attorney General
State of New Mexico

Virtue Najjar & Brown PC
Santa Fe, New Mexico

Financial Advisor

Western Financial Group, LLC
Lake Oswego, Oregon

Bond Counsel

Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

Special Tax Counsel

Ballard Spahr Andrews & Ingersoll, LLP
Salt Lake City, Utah

Disclosure Counsel

Sutin, Thayer & Browne
A Professional Corporation

Trustee, Paying Agent and Tender Agent

Bank of Albuquerque, N.A.
Albuquerque, New Mexico

Liquidity Provider

Bank of America, N.A.
Albuquerque, New Mexico

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

| | |
|---|----|
| INTRODUCTORY STATEMENT | 1 |
| NEW MEXICO FINANCE AUTHORITY | 6 |
| General | 6 |
| Powers | 6 |
| Organization and Governance | 7 |
| Governing Body and Staff Members | 9 |
| Other NMFA Programs and Projects | 10 |
| DESCRIPTION OF THE 2004B BONDS | 10 |
| General | 10 |
| Interest Rates | 11 |
| Conversion to Long-Term Interest Rate Bonds | 12 |
| Optional and Mandatory Tender of Weekly Rate Bonds | 13 |
| Optional Tender | 13 |
| Mandatory Tender for Purchase on First Day of Long-Term Interest Rate Period | 14 |
| Mandatory Tender for Purchase Upon Termination, Expiration, Reduction, Modification or Replacement of the Standby Agreement; Mandatory Standby Tender | 14 |
| Notice of Mandatory Tender for Purchase | 15 |
| Irrevocable Notice Deemed Tender; Undelivered Bonds | 16 |
| Payment of Tender Price by the NMFA | 16 |
| Determination by Tender Agent; Notice of Tender | 16 |
| Purchase of Tendered Bonds; Sources and Deposit of Tender Price | 16 |
| Undelivered Tendered Bond; Tender Price | 17 |
| Remarketing | 17 |
| Book-Entry-Only System | 17 |
| Discontinuance of Book-Entry-Only System | 20 |
| Registration, Transfer and Exchange | 20 |
| Redemption | 21 |
| Optional Redemption | 21 |
| Mandatory Sinking Fund Redemption | 21 |
| Special Redemption of Standby Bonds | 22 |
| Notice of Redemption | 22 |
| Selection of 2004B Bonds to be Redeemed | 23 |
| SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS | 23 |
| General | 23 |
| Revenues | 25 |
| Continuation of Revenues and Credit Enhancement Account | 26 |
| State Cigarette Tax Collections and Distributions | 26 |
| Imposition of Cigarette Taxes | 26 |
| Method of Collection | 26 |
| Historical Taxable Cigarette Sales | 26 |
| Collection History for Net Cigarette Tax Receipts | 28 |
| Distribution of Net Cigarette Tax Receipts | 29 |
| Debt Service Reserve Fund | 30 |
| The Initial Standby Agreement | 31 |
| Alternate Standby Agreement | 32 |
| Application of Moneys Under the Indenture | 32 |
| Creation of Funds and Accounts | 32 |
| Application of Revenues | 32 |
| Use of Moneys on Deposit in Funds and Accounts | 34 |

| | |
|---|----|
| Additional Series of Bonds | 34 |
| THE INITIAL STANDBY AGREEMENT..... | 35 |
| General | 35 |
| Termination by the Bank Resulting in Mandatory Purchase | 36 |
| BOND INSURANCE | 36 |
| The MBIA Insurance Corporation Insurance Policy..... | 36 |
| MBIA | 37 |
| MBIA Information | 38 |
| Financial Strength Ratings of MBIA | 38 |
| PLAN OF FINANCING | 39 |
| General | 39 |
| The Health Sciences Center | 39 |
| The UNM Health Sciences Center Project..... | 39 |
| The UNM Hospital Project | 39 |
| The UNM Cancer Research Center Project | 40 |
| The Construction Fund..... | 40 |
| Estimated Uses of Proceeds | 41 |
| Estimated Annual Debt Service Requirements | 42 |
| Coverage Ratios | 42 |
| INVESTMENT CONSIDERATIONS | 45 |
| Cigarette Tax Revenues | 45 |
| Continuation of Revenues and Credit Enhancement Account | 46 |
| Additional Series of Bonds | 47 |
| Automatic Termination of Standby Agreement | 47 |
| Enforceability of Remedies..... | 47 |
| UNDERWRITING | 47 |
| RATINGS | 48 |
| TAX MATTERS..... | 48 |
| Federal Income Tax | 48 |
| State of New Mexico Income Tax | 48 |
| FINANCIAL ADVISOR | 49 |
| LEGAL MATTERS..... | 49 |
| CONTINUING DISCLOSURE..... | 49 |
| Financial Statements | 49 |
| Continuing Disclosure Undertaking..... | 49 |
| FORWARD-LOOKING STATEMENTS | 51 |
| LITIGATION..... | 51 |
| ADDITIONAL INFORMATION..... | 51 |
| APPROVAL BY THE NMFA..... | 52 |

APPENDIX A: SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

APPENDIX B: OTHER NMFA PROGRAMS AND PROJECTS

APPENDIX C: PROPOSED FORMS OF OPINIONS

APPENDIX D: THE BANK

APPENDIX E: SPECIMEN BOND INSURANCE POLICY

OFFICIAL STATEMENT
relating to
\$10,000,000
NEW MEXICO FINANCE AUTHORITY
CIGARETTE TAX REVENUE BONDS
(UNM HEALTH SCIENCES CENTER PROJECT),
SERIES 2004B
(WEEKLY RATE)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices, is furnished in connection with the offering by the New Mexico Finance Authority (the “NMFA”), a public body corporate and politic, separate and apart from the State of New Mexico (the “State”) and a public instrumentality created pursuant to the laws of the State, of \$10,000,000 principal amount of its Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (Weekly Rate) (the “2004B Bonds”). Definitions of certain words and terms used but not otherwise defined in this Official Statement will have the meanings set forth in the Indenture mentioned below under “– Authorization.” See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

The 2004B Bonds will be initially issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Principal of and interest on the 2004B Bonds will be payable by the Trustee to the securities depository, which will remit such payments in accordance with its normal procedures, as described under “DESCRIPTION OF THE 2004B BONDS – Book-Entry-Only System.” The Depository Trust Company will act as the securities depository for the 2004B Bonds. The 2004B Bonds will be issued initially in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof when interest is payable at a Weekly Rate and in denominations of \$5,000 and integral multiples thereof when interest is payable at a Long-Term Interest Rate or Rates. Initially, the 2004B Bonds will bear interest at a Weekly Rate and will bear interest from the date of their issuance to September 29, 2004, at an initial interest rate to be determined before their issuance. The 2004B Bonds will continue to bear interest at Weekly Rates until converted to a Long-Term Interest Rate as described in this Official Statement. Weekly Rates and any Long-Term Interest Rate will be determined as described in this Official Statement. Interest will be payable on the dates described in this Official Statement. See “DESCRIPTION OF THE 2004B BONDS.”

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including its cover page and appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the 2004B Bonds to potential investors is made only by means of the entire Official Statement.

Authorization. The 2004B Bonds are being issued pursuant to a General Indenture of Trust (the “General Indenture”), dated as of April 1, 2004, by and between the NMFA and Bank of Albuquerque, N.A., as trustee for the 2004B Bonds (together with any successor trustee, the “Trustee”), as supplemented by a First Supplemental Indenture of Trust (the “First Supplemental Indenture”), dated as of April 1, 2004, by and between the NMFA and the Trustee, and a Second Supplemental Indenture of Trust (the “Second Supplemental Indenture” and, together with the General Indenture and the First Supplemental Indenture, the “Indenture”), dated as of September 1, 2004, by and between the NMFA and the Trustee. The 2004B Bonds are authorized to be issued by Chapter 341, Laws of New Mexico 2003 (the “Authorizing Act”). The Authorizing Act authorizes distribution by the State of amounts equal to (1) 14.52% of the net receipts of a cigarette excise tax (as more fully defined below under “SECURITY

AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Revenues,” the “Cigarette Tax”) collected each month by the State to the NMFA, on behalf of and for the benefit of the University of New Mexico Health Sciences Center and (2) 15.95% of the net Cigarette Tax receipts collected each month for deposit in the credit enhancement account established in the NMFA by the Authorizing Act (the “Credit Enhancement Account”). The Authorizing Act further permits the NMFA to issue Cigarette Tax revenue bonds in an amount not to exceed \$60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital (the “UNM Hospital Project”) and the Cancer Research and Treatment Center (the “UNM Cancer Research Center Project”), both at the University of New Mexico Health Sciences Center in Albuquerque, New Mexico (the “Health Sciences Center”). The UNM Hospital Project and the UNM Cancer Research Center Project are collectively referred to in this Official Statement as the “UNM Health Sciences Center Project” (as such term is further defined in Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS”). The Authorizing Act directs the NMFA to pledge the 14.52% and 15.95% distributions for the payment of any Cigarette Tax revenue bonds. The 2004B Bonds are also being issued under the authority of the New Mexico Finance Authority Act, Section 6-21-1 *et seq.*, New Mexico Statutes Annotated, as amended (the “NMFA Act”).

The 2004B Bonds, together with the NMFA Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project) Series 2004A issued in the aggregate principal amount of \$39,035,000 (the “2004A Bonds”) and any additional series of Bonds that may be issued in the future pursuant to the Indenture, are referred to in this Official Statement as the “Bonds.”

New Mexico Finance Authority. The NMFA, established by the legislature of the State (the “Legislature”) in 1992, is a governmental instrumentality separate and apart from the State, created to coordinate the planning and financing of state and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations. For additional information concerning the NMFA, see “NEW MEXICO FINANCE AUTHORITY.” *The 2004B Bonds are payable solely from and are secured solely by the Revenues (consisting of a portion of the net Cigarette Tax receipts collected each month by the State and distributed to the NMFA), certain funds and accounts established pursuant to the Indenture and the Credit Enhancement Account. Therefore, the financial status of the NMFA does not indicate and will not necessarily affect whether amounts will be available to pay principal of and interest on the 2004B Bonds. See “– Security for the 2004B Bonds” below.*

Purpose of the 2004B Bonds. The 2004B Bonds are being issued for the benefit of the University of New Mexico (the “University”). The proceeds of the 2004B Bonds will be used to (1) pay a portion of the cost of the UNM Health Sciences Center Project and (2) pay certain costs of issuance of the 2004B Bonds. See “PLAN OF FINANCING” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS.”

Security for the 2004B Bonds. The 2004B Bonds will be payable from and secured by an irrevocable pledge of and lien on the Revenues. Under the Indenture, the term “Revenues” is defined collectively as all cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Sciences Center pursuant to the provisions of the Authorizing Act, excluding any such revenues received prior to the issuance of the 2004A Bonds. Those revenues consist of 14.52% of the aggregate Cigarette Tax receipts collected each month by the State, net of penalties and interest, which percentage amount is to be distributed to the NMFA by the New Mexico Department of Taxation and Revenue (the “Department of Taxation and Revenue”) pursuant to Section 7-1-6.11(E), New Mexico Statutes Annotated, plus all income and receipts derived from the investment thereof. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Revenues.”

Each month, the NMFA is required to transfer all Revenues upon receipt to the Trustee to the credit of the Revenue Fund prior to being transferred to other funds created under the Indenture or to certain payees. From amounts on deposit in the Revenue Fund, the Trustee is required to transfer first for deposit to the Bond Fund the amount necessary to pay 1/12 of the principal of and premium on and 1/6 of the interest on any Bonds that are not Variable Rate Bonds coming due in the next-ensuing 12 months, 1/12 of the principal of the Variable Rate Bonds coming due in the next-ensuing 12 months and all of the interest on any Variable Rate Bonds coming due in the next-ensuing month, and moneys representing principal and interest repayments under any Security Instrument Repayment Obligations promptly on each such payment date as the same become due and payable. Thereafter, the Trustee is required to transfer amounts from the Revenue Fund to make certain deposits and payments, among them, a deposit to make up any deficiency in the Debt Service Reserve Fund and the payment of certain administrative expenses, with any remaining balance being released to the Health Sciences Center. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Application of Moneys Under the Indenture,” “PLAN OF FINANCING – Estimated Annual Debt Service Requirements” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

Additionally, the NMFA has irrevocably pledged, as additional security for the payment of the principal, interest, premiums and expenses on the 2004A Bonds and the 2004B Bonds, the amounts on deposit in the Credit Enhancement Account, representing 15.95% of the aggregate Cigarette Tax receipts collected each month by the State, net of penalties and interest, which percentage amount is to be distributed by the Department of Taxation and Revenue pursuant to the Authorizing Act to the NMFA for deposit in the Credit Enhancement Account. Amounts in the Credit Enhancement Account also may be pledged (but has not been as of the date of this Official Statement), on a subordinate basis only so long as the Bonds are outstanding, as additional security for bonds issued by the NMFA pursuant to the Authorizing Act for improvements to State Department of Health facilities.

Each month, the NMFA is required to determine the sufficiency of the Revenues for payment of principal, interest, premiums and expenses on the Bonds. Any insufficient amount is to be paid promptly from the Credit Enhancement Account, and repaid in succeeding months from the respective Cigarette Tax proceeds not required for debt service or expenses on the 2004B Bonds and any additional series of Bonds. Money in the Credit Enhancement Account in excess of the monthly amount required for immediate payment or designation for payment of debt service and expenses on the Bonds is to be transferred monthly to the State’s General Fund. The same deficiency payment mechanism is available for any bonds issued by the NMFA pursuant to the Authorizing Act for improvements to State Department of Health facilities.

The 2004B Bonds are also secured by the moneys and investments from time to time on deposit to the credit of the funds and accounts created under the Indenture for the purposes provided in the Indenture (other than moneys held to satisfy any obligations of the NMFA with respect to arbitrage rebate and moneys on deposit in the Construction Fund). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

Payment of the 2004B Bonds also will be secured by amounts on deposit in a separate account in the Debt Service Reserve Fund, which will initially be funded with a surety bond provided by MBIA Insurance Corporation, as described in “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Debt Service Reserve Fund.”

The 2004B Bonds, together with interest thereon, are not an indebtedness of the State, the University or the NMFA but are special limited obligations of the NMFA payable solely from and secured solely by the Revenues, certain funds and accounts created under the Indenture, and the Credit

Enhancement Account. The NMFA has no taxing powers. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NMFA, the University or any political subdivision of the State. The principal of and interest on the 2004B Bonds do not constitute or give rise to any personal liability on the part of the members, directors and officers of the NMFA. *None of the land and facilities comprising the UNM Health Sciences Center Project or the Health Sciences Center will be pledged to secure payment of the 2004B Bonds.* See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS.”

Bond Insurance. The NMFA has received a commitment from MBIA Insurance Corporation (the “Bond Insurer”) for the issuance of a financial guaranty insurance policy (the “Bond Insurance Policy”) insuring the payment of principal of and interest on the 2004B Bonds, when due. See “BOND INSURANCE.”

Redemption. The 2004B Bonds are subject to redemption prior to maturity as described under “DESCRIPTION OF THE 2004B BONDS – Redemption.”

Tenders for Purchase. 2004B Bonds bearing interest at a Weekly Rate may be tendered by the Holders thereof for purchase as described under “DESCRIPTION OF THE 2004B BONDS – Optional and Mandatory Tender of Weekly Rate Bonds.” In addition, 2004B Bonds bearing interest at a Weekly Rate are subject to mandatory tender for purchase as described under the same heading. Any 2004B Bonds so tendered for purchase will be purchased at a price equal to the principal amount thereof plus accrued interest.

The purchase price of 2004B Bonds tendered for purchase is to be paid from proceeds of remarketing of those 2004B Bonds by the Remarketing Agent or, to the extent those proceeds are insufficient, money from a drawing under any Standby Agreement then in effect, amounts on deposit in the Revenue Fund, and any money furnished by the NMFA to the Paying Agent for that purpose. See “– The Initial Standby Agreement” below.

Remarketing Agent. Initially, J.P. Morgan Securities Inc. will act as Remarketing Agent for the 2004B Bonds. Under the Indenture, a Remarketing Agent may resign or be removed by the NMFA and a successor Remarketing Agent may be appointed by the NMFA. See “DESCRIPTION OF THE 2004B BONDS – Optional and Mandatory Tender of Weekly Rate Bonds – Remarketing.”

The Initial Standby Agreement. On the date of delivery of the 2004B Bonds, the NMFA will enter into a Standby Bond Purchase Agreement (the “Initial Standby Agreement”) for the 2004B Bonds bearing interest at a Weekly Rate with Bank of America, N.A. (the “Bank”) and the Bank of Albuquerque, N.A., in its capacities as Trustee, Paying Agent and Tender Agent, pursuant to which a liquidity facility will be established. The purchase price of such 2004B Bonds will be payable from the proceeds of remarketing and, to the extent remarketing proceeds are not available, from amounts available under the Initial Standby Agreement. Subject to certain conditions described under “THE INITIAL STANDBY AGREEMENT,” the Initial Standby Agreement will provide for the purchase from time to time prior to October 1, 2007, unless it is terminated earlier or extended by the Bank, of any 2004B Bonds bearing interest at the Weekly Rate that are required to be purchased. The Initial Standby Agreement may be replaced in certain circumstances by another liquidity facility (an “Alternate Standby Agreement”). *The obligation of the Bank to purchase tendered 2004B Bonds may terminate without prior notice to 2004B Bondholders or opportunity to tender upon the occurrence of certain immediate termination events under the Initial Standby Agreement.* For a more detailed description of the Initial Standby Agreement, see “THE INITIAL STANDBY AGREEMENT.” For a description of the Bank, see Appendix D – “THE BANK.”

Investment Considerations. For a description of certain investment considerations associated with ownership of the 2004B Bonds, see “INVESTMENT CONSIDERATIONS.”

Summary of Certain Provisions of the Legal Documents. This Official Statement contains descriptions of, among other things, the 2004B Bonds, the Indenture, the Remarketing Agreement, the Initial Standby Agreement, the Continuing Disclosure Agreement and the Bond Insurance Policy. These descriptions do not purport to be comprehensive or definitive. Summaries of certain provisions of the legal documents are included in Appendix A to this Official Statement. Appendix A also contains definitions of certain words and terms used in this Official Statement. All references in this Official Statement to such documents are qualified in their entirety by reference to such documents, as executed at closing, and references in this Official Statement to the 2004B Bonds are qualified in their entirety by reference to the forms thereof included in the executed Indenture. Until the issuance and delivery of the 2004B Bonds, copies of the Indenture and other documents described in this Official Statement may be obtained from the NMFA. Copies of such documents will be available for inspection at the principal corporate trust office of the Trustee after delivery of the 2004B Bonds.

Continuing Disclosure. The NMFA has undertaken for the benefit of the 2004B Bondholders that, so long as the 2004B Bonds remain outstanding, the NMFA will provide certain annual financial information for any year during which the 2004B Bonds are outstanding and notice of certain material events to each nationally recognized municipal securities information repository (“NRMSIRs”) and to the Municipal Securities Rulemaking Board (the “MSRB”) in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in “CONTINUING DISCLOSURE”.

Tax Considerations. In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations.

In the opinion of such Special Tax Counsel, under existing laws of the State of New Mexico as currently enacted and construed, interest on the 2004B Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds.

The form of opinion to be delivered by Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel to the NMFA, is included in Appendix C hereto. For a discussion of such opinion and certain other tax consequences incident to the ownership of the 2004B Bonds, see “TAX MATTERS.”

Professionals Involved in the Offering. At the time of the issuance and sale of the 2004B Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, will deliver the opinion, the form of which is included in Appendix C hereto, and Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, will deliver the opinion, the form of which is discussed under “TAX MATTERS” and included in Appendix C hereto. Certain legal matters will be passed upon for the underwriter named in the following paragraph (the “Underwriter”) by Hogan & Hartson, L.L.P., and for the Bank by Squire, Sanders & Dempsey L.L.P. Certain legal matters will be passed upon for the NMFA by the Office of the Attorney General for the State of New Mexico and by Virtue Najjar & Brown PC and by its disclosure counsel, Sutin, Thayer & Browne A Professional Corporation. See “LEGAL MATTERS.” Western

Financial Group, LLC has acted as financial advisor to the NMFA in connection with its issuance of the 2004B Bonds. See “FINANCIAL ADVISOR.”

Offering and Delivery of the 2004B Bonds. The 2004B Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate will be issued to DTC in New York, New York, or to its agent for that purpose, on or about September 22, 2004. The 2004B Bonds will be distributed in the initial offering by J.P. Morgan Securities Inc.

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete and reference is made to those laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael’s Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the 2004B Bonds.

NEW MEXICO FINANCE AUTHORITY

General

The NMFA is a public body politic and corporate, separate and apart from the State, and a governmental instrumentality of the State. It was created in 1992 pursuant to the NMFA Act for the purpose of coordinating the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs, and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the NMFA Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law shall take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is governed by a board of directors and currently employs 25 persons, including an Executive Director, who directs the business and affairs of the NMFA, subject to the policies, control and direction of the Board of Directors of the NMFA.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the NMFA Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers:

- to sue or be sued;
- to adopt, subject to the review and approval of the NMFA oversight committee, such regulations as are necessary and appropriate to implement the provisions of the NMFA Act;

- to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the NMFA Act;
- to acquire, construct, hold, improve, mortgage, sell, lease, convey or dispose of real and personal property for its public purposes;
- to make loans and purchase securities and contract to make loans and purchase securities;
- to make grants from the Water and Wastewater Project Grant Fund and Water and Wastewater Planning Fund to qualified entities to finance public projects;
- to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance;
- to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA;
- to borrow money and to issue bonds and provide for the rights of holders of the bonds;
- to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance of other debt service accounts;
- to invest and reinvest its funds and to take and hold property as security for the investment of such funds; and
- to employ advisers, consultants and agents.

The NMFA has no authority to impose or collect taxes of any kind.

Organization and Governance

The NMFA's Board of Directors, which is its governing body, is composed of the 12 members of the NMFA, seven of which are ex-officio members designated in the NMFA Act and five of which are appointed by the Governor with the advice and consent of the State senate. The seven designated members include five ex-officio State officials, of which four are cabinet-level secretaries (the secretary of finance and administration, the secretary of economic development, the secretary of energy, minerals and natural resources, and the secretary of environment), and one is a State agency official (the State Investment Officer), and two are the chief executives of state-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties). One of the five members appointed by the Governor must be the chief financial officer of a State higher educational institution and the remaining four members appointed by the Governor are members of the public. Each of the appointed members of the NMFA serve staggered four-year terms, so that the term of at least one member expires on January 1 of each year. Vacancies are filled by appointment for the remainder of the unexpired term. Any member is eligible for reappointment.

The NMFA Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it:

- meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the NMFA Act and to review and approve regulations proposed for adoption;
- monitors and provides assistance and advice on the public project financing program of the NMFA;
- oversees and monitors State and local government capital planning and financing;
- provides advice and assistance to the NMFA and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects;
- undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and
- reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the State legislature (the “Legislature”).

The report and proposed legislation is required to be made available on or before December 15 each year.

The Governor’s Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003, to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. Although the NMFA is a governmental instrumentality separate from the State and not legally an “executive agency,” the NMFA voluntarily participates in the Governor’s Finance Council in order to meet the goals of Executive Order No. 2003-017 and the goals of the NMFA.

Governing Body and Staff Members

Current members of the Board of Directors of the NMFA, and their respective occupations, are set out below:

| <u>Name</u> | <u>Occupation</u> | <u>Term Expires</u> |
|---|---|---------------------|
| Gary B. Bland ⁽¹⁾ | State Investment Officer, New Mexico State Investment Council | not applicable |
| John Carey ⁽²⁾ | President & CEO, Association of Commerce & Industry of New Mexico | 1/1/08 |
| Ron Curry ⁽¹⁾ | Secretary, Environment Department, State of New Mexico | not applicable |
| Stephen R. Flance ⁽²⁾ (Chairman) | Owner/CEO, The Flance Company | 12/31/05 |
| William F. Fulginiti ⁽¹⁾ (Vice-Chairman) | Director, New Mexico Municipal League | not applicable |
| Randy Harris ⁽²⁾ | President and Chief Executive Officer, Bank of Clovis | 12/31/04 |
| Rick Homans ⁽¹⁾ | Secretary, Economic Development Department, State of New Mexico | not applicable |
| James Jimenez ⁽¹⁾ | Secretary, Department of Finance and Administration, State of New Mexico | not applicable |
| James L. McDonough ⁽²⁾ | Chief Financial Officer, New Mexico State University | 12/31/07 |
| Samuel O. Montoya ⁽¹⁾ (Secretary) | Executive Director, New Mexico Association of Counties | not applicable |
| Joanna Prukop ⁽¹⁾ | Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico | not applicable |
| Craig Reeves ⁽²⁾ (Treasurer) | President, First National Bank of New Mexico | 1/1/08 |

⁽¹⁾ *Ex-officio* member.

⁽²⁾ Appointed by the Governor of the State.

Set out below is certain information concerning key staff members of the NMFA involved in the issuance of the 2004B Bonds and the administration of the NMFA's financing programs.

William C. Sisneros, Executive Director. Mr. Sisneros serves as the Executive Director of the NMFA, having been appointed to the position in June 2004. Prior to that, Mr. Sisneros was President of WCS Consultants and Chief Executive Officer of Jenkeel, Ltd., a New Mexico corporation doing business as The Club at El Gancho. As a businessman and consultant, Mr. Sisneros provided services to public and private sector clients specializing in management and organization development consulting, and land development process consulting. He graduated from the University of Colorado at Boulder with a Master's Degree in Public Administration. In addition, Mr. Sisneros served as City Manager of Santa Fe, New Mexico, Town Manager of Taos, New Mexico, Assistant City Manager of Boulder, Colorado, and Administrative Assistant in Engelwood, Colorado. In Santa Fe, Mr. Sisneros served on the Executive Board of St. Vincent Hospital, as President of the Santa Fe Chamber of Commerce, as Chairman of the Industrial Park for Santa Fe Economic Development Inc., on the Board of Directors of Open Hands and of New Mexico CARES, and on the Board of Directors of New Mexico First.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA, Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds a B.S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Marquita D. Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. She has 15 years of experience in the financial services industry, in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority, where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax-exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

Other NMFA Programs and Projects

The NMFA participates in several other programs designed to provide financing for equipment and projects to both local government entities and State agencies and institutions. These projects are funded by various sources and do not have a lien or claim of any type on the Revenues, amounts on deposit in the Credit Enhancement Account, and other moneys that secure the 2004B Bonds. These programs are described in Appendix B.

DESCRIPTION OF THE 2004B BONDS

General

This Official Statement, in general, describes the 2004B Bonds only during the Weekly Rate Period and not the terms that will apply if they are converted to a Long-Term Interest Rate as described herein.

The 2004B Bonds will be dated as of the date of delivery thereof. The 2004B Bonds will be issued as fully-registered bonds, without coupons, in denominations of \$100,000 or integral multiples in excess of \$5,000 thereof when interest is payable at a Weekly Rate, and in denominations of \$5,000 and integral multiples thereof when interest is payable at a Long-Term Interest Rate. Principal of and interest on the 2004B Bonds will be payable in the manner described below under “– Book-Entry-Only System.” The 2004B Bonds will mature, subject to prior redemption, on April 1, 2019.

Initially, the 2004B Bonds will bear interest from the date of delivery through September 29, 2004, at a rate established by the Underwriter prior to the issuance of the 2004B Bonds and thereafter will bear interest at a Weekly Rate and interest thereon will be payable on November 1, 2004, and on each Interest Payment Date thereafter as more fully described below. The 2004B Bonds will continue to bear interest at a Weekly Rate until converted to a Long-Term Interest Rate, as described below. Weekly Rates and any Long-Term Interest Rate will be determined as described below.

2004B Bonds bearing interest at a Weekly Rate or a Long-Term Interest Rate are referred to in this Official Statement as “Weekly Rate Bonds” or “Long-Term Interest Rate Bonds,” respectively.

The 2004B Bonds are subject to redemption and tender for purchase prior to maturity as described below under “– Redemption,” “– Optional and Mandatory Tender of Weekly Rate Bonds – Optional Tender” and “– Optional and Mandatory Tender of Weekly Rate Bonds – Mandatory Tender.”

Interest Rates

The 2004B Bonds will bear interest at a Weekly Rate or a Long-Term Interest Rate or Rates. Interest rates on the Weekly Rate Bonds or Long-Term Interest Rate Bonds will be determined by the Remarketing Agent as the minimum rate necessary (as determined by the Remarketing Agent based on the examination of obligations, the interest on which is excludable from gross income for federal income tax purposes, comparable to the 2004B Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) for the Remarketing Agent to sell the 2004B Bonds on the date the rate is set at their principal amount (plus accrued interest, if any). If for any reason a Weekly Rate is not determined or effective, the Weekly Rate for such week (or portion thereof) will be equal to the TBMA Municipal Swap Index, unless the TBMA Municipal Swap Index is no longer disseminated on a timely basis or is not representative of an index based upon the Qualified Index Criteria. In no event will any interest rate exceed the Maximum Rate. The “Maximum Rate” is 12% per annum.

Interest on the 2004B Bonds will be paid at the lesser of (1) a Weekly Rate or a Long-Term Interest Rate or Rates as selected by the NMFA and as determined in accordance with the Indenture and (2) the Maximum Rate or, when a Standby Agreement secures the payment of the 2004B Bonds, such lower maximum rate as may be specified in the Standby Agreement. The Initial Standby Agreement with respect to the 2004B Bonds does not specify a lower maximum rate. Interest will initially be payable at a Weekly Rate, as set forth in the Indenture. The NMFA may, with the consent of the Bond Insurer, change the interest rate determination method to a Long-Term Interest Rate mode. Such a change will result in the 2004B Bonds becoming subject to mandatory tender for purchase on the effective date of such change. While an Event of Default under the Indenture exists, the interest rate on the 2004B Bonds will be the rate on the 2004B Bonds on the day before the Event of Default occurred.

Interest will be calculated on the basis of (1) a 365- or 366-day year, as applicable, for the number of days actually elapsed with respect to the Weekly Rate Bonds and (2) a 360-day year of twelve 30-day months with respect to Long-Term Interest Rate Bonds.

Interest on the 2004B Bonds will be paid to the registered owners thereof (1) with respect to Weekly Rate Bonds, on the first Business Day of each month and on the maturity date thereof, and (2) with respect to Long-Term Interest Rate Bonds, on April 1 and October 1 of each year, commencing on the April 1 or October 1 immediately following the date on which the Long-Term Interest Rate Period begins (each of those dates being referred to in this Official Statement as an “Interest Payment Date”).

The Regular Record Date will be (1) the last Business Day before each Interest Payment Date with respect to the Weekly Rate Bonds and (2) March 15 and September 15, whether or not such day is a Business Day, with respect to Long-Term Interest Rate Bonds.

Whenever the 2004B Bonds bear interest at a Weekly Rate, each Weekly Rate (other than the initial Weekly Rate) will apply to the period beginning on the Thursday after the Weekly Rate is set and ending on the following Wednesday or, if earlier, ending on the day before the effective date of a conversion to a Long-Term Interest Rate. Each such interest rate will be determined by the Remarketing Agent by 4:00 p.m., New York time, each Wednesday while interest on the 2004B Bonds is to be payable at a Weekly Rate (or on the next preceding Business Day if any Wednesday is not a Business Day).

At the option of the NMFA, all (but not less than all) of the 2004B Bonds may be converted to bear interest accruing at a Long-Term Interest Rate to their maturity. The Long-Term Interest Rate will be determined by the Remarketing Agent in accordance with the terms of the Indenture as described below under “– Conversion to Long-Term Interest Rate Bonds.”

If for any reason a Weekly Rate is not determined or effective, the Weekly Rate for such week (or portion thereof) will be equal to the TBMA Municipal Index.

Conversion to Long-Term Interest Rate Bonds

The NMFA may, with the prior written consent of the Bond Insurer, change the method of determining the interest rate on all of the Weekly Rate Bonds to a Long-Term Interest Rate to maturity. Once a Long-Term Interest Rate is in effect, the method for determining the interest rate will not change.

The NMFA will give notice of its intent to exercise its option to change the method of determining the interest rate on the 2004B Bonds to the Trustee, the Bond Insurer and the Bank, among others. The Trustee will then mail, by first-class mail, notice of a change in the method of determining the interest rate and related mandatory tender to the Holders of the 2004B Bonds, the Bond Insurer and the Liquidity Facility Provider at least 30 days before the effective date of such change.

The notice to Bondholders will state:

- that the interest rate will be adjusted to a Long-Term Interest Rate or Rates unless (1) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the NMFA, the Liquidity Facility Provider, the Trustee, the Tender Agent and the Remarketing Agent as to such adjustment to the Long-Term Interest Rate Period on the effective date of such adjustment or (2) all the 2004B Bonds are not remarketed at a Long-Term Interest Rate;
- the proposed effective date of the Long-Term Interest Rate Period;
- that the 2004B Bonds are subject to mandatory tender for purchase on such proposed effective date and will set forth the Tender Price and the place of delivery for purchase of such 2004B Bonds; and
- information required with respect to mandatory tender for purchase.

The Long-Term Interest Rate or Rates will be the minimum rate or rates necessary (as determined by the Remarketing Agent based on the examination of obligations, the interest on which is excludable from gross income for federal income tax purposes, comparable to the 2004B Bonds known by the Remarketing Agent to have been priced or traded, under then-prevailing market conditions) for the Remarketing Agent to sell the 2004B Bonds on the effective date of the Long-Term Interest Rate at their principal amount.

Notwithstanding the NMFA's delivery of notice of the exercise of its option to effect a change, such change to another method of determining the interest rate will not take effect if:

- the Remarketing Agent has not determined the Long-Term Interest Rate for the Long-Term Interest Rate Period;
- the 2004B Bonds that have been tendered for purchase are not remarketed by the Remarketing Agent; or
- the Trustee must receive written notice prior to the effective date of the change that the Favorable Opinion of Bond Counsel has been rescinded.

In any such event, the 2004B Bonds will bear interest at a Weekly Rate (with the first period adjusted in length so that the last day of such period will be Wednesday) at the rate determined by the Remarketing Agent on the date originally scheduled to be the effective date of the change. If the proposed change in interest rate determination method is cancelled, any mandatory purchase of the 2004B Bonds will still be effective and the 2004B Bonds will bear interest as provided in the preceding sentence. Any notice required as described under “DESCRIPTION OF THE BONDS” will be sent only to DTC’s nominee while the 2004B are registered in the DTC book-entry system described below under “– Book-Entry-Only System.”

Upon the conversion of the 2004B Bonds to the Long-Term Interest Rate, the 2004B Bonds will be serialized as follows:

Maturity Schedule

| Redemption Dates (April 1) | <u>Principal Amount</u> |
|-------------------------------|-------------------------|
| 2008 | \$800,000 |
| 2009 | 800,000 |
| 2010 | 850,000 |
| 2011 | 850,000 |
| 2012 | 870,000 |
| 2013 | 860,000 |
| 2014 | 860,000 |
| 2015 | 860,000 |
| 2016 | 840,000 |
| 2017 | 820,000 |
| 2018 | 820,000 |
| 2019 | 770,000 |

Alternatively, the NMFA may elect not to serialize the 2004B Bonds or to serialize the 2004B Bonds in a manner other than that specified above, provided in either case that the NMFA furnishes the Trustee and the Bond Insurer with a Favorable Opinion of Bond Counsel with respect thereto.

Optional and Mandatory Tender of Weekly Rate Bonds

Optional Tender. Any Weekly Rate Bond will be purchased in an Authorized Denomination (provided that the amount of any Weekly Rate Bond not to be purchased will also be in an Authorized Denomination) from its Holder at the option of the Holder on any Business Day at a purchase price equal to the Tender Price, payable in immediately available funds, upon delivery by no later than 1:00 p.m., New York time, on the seventh calendar day prior to the Tender Date to the Tender Agent at its principal office for delivery of Tendered Bonds and the Remarketing Agent of an irrevocable written notice that states the principal amount of such Tendered Bond, the principal amount thereof to be purchased and the date on which the same will be purchased, which date will be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 1:00 p.m., New York time, will be deemed to have been received on the next succeeding Business Day. For payment of the Tender Price on the Tender Date, the Tendered Bond must be delivered, at or prior to 12:00 noon, New York time, on the Tender Date to the Tender Agent at its principal office for delivery of Tendered Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Holder or his duly-authorized attorney, with

such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

If the book-entry-only system with respect to the Weekly Rate Bonds is in effect, any Tendered Bond or portion thereof (provided that the principal amount of such Tendered Bond to be purchased and the principal amount to be retained will each be an Authorized Denomination) will be purchased on the day specified in the notice referred to below at the Tender Price. The irrevocable written notice will be delivered on any Business Day by the Participant for such Tendered Bond to the Remarketing Agent and the Tender Agent at its principal office for delivery of Tendered Bonds, executed by the Participant. That notice must state the principal amount of such Tendered Bond (or interest thereon), the portion thereof to be purchased and the date on which the same will be purchased, which date must be a Business Day at least seven days after the date of the delivery of such notice to the Tender Agent. Upon confirmation by the Depository to the Tender Agent that such Participant has an Ownership interest in the Tendered Bonds at least equal to the amount of the Tendered Bonds specified in such irrevocable written notice, payment of the Tender Price of such Tendered Bond will be made by 2:00 p.m., New York time, or as soon as possible thereafter (it being understood that the Initial Standby Agreement provides for the Bank to provide funds by 2:00 p.m., New York time), upon the receipt by the Tender Agent of the Tender Price on the Business Day specified in the notice upon the transfer on the registration books of the Depository of the beneficial Ownership interest in such Tendered Bonds to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 2:00 p.m., New York time, on the date specified in such notice.

Mandatory Tender for Purchase on First Day of Long-Term Interest Rate Period. The Weekly Rate Bonds will be subject to mandatory tender for purchase on the first day of the Long-Term Interest Rate Period (or on the day which would have been the first day of the Long-Term Interest Rate Period had one of the events not occurred which resulted in the interest rate on such Weekly Rate Bonds not being adjusted) at the Tender Price, payable in immediately available funds. For payment of the Tender Price on the Tender Date, a Tendered Bond must be delivered at or prior to 12:00 noon, New York time, on the Tender Date. If delivered after that time, the Tender Price will be paid on the next succeeding Business Day.

Mandatory Tender for Purchase Upon Termination, Expiration, Reduction, Modification or Replacement of the Standby Agreement; Mandatory Standby Tender. If at any time the Paying Agent gives notice that any Tendered Bonds will on the date specified in such notice cease to be subject to purchase pursuant to the Standby Agreement supporting the purchase price of such Tendered Bonds then in effect as a result of (A) the termination or expiration of the term, as extended, of such Standby Agreement (other than as a result of an event of default thereunder), (B) the occurrence of an event of default under such Standby Agreement, or (C) such Standby Agreement being reduced, replaced or modified (in each case, except as described in the final sentence of this paragraph, whether or not any Alternate Standby Agreement has been obtained), then: (1) on the earlier of two Business Days or the fifth day preceding any termination, expiration, reduction, replacement or modification of such Standby Agreement or (2) in the case of a Mandatory Standby Tender, on the date which is the later of the date set forth by the Liquidity Facility Provider in the notice given the Paying Agent by the Liquidity Facility Provider or the date on which the Paying Agent receives the notice of a Mandatory Standby Tender from the Liquidity Facility Provider; each such Bond will be purchased or deemed purchased at the Tender Price on such date. If in connection with any reduction of the amounts payable with respect to the Tendered Bonds under the Standby Agreement, or replacement or modification of the Standby Agreement, the NMFA delivers to the Paying Agent, Liquidity Facility Provider and Remarketing Agent, and prior to the date that notice of such reduction is given by the Paying Agent, written evidence from each Rating Agency then rating the Tendered Bonds confirming that such reduction, replacement or modification will not result in a reduction, withdrawal or suspension of the ratings then applicable to such

Tendered Bonds and a Favorable Opinion of Bond Counsel, the Tendered Bonds will not be subject to mandatory tender for purchase solely as a result of such reduction, replacement or modification.

If, in connection with the replacement of a Standby Agreement with an Alternate Standby Agreement, the opinion of Counsel that the Alternate Standby Agreement is an exempt security or is exempt from registration under the Securities Act of 1933, as amended, is not delivered and, in lieu thereof, an opinion of Counsel as described in the Indenture, then on the earlier of two Business Days or the fifth day next preceding the termination or expiration of such Standby Agreement, all Bonds subject to such Standby Agreement will be purchased or deemed purchased at the Tender Price.

Payment of the Tender Price of any such Tendered Bond will be made in immediately available funds by 2:00 p.m., New York time, or as soon as possible thereafter (it being understood that the Initial Standby Agreement provides for the Bank to provide funds by 2:00 p.m., New York time) on the Tender Date upon delivery of such Tendered Bond to the Tender Agent at its principal corporate trust office for delivery of Tendered Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Holder with the signature of such Holder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York time, on the Tender Date specified above. If, as a result of any such Mandatory Standby Tender, expiration, termination, replacement, reduction or modification of a Standby Agreement, any Bond is no longer subject to purchase pursuant to such Standby Agreement, the Tender Agent (upon receipt of that Tendered Bond from its Holder in exchange for payment of the Tender Price), will present such Tendered Bond to the Paying Agent for notation of that fact on such Tendered Bond.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of Tendered Bonds, the Paying Agent will give notice by first-class mail to the Holders not less than 30 days prior to the date selected for mandatory tender, or, in the case of a Mandatory Standby Tender, as soon as possible. Such notice will state that:

- the Tender Price of any Tendered Bond subject to mandatory tender for purchase will be payable only upon surrender of that Tendered Bond to the Tender Agent at its principal office for delivery of Tendered Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank, by the Holder or his duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange;
- all Tendered Bonds subject to mandatory tender for purchase will be purchased on the mandatory Tender Date; and
- if any Holder of a Tendered Bond subject to mandatory tender for purchase does not surrender that Tendered Bond to the Tender Agent for purchase on the mandatory Tender Date, then that Tendered Bond will be deemed to be an Undelivered Bond, that no interest will accrue on that Undelivered Bond on and after the mandatory Tender Date and the Holder will have no rights under the Indenture other than to receive payment of the Tender Price.

Any notice required as described under “DESCRIPTION OF THE BONDS” will be sent only to DTC’s nominee while the 2004B are registered in the DTC book-entry system described below under “– Book-Entry-Only System.”

Irrevocable Notice Deemed Tender; Undelivered Bonds. The giving of notice by a Holder as described above under “– Optional Tender of Weekly Rate Bonds” will constitute the irrevocable tender for purchase of each Weekly Rate Bond, or part thereof, with respect to which that notice is given regardless of whether that Weekly Rate Bond is delivered to the Tender Agent for purchase on the relevant Tender Date. The Tender Agent may refuse to accept delivery of any Tendered Bonds for which a proper instrument of transfer has not been provided. However, such refusal will not affect the validity of the purchase of such Tendered Bond. If any Holder who has given notice of tender of purchase or any Holder of a Weekly Rate Bond subject to mandatory tender for purchase fails to deliver that Weekly Rate Bond to the Tender Agent at the place and on the Tender Date and at the time specified, or fails to deliver that Weekly Rate Bond properly endorsed, that Weekly Rate Bond will constitute an Undelivered Bond. If funds in the amount of the Tender Price of the Undelivered Bond are available for payment to that Holder on the Tender Date and at the time specified, from and after the Tender Date and time of that required delivery:

- the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Indenture;
- interest will no longer accrue on the Undelivered Bond; and
- funds in the amount of the Tender Price of the Undelivered Bond will be held by the Paying Agent for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office for delivery of Tendered Bonds.

Such funds will be held by the Paying Agent uninvested.

Payment of Tender Price by the NMFA. If Tendered Bonds cannot be remarketed and are to be purchased by a Liquidity Facility Provider on a Tender Date and the NMFA delivers a Favorable Opinion of Bond Counsel, the NMFA may, but is not obligated to, pay to the Paying Agent as soon as practicable on a Tender Date funds sufficient to pay the Tender Price on the Tendered Bonds. The Paying Agent will deposit the amount paid by the NMFA in the Authority Purchase Account pending application of the money to the payment of the Tender Price. Authority Bonds will continue to be Outstanding unless the NMFA delivers to the Tender Agent irrevocable instructions to deliver the Authority Bond to the Paying Agent for cancellation.

Determination by Tender Agent; Notice of Tender. The Tender Agent will determine timely and proper delivery of Tendered Bonds pursuant to the Indenture and the proper endorsement of Tendered Bonds delivered. That determination will be binding on the Holders of those Tendered Bonds, the NMFA and Remarketing Agent, absent manifest error.

In accordance with the provisions of the Tender Agent Agreement, the Tender Agent will give notice by telephone, telecopy or telex, promptly confirmed by a written notice, to the Paying Agent, the Liquidity Facility Provider and the Remarketing Agent and the NMFA specifying the principal amount of Tendered Bonds which it receives notice of tender for purchase.

Purchase of Tendered Bonds; Sources and Deposit of Tender Price. Tendered Bonds required to be purchased will be purchased from the Holders thereof on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price will be received by the Paying Agent from the following sources and used in the order of priority indicated:

- proceeds of the sale of Tendered Bonds remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the Series 2004B Remarketing Account;

- money furnished by the Liquidity Facility Provider to the Trustee for deposit into the Liquidity Facility Provider Account from Drawings on the Standby Agreement, if any; and
- money legally available under the Authorizing Legislation and the General Indenture and furnished by the NMFA, at its option, to the Paying Agent for deposit into the Authority Purchase Account for the purchase of Tendered Bonds by the NMFA.

Undelivered Tendered Bond; Tender Price. If a Tendered Bond purchased as provided above is not presented to the Tender Agent, the Paying Agent will segregate and hold the money for the Tender Price of such Tendered Bond in trust for the benefit of the former Holder of such Tendered Bond who will, except as provided in the following sentence, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Paying Agent segregates and holds in trust for the payment of the Tender Price of any Tendered Bond which remains unclaimed for three years after the date of purchase will be paid to the Liquidity Facility Provider, if any, to the extent the Liquidity Facility Provider has not been reimbursed under a Standby Agreement for a Drawing relating to such purchase, and thereafter to the NMFA. The Paying Agent will be entitled to rely conclusively on a certificate of an officer of the Liquidity Facility Provider in determining the extent to which that Liquidity Facility Provider has not been reimbursed for such Drawings. After the payment of such unclaimed money to the Liquidity Facility Provider or to the NMFA, the former Holder of such Tendered Bond must look only to the Liquidity Facility Provider or to the NMFA, as applicable, for the payment thereof. The NMFA and the Liquidity Facility Provider will not be liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

Remarketing. Upon a mandatory tender (other than a Mandatory Standby Tender or upon the expiration or termination of a Standby Agreement) or notice of tender for purchase of Tendered Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such Tendered Bonds (including Standby Bonds) on the same date designated for purchase therefor and, if not remarketed on such date, thereafter until sold, at a price equal to the Tender Price. The Remarketing Agent will not be obligated to remarket any Tendered Bonds subject to a Mandatory Standby Tender or a tender upon the expiration or termination of the Standby Agreement supporting the Tender Price of such Tendered Bonds unless and until all Payment Obligations of the NMFA to the Liquidity Facility Provider under the Standby Agreement have been paid in full and unless such Tendered Bonds are in the Long-Term Interest Rate Period to their maturity date or an Alternate Standby Agreement is in full force and effect.

Initially, J.P. Morgan Securities Inc. will act as Remarketing Agent for the 2004B Bonds. The principal office for the Remarketing Agent is 270 Park Avenue, 6th Floor, New York, NY 10017, (212) 834-7187. Under the Indenture, a Remarketing Agent may resign or be removed by the NMFA and, with the prior written consent of the Bond Insurer, a successor Remarketing Agent may be appointed by the NMFA.

Book-Entry-Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy of this information.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2004B Bonds. The 2004B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered 2004B Bond certificate will be issued in the aggregate principal amount of the 2004B Bonds, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic, computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2004B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2004B 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. Beneficial Owners are, however, 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 2004B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2004B Bonds, except in the event that use of the book-entry system for the 2004B Bonds is discontinued.

To facilitate subsequent transfers, all 2004B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2004B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will 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 will be sent to DTC. If less than all of the 2004B Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2004B Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2004B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the NMFA 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 2004B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, redemption premium, if any, and interest payments on the 2004B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the NMFA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be 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 NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption proceeds and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2004B Bonds at any time by giving reasonable notice to the NMFA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2004B Bond certificates are required to be printed and delivered. The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, 2004B Bond certificates will be printed and delivered.

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE SOLE REGISTERED OWNER, THE NMFA, THE TRUSTEE AND THE TENDER AGENT WILL TREAT CEDE & CO. AS THE ONLY OWNER OF THE 2004B BONDS FOR ALL PURPOSES UNDER THE INDENTURE INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE 2004B BONDS, RECEIPT OF NOTICES, VOTING AND REQUESTING OR DIRECTING THE NMFA AND THE TRUSTEE TO TAKE OR NOT TO TAKE, OR CONSENTING TO, CERTAIN ACTIONS UNDER SUCH INDENTURE. THE NMFA, THE TRUSTEE AND THE TENDER AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER WITH RESPECT TO THE PRINCIPAL OF AND INTEREST ON THE 2004B BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (D) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2004B BONDS; OR (E) OTHER ACTION TAKEN BY DTC OR CEDE & CO., AS REGISTERED OWNER.

The information in this section concerning DTC and DTC's book-entry only system has been obtained from DTC. None of the NMFA, the Trustee or the Underwriter makes any representation or warranty regarding the accuracy or completeness of that information.

Discontinuance of Book-Entry-Only System

DTC may discontinue providing its services with respect to the 2004B Bonds at any time by giving notice to the NMFA and discharging its responsibilities with respect thereto under applicable law, or the NMFA may terminate its participation in the system of book-entry transfers through DTC at any time. In the event that the DTC book-entry-only system is discontinued and it is not replaced with another book-entry system, payment of principal of and interest on the 2004B Bonds will be made as described in the Indenture. The transfer of the 2004B Bonds will be registrable and the 2004B Bonds may be exchanged at the principal office of the Registrar, upon the payment of any taxes, fees or other governmental charges required to be paid with respect to such transfer or exchange.

Registration, Transfer and Exchange

The 2004B Bonds will be transferable only upon the registration books kept for that purpose at the principal corporate office of the Trustee, as Registrar.

Upon surrender for transfer of any 2004B Bond at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by, the Registered Owner or his attorney duly authorized in writing, the NMFA will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees, a new Bond or Bonds of the same series, designation, maturity and interest rate for a like aggregate principal amount as the Bond surrendered for transfer.

The Trustee will require the payment by the Registered Owner requesting exchange or transfer of 2004B Bonds of any tax or other governmental charge and any service charge of the Trustee as Registrar which are required to be paid with respect to such exchange or transfer and such charges must be paid before such new 2004B Bond will be delivered.

The NMFA and the Trustee are not required to transfer or exchange any 2004B Bond:

- during the period from and including any Regular Record Date, to and including the next succeeding Interest Payment Date,
- during the period from and including the day 15 days prior to any Special Record Date, to and including the date of the proposed payment pertaining thereto, or
- during the period of 15 days prior to the mailing of notice calling any 2004B Bonds for redemption or at any time following the mailing of notice calling such 2004B Bond for redemption.

The NMFA, the Registrar, the Trustee and the Paying Agent may treat and consider the person in whose name a 2004B Bond is registered on the registration books kept by the Registrar as the holder and absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or redemption price of and interest due on such 2004B Bond and for all other purposes whatsoever, and neither the NMFA, nor the Registrar nor the Trustee and Paying Agent will be affected by any notice to the contrary.

Redemption

Optional Redemption. The 2004B Bonds are subject to optional redemption by the NMFA, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, on any Interest Payment Date while the 2004B Bonds bear interest at a Weekly Rate.

Following conversion to a Long-Term Interest Rate, the 2004B Bonds will be subject to redemption from and after the initial redemption dates described below, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, at any time:

| Years Remaining to Maturity as of Long-Term Interest Rate Conversion Date | Initial Redemption Dates (Anniversary of Long-Term Interest Rate Conversion Date) | Redemption Price |
|--|--|---------------------|
| More than 9 | 6 th anniversary | 100% |
| 9 or less | Not subject to optional redemption | — |

There may be no optional redemption of the 2004B Bonds unless all amounts owed to the Bond Insurer under the terms of the Insurance Agreement relating to the Bond Insurance Policy, the Financial Guaranty Agreement relating to the surety bond provided by the Bond Insurer with respect to the Debt Service Reserve Fund or any other documents have been paid in full.

Mandatory Sinking Fund Redemption. The 2004B Bonds are subject to mandatory sinking fund redemption, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date, on the dates and in the principal amounts, as follows:

| Redemption Dates (April 1) | <u>Principal to be Redeemed</u> |
|-------------------------------|---------------------------------|
| 2008 | \$800,000 |
| 2009 | 800,000 |
| 2010 | 850,000 |
| 2011 | 850,000 |
| 2012 | 870,000 |
| 2013 | 860,000 |
| 2014 | 860,000 |
| 2015 | 860,000 |
| 2016 | 840,000 |
| 2017 | 820,000 |
| 2018 | 820,000 |
| 2019+ | 770,000 |

+Final maturity

If any of the 2004B Bonds then Outstanding are optionally redeemed, an amount equal to the principal amount so redeemed will be credited at the option of the NMFA toward a part or all of any one or more of any mandatory sinking fund payments for the 2004B Bonds.

Special Redemption of Standby Bonds. The NMFA may redeem Standby Bonds, at its option, at any time, upon one Business Day's notice of redemption to the Liquidity Facility Provider, the Paying Agent, the Remarketing Agent and the Bond Insurer, unless a longer notice period is required by the applicable Standby Agreement, whether or not the redemption price has been deposited with the Paying Agent, at a redemption price of 100% of the principal amount of the Standby Bonds to be redeemed plus accrued interest, if any, to the redemption date.

2004B Bonds that are Standby Bonds upon the expiration or termination of the Liquidity Facility in accordance with its terms (and which Standby Bonds are not purchased by the provider of an Alternate Standby Agreement) will be subject to mandatory redemption in accordance with the provisions of the Liquidity Facility. The Initial Standby Agreement requires such redemption to occur such that the unpaid principal balance of all Standby Bonds are redeemed in five approximately equal annual installments of principal with the annual redemption amounts calculated by dividing the aggregate principal amount of all Standby Bonds Outstanding on the Termination Date (as defined in the Initial Standby Agreement) by five and rounding up to the nearest \$100,000, the first redemption date to be the one-year anniversary of the Termination Date, and each subsequent redemption to occur on each successive anniversary date, with the principal amount of Standby Bonds outstanding and all accrued interest with respect to such Standby Bonds to be paid on the fifth anniversary of the Termination Date.

Notice of Redemption. Notice of redemption will be given in accordance with the provisions of the Indenture by first-class mail, postage prepaid, to all Registered Owners of the 2004B Bonds to be redeemed at their addresses as they appear on the registration books of the Registrar at least 30 days but not more than 60 days prior to the date fixed for redemption.

Any notice mailed will be conclusively presumed to have been duly given, whether or not the Owner of such 2004B Bonds receives the notice. Receipt of such notice will not be a condition precedent to such redemption, and failure so to receive any such notice by any of such Registered Owners or any defect in such notice will not affect the validity of the proceedings for the redemption of the 2004B Bonds.

Notice of any redemption of any 2004B Bonds held under a book-entry system will be given only to the Securities Depository, or its nominee, as the Holder of such 2004B Bonds.

Selection of 2004B Bonds to be Redeemed. In case any 2004B Bond will be redeemed in part only, upon the presentation of such 2004B Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and will deliver or cause to be delivered to or upon the written order of the Registered Owner thereof, at the expense of the NMFA, a 2004B Bond or 2004B Bonds of the same series, interest rate and maturity, in aggregate principal amount equal to the unredeemed portion of such registered 2004B Bond. A portion of any 2004B Bond of a denomination of more than minimum Authorized Denomination of the 2004B Bonds to be redeemed will be in the principal amount of such minimum Authorized Denomination or an integral multiple thereof and in selecting portions of such 2004B Bonds for redemption, the Trustee will treat each such 2004B Bond as representing that number of 2004B Bonds of such minimum Authorized Denomination which is obtained by dividing the principal amount of such 2004B Bonds by such minimum Authorized Denomination. In the event of a partial redemption of Weekly Rate Bonds, Standby Bonds will be redeemed first. See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

In the event of a partial redemption of 2004B Bonds bearing interest at a Weekly Rate, Standby Bonds will be redeemed first.

Selection of book entry interests in any 2004B Bonds called for redemption is the responsibility of the Securities Depository. If less than all of the 2004B Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in the 2004B Bonds to be redeemed.

SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS

General

Pursuant to the Indenture, the 2004B Bonds are special limited obligations of the NMFA payable from and secured under the Indenture solely by the Revenues (representing a portion of net Cigarette Tax receipts distributed by the State to the NMFA) and other moneys held in certain funds and accounts created under the Indenture. In addition, amounts deposited in the Credit Enhancement Account are pledged as additional security for the payment of the 2004A Bonds and the 2004B Bonds, as more fully described below. See “– State Cigarette Tax Collections and Distributions” below. Neither the NMFA nor the University is required to pledge nor has either of them pledged any of its other funds for payment of the 2004B Bonds. See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

Each month, the NMFA is required to transfer all Revenues upon receipt to the Trustee to the credit of the Revenue Fund prior to being transferred to other funds and accounts created under the Indenture. From amounts on deposit in the Revenue Fund, the Trustee is required to transfer first for deposit to the Bond Fund the amount necessary to pay:

- 1/12 of the principal of and premium, if any, on and 1/6 of the interest on the Bonds that are not Variable Rate Bonds coming due in the next-ensuing 12 months,
- 1/12 of the principal of the Variable Rate Bonds coming due in the next-ensuing year and all of the interest on the Variable Rate Bonds coming due in the next-ensuing month (calculated for the 2004B Bonds based on the assumption that the interest rate on the 2004B Bonds equals the greater of the average of the interest rates in effect over the preceding 12 months and the last rate

in effect for the preceding Interest Period for the 2004B Bonds, plus in each case 200 basis points), and

- moneys representing principal and interest repayments under any Security Instrument Repayment Obligations (including the Series 2004B Liquidity Facility Repayment Obligations) promptly on each such payment date as the same become due and payable, whether at maturity or by redemption.

Thereafter, the Trustee is required to transfer amounts from the Revenue Fund to make certain deposits and payments, among them, a deposit to make up any deficiency in the Debt Service Reserve Fund and payment of certain administrative expenses, with any remaining balance being released to the Health Sciences Center. See “PLAN OF FINANCING – Estimated Annual Debt Service Requirements” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

The 2004B Bonds are also secured by all moneys in the funds and accounts created under the Indenture (other than the moneys held to satisfy the obligations, if any, of the NMFA under the Code with respect to arbitrage rebate and moneys on deposit in the Construction Fund), including the investment earnings, if any, of such moneys.

The NMFA covenants in the Indenture that it will maintain the Credit Enhancement Account for deposit of the 15.95% monthly distribution of Cigarette Tax revenues distributed for purposes of credit enhancement pursuant to the Authorizing Act. The amounts on deposit in the Credit Enhancement Account are pledged by the NMFA as additional security for the payment of the principal of, interest and premiums on, and expenses related to the 2004A Bonds and the 2004B Bonds and (on a subordinate basis only so long as any Bonds are outstanding) any bonds issued by the NMFA for improvements to State Department of Health facilities pursuant to the Authorizing Act. If the Trustee determines that insufficient funds are available in the Revenue Fund to cover the transfers and deposits required under the Indenture (other than any transfer to the NMFA for repayment of any previous transfer of funds in the Credit Enhancement Account to the Trustee and any transfer to the Health Sciences Center of the remaining balance in the Revenue Fund), the Trustee will notify the NMFA in writing at least three Business Days prior to the last Business Day of the month that the Trustee needs funds to cover such transfers and deposits, and, in turn, the NMFA will promptly transfer funds from the Credit Enhancement Account to the Trustee and the Trustee will apply the funds as provided above. The NMFA will hold each monthly deposit in the Credit Enhancement Account until receiving oral or written notification from the Trustee that no transfers are needed that month from the Credit Enhancement Account. If, in any month, the Trustee determines that insufficient funds are available in the Revenue Fund and the Credit Enhancement Account to cover the deposits to the Bond Fund required by the Indenture, the Trustee will distribute the available funds on a *pro rata* basis between all Bonds issued pursuant to the Indenture without regard to whether a Series of Bonds has a Reserve Instrument.

The 2004B Bonds, together with interest thereon, are not an indebtedness of the State, the NMFA or the University but are special limited obligations of the NMFA payable solely from and secured solely by the Revenues and other moneys in certain funds and accounts created under the Indenture, and by amounts deposited in the Credit Enhancement Account held by the NMFA. **THE NMFA HAS NO TAXING POWERS.** No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit of the State, the NNFA, the University or any political subdivision of the State. The principal of and interest on the 2004B Bonds do not constitute or give rise to any personal liability on the part of the members, directors and officers of the NMFA. *None of the land and facilities comprising the UNM Health Sciences Center Project or the Health Sciences Center will be pledged to secure payment of the 2004B Bonds.*

Revenues

As defined under the Indenture, the “Revenues” include all cigarette tax revenues required to be distributed to the NMFA on behalf of and for the benefit of the Health Sciences Center pursuant to the provisions of the Authorizing Act and the NMFA Act, excluding any such revenues received prior to the issuance of the 2004B Bonds. Those revenues consist of 14.52% of the aggregate Cigarette Tax receipts collected each month by the State, net of penalties and interest, which percentage amount is to be distributed to the NMFA by the New Mexico Department of Taxation and Revenue (the “Department of Taxation and Revenue”) pursuant to Section 7-1-6.11(E), New Mexico Statutes Annotated (*i.e.*, the University Distribution, as more fully described below).

Pursuant to the Authorizing Act, the NMFA will receive, on behalf of and for the benefit of the University, a distribution of the net collections received by the State (the “University Distribution”) from the cigarette excise tax (the “Cigarette Tax”) levied pursuant to Section 7-12-1 *et seq.*, New Mexico Statutes Annotated (the “Cigarette Tax Act”). See “– State Cigarette Tax Collections and Distributions – Imposition of Cigarette Taxes” below. The University Distribution is pledged irrevocably for the payment of the principal, interest and expenses with respect to the 2004B Bonds.

The Authorizing Act establishes that the University Distribution is to be deposited each month in a separate fund or account of the NMFA. Money in excess of the monthly amount necessary for immediate payment or designation for payment of principal and interest due on 2004B Bonds and any additional series of Bonds is appropriated to the Health Sciences Center.

The Authorizing Act authorizes the NMFA to issue and sell revenue bonds in compliance with the NMFA Act for a term not exceeding fifteen years in an amount not to exceed \$60,000,000 for the purpose of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the Health Sciences Center. The net proceeds from the sale of the 2004B Bonds are appropriated to the Health Sciences Center for that purpose.

In addition to the University Distribution, the NMFA will receive a distribution (the “Credit Enhancement Distribution”) of 15.95% of the net collections received by the State from the Cigarette Tax for deposit in the Credit Enhancement Account held by the NMFA. The Credit Enhancement Distribution is pledged irrevocably for the payment of the principal, interest, premiums and expenses with respect to the 2004A Bonds and the 2004B Bonds. Although the Authorizing Act provides that amounts in the Credit Enhancement Account also may be pledged as additional security for bonds issued by the NMFA pursuant to the Authorizing Act for improvements to the State Department of Health facilities, the NMFA has covenanted, pursuant to the Indenture, that it will not, so long as any of the Bonds are Outstanding, issue any obligations or securities payable with a parity lien on amounts in the Credit Enhancement Account except for Bonds authorized under the Indenture.

The Authorizing Act establishes that the Credit Enhancement Distribution is to be deposited each month in the Credit Enhancement Account, and directs the NMFA to determine monthly the sufficiency of the Revenues for payment of principal, interest, premiums and expenses on the Bonds. Any insufficient amount is to be paid immediately from the Credit Enhancement Account, and repaid in succeeding months from the respective Cigarette Tax proceeds not required for debt service or expenses on the Bonds. Money in the Credit Enhancement Account in excess of the monthly amount required for immediate payment or designation for payment of debt service and expenses on Bonds is to be transferred monthly to the State’s General Fund. (The same deficiency payment mechanism is available for any bonds issued by the NMFA pursuant to the Authorizing Act for improvements to the State Department of Health facilities.)

Continuation of Revenues and Credit Enhancement Account

In the NMFA Act, the State has pledged and agreed with the holder of any bonds or notes issued under the NMFA Act, and has authorized the NMFA to include such pledge and agreement of the State in any agreement with holders of the 2004B Bonds and notes, that the State will not limit or alter the rights vested by the NMFA Act in the NMFA to fulfill the terms of any agreements made with holders of bonds and notes of the NMFA or in any way impair the rights and remedies of those holders until the bonds or notes are fully met and discharged. The Indenture includes this pledge and agreement of the State in favor of the holders of the 2004B Bonds. The Authorizing Act provides that any law authorizing the imposition, collection or distribution of the Cigarette Tax or that affects the Cigarette Tax shall not be amended, repealed or otherwise directly or indirectly modified so as to impair any outstanding revenue bonds (such as the 2004B Bonds and any additional series of Bonds) that may be secured by a pledge of those Cigarette Tax revenues (including Cigarette Tax proceeds distributed to the Credit Enhancement Account), unless the revenue bonds have been discharged in full or provision has been made for a full discharge.

State Cigarette Tax Collections and Distributions

Imposition of Cigarette Taxes. The State has imposed taxes on cigarette sales since 1943. Pursuant to the Cigarette Tax Act, the State presently levies an excise tax on each cigarette sold, given or consumed in the State, unless an exemption applies. The Cigarette Tax has increased from a rate of about \$0.002 per cigarette, or \$0.04 per pack, in 1955 to the current rate of \$0.0455 per cigarette, or \$0.91 per pack. See “– Historical Taxable Cigarette Sales” below. The Cigarette Tax Act exempts from the Cigarette Tax sales of cigarettes to the United States and its agencies and instrumentalities, and the State and its political subdivisions, sales to the governing body or to any enrolled tribal member licensed by the governing body of an Indian nation, tribe or pueblo for use or sale on that reservation or pueblo grant, and sales that the State is prohibited from taxing by the United States or State Constitution.

Method of Collection. The Cigarette Tax Act requires cigarettes that are subject to the Cigarette Tax to be placed in packages or containers affixed with a stamp issued to cover the tax on multiples of five cigarettes. In practice, a package that contains cigarettes in an amount other than an integral multiple of five must bear a stamp covering the next higher multiple of five cigarettes.

Stamps must be purchased by any entity that sells in the State cigarettes manufactured by that entity, or that receives on consignment or buys unstamped cigarettes for sale, gift, or consumption in the State. Stamps must be affixed within the State’s boundaries unless the Department of Taxation and Revenue has granted a license to allow affixation outside the State. The affixation requirement is waived for sales on railroad passenger trains or distributions of free samples, but the seller or distributor must pay the Cigarette Tax on such sales or distributions.

The Department of Taxation and Revenue sells stamps to entities that sell or distribute cigarettes in the State. Such entities are required to register with the Department of Taxation and Revenue. Stamps are sold at their face value, except that discounts are provided for certain levels of high-volume sales. Upon an increase in the rate of the Cigarette Tax, the Cigarette Tax Act imposes a cigarette inventory tax on all persons required to affix stamps on cigarette packages. The amount of the cigarette inventory tax is equal to the amount of the increase in the Cigarette Tax, multiplied by the quantity of cigarette stamps, whether or not affixed to cigarette packages, in the possession of such person on the effective date of the increase in the Cigarette Tax.

Historical Taxable Cigarette Sales. The following table presents data concerning the historical taxable cigarette sales in the State over the past 19 years. State taxable cigarette sales declined steadily

from 127.6 million packs in the fiscal year ended June 30, 1986 to 107.2 million packs in the fiscal year ended June 30, 1991, rebounded slightly to 109.6 million packs in the fiscal year ended June 30, 1992, remained relatively stable until 1998, and declined to 66.3 million packs in the fiscal year ended June 30, 2004, based on the number of Cigarette Tax Stamps sold (an overall 48% decline since the fiscal year ended June 30, 1986).

Future cigarette sales in the State may be impacted by the increased restrictions on smoking in public areas and the workplace, increased public awareness of the health effects of smoking and the ready availability of cigarettes exempt from the Cigarette Tax. These and other factors could negatively affect future cigarette consumption and taxable sales and, in turn, the Cigarette Tax collected on such sales (including amounts representing the Revenues and the Credit Enhancement Distribution). No assurances can be given that future taxable sales and Revenues will achieve historical levels. See “FORWARD-LOOKING STATEMENTS.” Neither the NMFA nor the Underwriter makes any representations as to future levels of taxable sales, the Revenues or the Credit Enhancement Distribution. See “INVESTMENT CONSIDERATIONS – Cigarette Tax Revenues.”

Historical Taxable Cigarette Sales

| Fiscal Year Ended June 30 | Federal Tax Rate (per pack) | State Tax Rate (per pack) | Date State Tax Rate Changed | Taxable Cigarette Sales (millions of packs) ⁽¹⁾ | Per Capita Sales (packs) ⁽²⁾ | Average Retail Price ⁽³⁾ | All Excise Taxes as a Percentage of Retail Price |
|---------------------------|-----------------------------|---------------------------|-----------------------------|--|---|-------------------------------------|--|
| 1986 | \$0.16 | \$0.12 | | 127.6 | 88.2 | \$1.01 | 27.7% |
| 1987 | 0.16 | 0.15 | 7/1/86 | 121.5 | 82.3 | 1.10 | 28.1 |
| 1988 | 0.16 | 0.15 | | 118.6 | 77.7 | 1.14 | 27.3 |
| 1989 | 0.16 | 0.15 | | 114.5 | 74.4 | 1.27 | 24.4 |
| 1990 | 0.16 | 0.15 | | 108.5 | 71.6 | 1.34 | 23.2 |
| 1991 | 0.16 | 0.15 | | 107.2 | 68.9 | 1.47 | 21.1 |
| 1992 | 0.20 | 0.15 | | 109.6 | 68.7 | 1.65 | 21.2 |
| 1993 | 0.22 | 0.15 | | 108.4 | 66.2 | 1.72 | 21.5 |
| 1994 | 0.24 | 0.21 | 7/1/93 | 106.6 | 63.4 | 1.58 | 28.4 |
| 1995 | 0.24 | 0.21 | | 109.3 | 63.5 | 1.68 | 26.8 |
| 1996 | 0.24 | 0.21 | | 110.4 | 63.0 | 1.72 | 26.2 |
| 1997 | 0.24 | 0.21 | | 106.4 | 59.9 | 1.80 | 25.0 |
| 1998 | 0.24 | 0.21 | | 107.7 | 60.1 | 2.03 | 22.2 |
| 1999 | 0.24 | 0.21 | | 103.3 | 57.1 | 2.69 ⁽⁴⁾ | 16.7 |
| 2000 | 0.34 | 0.21 | | 100.0 | 55.0 | 2.98 | 18.5 |
| 2001 | 0.34 | 0.21 | | 98.8 | 54.0 | 3.23 | 17.0 |
| 2002 | 0.39 | 0.21 | | 95.5 | 51.6 | 3.47 | 17.3 |
| 2003 | 0.39 | 0.21 | | 97.1 | 51.8 | 3.59 | 15.5 |
| 2004 | 0.39 | 0.91 | 7/1/03 | 66.3 ⁽⁵⁾ | NA | NA | NA |

Note: All figures are for fiscal years ended June 30. Prices shown for 1991 and later include generic brands.

⁽¹⁾ Based on the number of Cigarette Tax Stamps sold. Source: Department of Taxation and Revenue.

⁽²⁾ Represents taxable cigarette sales divided by the number of State residents. Source of population figures is the U.S. Census Bureau.

⁽³⁾ Source: 1986-1994, The Tobacco Institute, *The Tax Burden on Tobacco*, Vol. 30 (1995); 1995-2003, IRI/Capstone Total Retail Panel.

⁽⁴⁾ Reflects increase in wholesale prices in response to the settlement of tobacco industry litigation beginning in late 1998. See "INVESTMENT CONSIDERATIONS – Cigarette Tax Revenues."

⁽⁵⁾ Sales for July 2003 and August 2003 were affected in part by cigarette stamp inventory building in anticipation of the Cigarette Tax increase. See "PLAN OF FINANCING – Coverage Ratios" for a description of those and other factors affecting Cigarette Tax receipts for the fiscal year ended June 30, 2004.

Collection History for Net Cigarette Tax Receipts. Net Cigarette Tax receipts represent gross receipts, exclusive of penalties and interest, attributable to the Cigarette Tax. Net State Cigarette Tax receipts have increased from \$1.624 million in 1955 to \$19.490 million in 2003. The following table presents the collection history in the State for net Cigarette Tax revenues since 1988, as well as the amounts equal to 14.52% of such receipts (the amount of the University Distribution) and 15.95% of such receipts (the amount of the Credit Enhancement Distribution). Although such distributions of Cigarette Tax receipts did not commence until August 2003, the table below reflects the amount that would have been distributed had the distributions taken place since the fiscal year ended June 30, 1988.

History of Net Cigarette Tax Receipts

| Fiscal Year (ended June 30) | Net State Cigarette Tax Receipts ⁽²⁾ | 14.52% of Net State Cigarette Tax Receipts ⁽³⁾ | 15.95% of Net State Cigarette Tax Receipts ⁽³⁾ |
|--------------------------------|--|--|--|
| 1988 | \$17,116,827 | \$2,485,363 | \$2,730,134 |
| 1989 | 16,566,805 | 2,405,500 | 2,642,405 |
| 1990 | 15,886,069 | 2,306,657 | 2,533,828 |
| 1991 | 15,505,113 | 2,251,342 | 2,473,066 |
| 1992 | 16,083,235 | 2,335,286 | 2,565,276 |
| 1993 | 15,714,444 | 2,281,737 | 2,506,454 |
| 1994 ⁽¹⁾ | 20,992,439 | 3,048,102 | 3,348,294 |
| 1995 | 21,626,722 | 3,140,200 | 3,449,462 |
| 1996 | 22,860,465 | 3,319,340 | 3,646,244 |
| 1997 | 21,749,514 | 3,158,029 | 3,469,047 |
| 1998 | 21,550,902 | 3,129,191 | 3,437,369 |
| 1999 | 21,224,159 | 3,081,748 | 3,385,253 |
| 2000 | 20,513,108 | 2,978,503 | 3,271,841 |
| 2001 | 19,775,422 | 2,871,391 | 3,154,180 |
| 2002 | 19,223,585 | 2,791,265 | 3,066,162 |
| 2003 | 19,490,117 | 2,829,965 | 3,108,674 |
| 2004 ⁽¹⁾ | 60,929,241 | 8,846,926 | 9,718,214 |

⁽¹⁾ The rate of the Cigarette Tax increased from \$0.0075 to \$0.0105 per cigarette sold effective July 1, 1993 (equal to an increase from \$0.15 to \$0.21 per pack) and from \$0.0105 to \$0.0455 per cigarette sold effective July 1, 2003 (equal to an increase from \$0.21 to \$0.91 per pack). See “– Historical Taxable Cigarette Sales” above.

⁽²⁾ Through fiscal year ended June 30, 2003, includes miscellaneous amounts paid as a result of out-of-State stamping privileges and consumption taxes and, in fiscal year ended June 30, 1994, a one-time inventory tax.

⁽³⁾ Although these columns show the amounts that equal 14.52% and 15.95%, respectively, of aggregate State receipts since 1988, distributions have been made to the NMFA only since August 2003. The amounts actually reflected on the NMFA books are receipts recorded by the date received by the NMFA rather than receipts recorded by the revenue accrual month as shown here.

Sources: Taxation and Revenue Department; NMFA staff.

Distribution of Net Cigarette Tax Receipts. As provided in the Authorizing Act (and codified at Section 7-1-6.11, New Mexico Statutes Annotated), net receipts of Cigarette Tax collections, excluding penalties and interest, are deposited by the Taxation and Revenue Department in the Tax Administration Suspense Fund in the State Treasury and, as of the last day of each month, are distributed to a variety of funds and entities, as presented in the following table. After all monthly distributions have been made, the balance of the Cigarette Tax receipts are distributed to the State’s General Fund. The following table presents the amounts that have been distributed from August 2003 (the first month after the Cigarette Tax increase in which such distributions were received) through July 2004.

**Distribution of Net Cigarette Tax Receipts
August 2003 Through July 2004**

| <u>Entity/Fund</u> | <u>% Distribution</u> | <u>FY 2003-04 Distribution⁽¹⁾</u> |
|---|-----------------------|--|
| County and Municipality Recreation Fund | 1.36% | \$ 828,638 |
| County and Municipal Cigarette Tax Fund | 2.72% | 1,657,275 |
| UNM Cancer Research & Treatment Center | 1.36% | 828,638 |
| NMFA (Operating Expenses) | 2.04% | 1,242,957 |
| NMFA (UNM Health Sciences Center) | 14.52% | 8,846,926 |
| NMFA (Dept. of Health facilities) | 6.11% | 3,722,777 |
| NMFA (Credit Enhancement Account) | 15.95% | 9,718,214 |
| State General Fund | <u>55.94%</u> | <u>34,083,817⁽²⁾</u> |
| Aggregate Receipts Collected | 100.00% | \$ 60,929,241 |

⁽¹⁾ Numbers do not add due to independent rounding.

⁽²⁾ Includes miscellaneous amounts paid as a result of out-of-State stamping privileges and consumption taxes.

Source: Taxation and Revenue Department.

Distributions authorized for the University of New Mexico Hospital and the Cancer Research and Treatment Center at the UNM Health Sciences Center and to the Credit Enhancement Account were added by the Legislature during its 2003 Regular Session, at which time the Legislature also authorized the issuance of the \$60,000,000 principal amount of Bonds to finance the UNM Health Sciences Center Project. Distributions authorized for the University of New Mexico Cancer Research and Treatment Center and the NMFA were added by the Legislature during its 1993 session, at which time the Legislature also authorized the issuance of \$6,000,000 aggregate principal amount of bonds (the “1996 Bonds”) by the NMFA.

The Legislature specified in the Authorizing Act that the University Distribution and the Credit Enhancement Distribution were appropriated to be pledged irrevocably for the payment of principal, interest, and any premium on the Bonds. The University Distribution is to be deposited into a separate fund or account of the NMFA, which is held by the Trustee under the Indenture as the “UNM Health Sciences Center Project Revenue Fund” (the “Revenue Fund”). The Credit Enhancement Distribution is required to be deposited each month in the Credit Enhancement Account held by the NMFA. See “– Application of Moneys Under the Indenture” below. To the extent that amounts on deposit in the Revenue Fund on the last business day of each month exceed the amount required to be transferred for payment of principal of and interest and premium, if any, on the Bonds, necessary reserves and certain administrative expenses, the Trustee is directed to transfer such excess amounts to the Health Sciences Center for use for purposes permitted by the Authorizing Act.

Debt Service Reserve Fund

The Bond Insurer (in such role, the “Reserve Instrument Provider”) has committed to issue a surety bond (the “Reserve Instrument”), to be deposited to the Series 2004B Debt Service Reserve

Account of the Debt Service Reserve Fund, in an amount equal to the Debt Service Reserve Requirement for the 2004B Bonds.

Funds on deposit in each account in the Debt Service Reserve Fund will be used monthly solely to make up any deficiencies in the Bond Fund relating to the payment of principal of and interest on the applicable Series of Bonds after the Trustee has requested all available amounts in the Credit Enhancement Account from the NMFA, as described below under “— Application of Moneys Under the Indenture – Application of Revenues.” If amounts on deposit in an account in the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund, and there is insufficient cash available in such account in the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such series of Bonds are in effect, the Trustee will immediately make a demand for payment on such Reserve Instrument, to the maximum extent authorized by such Reserve Instrument, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund for application to such deficiencies.

Funds at any time on deposit in the accounts maintained in the Debt Service Reserve Fund in excess of the amount required to be maintained in such accounts (taking into account the amount of Reserve Instrument Coverage) may at any time be transferred to the Bond Fund at the direction of an Authorized Representative of the NMFA.

In the event a Reserve Instrument is terminated in accordance with its terms, the NMFA shall be required either to fund the Debt Service Reserve Requirement in substantially equal semiannual installments over a period not longer than 60 months, or to provide, with the consent of the Bond Insurer, a substitute Reserve Instrument which provides the same Reserve Instrument Coverage and which is provided by a Reserve Instrument Provider. The Debt Service Reserve Requirement for the 2004B Bonds is equal to the least of:

- 10% of the proceeds of the 2004B Bonds as the term proceeds is used in Section 148(d)(1) of the Internal Revenue Code,
- the maximum annual debt service on the 2004B Bonds, or
- 125% of the average annual debt service on the 2004B Bonds.

The Initial Standby Agreement

On the date of delivery of the 2004B Bonds, the NMFA will enter into a Standby Bond Purchase Agreement (the “Initial Standby Agreement”) for the 2004B Bonds bearing interest at a Weekly Rate with Bank of America, N.A. (the “Bank”) and the Trustee, Paying Agent and Tender Agent, pursuant to which a liquidity facility will be established. The purchase price of such 2004B Bonds will be payable from the proceeds of remarketing and, to the extent remarketing proceeds are not available, from amounts available under the Initial Standby Agreement. Subject to certain conditions described under “THE INITIAL STANDBY AGREEMENT,” the Initial Standby Agreement will provide for the purchase from time to time prior to October 1, 2007, unless it is terminated earlier or extended by the Bank, of any 2004B Bonds bearing interest at the Weekly Rate that are required to be purchased. The Initial Standby Agreement may be replaced in certain circumstances by another liquidity facility (an “Alternate Standby Agreement”). *The obligation of the Bank to purchase tendered 2004B Bonds may terminate without prior notice to 2004B Bondholders or opportunity to tender upon the occurrence of certain immediate termination events (as described in this Official Statement) under the Initial Standby Agreement.* For a more detailed description of the Initial Standby Agreement, see “THE INITIAL STANDBY AGREEMENT.” For a description of the Bank, see Appendix D – “THE BANK.”

Alternate Standby Agreement

Under the Indenture, at least 30 days prior to the expiration or termination of a Standby Agreement, the NMFA may, with the consent of the Bond Insurer, provide for the delivery to the Paying Agent of an Alternate Standby Agreement with terms satisfactory to the Bond Insurer. The Trustee is required under the Indenture to give notice to the Holders of the 2004B Bonds of the termination or expiration of any Standby Agreement and the provision of any Alternate Standby Agreement at least 30 days prior to any such termination or expiration. Such Alternate Standby Agreement will provide for the payment of the purchase price of Weekly Rate Bonds tendered and not remarketed.

Application of Moneys Under the Indenture

Creation of Funds and Accounts. The Indenture creates a number of funds and accounts into which moneys will be deposited for various purposes, including the Construction Fund (with a Series 2004B Construction Sub-Account), the Revenue Fund, the Bond Fund, the Debt Service Reserve Fund (with a Series 2004B Debt Service Reserve Account) and the Cost of Issuance Fund. These funds and accounts are created solely to constitute an earmarking of 2004B Bond proceeds, the Revenues and any amounts transferred from the Credit Enhancement Account for certain purposes and to establish certain priorities for application of such moneys. The Indenture also creates a fund and accounts for the earmarking of the proceeds of remarketing of the 2004B Bonds, amounts available under the Standby Agreement and the Tender Price of the 2004B Bonds, namely, the Series 2004B Liquidity Facility Account, the Series 2004B Remarketing Account and the Bond Purchase Fund, respectively.

Application of Revenues. So long as the 2004B Bonds are outstanding, the NMFA is to transfer all Revenues to the Trustee to be deposited in the UNM Health Sciences Center Project Revenue Fund created by the Indenture (the "Revenue Fund"). On or before the third to the last Business Day of each month, the Trustee will transfer and deposit from amounts on deposit in the Revenue Fund into the following funds or to the following payees in the following order the amounts set forth below:

- to the Bond Fund, such amounts as will be necessary to pay:
 - 1/12 of the principal of and premium, if any, on and 1/6 of the interest on the Bonds that are not Variable Rate Bonds coming due in the next-ensuing 12 months,
 - 1/12 of the principal of the Variable Rate Bonds coming due in the next-ensuing year and all of the interest on the Variable Rate Bonds coming due in the next-ensuing month (calculated for the 2004B Bonds based on the assumption that the interest rate on the 2004B Bonds equals the greater of the average of the interest rates in effect over the preceding 12 months and the last rate in effect for the preceding Interest Period for the 2004B Bonds, plus in each case 200 basis points), and
 - moneys representing principal and interest repayments under any Security Instrument Repayment Obligations (including the Series 2004B Liquidity Facility Repayment Obligations) promptly on each such payment date as the same become due and payable, whether at maturity or by redemption;
- to the accounts maintained in the Reserve Instrument Fund, with respect to all Reserve Instruments which are in effect and are expected to continue in effect, such amount of the remaining Revenues, or a ratable portion (taking into account the amount to be transferred pursuant to the second succeeding paragraph) of the amount so remaining if less than the amount necessary, that is required to be paid, including all Reserve Instrument Repayment Obligations,

on or before the next such transfer or deposit of Revenues into the Reserve Instrument Fund, to the Reserve Instrument Provider pursuant to any Reserve Instrument Agreement, other than Reserve Instrument Costs, in order to cause the Reserve Instrument Coverage to equal the Reserve Instrument Limit, such that the Reserve Instrument Coverage will equal the Reserve Instrument Limit within one year from any draw date under the Reserve Instrument;

- to the accounts maintained in the Debt Service Reserve Fund any amounts required hereby and by any Supplemental Indenture to accumulate in such accounts the applicable Debt Service Reserve Requirement at the times and in the amounts provided in the Indenture, or a ratable portion (taking into account the amount to be transferred pursuant to the second preceding paragraph) of remaining Revenues if less than the amount necessary;
- to the Security Instrument Fund at such times and in such manner described in each Security Instrument Agreement, such amounts as will be necessary to pay any Security Instrument Costs then due and payable;
- to the Reserve Instrument Fund at such times and in such manner described in each Reserve Instrument Agreement, such amounts as will be necessary to pay any Reserve Instrument Costs then owed;
- to the Trustee, payment when due, of the fees of the Trustee plus the reasonable expenses of the Trustee incurred in connection with the Bonds;
- to the Remarketing Agent, for payment when due, of the fees of such Remarketing Agent;
- to the NMFA, for payment of the administrative fee of the NMFA, which fee will equal .0208333% of the aggregate principal amount of the Bonds then Outstanding;
- to the proper payees thereof, for payment of any other expenses or obligations related to the Bonds, including arbitrage rebate payments to the United States of America, as permitted by the Authorizing Act;
- to the NMFA, for repayment of any previous transfer of amounts in the Credit Enhancement Account to the Trustee; and
- to the Health Sciences Center, for payment of the remaining balance in the Revenue Fund as provided by the Authorizing Act and the NMFA Act.

If the Trustee determines that insufficient funds are available in the Revenue Fund to cover the transfers and deposits required in the first nine bulleted paragraphs above, the Trustee will promptly notify the NMFA in writing. The NMFA will promptly transfer funds from the Credit Enhancement Account to the Trustee and the Trustee will apply the funds as provided in the first nine bulleted paragraphs above. The NMFA will hold each monthly deposit in the Credit Enhancement Account until receiving oral or written notification from the Trustee that no transfers are needed that month from the Credit Enhancement Account and then will transfer the excess to the State's general fund.

If, in any month, the Trustee determines that insufficient funds are available between the Revenue Fund and the Credit Enhancement Account to cover the deposits required above to the Bond Fund, the Trustee will distribute the available funds on a *pro rata* basis between all Bonds issued pursuant to the Indenture without regard to whether a Series of Bonds has a Reserve Instrument.

Use of Moneys on Deposit in Funds and Accounts. The Indenture specifies the manner in which moneys on deposit in the various funds and accounts must be used. A summary of the permitted uses for the money in certain of the various funds and accounts applicable to the 2004B Bonds follows.

The moneys on deposit in the Bond Fund must be applied by the Paying Agent to pay Principal Installments and the redemption price of and interest on the Bonds pursuant to the Indenture.

Moneys deposited in the Construction Fund will not be held as security for payment of the principal of and interest on the 2004B Bonds and will be paid out by the Trustee in order to pay the Costs of the UNM Health Sciences Center Project. All expenditures or disbursements from the Construction Fund will be made only after the Trustee has received a requisition of an Authorized Representative of the Health Sciences Center.

Moneys in the Cost of Issuance Fund will be used by the NMFA to pay Costs of Issuance incurred in connection with the issuance of any series of Bonds. All Costs of Issuance will be paid from proceeds of the Bonds deposited to the Costs of Issuance Fund. Any excess moneys in the Cost of Issuance Fund following the payment of all Costs of Issuance incurred with respect to a particular series of Bonds will be transferred and deposited into the Revenue Fund.

Any moneys in the funds and accounts created under the Indenture will be invested at the direction and authorization of an Authorized Representative of the NMFA or, absent direction, may be invested, at the sole discretion of the Trustee, in Permitted Investments. When the Trustee determines it necessary to use the moneys in the funds for the purposes for which the funds were created, it will, at the direction of an Authorized Representative of the NMFA, or in the case of the Construction Fund, at the direction of an Authorized Representative of the Health Sciences Center, liquidate at prevailing market prices as much of the investments as may be necessary and apply the proceeds to such purposes. All income derived from the investment of the Revenue Fund, the Bond Fund, the Reserve Instrument Fund, the Security Instrument Fund, the Debt Service Reserve Fund, the Cost of Issuance Fund and any other funds or accounts created pursuant to the Indenture will be maintained in the respective funds and disbursed along with the other moneys on deposit in them as provided in the Indenture.

For more information regarding the flow of funds, see Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

Additional Series of Bonds

The Indenture authorizes issuance of Bonds in one or more separate series in an aggregate principal amount limited to \$60,000,000. Such Bonds will be issued to finance the UNM Health Sciences Center Project. See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

The NMFA issued the 2004A Bonds on April 1, 2004 in the aggregate principal amount of \$39,035,000. The NMFA currently plans to issue in early 2007 the remaining \$10,000,000 aggregate principal amount of Bonds authorized by the Authorizing Act (the “2007 Bonds”) to finance additional costs associated with the UNM Health Sciences Center Project. See “PLAN OF FINANCING – The UNM Health Sciences Center Project – The UNM Cancer Research Center Project.” Until the 2007 Bonds are issued, the University intends to use the Revenues not used for payment of the 2004A Bonds or the 2004B Bonds or other purposes described above under “– Application of Moneys Under the Indenture,” for payment of operating expenses of the University of New Mexico Cancer Research and Treatment Center, as well as for payment of other, non-recurring program or capital improvement costs. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Revenues.” *As long as*

the 2004B Bonds are outstanding, the NMFA is prohibited under the Indenture from issuing any obligations or securities, however denominated, payable with a parity lien on the Revenues except the following: (1) Bonds of any series up to the \$60,000,000 aggregate principal amount and (2) the obligation to any Security Instrument Issuer. The NMFA is also prohibited from issuing any obligations or securities payable with a superior lien on the Revenues, but may issue obligations or securities with a subordinate lien on the Revenues.

THE INITIAL STANDBY AGREEMENT

General

On the date of delivery of the 2004B Bonds, the NMFA will enter into the Initial Standby Agreement with the Bank and the Trustee, Paying Agent and Tender Agent. Upon compliance with the provisions of the Initial Standby Agreement, the Bank will be obligated, under certain conditions and assuming timely and proper notice is given to the Bank, to provide funds for the purchase of any 2004B Bonds that are tendered or deemed tendered for purchase, whether at the option of the Holder or upon mandatory tender for purchase, that are not remarketed. The Initial Standby Agreement covers 2004B Bonds bearing interest at the Weekly Rate. The Bank is obligated to make available an amount equal to the principal amount of the 2004B Bonds plus 34 days' interest (and 42 days' interest for the period from the 2004B Bonds' date of delivery to the initial Interest Payment Date on November 1, 2004) at an assumed interest rate of 12% (the "Bond Purchase Commitment"). To the extent that the Bank advances funds under the Initial Standby Agreement to purchase 2004B Bonds, the Bond Purchase Commitment will be reduced by the principal amount of and accrued interest on the 2004B Bonds so purchased. When any 2004B Bonds so purchased are remarketed, the Bond Purchase Commitment will be restored. Unless terminated earlier or extended, the Initial Standby Agreement will expire on October 1, 2007.

The Initial Standby Agreement secures only the payment of the purchase price of the 2004B Bonds tendered for purchase as described above, and does not otherwise secure payment of the principal of or interest on the 2004B Bonds.

Under certain circumstances described below, the obligations of the Bank to purchase 2004B Bonds tendered by their Holders or subject to mandatory purchase may be terminated. In that event, sufficient funds may not be available to purchase 2004B Bonds tendered by their Holders or subject to mandatory purchase. The Bond Insurance Policy does not insure payment of the purchase price of the 2004B Bonds.

The Bank's obligations and commitment to purchase unremarketed 2004B Bonds pursuant to the Initial Standby Agreement will terminate immediately without notice or demand and, thereafter, the Bank will be under no obligation to purchase unremarketed 2004B Bonds pursuant to the Initial Standby Agreement upon the occurrence and continuation of any of the following Events of Termination:

- the failure by the Bond Insurer to pay amounts due under the Bond Insurance Policy;
- entry of a final nonappealable decision of a court of competent jurisdiction to the effect that the Bond Insurance Policy is invalid or unenforceable (including by reason of the Indenture or the 2004B Bonds being invalid or unenforceable against the NMFA);
- the issuance, under the laws of the governmental authority having primary regulatory jurisdiction over the Bond Insurer, of an order of rehabilitation, liquidation or dissolution of the Bond Insurer;

- the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself for its debts under any bankruptcy, insolvency, or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property;
- the consent of the Bond Insurer to any relief referred to in the preceding bulleted clause in an involuntary case or other proceeding commenced against it;
- the making by the Bond Insurer of an assignment for the benefit of creditors;
- the failure of the Bond Insurer to generally pay its debts as they become due, provided however, that the Bond Insurer's failure to make payments on any financial guaranty insurance policies or surety bonds because of a legitimate dispute between the Bond Insurer and the beneficiary of such policies or surety bonds shall not in and of itself constitute a failure of the Bond Insurer to generally pay its debts as they become due; or
- the initiation by the Bond Insurer of any actions to authorize any of the foregoing.

Termination by the Bank Resulting in Mandatory Purchase

If the NMFA fails to pay when due any commitment fee payable on the fifteenth day of each March, June, September and December (or the next succeeding Business Day if such day is not a Business Day) and on the date of termination of the Initial Standby Agreement (an "Event of Mandatory Tender"), and such failure continues for 30 days after the Bank notifies the NMFA, the Trustee and the Bond Insurer in writing, then the Bank will notify the Bond Insurer and may give notice (a "Notice of Mandatory Tender") to the NMFA, the Tender Agent, the Paying Agent and the Remarketing Agent that advises of the occurrence of an Event of Mandatory Tender and directs the mandatory purchase of the 2004B Bonds by reason of the Event of Mandatory Tender. The effect of the giving of the Notice of Mandatory Tender will be (1) to cause the obligation of the Bank to purchase unremarketed 2004B Bonds pursuant to the Initial Standby Agreement to terminate on and as of the 30th day next succeeding the date on which the Tender Agent received the Notice of Mandatory Tender, and (2) to cause a mandatory tender for purchase of the 2004B Bonds pursuant to the Second Supplemental Indenture (prior to such termination of the obligation of the Bank to purchase unremarketed 2004B Bonds pursuant to the Initial Standby Agreement). See "DESCRIPTION OF THE 2004B BONDS – Optional and Mandatory Tender of Weekly Rate Bonds – Mandatory Tender for Purchase Upon Termination, Expiration, Reduction, Modification or Replacement of the Standby Agreement; Mandatory Standby Tender."

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix E for a specimen of the Bond Insurance Policy.

The MBIA Insurance Corporation Insurance Policy

The Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the NMFA to the Paying Agent or its successor of an amount equal to (1) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2004B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or

otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (2) the reimbursement of any such payment which is subsequently recovered from any owner of the 2004B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2004B Bonds. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (1) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (2) any payments to be made on an accelerated basis; (3) payments of the purchase price of 2004B Bonds upon tender by an owner thereof; or (4) any Preference relating to (1) through (3) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the 2004B Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2004B Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2004B Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2004B Bonds or presentment of such other proof of ownership of the 2004B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2004B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2004B Bonds in any legal proceeding related to payment of insured amounts on the 2004B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2004B Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurance Policy and MBIA set forth under the

heading “BOND INSURANCE.” Additionally, MBIA makes no representation regarding the 2004B Bonds or the advisability of investing in the 2004B Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003;
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2004B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004, are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2004, MBIA had admitted assets of \$10.5 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2004B Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2004B Bonds. MBIA does not guaranty the market price of the 2004B Bonds nor does it guaranty that the ratings on the 2004B Bonds will not be revised or withdrawn.

PLAN OF FINANCING

General

The 2004B Bonds are being issued for the benefit of the Health Sciences Center. The proceeds of the 2004B Bonds will be used to (1) pay a portion of the cost of the UNM Health Sciences Center Project and (2) pay certain costs of issuance of the 2004B Bonds.

The Health Sciences Center

The Health Sciences Center consists of the School of Medicine (including programs of Diagnostic and Therapeutic Sciences and Dental Programs), the College of Nursing, the College of Pharmacy, the Health Sciences Center Library, 30 research and public service programs related to health sciences, and patient care facilities including the University of New Mexico Hospital, the University of New Mexico Psychiatric Center, the University of New Mexico Children's Psychiatric Center, the Carrie Tingley Hospital and the University of New Mexico Cancer Research and Treatment Center. Certain of these facilities are situated on land owned by Bernalillo County; however, under a lease agreement dated July 1, 1999, between the Regents of the University and the Board of Bernalillo County Commissioners, the Regents of the University are responsible for operation and maintenance of the University of New Mexico Hospital and the University of New Mexico Psychiatric Center. The University of New Mexico Hospital, a 384-bed hospital facility, is used by the School of Medicine as its primary teaching facility. It is the public hospital for Bernalillo County and is partially supported by Bernalillo County through County property tax revenues. Each of these facilities is used for teaching purposes as well as providing patient care and public service programs. Health Sciences Center revenues are not Revenues.

The UNM Health Sciences Center Project

A portion of the proceeds of the 2004B Bonds is expected to be used to pay the costs of the UNM Health Sciences Center Project, which is comprised of the UNM Hospital Project and the UNM Cancer Research Center Project. A description of each of those projects follows.

The UNM Hospital Project. The UNM Hospital Project consists of designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital. The additions and improvements will consist of a new 476,555 square-foot west wing of the existing University of New Mexico Hospital to be built on land owned by the University. The new wing will house a Children's Hospital, Maternity Center, Adult Critical Care Unit and Emergency Department. The University currently expects to begin construction of the UNM Hospital Project in October 2004 and to complete the UNM Hospital Project by October 2007.

The University estimates that construction and other costs of the UNM Hospital Project will total approximately \$218,000,000. The University plans to issue in October 2004 approximately \$192,840,000 principal amount of bonds to provide additional financing for the UNM Hospital Project. Those bonds would be payable from the revenues of the UNM Hospital, and not from the University Distribution or any other Cigarette Tax receipts.

The UNM Cancer Research Center Project. The UNM Cancer Research Center Project consists of designing, constructing, equipping and furnishing additions and improvements to the Cancer Research and Treatment Center at the Health Sciences Center. At this time, the preliminary cost of the UNM Cancer Research Center Project is estimated at \$73 million.

The additions and improvements will consist of a multi-story clinical building in the vicinity of the existing Cancer Research Facility at the Health Sciences Center. The approximately 145,000 square-foot building will house a multidisciplinary clinic, infusion suite, radiation oncology, procedure suites, administrative and faculty offices, support spaces, community education center, and an imaging and breast health center, with future opportunities for a cyclotron and other leading edge technologies. The building will be used to continue and expand existing cancer-related research and treatment and allow for National Cancer Institute designation.

The NMFA issued \$6,000,000 aggregate principal amount of 1996 Bonds for the purpose of financing a portion of the costs of the design, construction, equipping and furnishing of a Cancer Research Facility addition to the Cancer Research and Treatment Center at the Health Sciences Center on behalf of the University. The 1996 Bonds, of which \$1,200,000 principal amount remains outstanding, are payable from a distribution of Cigarette Tax receipts different from either the University Distribution or the Credit Enhancement Distribution. Thus, the Revenues are not pledged to the payment of the 1996 Bonds.

The NMFA expects to issue the 2007 Bonds as an additional series of Bonds under the Indenture to finance additional costs of the UNM Health Sciences Center Project. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Additional Series of Bonds.” The University intends to use the Revenues not used for payment of outstanding Bonds for payment of operating expenses of the Cancer Research and Treatment Center, as well as for payment of other, non-recurring program or capital improvement costs. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Revenues.”

The Construction Fund

Except as otherwise provided in the Indenture, the proceeds of the 2004B Bonds, including any premium net of original issue discount, will be deposited into a separate account in the Construction Fund established by the Indenture (the “Construction Fund”). The amounts on deposit in the Construction Fund are not pledged to the payment of the 2004B Bonds.

Moneys deposited in the Construction Fund will not be held as security for payment of the principal, premium, if any, and interest on the Bonds and will be paid out by the Trustee in order to pay the Cost of the UNM Health Sciences Center Project, in each case within three Business Days (or within such longer period as is reasonably required to liquidate investments in the Construction Fund if required to make such payment) after the receipt by the Trustee from the NMFA of the written requisition of an Authorized Representative of the Health Sciences Center. Upon receipt of such requisition, the Trustee will pay the obligation set forth in such requisition out of moneys in the applicable account in the Construction Fund. In making such payments the Trustee may rely upon such requisition.

An Authorized Representative of the Health Sciences Center must deliver to the Trustee, within 90 days after the completion of the UNM Health Sciences Center Project, a certificate stating: (1) that the UNM Health Sciences Center Project has been fully completed in accordance with the plans and specifications therefor, as amended from time to time, and stating the date of completion for the UNM Health Sciences Center Project; and (2) that such Authorized Representative is of the opinion that the UNM Health Sciences Center Project has been fully paid for and no claim or claims exist against the Health Sciences Center or the NMFA or against the UNM Health Sciences Center Project out of which a lien based on furnishing labor or material exists or might ripen; provided, however, there may be excepted from that statement any claim or claims out of which a lien exists or might ripen in the event that the Health Sciences Center intends to contest such claim or claims, in which event such claim or claims must be described to the Trustee.

In the event the certificate filed with the Trustee states that there is a claim or claims in controversy that creates or might ripen into a lien, a similar certificate must be filed with the Trustee when and as such claim or claims have been fully paid or otherwise discharged.

The Trustee will keep and maintain adequate records pertaining to each account within the Construction Fund and all disbursements therefrom.

Upon completion of the UNM Health Sciences Center Project and payment of all costs and expenses incident thereto and the filing with the Trustee of documents required by the Indenture, any balance remaining in the Construction Fund relating to the UNM Health Sciences Center Project will be deposited in the Bond Fund, to be applied toward the payment of the Bonds issued to finance the UNM Health Sciences Center Project.

Estimated Uses of Proceeds

The estimated uses of the proceeds of the sale of the 2004B Bonds are presented in the following table.

Proceeds of 2004B Bonds

| | |
|---------------------------------|------------------------|
| Par Amount of 2004B Bonds | <u>\$10,000,000.00</u> |
|---------------------------------|------------------------|

Uses of Proceeds

| | |
|------------------------------------|------------------------|
| Deposit to Construction Fund | \$ 9,571,542.22 |
| Costs of Issuance* | 357,356.00 |
| Underwriter's Discount | <u>71,101.78</u> |
| Total Uses of Proceeds | <u>\$10,000,000.00</u> |

* Includes fees and expenses of financial advisors, bond counsel, disclosure counsel, special tax counsel, counsel to the NMFA, trustee fees, printing and posting expenses, Initial Standby Agreement costs, bond insurance and debt service reserve fund premiums, rating agency fees and miscellaneous expenses.

Estimated Annual Debt Service Requirements

The following table presents the estimated annual debt service requirements for the 2004B Bonds.

| Period Ending June 30 | Principal | Interest ⁽¹⁾ | Total |
|-----------------------------|-----------|-------------------------|------------|
| 2005 | — | \$184,333 | \$ 184,333 |
| 2006 | — | 210,000 | 210,000 |
| 2007 | — | 210,000 | 210,000 |
| 2008 ⁽²⁾ | \$800,000 | 550,000 | 1,350,000 |
| 2009 ⁽²⁾ | 800,000 | 506,000 | 1,306,000 |
| 2010 ⁽²⁾ | 850,000 | 462,000 | 1,312,000 |
| 2011 ⁽²⁾ | 850,000 | 415,250 | 1,265,250 |
| 2012 ⁽²⁾ | 870,000 | 368,500 | 1,238,500 |
| 2013 ⁽²⁾ | 860,000 | 320,650 | 1,180,650 |
| 2014 ⁽²⁾ | 860,000 | 273,350 | 1,133,350 |
| 2015 ⁽²⁾ | 860,000 | 226,050 | 1,086,050 |
| 2016 ⁽²⁾ | 840,000 | 178,750 | 1,018,750 |
| 2017 ⁽²⁾ | 820,000 | 132,550 | 952,550 |
| 2018 ⁽²⁾ | 820,000 | 87,450 | 907,450 |
| 2019 | 770,000 | 42,350 | 812,350 |

⁽¹⁾ Based on an average interest rate of 2.1% through June 30, 2007, and 5.5% thereafter.

⁽²⁾ Payable through mandatory sinking fund redemption.

Coverage Ratios

The following table prepared by Western Financial Group, LLC presents *pro forma* coverage of the 2004A Bonds, the 2004B Bonds and the additional series of Bonds expected to be issued by the NMFA in 2007, based on projections of the 14.52% University Distribution (which, together with investment income thereon, represents the Revenues and which, excluding such investment income, is referred to for the sole purpose of the table as the “Revenues”), projections of the 15.95% Credit Enhancement Distribution and on the actual or estimated annual debt service requirements for the 2004A Bonds, the 2004B Bonds and the 2007 Bonds. Western Financial Group, LLC’s projections of *pro forma* Revenues and Credit Enhancement Distribution through the final maturity of the 2004B Bonds are based on actual, historical receipts for the 12-month period from August 2003 through July 2004, and assume a three-percent reduction in each succeeding fiscal year (derived from the average decline over that period).

The Revenues were \$8,846,926 and the Credit Enhancement Distribution was \$9,718,214 for the twelve-month period from August 2003 (the first month after the Cigarette Tax increase in which the Revenues and the Credit Enhancement Distribution were received) through July 2004. Any negative impact of the Cigarette Tax increase is assumed to be reflected in Cigarette Tax stamp sales for that twelve-month period and Taxation and Revenue Department staff assumed no additional reduction. Taxation and Revenue Department staff noted extensive inventory building of Cigarette Tax stamps by retail outlets in the time period immediately prior to the Cigarette Tax increase in July 1, 2003. Receipts from August 2003 (and possibly later) reflected the effect of a one-time inventory tax (with revenues totaling over \$4.2 million) and the apparent effect of inventory building on Cigarette Tax receipts in that month (see “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – State Cigarette Tax Collections and Distributions – Historical Taxable Cigarette Sales”).

Under the Authorizing Act, the Credit Enhancement Account may also be pledged to the payment of the principal of, interest and premiums on, and expenses related to any bonds issued by the NMFA for improvements to State Department of Health facilities pursuant to the Authorizing Act. However, under the Indenture, the NMFA is prohibited from issuing any such bonds payable with a parity lien on the amounts in the Credit Enhancement Account, except for Bonds issued under the Indenture. The NMFA may issue such bonds with a subordinate lien on amounts in the Credit Enhancement Account.

The *pro forma* Revenues and Credit Enhancement Distribution in the following table are adjusted to take into account certain trends described above and under “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – State Cigarette Tax Collections and Distributions – Collection History for Net Cigarette Tax Receipts” and “INVESTMENT CONSIDERATIONS – Cigarette Tax Revenues.” *The projections contained in the following table are based on a number of assumptions that may not be realized. There can be no assurance that the Revenues and the Credit Enhancement Distribution will not decrease more than the assumed three percent each fiscal year during the term of the 2004B Bonds. Neither the NMFA nor the Underwriter makes any representation as to future levels of such Revenues or the Credit Enhancement Distribution and the resulting coverage ratios. See “FORWARD-LOOKING STATEMENTS.”*

Pro Forma Coverage of the Bonds

| Fiscal Year Ending June 30 | Total Available Revenues ⁽¹⁾ | 2004A Bonds Debt Service Requirements ⁽³⁾ | 2004B Bonds Debt Service Requirements ⁽⁴⁾ | 2007 Bonds Debt Service Requirements ⁽⁵⁾ | Total Debt Service | Coverage by Revenues | Remaining Revenue After Debt Service ⁽⁶⁾ | Credit Enhancement Distribution ⁽¹⁾ | Coverage by Credit Enhancement Distribution | Coverage by All Sources |
|----------------------------------|---|--|--|---|-----------------------|----------------------------|--|--|--|-------------------------------|
| 2004 | \$8,846,926 ⁽²⁾ | — | — | — | — | — | — | \$9,718,214 ⁽²⁾ | — | — |
| 2005 | 8,581,518 | \$6,060,325 | \$ 184,333 | — | \$6,244,658 | 1.37x | \$2,336,860 | 9,426,668 | 1.51x | 2.88x |
| 2006 | 8,324,072 | 5,810,125 | 210,000 | — | 6,020,125 | 1.38 | 2,303,947 | 9,143,868 | 1.52 | 2.90 |
| 2007 | 8,074,350 | 5,558,025 | 210,000 | — | 5,768,025 | 1.40 | 2,306,325 | 8,869,551 | 1.54 | 2.94 |
| 2008 | 7,832,120 | 3,789,125 | 1,350,000 | \$ 667,700 | 5,806,825 | 1.35 | 2,025,295 | 8,603,465 | 1.48 | 2.83 |
| 2009 | 7,597,156 | 3,566,913 | 1,306,000 | 681,650 | 5,544,563 | 1.37 | 2,042,594 | 8,345,361 | 1.50 | 2.87 |
| 2010 | 7,369,242 | 3,353,300 | 1,312,000 | 699,500 | 5,364,800 | 1.37 | 2,004,442 | 8,095,000 | 1.51 | 2.88 |
| 2011 | 7,148,164 | 3,155,300 | 1,265,250 | 690,975 | 5,111,525 | 1.40 | 2,036,639 | 7,852,150 | 1.54 | 2.93 |
| 2012 | 6,933,719 | 2,902,300 | 1,238,500 | 682,450 | 4,823,250 | 1.44 | 2,110,469 | 7,616,586 | 1.58 | 3.02 |
| 2013 | 6,725,708 | 2,664,925 | 1,180,650 | 673,925 | 4,519,500 | 1.49 | 2,206,208 | 7,388,088 | 1.63 | 3.12 |
| 2014 | 6,523,937 | 2,499,550 | 1,133,350 | 685,400 | 4,318,300 | 1.51 | 2,205,637 | 7,166,445 | 1.66 | 3.17 |
| 2015 | 6,328,218 | 2,382,300 | 1,086,050 | 635,775 | 4,104,125 | 1.54 | 2,224,093 | 6,951,452 | 1.69 | 3.24 |
| 2016 | 6,138,372 | 2,251,800 | 1,018,750 | 603,350 | 3,873,900 | 1.58 | 2,264,472 | 6,742,909 | 1.74 | 3.33 |
| 2017 | 5,954,221 | 2,105,800 | 952,550 | 597,300 | 3,655,650 | 1.63 | 2,298,571 | 6,540,621 | 1.79 | 3.42 |
| 2018 | 5,775,594 | 1,952,300 | 907,450 | 591,250 | 3,451,000 | 1.67 | 2,324,594 | 6,344,403 | 1.84 | 3.51 |
| 2019 | 5,602,326 | 1,346,800 | 812,350 | 1,090,200 | 3,249,350 | 1.72 | 2,352,976 | 6,154,071 | 1.89 | 3.62 |
| 2020 | 5,434,256 | — | — | 3,096,375 | 3,096,375 | 1.76 | 2,337,881 | 5,969,448 | 1.93 | 3.68 |
| 2021 | 5,271,229 | — | — | 2,975,350 | 2,975,350 | 1.77 | 2,295,879 | 5,790,365 | 1.95 | 3.72 |
| 2022 | 5,113,092 | — | — | 2,837,950 | 2,837,950 | 1.80 | 2,275,142 | 5,616,654 | 1.98 | 3.78 |

⁽¹⁾ Projections are based on actual stamp sales for the 12-month period from August 2003 through July 2004, and have been assumed, solely for purposes of this coverage table, to decrease in each fiscal year ending June 30, 2005 and later by 3%. For purposes of this table, the Revenues include only amounts from the University Distribution deposited in the Revenue Fund, and do not include investment earnings on those amounts.

⁽²⁾ Source: Taxation and Revenue Department.

⁽³⁾ Dollar amounts are rounded to the nearest whole dollar.

⁽⁴⁾ Based on a \$10,000,000 principal amount and assumed average interest rates of 2.1% through June 30, 2007, and 5.5% thereafter.

⁽⁵⁾ Estimated based on a \$10,000,000 principal amount and an assumed average interest rate of 5.5%.

⁽⁶⁾ Estimated appropriation to the Health Sciences Center after deduction of fees and costs described in the Indenture.

Source: Western Financial Group, LLC

INVESTMENT CONSIDERATIONS

The following section is intended only as a summary of certain risk factors attendant to an investment in the 2004B Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement and its appendices.

While the Bond Insurance Policy insures the payment of regular principal of and interest on the 2004B Bonds and the Initial Standby Agreement supports payment of the purchase price for the 2004B Bonds tendered for purchase, the respective obligations of the Bond Insurer and the Bank are based on their general credit and, in the case of the Initial Standby Agreement, the Bank will be obligated to pay the purchase price of 2004B Bonds tendered for purchase only so long as the Initial Standby Agreement is in effect. If either of these entities becomes insolvent or defaults, Bondholders may become general unsecured creditors of the Bond Insurer or the Bank, and timely payment of principal of and interest on the 2004B Bonds and/or the purchase price therefor would depend entirely on the ability of the NMFA to make such payments from the Revenues and amounts in the Credit Enhancement Account. The NMFA expects that the Revenues and amounts in the Credit Enhancement Account will at all times be sufficient to make such payments. A number of factors, however, may adversely affect the NMFA's ability to make timely payments on the 2004B Bonds from the Revenues and amounts in the Credit Enhancement Account.

There follows a discussion of some, but not necessarily all, of the possible risk factors that should be carefully evaluated by prospective purchasers of the 2004B Bonds prior to purchasing any 2004B Bonds. The 2004B Bonds may not be suitable investments for all persons, and prospective purchasers should be able to evaluate the risks and merits of an investment in the 2004B Bonds, and should confer with their own legal and financial advisors before deciding to purchase the 2004B Bonds.

Cigarette Tax Revenues

There can be no assurance that the State will be able to continue to collect Cigarette Tax revenues at the levels depicted in the table under "SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – State Cigarette Tax Collections and Distributions – Collection History for Net Cigarette Tax Receipts." A reduction in the amount of Cigarette Tax receipts may adversely affect the security of the holders of the 2004B Bonds. As presented in that table, Cigarette Tax revenues have declined since 1996. The downward trend in Cigarette Tax revenues may be attributed to a number of factors that have arisen since the early 1990s.

Tobacco products and manufacturers are the subject of numerous regulations and legislative proposals seeking to impose liability on the industry, further regulate the industry, prohibit public smoking and regulate labeling or advertising of cigarettes. No assurance can be given that future federal or State legislation or administrative regulations will not seek to further regulate, restrict or discourage the manufacture, sale and use of cigarettes.

Officials of 46 states (including New Mexico), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands entered into a Master Settlement Agreement with the four largest United States tobacco manufacturers on November 23, 1998. The Master Settlement Agreement resolved cigarette smoking-related litigation among the parties. Wholesale prices of cigarettes increased dramatically in response to the Master Settlement Agreement and other litigation in the late 1990s.

Cigarettes are currently subject to substantial excise taxes in the United States. The federal excise tax per pack of 20 cigarettes is \$0.39. The State currently imposes a Cigarette Tax of \$0.91 per pack of cigarettes, an increase of \$0.70 per pack effected by the Authorizing Act. This tax increase and other legislative or regulatory measures have dramatically increased the cost of cigarettes and could limit or prohibit the sale of cigarettes, making cigarettes less appealing to smokers.

Moreover, the increase might motivate smokers to seek out less costly cigarettes readily available from a source that is not subject to or avoids payment of the Cigarette Tax. In 1992, the Legislature amended the Cigarette Tax Act to exempt from the Cigarette Tax sales of cigarettes to the governing body or to any enrolled tribal member licensed by the governing body of an Indian nation, tribe or pueblo for use or sale on that reservation or pueblo grant. A number of retail outlets selling Cigarette Tax-exempt cigarettes have been established on reservations and pueblo grants in or near populated areas of the State. Sales from these outlets grew rapidly in the early 1990s, reaching a level of approximately 20 million packs annually.

Internet cigarette vendors provide another potential source of less costly cigarettes. Federal law requires any person who sells and ships cigarettes across a state line to a buyer, other than a licensed distributor, to report the sale to the buyer's state tobacco tax administrator. In addition, consumers who use the Internet to buy cigarettes from vendors in other states are liable for their own state's cigarette excise tax. However, the Government Accounting Office (GAO) in August 2002 released a report, in which the GAO concluded, based on a study of nine states that were among the states with the highest cigarette excise taxes on January 1, 2002 (but not including the State), that those states were losing a significant amount of cigarette excise tax revenues to sales from Internet cigarette vendors. The effect of the Cigarette Tax increase on purchases of cigarettes from either Cigarette Tax-exempt sources or Internet vendors is uncertain.

On March 17, 2003, the City Council of the City of Albuquerque enacted amendments to the "Albuquerque Clean Indoor Air Ordinance" to eliminate designated smoking areas and prohibit smoking in certain establishments. Since July 3, 2003, smoking has been prohibited in all public places in the City of Albuquerque, including, but not limited to, restaurants, shopping malls, business establishments, office buildings and health facilities. A number of other municipalities in the State have similar measures. While the actual impact of such measures on smoking and Cigarette Tax receipts is unknown, there can be no assurance that other localities will not adopt such measures, or that any such measure will not result in a reduction in Cigarette Tax receipts.

To address concerns associated with declining Cigarette Tax receipts, the Authorizing Act provides for the Credit Enhancement Distribution. Receipts from this distribution are deposited in the Credit Enhancement Account, which functions as a contingency fund to be accessed by the NMFA if Cigarette Tax receipts should materially decline to such an extent that the University Distribution would be insufficient to make scheduled debt service payments on the 2004B Bonds.

Continuation of Revenues and Credit Enhancement Account

In the NMFA Act, the State has pledged and agreed with the holder of any bonds or notes issued under the NMFA Act, and has authorized the NMFA to include such pledge and agreement of the State in any agreement with holders of the bonds and notes, that the State will not limit or alter the rights vested by the NMFA Act in the NMFA to fulfill the terms of any agreements made with holders of bonds and notes of the NMFA or in any way impair the rights and remedies of those holders until the bonds or notes are fully met and discharged. The Indenture includes this pledge and agreement of the State in favor of the holders of the 2004B Bonds. The Authorizing Act provides that any law authorizing the imposition, collection or distribution of the Cigarette Tax or that affects the Cigarette Tax shall not be amended,

repealed or otherwise directly or indirectly modified so as to impair any outstanding revenue bonds (such as the 2004B Bonds) that may be secured by a pledge of those Cigarette Tax revenues (including Cigarette Tax proceeds distributed to the Credit Enhancement Account), unless the revenue bonds have been discharged in full or provision has been made for a full discharge.

Additional Series of Bonds

The Indenture authorizes issuance of Bonds in one or more separate series in an aggregate principal amount limited to \$60,000,000. Such Bonds have been or will be issued to finance the UNM Health Sciences Center Project. See Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.” The NMFA has issued its 2004A Bonds in the aggregate principal amount of \$39,035,000. The issuance of additional series of Bonds may adversely affect the security of the Holders of the 2004B Bonds, and the issuance of additional series of Bonds that include term Bonds subject to mandatory sinking fund redemption will affect the application of Revenues and other amounts pledged to the payment of the 2004B Bonds. The NMFA currently plans to issue in 2007 the remaining Bonds authorized by the Authorizing Act to finance additional costs associated with the Health Sciences Center and the University of New Mexico Cancer Research and Treatment Center. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – Additional Series of Bonds,” “PLAN OF FINANCING – The UNM Health Sciences Center Project – The UNM Cancer Research Center Project” and Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS.”

Automatic Termination of Standby Agreement

Upon the occurrence of an event that automatically terminates a Standby Agreement, the Liquidity Facility Provider’s obligation to purchase 2004B Bonds under the Standby Agreement will immediately terminate without notice to or other action on the part of the Liquidity Facility Provider. Upon the occurrence of events that automatically terminate the Standby Agreement, the Standby Agreement will not be available to pay the Tender Price for any 2004B Bonds that are tendered by Bondholders pursuant to an optional or mandatory tender. In such event, there is no guarantee that remarketing proceeds, amounts representing Revenues or the Credit Enhancement Distribution, or funds from any other source will be available for such purchase.

Enforceability of Remedies

The remedies available to the Trustee or Holders of the 2004B Bonds upon an Event of Default under the Indenture or upon nonpayment by the Bond Insurer under its Bond Insurance Policy in many respects may be dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the Federal Bankruptcy Code) the remedies provided in the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2004B Bonds and the Indenture will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

UNDERWRITING

Under a bond purchase agreement (the “Bond Purchase Agreement”) entered into between the NMFA and J.P. Morgan Securities Inc., the 2004B Bonds are being purchased for reoffering by J.P. Morgan Securities Inc. at an aggregate purchase price of \$9,928,898.22 (representing the \$10,000,000 original principal amount of the 2004B Bonds, less an underwriting discount of \$71,101.78). The obligation of J.P. Morgan Securities Inc. to accept delivery of the 2004B Bonds is subject to various

conditions contained in the Bond Purchase Agreement. The Bond Purchase Agreement provides that J.P. Morgan Securities Inc. will purchase all of the 2004B Bonds if any are purchased.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"), are expected to assign their respective long-term ratings of "Aaa" and "AAA" to the 2004B Bonds, based upon the issuance of the Bond Insurance Policy by the Bond Insurer. Contingent upon the delivery by the Bank of the Initial Standby Agreement, Moody's and S&P are expected to assign their respective short-term ratings of "VMIG1" and "A-1+" to the 2004B Bonds. Certain information and materials not included in the Official Statement were furnished to the rating agencies. The ratings of the 2004B Bonds reflect only the respective view of such organizations. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings or underlying ratings, or any of them, may have an adverse effect on the market price of the 2004B Bonds.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the 2004B Bonds. The NMFA and the University have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the 2004B Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2004B Bonds. Ballard Spahr Andrews and Ingersoll LLP, Special Tax Counsel to the NMFA, has assumed continuing compliance by the NMFA and the University with such requirements and restrictions in rendering their opinion regarding the tax-exempt status of interest on the 2004B Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

Although said Special Tax Counsel will render an opinion that interest on the 2004B Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the 2004B Bondholder's particular tax status and the 2004B Bondholder's other items of income or deduction. Said Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds.

State of New Mexico Income Tax

In the opinion of Special Tax Counsel, under laws of the State of New Mexico as currently enacted and construed, interest on the 2004B Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

Reference is hereby made to the proposed form of Special Tax Counsel opinion included in Appendix C to the Official Statement.

FINANCIAL ADVISOR

Western Financial Group, LLC, is employed as Financial Advisor to the NMFA in connection with the preparation of this Official Statement and the issuance of the 2004B Bonds. Western Financial Group, LLC, in its capacity as Financial Advisor, has not verified and does not assume responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2004B Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial body.

LEGAL MATTERS

Certain legal matters incident to the issuance of the 2004B Bonds are subject to the legal opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, a form of which is attached to this Official Statement in Appendix C. Certain legal matters with regard to the tax status of the interest on the 2004B Bonds (see "TAX MATTERS") are subject to the legal opinion of Ballard Spahr Andrews & Ingersoll, LLP, as Special Tax Counsel, a form of which is attached to this Official Statement in Appendix C. The signed legal opinions, dated and premised on law in effect as of the date of original delivery of the 2004B Bonds, will be delivered to the Underwriter at the time of original delivery.

Certain legal matters will be passed upon for the Bank by its counsel, Squire, Sanders & Dempsey L.L.P. Certain legal matters pertaining to the NMFA will be passed upon by the Attorney General of the State of New Mexico and Virtue Najjar & Brown PC, and by Sutin, Thayer & Browne A Professional Corporation, disclosure counsel to the NMFA. Hogan & Hartson, L.L.P. has acted as counsel to the Underwriter and Remarketing Agent. Certain legal matters will be passed upon for MBIA Insurance Corporation by its counsel, Kutak Rock LLP.

Counsel involved in this transaction have not participated in any independent verification of the financial or statistical data or information included in this Official Statement.

CONTINUING DISCLOSURE

Financial Statements

The combined financial statements of the NMFA for the year ended June 30, 2003, are available from each nationally recognized securities information repository as part of annual information filings made pursuant to continuing disclosure undertakings entered into by the NMFA.

Continuing Disclosure Undertaking

In accordance with the requirements of Rules 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the 2004B Bonds, the NMFA will agree to provide or cause to be provided the following information:

- to each nationally-recognized municipal securities information repository ("NRMSIR") annual financial information and operating data concerning the NMFA and the Revenues and Credit Enhancement Account, including audited financial statements if available or, if audited financial statements are unavailable, unaudited financial statements if available, and information substantially similar to the type contained in this Official Statement in the sections entitled

“SECURITY AND SOURCES OF PAYMENT FOR THE 2004B BONDS – State Cigarette Tax Collections and Distributions – Historical Taxable Cigarette Sales,” “– Collection History for Net Cigarette Tax Receipts” and “– Distribution of Net Cigarette Tax Receipts,” such information to be provided within 270 days of the end of each fiscal year and to be made available, in addition to each NRMSIR, to each holder of the 2004B Bonds who requests such information;

- in a timely manner to the Municipal Securities Rulemaking Board (“MSRB”) or each NRMSIR and any State information depository notice of any failure to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking; and
- in a timely manner to the MSRB or each NRMSIR and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2004B Bonds, if material:
 - principal and interest payment delinquencies;
 - non-payment-related defaults;
 - unscheduled draws on debt service reserves reflecting financial difficulties;
 - unscheduled draws on credit enhancements reflecting financial difficulties;
 - substitution of credit or liquidity providers, or their failure to perform;
 - adverse tax opinions or events affecting the tax-exempt status of the 2004B Bonds;
 - modifications to rights of holders;
 - bond calls;
 - defeasances;
 - release, substitution, or sale of property securing repayment of the 2004B Bonds; and
 - rating changes.

The NMFA may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA, such other event is material with respect to the 2004B Bonds. However, the NMFA does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The NMFA reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA; provided that the NMFA has agreed that any such modification will be done in a manner consistent with the Rule. The NMFA acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the 2004B Bonds and shall be enforceable by the Owners; provided that the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA’s obligations, and any failure by the NMFA to comply with the provisions of the undertaking shall not be an event of default with respect to the 2004B Bonds. The NMFA believes that it is now and for the last five years has been in compliance with continuing disclosure undertakings previously entered into with respect to its outstanding bonds.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's and the University's future financial plans and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

LITIGATION

According to the NMFA, there is no controversy or litigation known to be pending or, to the best of its knowledge, threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2004B Bonds, the execution or delivery of the Indenture or the levying or collecting of the Cigarette Tax for the payment of the debt service on the 2004B Bonds or in any way contesting or affecting the validity or enforceability of the 2004B Bonds, the Indenture, or any proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA will deliver a certificate as to the foregoing prior to the issuance of the 2004B Bonds.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained in this Official Statement do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or owners of the 2004B Bonds.

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following contains extracts of certain provisions and definitions contained in the General Indenture and the Second Supplemental Indenture and is not to be considered as a full statement thereof. Reference is made to the General Indenture and the Second Supplemental Indenture for full details of the General Indenture, Second Supplemental Indenture, terms of the Series 2004B Bonds and the security provisions appertaining thereto.

GENERAL INDENTURE

Definitions

“Accreted Amount” means, with respect to Capital Appreciation Bonds of any Series and as of the date of calculation, the amount established pursuant to the Supplemental Indenture authorizing such Capital Appreciation Bonds as the amount representing the initial public offering price, plus the accumulated and compounded interest on such Bonds.

“Act” means, collectively, the Finance Authority Act and the Authorizing Act.

“Authority” means the New Mexico Finance Authority.

“Authorized Representative of the Authority” means the Chairman, Vice Chairman, Secretary or Executive Director of the Authority or any other person at the time designated to act on behalf of the Authority by a written instrument furnished to the Trustee containing the specimen signature of such person or persons and signed on behalf of the Authority by its Chairman or Vice Chairman. The written instrument may designate an alternate or alternates.

“Authorized Representative of the Health Sciences Center” means the Vice President for Health Sciences of the University of New Mexico or any other person at the time designated to act on behalf of the Health Sciences Center by a written instrument furnished to the Trustee containing the specimen signature of such person or persons and signed on behalf of the Health Sciences Center by the Vice President for Health Sciences of the University of New Mexico. The written instrument may designate an alternate or alternates.

“Authorizing Act” means Chapter 341, Laws of New Mexico 2003, adopted by the Legislature of the State of New Mexico during its 2003 regular session.

“Balloon Bonds” means Bonds, other than Bonds which mature within one year of the date of issuance thereof, 25% or more of the Principal Installments on which (a) are due or, (b) at the option of the Owner thereof may be redeemed, during any period of twelve consecutive months.

“Bond Fund” means the New Mexico Finance Authority, UNM Health Sciences Center Project Bond Fund created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

“Bondholder,” “Bondowner,” “Registered Owner” or “Owner” or any similar term means the registered owner of any Bonds.

“Bonds” means bonds, notes, commercial paper or other obligations (other than Repayment Obligations) authorized by and at any time Outstanding pursuant to the Indenture, which may be issued in one or more Series.

“Business Day” means any day (a) on which banking business is transacted, but not including any day on which banks are authorized to be closed, in New York City or in the city in which the Trustee has its principal corporate trust office or the city in which draws on a Security Instrument are to be presented, and (b) on which the New York Stock Exchange is open.

“Capital Appreciation Bonds” means Bonds the interest on which (a) is compounded and accumulated at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and designating them as Capital Appreciation Bonds, and (b) is payable upon maturity or redemption of such Bonds.

“Chairman” means the Chairman of the Authority or any successor to the duties of such office.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code shall be deemed to include the related United States Treasury Regulations.

“Construction Fund” means the New Mexico Finance Authority, UNM Health Sciences Center Project Construction Fund created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

“Costs of Issuance” means any costs incurred in connection with the issuance of any Series of Bonds, including, but not limited to, fees or expenses incurred in connection with an interest rate cap agreement, legal fees and costs, financial advisory fees and costs and underwriter’s fees and costs.

“Cost of Issuance Fund” means the Cost of Issuance Fund created pursuant to the Indenture.

“Cost of the UNM Health Sciences Center Project,” or any phrase of similar import, in connection with the acquisition of the UNM Health Sciences Center Project, means all costs and expenses which are properly chargeable thereto under generally accepted accounting principles or which are incidental to the financing and acquisition of the UNM Health Sciences Center Project, including, without limiting the generality of the foregoing:

- amounts payable to firms, entities or persons contracting to provide services in connection with designing, constructing, equipping and furnishing the UNM Health Sciences Center Project and costs incident to the award of any such contracts;
- engineering, legal, planning, underwriting, accounting and other professional and advisory fees;
- interest expenses, including interest on a Series of Bonds;
- printing, engraving and other expenses of financing, including fees of financial rating services and fees and costs of issuing a Series of Bonds;
- costs of the capitalization with proceeds of a Series of Bonds of any discount on Bonds or other securities, and of any reserves for the payment of the principal of and interest on a Series of Bonds, of any replacement expenses and of any other cost of issuance of a Series of Bonds or other securities, Security Instrument Costs and Reserve Instrument Costs;

- costs of amending any indenture or other instrument authorizing the issuance of or otherwise appertaining to a Series of Bonds;
- all other expenses necessary or desirable and appertaining to the UNM Health Sciences Center Project, as estimated or otherwise ascertained by the Authority or the Health Sciences Center;
- payment to the Authority of such amounts, if any, as shall be necessary to reimburse the Authority in full for advances and payments theretofore made or costs theretofore incurred by the Authority or the Health Sciences Center for any item of Costs; and
- costs of obtaining or collateralizing financial instruments, including letters of credit, to facilitate financing, completion or construction of the UNM Health Sciences Center Project.

“Credit Enhancement Account” means the Credit Enhancement Account created and held by the Authority for deposit of the 15.95% monthly distribution of cigarette tax revenues distributed for purposes of credit enhancement pursuant to the Authorizing Act.

“Current Interest Bonds” means Bonds not constituting Capital Appreciation Bonds. Interest on Current Interest Bonds shall be payable periodically on the Interest Payment Dates provided therefor in a Supplemental Indenture.

“Debt Service Reserve Fund” means the New Mexico Finance Authority UNM Health Sciences Center Project Debt Service Reserve Fund created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

“Debt Service Reserve Requirement,” for a Series of Bonds, means the amount, if any, set forth in the Supplemental Indenture authorizing such Series of Bonds. The Debt Service Reserve Requirement applicable to any Series of Bonds may be funded by a Reserve Instrument as provided in the Indenture.

“Event of Default” means with respect to any default or event of default under the Indenture any occurrence or event specified in and defined by the Indenture.

“Finance Authority Act” means the New Mexico Finance Authority Act, being Sections 6-21-1 through 6-21-29, inclusive, NMSA 1978, as amended.

“Fiscal Year” means the 12-month period beginning July 1 of each year and ending June 30 of the following year.

“Government Obligations” means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury and “CATS” and “TGRS”) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America.

“Health Sciences Center” means the University of New Mexico Health Sciences Center.

“Indenture” means the General Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms of the Indenture.

“Interest Payment Date” means the stated payment date of an installment of interest on the Bonds as provided in a Supplemental Indenture.

“Moody’s” means Moody’s Investors Service, Inc.

“Outstanding” or “Bonds Outstanding” means at any date all Bonds which have not been canceled which have been authenticated and delivered by the Trustee under the Indenture, except:

- any Bond or portion thereof which at the time has been paid or deemed paid pursuant to the Indenture; and
- any Bond in lieu of or in substitution for which a new Bond shall have been authenticated and delivered under the Indenture.

“Paying Agent” means the Trustee, appointed as the initial paying agent for the Bonds pursuant to the Indenture, and any additional or successor paying agent appointed pursuant to the Indenture.

“Permitted Investments” means the following to the extent permitted by State law:

- Government Obligations;
- Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);
 - *Farmers Home Administration (FmHA) Certificates of Ownership;*
 - *Federal Housing Administration (FHA) Debentures;*
 - *General Services Administration participation certificates;*
 - *Government National Mortgage Association (GNMA or “Ginnie Mae”) – GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates);*
 - *U.S. Maritime Administration – Guaranteed Title XI financing;*
 - *U.S. Department of Housing and Urban Development (HUD) Project Notes and Local Authority Bonds;*
- Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself);
 - *Federal Home Loan Bank System senior debt obligations (Consolidated debt obligations);*
 - *Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) rated “AAA” by S & P and “Aaa” by Moody’s Participation Certificates (Mortgage-backed securities) Senior debt obligations;*
 - *Federal National Mortgage Association (FNMA or “Fannie Mae”) rated AAA by S & P and Aaa by Moody’s Mortgage-backed securities and senior debt obligations (excluded*

are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

- *Student Loan Market Association* (SLMA or “Sallie Mae”) senior debt obligations;
- *Resolution Funding Corp.* (REFCORP), only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;
- *Farm Credit System* consolidated systemwide bonds and notes;
- Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S & P of “AAAm-G,” “AAAm” or “AAm” or by Moody’s of “Aaa”;
- Certificates of deposit (“CD”) secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P, and “Prime-1” or better by Moody’s. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;
- Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;
- Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P and which matures not more than 270 days after the date of purchase;
- Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in the highest long-term rating category assigned by such agencies;
- Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” by Moody’s and “A-1+” by S&P;
- Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the Authority by each Rating Agency then maintaining a rating on the Bonds and, if the amounts to be invested are in the UNM Health Sciences Center Project Revenue Fund, such agreement must be approved in writing prior to its acquisition by each Security Instrument Issuer then providing a Security Instrument with respect to any Series of Bonds; provided further, if the amounts to be invested are in the Bond Fund and relate to a Series of Bonds for which a Security Instrument has been provided, such agreement must be approved in writing prior to its acquisition by the Security Instrument Issuer then providing a Security Instrument for such Series of Bonds;
- Investment contracts with providers the long term, unsecured debt obligations of which are rated in at least the “Aa” category by Moody’s and the “AA” category by S & P and, if the amounts to be invested are in the UNM Health Sciences Center Project Revenue Fund, such agreement must

be approved in writing prior to its acquisition by each Security Instrument Issuer then providing a Security Instrument with respect to any Series of Bonds; provided further, if the amounts to be invested are in the Bond Fund and relate to a Series of Bonds, such agreement must be approved in writing prior to its acquisition by the Security Instrument Issuer then Providing a Security Instrument for such Series of Bonds;

- Deposits with the Treasurer of the State for investment in obligations described above through the State Treasurer's Short Term Investment Pool established in Section 6-10-10.1 NMSA 1978, as amended and supplemented; and
- Any other investment approved by each Security Instrument Issuer then providing a Security Instrument.

"Pledged Bonds" means any Bonds that have been (a) pledged or in which any interest has otherwise been granted to a Security Instrument Issuer as collateral security for Security Instrument Repayment Obligations or (b) purchased and held by a Security Instrument Issuer pursuant to a Security Instrument.

"Principal" means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest), except as used in connection with the authorization and issuance of Bonds and with the order of priority of payment of Bonds after an Event of Default, in which case "Principal" means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest), and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

"Principal Installment" means, as of any date of calculation, (a) with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (1) the Principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (2) the unsatisfied balance (determined as provided in the definition of "Sinking Fund Installment") of any Sinking Fund Installment due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a Principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (3) if such future dates coincide as to different Bonds of such Series, the sum of such Principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date plus such applicable redemption premiums, if any, and (b) with respect to any Repayment Obligations, the principal amount of such Repayment Obligations due on a certain future date.

"Put Bond" means any Bond which is part of a Series of Bonds which is subject to purchase by the Authority, its agent or a third party at the election of the Owner of the Bond pursuant to provisions of a Supplemental Indenture authorizing the issuance of the Bond and designating it as a "Put Bond."

"Rating Agency" means Moody's or S&P and their successors and assigns to the extent such agencies then maintain a rating of the Bonds at the request of the Authority. If any such corporation ceases to act as a securities rating agency, the Authority may, with the approval of the Trustee, designate any nationally-recognized securities rating agency as a replacement.

"Registrar" means the Trustee (or other party designated as Registrar by Supplemental Indenture), appointed as the initial registrar for the Bonds pursuant to the Indenture, and any additional or successor registrar appointed pursuant to the Indenture.

“Regular Record Date” means, with respect to any Interest Payment Date for any Series of Bonds, the date specified as the Regular Record Date in the Supplemental Indenture authorizing the issuance of such Series of Bonds.

“Remarketing Agent” means a remarketing agent or commercial paper dealer appointed by the Authority pursuant to a Supplemental Indenture.

“Repayment Obligations” means, collectively, all outstanding Security Instrument Repayment Obligations and Reserve Instrument Repayment Obligations.

“Reserve Instrument” means a device or instrument issued by a Reserve Instrument Provider to satisfy all or any portion of the Debt Service Reserve Requirement applicable to a Series of Bonds. The term “Reserve Instrument” includes, by way of example and not of limitation, letters of credit, bond insurance policies, surety bonds, standby bond purchase agreements, lines of credit and other devices.

“Reserve Instrument Agreement” means any agreement entered into by the Authority and a Reserve Instrument Provider pursuant to a Supplemental Indenture and providing for the issuance by such Reserve Instrument Provider of a Reserve Instrument.

“Reserve Instrument Costs” means all fees, premiums, expenses and similar costs, other than Reserve Instrument Repayment Obligations, required to be paid to a Reserve Instrument Provider pursuant to a Reserve Instrument Agreement. Each Reserve Instrument Agreement shall specify the fees, premiums, expenses and costs constituting Reserve Instrument Costs.

“Reserve Instrument Coverage” means, as of any date of calculation, the aggregate amount available to be paid to the Trustee under all Reserve Instruments.

“Reserve Instrument Fund” means the New Mexico Finance Authority UNM Health Sciences Center Project Reserve Instrument Fund created in the Indenture to be held by the Trustee and administered pursuant to the Indenture.

“Reserve Instrument Limit” means, as of any date of calculation and with respect to any Reserve Instrument, the maximum aggregate amount available to be paid under such Reserve Instrument into the Debt Service Reserve Fund assuming for purposes of such calculation that the amount initially available under each Reserve Instrument has not been reduced or that the amount initially available under each Reserve Instrument has only been reduced as a result of the payment of principal of the applicable Series of Bonds.

“Reserve Instrument Provider” means any bank or other financial institution having at least a rating of AA- and Aa3 or its equivalent or any insurance company or surety company rated in the highest rating category by S & P and Moody’s and, if rated by A. M. Best & Company, rated in the highest rating category by A. M. Best & Company, issuing a Reserve Instrument.

“Reserve Instrument Repayment Obligations” means, as of any date of calculation and with respect to any Reserve Instrument Agreement, those outstanding amounts payable by the Authority under such Reserve Instrument Agreement to repay the Reserve Instrument Provider for payments previously made by it pursuant to a Reserve Instrument. There shall not be included in the calculation of Reserve Instrument Repayment Obligations any Reserve Instrument Costs. Each Reserve Instrument Agreement and the Supplemental Indenture authorizing the execution and delivery of such Reserve Instrument Agreement shall specify the amounts payable under it which, when outstanding, shall constitute Reserve Instrument Repayment Obligations and the Reserve Instrument Agreement shall specify the portions of

such amounts that are allocable as principal of and as interest on such Reserve Instrument Repayment Obligations.

“Revenues” means all cigarette tax revenues required to be distributed to the Authority on behalf of and for the benefit of the Health Sciences Center pursuant to the provisions of the Authorizing Act, excluding any such revenues received prior to the issuance of the first Series of Bonds.

“S & P” means Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Companies, Inc.

“Security Instrument” means an instrument or other device issued by a Security Instrument Issuer to pay, or to provide security or liquidity for, a Series of Bonds. The term “Security Instrument” includes, by way of example and not of limitation, letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit and other security instruments and credit enhancement or liquidity devices; provided, however, that no such device or instrument shall be a “Security Instrument” for purposes of the Indenture unless specifically so designated in a Supplemental Indenture authorizing the use of such device or instrument.

“Security Instrument Agreement” means any agreement entered into by the Authority and a Security Instrument Issuer pursuant to a Supplemental Indenture providing for the issuance by such Security Instrument Issuer of a Security Instrument.

“Security Instrument Costs” means, with respect to any Security Instrument, all fees, premiums, expenses and similar costs, other than Security Instrument Repayment Obligations, required to be paid to a Security Instrument Issuer pursuant to a Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument. Such Security Instrument Agreement or Supplemental Indenture shall specify any fees, premiums, expenses and costs constituting Security Instrument Costs.

“Security Instrument Fund” means the New Mexico Finance Authority UNM Health Sciences Center Project Security Instrument Fund created in the General Indenture.

“Security Instrument Issuer” means any bank or other financial institution, insurance company, surety company or other institution issuing a Security Instrument.

“Security Instrument Repayment Obligations” means, as of any date of calculation and with respect to any Security Instrument Agreement, any outstanding amounts payable by the Authority under the Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument to repay the Security Instrument Issuer for payments previously or concurrently made by the Security Instrument Issuer pursuant to a Security Instrument. There shall not be included in the calculation of the amount of Security Instrument Repayment Obligations any Security Instrument Costs. Each Security Instrument Agreement or the Supplemental Indenture authorizing the use of such Security Instrument shall specify any amounts payable under it which, when outstanding, shall constitute Security Instrument Repayment Obligations and shall specify the portions of any such amounts that are allocable as principal of and as interest on such Security Instrument Repayment Obligations.

“Serial Bonds” means all Bonds other than Term Bonds.

“Series” means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor.

“Sinking Fund Installment” means an amount so designated pursuant to a Supplemental Indenture. The portion of any such Sinking Fund Installment remaining after the deduction of any amounts credited pursuant to the Indenture toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

“Special Record Date” means such date as may be fixed for the payment of defaulted interest on any series of Bonds in accordance with the General Indenture and the related Supplemental Indenture.

“State” means the State of New Mexico.

“Supplemental Indenture” means any indenture between the Issuer and the Trustee entered into pursuant to and in compliance with the General Indenture.

“Term Bonds” means the Bonds which shall be subject to retirement by operation of mandatory sinking fund redemptions from the Bond Fund.

“Trustee” means Bank of Albuquerque, N.A., or any successor corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at any time serving as successor trustee under the Indenture.

“UNM Health Sciences Center Project” means designing, constructing, equipping and furnishing additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center.

“UNM Health Sciences Center Project Revenue Fund” means the New Mexico Finance Authority UNM Health Sciences Center Project Revenue Fund created in the Indenture to be held by the Authority and administered pursuant to the Indenture.

“Variable Rate Bonds” means, as of any date of calculation, Bonds the terms of which on such date of calculation are such that interest thereon for any future period of time is expressed to be calculated at a rate which is not susceptible of a precise determination.

Certain Special Funds and Accounts

Use of Bond Fund. The Trustee shall make deposits, as and when received, as follows:

- the amounts provided for by the Indenture shall be deposited into the Bond Fund;
- all moneys payable by the Authority as specified in the Indenture shall be deposited into the Bond Fund. Any payments made by a Security Instrument Issuer with respect to a Series of Bonds shall be deposited into the Bond Fund and used solely to pay the related Series of Bonds, subject to the provisions of the Supplemental Indenture authorizing the issuance of such Series of Bonds;
- any amount in the Construction Fund shall be transferred to the Bond Fund to the extent required by the Indenture upon completion of the UNM Health Sciences Center Project;
- all moneys required to be transferred to the Bond Fund from the Debt Service Reserve Fund or from a Reserve Instrument or Instruments then in effect shall be deposited into the Bond Fund as provided in the Indenture; and

- all other moneys received by the Trustee under the Indenture when accompanied by directions from the person depositing such moneys that such moneys are to be paid into the Bond Fund, shall be deposited into the Bond Fund.

Except as provided in the Indenture and as otherwise provided by Supplemental Indenture, moneys in the Bond Fund shall be expended solely for the following purposes and in the following order of priority:

- on or before each Interest Payment Date for each Series of Bonds, the amount required for the interest payable on such date;
- on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and
- on or before each redemption date for each Series of Bonds, the amount required for the payment of redemption price of and accrued interest on such Bonds then to be redeemed.

Such amounts shall be applied by the Paying Agent to pay Principal Installments and redemption price of, and interest on the related Series of Bonds.

The Trustee shall pay out of the Bond Fund to the Security Instrument Issuer, if any, that has issued a Security Instrument with respect to such Series of Bonds an amount equal to any Security Instrument Repayment Obligation then due and payable to such Security Instrument Issuer. All such Security Instrument Repayment Obligations shall be paid on a parity with the payments to be made with respect to principal and interest on the Bonds; provided that amounts paid under a Security Instrument shall be applied only to pay the related Series of Bonds. If payment is so made on Pledged Bonds held for the benefit of the Security Instrument Issuer, a corresponding payment on the Security Instrument Repayment Obligation shall be deemed to have been made (without requiring an additional payment by the Authority) and the Trustee shall keep its records accordingly.

The Authority hereby authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay principal of and interest on the Bonds and on Security Instrument Repayment Obligations as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said principal and interest.

- Except as otherwise provided in a Supplemental Indenture authorizing a Series of Bonds, amounts accumulated in the Bond Fund with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) shall, if so directed by the Authority in a written request to the Trustee not less than 30 days before the due date of such Sinking Fund Installment, be applied by the Trustee to (1) the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established, (2) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms, or (3) any combination of (1) and (2). All purchases of any Bonds shall be made at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Authority shall direct the Trustee. The applicable sinking fund Redemption Price (or Principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Bond Fund until such Sinking Fund Installment date for the purpose of calculating the amount of such Fund. As soon as practicable after the 60th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, by giving notice as required by the Indenture, Bonds of the Series

and maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Bond Fund to the appropriate Paying Agent, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agent to such redemption (or payment).

- After payment in full of the principal of and interest on all Bonds (or after provision has been made for the payment thereof as provided in the Indenture so that such Bonds are no longer Outstanding), all agreements relating to all outstanding Reserve Instrument Repayment Obligations, in accordance with their respective terms, the fees, charges and expenses of the Trustee and any Paying Agent, and any other amounts required to be paid under the Indenture and under any Reserve Instrument Agreement, all amounts remaining in the Bond Fund shall be paid to the Health Sciences Center.

Use of Debt Service Reserve Fund. Except as otherwise provided in the Indenture and subject to the immediately following sentence, moneys in each account in the Debt Service Reserve Fund shall at all times be maintained in an amount not less than the applicable Debt Service Reserve Requirement. In calculating the amount on deposit in each account in the Debt Service Reserve Fund, the amount, if any, of the related Reserve Instrument Coverage will be treated as an amount on deposit in such account in the Debt Service Reserve Fund. Each Supplemental Indenture authorizing the issuance of a Series of Bonds shall specify the Debt Service Reserve Requirement applicable to such Series, which amount shall be deposited immediately upon the issuance and delivery of such Series from (a) proceeds from the sale thereof or from any other legally available source, or (b) by a Reserve Instrument or Instruments, or (c) any combination thereof. Funds on deposit in each account in the Debt Service Reserve Fund shall be used monthly solely to make up any deficiencies in the Bond Fund relating to the payment of Principal of and interest on the applicable Series of Bonds after the Trustee has requested all available amounts in the Credit Enhancement Account from the Authority described above in the third paragraph under the heading “Use of UNM Health Sciences Center Project Revenue Fund.” If amounts on deposit in an account in the Debt Service Reserve Fund shall, at any time, be less than the applicable Debt Service Reserve Fund Requirement, all Security Instrument Issuers shall be notified immediately of such deficiency, and such deficiency shall be made up at the time and in the manner indicated in the Indenture.

In the event funds on deposit in an account in the Debt Service Reserve Fund are needed to make up any deficiencies in the Bond Fund as aforementioned, and there is insufficient cash available in such account in the Debt Service Reserve Fund to make up such deficiency and Reserve Instruments applicable to such Series of Bonds are in effect, the Trustee shall immediately make a demand for payment on such Reserve Instruments, to the maximum extent authorized by such Reserve Instruments, in the amount necessary to make up such deficiency, and immediately deposit such payment upon receipt thereof into the Bond Fund for application to such deficiencies.

In the event a Reserve Instrument is terminated in accordance with its terms, the Authority shall be required either (i) to fund the Debt Service Reserve Requirement in substantially equal semiannual installments over a period not longer than 60 months, or (ii) to provide a substitute Reserve Instrument which provides the same Reserve Instrument Coverage and which is provided by a Reserve Instrument Provider.

Funds at any time on deposit in the accounts maintained in the Debt Service Reserve Fund in excess of the amount required to be maintained therein (taking into account the amount of related Reserve

Instrument Coverage) may at any time be transferred to the Bond Fund at the direction of an Authorized Representative of the Authority.

Notwithstanding anything contained elsewhere in the Indenture to the contrary, any account maintained within the Debt Service Reserve Fund for a Series of Bonds and any Reserve Instrument for a Series of Bonds, shall only be drawn upon with respect to the Series of Bonds to which such account or Reserve Instrument applies.

Reserve Instrument Fund. There shall be paid into the Reserve Instrument Fund the amounts required by the Indenture and by a Supplemental Indenture to be so paid. The amounts in the Reserve Instrument Fund shall, from time to time, be applied by the Trustee on behalf of the Authority to pay the amounts which are due and payable to any Reserve Instrument Provider under any applicable Reserve Instrument Agreement.

Operation of Cost of Issuance Fund. Moneys in the Cost of Issuance Fund shall be used by the Authority to pay Costs of Issuance incurred in connection with the issuance of any Series of Bonds. All Costs of Issuance shall be paid from proceeds of the Bonds deposited to the Costs of Issuance Fund. Any excess moneys in the Cost of Issuance Fund following the payment of all Costs of Issuance incurred with respect to a particular Series of Bonds shall be transferred and deposited into the UNM Health Sciences Center Project Revenue Fund.

Investment of Funds. Any moneys in the UNM Health Sciences Center Project Revenue Fund, the Bond Fund, the Reserve Instrument Fund, the Construction Fund, the Security Instrument Fund, the Debt Service Reserve Fund, the Cost of Issuance Fund or any other funds or accounts created pursuant to the Indenture shall, at the direction and authorization of an Authorized Representative of the Authority, or absent direction, at the sole discretion of the Trustee, be invested in Permitted Investments. Such investments (other than moneys in the Costs of Issuance Fund) shall be held by the Trustee, and when the Trustee determines it necessary to use the moneys in the Funds for the purposes for which the Funds were created, it shall, at the direction of an Authorized Representative of the Authority or, in the case of the Construction Fund, at the direction of an Authorized Representative of the Health Sciences Center, liquidate at prevailing market prices as much of the investments as may be necessary and apply the proceeds to such purposes. All income derived from the investment of the UNM Health Sciences Center Project Revenue Fund, the Bond Fund, the Reserve Instrument Fund, the Construction Fund, the Security Instrument Fund, the Debt Service Reserve Fund, the Cost of Issuance Fund and any other funds or accounts created pursuant to the Indenture shall be maintained in said respective Funds and disbursed along with the other moneys on deposit therein as provided in the Indenture.

Trust Funds. All moneys and securities received by the Trustee under the provisions of the Indenture shall be trust funds under the terms of the Indenture and shall not be subject to lien or attachment of any creditor of the State or any political subdivision, body, agency, or instrumentality thereof or of the Authority and shall not be subject to appropriation by any legislative body or otherwise. Such moneys and securities shall be held in trust and applied in accordance with the provisions of the Indenture. Except for moneys held to satisfy the obligations, if any, of the Authority under the Code with respect to arbitrage rebate, unless and until disbursed pursuant to the terms hereof, all such moneys and securities (and the income therefrom) shall be held by the Trustee as security for payment of the principal, premium, if any, and interest on the Bonds and the fees and expenses of the Trustee payable under the Indenture.

Method of Valuation and Frequency of Valuation. In computing the amount in any fund or account, Permitted Investments shall be valued at the market price thereof. With respect to all funds and accounts except the Debt Service Reserve Fund, valuation shall occur at least annually. Amounts in each

account of the Debt Service Reserve Fund shall be valued at least semiannually and marked to market at least annually, except in the event of a withdrawal from any of such accounts in the Debt Service Reserve Fund (other than a withdrawal of amounts above the required level), whereupon amounts in such account shall be valued immediately after such withdrawal and monthly thereafter until amounts in such account in the Debt Service Reserve Fund are at the required level. If amounts on deposit in the Debt Service Reserve Fund shall, at any time, be less than the applicable Debt Service Reserve Requirement, any Security Instrument Issuer of the related Series of Bonds, if any, shall be notified immediately of such deficiency, and such deficiency shall be made up from the first available Revenues and amounts in the Credit Enhancement Account after required deposits to the Bond Fund over a period of not more than twelve months.

Purchase of Bonds. The Authority may purchase Bonds of any Series from any available funds at public or private sale, as and when and at such prices as the Authority may in its discretion determine, subject to applicable law. All Bonds so purchased shall at such times as shall be selected by the Authority be delivered to and canceled by the Trustee or any Registrar and shall thereafter be delivered to, or upon the order of, the Authority, and no Bonds shall be issued in place thereof. In the case of the purchase of Bonds of a Series and maturity for which Sinking Fund Installments shall have been established, the Authority shall, by a written request delivered to the Trustee, elect the manner in which the Principal amount of such Bonds shall be credited toward Sinking Fund Installments, consistent with the procedures of the Indenture.

Covenants

Books and Records. So long as any Bonds are Outstanding, and Security Instrument Repayment Obligations, Reserve Instrument Repayment Obligations, or the Security Instrument Costs are Outstanding, books, records and accounts will be kept by the Authority or the Trustee as provided in the Indenture separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the UNM Health Sciences Center Project Revenue Fund, the Construction Fund, the Bond Fund, the Debt Service Reserve Fund, the Reserve Instrument Fund, the Security Instrument Fund, the Cost of Issuance Fund or any other fund or account created pursuant to the Indenture. Each Registered Owner, Security Instrument Issuer and Reserve Instrument Provider, or any duly authorized agent or agents thereof shall have the right at all reasonable times to inspect all such books, records, accounts and data relating thereto.

Lien of Bonds; Equality of Liens. The Bonds and any Security Instrument Repayment Obligations constitute an irrevocable first lien upon the Revenues. The Authority covenants that the Bonds and any Security Instrument Repayment Obligations are equally and ratably secured by a lien on the Revenues and shall not be entitled to any priority one over the other in the application of the Revenues regardless of the time or times of the issuance or delivery of the Bonds or Security Instrument, it being the intention of the Authority that there shall be no priority among the Bonds or the Security Instrument Repayment Obligations regardless of the fact that they may be actually issued and/or delivered at different times.

Any assignment or pledge from the Authority to a Reserve Instrument Provider of (i) proceeds of the issuance and sale of Bonds, (ii) Revenues, or (iii) funds established by the Indenture, including investments, if any, thereof, is and shall be subordinate to the assignment and pledge effected hereby to the Registered Owners of the Bonds and to the Security Instrument Issuers for Security Instrument Repayment Obligations, and any assignment or pledge from the Authority to a Security Instrument Issuer for Security Instrument Costs of (i) proceeds of the issuance and sale of Bonds, (ii) Revenues, or (iii) funds established by the Indenture, including investments, if any, thereof, is and shall be subordinate to

the assignment and pledge effected by the Indenture to the Reserve Instrument Provider for Reserve Instrument Repayment Obligations.

Payment of Obligations. The Authority covenants that it will punctually pay or cause to be paid the principal of, premium, if any, and interest on every Bond, any Security Instrument Repayment Obligations and any Reserve Instrument Repayment Obligations and obligations owing with respect to Security Instrument Costs, in strict conformity with the terms of the Bonds, the Indenture, any Security Instrument Agreement and any Reserve Instrument Agreement, according to the true intent and meaning of the Indenture and thereof. The principal of and interest on the Bonds, any Security Instrument Repayment Obligations and any Reserve Instrument Repayment Obligations and obligations owing with respect to Security Instrument Costs are payable solely from the Revenues (except to the extent paid out of moneys attributable to Bond proceeds or other funds created under the Indenture or the income from the temporary investment thereof), which Revenues are hereby specifically pledged and assigned to the payment thereof in the manner and to the extent specified in the Indenture, and nothing in the Bonds, the Indenture, any Security Instrument Agreement or any Reserve Instrument Agreement should be considered as pledging any other funds or assets of the Authority for the payment of the Bonds, any Security Instrument Repayment Obligations or any Reserve Instrument Repayment Obligations and obligations owing with respect to Security Instrument Costs except for the Revenues pledged for such purpose under the Indenture.

List of Bondholders. The Registrar will keep on file at its principal office a list of the names and addresses of the Registered Owners of all Bonds which are from time to time registered on the registration books in the hands of the Trustee as Registrar for the Bonds. At reasonable times and under reasonable regulations established by the Trustee, said list may be inspected and copied by the Authority or by the Registered Owners (or a designated representative thereof) of 10% or more in principal amount of Bonds then Outstanding, such ownership and the authority of any such designated representative to be evidenced to the reasonable satisfaction of the Trustee. The Registrar shall maintain a list of the names and addresses of the Owners of all Bonds and upon any transfer shall add the name and address of the new Bondowner and eliminate the name and address of the transferor Bondowner.

Payment From Other Available Funds. Notwithstanding any other provisions in the Indenture, nothing in the Indenture shall be construed to prevent the Authority from (i) depositing any funds legally available to the Authority, as provided in the Indenture, for such purpose in any account in the Bond Fund for the payment of principal of, premium, if any, and interest on any Bonds and the Security Instrument Repayment Obligations or for the amounts payable under any applicable Security Instrument Agreement issued under provisions hereof or for the redemption of any such Bonds, (ii) depositing any funds available to the Authority in the Reserve Instrument Fund for the payment of any amounts payable under any applicable Reserve Instrument Agreement, or (iii) depositing any funds available to the Authority in the Security Instrument Fund for the payment of Security Instrument Costs.

Instruments of Further Assurance. The Authority and the Trustee mutually covenant that they will, from time to time, each upon the written request of the other and at the cost of the Authority, but solely from Revenues, execute and deliver such further instruments and take or cause to be taken such further actions as may be reasonable and as may be required by the other to carry out the purposes hereof; provided, however, that no such instruments or action shall involve any personal liability of the Trustee or members of the governing body of the Authority or any official thereof.

Credit Enhancement Account. The Authority covenants, pursuant to Section 6-21-6.7 NMSA 1978, that it will maintain the Credit Enhancement Account for deposit of the 15.95% monthly distribution of cigarette tax revenues distributed for purposes of credit enhancement pursuant to Section 7-1-6.11(G) NMSA 1978. The amounts on deposit in the Credit Enhancement Account are pledged by

the Authority as additional security for the payment of the principal, interest, premiums and expenses on the Bonds and any bonds issued by the Authority for improvements to State Department of Health facilities pursuant to the Authorizing Act. The Authority shall maintain the Credit Enhancement Account and utilize the amounts deposited therein as provided in the Authorizing Act.

Default Provisions

Events of Default. Each of the following events is an “Event of Default” under the Indenture:

- if payment of any installment of interest on any of the Bonds shall not be made by or on behalf of the Authority (other than pursuant to a Security Instrument Agreement) when the same shall become due and payable, or
- if payment of the Principal of or the redemption premium, if any, on any of the Bonds shall not be made by or on behalf of the Authority (other than pursuant to a Security Instrument Agreement) when the same shall become due and payable, either at maturity or by proceedings for redemption in advance of maturity or through failure to fulfill any payment to any fund under the Indenture or otherwise; or
- if an order or decree shall be entered, with the consent or acquiescence of the Authority, appointing a receiver or custodian for any of the Revenues, or approving a petition filed against the Authority seeking reorganization of the Authority under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the Authority, as applicable, shall not be vacated or discharged or stayed on appeal within 30 days after the entry thereof; or
- if any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are or may be under any circumstances payable from Revenues; or
- if (i) the Authority is adjudged insolvent by a court of competent jurisdiction, or (ii) an order, judgment or decree be entered by any court of competent jurisdiction appointing, without the consent of the Authority, a receiver, trustee or custodian of the Authority or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 60 days from the date of entry thereof; or
- if the Authority shall file a petition or answer seeking reorganization, relief or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or
- if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of the property of the Authority, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control; or
- if the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture or any Supplemental Indenture on the part of the Authority to be performed, other than as set forth

above, and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding under the Indenture.

The Trustee shall give notice to any Security Instrument Issuer or Reserve Instrument Provider of any Event of Default known to the Trustee within 30 days after it has knowledge thereof.

Remedies; Rights of Registered Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy by suit at law or in equity, other than acceleration of principal payments on the Bonds, to enforce the payment of the principal of, premium, if any, and interest on the Bonds then Outstanding or to enforce any obligations of the Authority under the Indenture.

If an Event of Default shall have occurred, and if requested so to do by (i) Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, (ii) Security Instrument Issuers at that time providing Security Instruments which are in full force and effect and not in default on any payment obligation and which secure not less than 25% in aggregate principal amount of Bonds at the time Outstanding, or (iii) any combination of Bondowners and Security Instrument Issuers described in (i) and (ii) above representing not less than 25% in aggregate Principal amount of Bonds at the time Outstanding, and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, shall deem most expedient in the interest of the Registered Owners and the Security Instrument Issuers.

No remedy by the terms hereof conferred upon or reserved to the Trustee (or to the Registered Owners or to the Security Instrument Issuers) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee, the Registered Owners or the Security Instrument Issuers or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default under the Indenture, whether by the Trustee, the Registered Owners or the Security Instrument Issuers, shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders, the Security Instrument Issuers and the Reserve Instrument Provider, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the trust created by the Indenture, including, without limitation, the proceeds of the sale of the Bonds, the Revenues and the funds, including the investments, if any, thereof, pending such proceedings, with such powers as a court making such appointments shall confer.

Right of Registered Owners and Security Instrument Issuers to Direct Proceedings. Anything in the Indenture to the contrary notwithstanding, unless a Supplemental Indenture provides otherwise, either (i) the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding, (ii) the Security Instrument Issuers at the time providing Security Instruments which are in full force and

effect and not in default on any payment obligation and which secure not less than 50% in aggregate principal amount of the Bonds at the time Outstanding, or (iii) any combination of Bondowners and Security Instrument Issuers described in (i) and (ii) above representing not less than 50% in aggregate Principal amount of the Bonds at the time Outstanding, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions hereof, or for the appointment of a receiver or any other proceedings under the Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Application of Moneys. All Revenues and moneys received by the Trustee pursuant to any right given or action taken under the default provisions of the Indenture shall be applied in the following order:

- To the payment of the reasonable and proper charges and expenses of the Trustee and the reasonable fees and disbursements of its counsel; provided, however that any moneys derived from a Security Instrument shall not be used to pay the charges and expense of the Trustee and the fees and disbursements of its counsel;
- To the payment of the principal of, premium, if any, and interest then due and payable on the Bonds and the Security Instrument Repayment Obligations as follows:
 - Unless the Principal of all the Bonds shall have become due and payable, all such moneys shall be applied:

FIRST—To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and the Security Instrument Repayment Obligations, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

SECOND—To the payment to the persons entitled thereto of the unpaid Principal of and premium, if any, on the Bonds and Security Instrument Repayment Obligations which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions hereof), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds and Security Instrument Repayment Obligations due on any particular date, then to the payment ratably, according to the amount of Principal due on such date, to the persons entitled thereto without any discrimination or privilege.

- If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the Principal and interest then due and unpaid upon the Bonds and Security Instrument Repayment Obligations, 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 or Security Instrument Repayment Obligation over any other Bond or Security Instrument Repayment Obligation, ratably, according to the amounts due respectively for Principal and interest, to the persons entitled thereto without any discrimination or privilege.
- To the payment of all obligations owed to all Reserve Instrument Providers, ratably, according to the amounts due, without any discrimination or preference under any applicable agreement related to any Reserve Instrument Agreement.

- To the payment of all obligations owed to all Security Instrument Issuers, ratably, according to the amounts due with respect to Security Instrument Costs, without any discrimination or preference.

Whenever moneys are to be applied as described above, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amounts of such moneys available for such application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which, except for payments pursuant to the Indenture, shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of Principal paid on such dates shall cease to accrue.

Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings related thereto and any such suit or proceedings instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Registered Owners of the Bonds, and any recovery of judgment shall be for the equal benefit of the Registered Owners of the Outstanding Bonds.

Rights and Remedies of Registered Owners. Except as provided in the last sentence of this paragraph, no Registered Owner of any Bond or Security Instrument Issuer shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Indenture, unless an Event of Default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by said Section it is deemed to have notice, and unless Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding or Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and are not in default on any payment obligation and which secure not less than 25% in aggregate principal amount of Bonds at the time Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and unless they have offered to the Trustee indemnity as provided in the Indenture and unless the Trustee shall thereafter fail or refuse to exercise such powers, or to institute such action, suit or proceeding in its, his or their own name or names. Such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trust hereof, and to any action or cause of action for the enforcement hereof, or for the appointment of a receiver or for any other remedy under the Indenture, it being understood and intended that no one or more Registered Owner of the Bonds or Security Instrument Issuer shall have any right in any manner whatsoever to affect, disturb or prejudice the lien hereof by its, his or their action or to enforce any right under the Indenture except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of the Registered Owners of all Bonds then Outstanding and all Security Instrument Issuers at the time providing Security Instruments. Nothing contained in the Indenture shall, however, affect or impair the right of any Registered Owner or Security Instrument Issuer to enforce the covenants of the Authority to pay the Principal of, premium, if any, and interest on each of the Bonds and Security Instrument Repayment Obligations at the time, place, from the source and in the manner in said Bonds or Security Instrument Repayment Obligations expressed.

Termination of Proceedings. In case the Trustee, any Bondowner or any Security Instrument Issuer shall have proceeded to enforce any right under the Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, the Bondowner, or Security Instrument Issuer, then and in every such case the Authority and the Trustee shall

be restored to their former positions and rights under the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Waivers of Events of Default. Subject to the Indenture, the Trustee may in its discretion, and with the prior written consent of all Security Instrument Issuers at the time providing Security Instruments, waive any Event of Default under the Indenture and its consequences and shall do so upon the written request of the Registered Owners of (a) a majority in aggregate Principal amount of all the Bonds then Outstanding or Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and are not in default on any payment obligation and which secure not less than 50% in aggregate Principal amount of the Bonds at the time Outstanding in respect of which an Event of Default in the payment of Principal and interest exists, or (b) a majority in aggregate Principal amount of the Bonds then Outstanding or Security Instrument Issuers at the time providing Security Instruments which are in full force and effect and are not in default on any payment obligation and which secure not less than 50% in aggregate Principal amount of the Bonds at the time Outstanding in the case of any other Event of Default; provided, however, that there shall not be waived (i) any Event of Default in the payment of the Principal of any Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds in respect of which such Event of Default shall have occurred on overdue installments of interest and all arrears of payments of Principal and premium, if any, when due, and all expenses of the Trustee in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee, the Registered Owners and the Security Instrument Issuers shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Cooperation of Authority. In the case of any Event of Default under the Indenture, the Authority shall cooperate with the Trustee and use its best efforts to protect the Bondowners and the Security Instrument Issuers.

Discharge of Indenture

If the Authority shall pay or cause to be paid, or there shall be otherwise paid or provision for payment made to or for the Registered Owners of the Bonds, the Principal of and interest due or to become due thereon at the times and in the manner stipulated therein, and shall pay or cause to be paid to the Trustee all sums of moneys due or to become due according to the provisions of the Indenture, and to all Security Instrument Issuers and all Reserve Instrument Providers all sums of money due or to become due according to the provisions of any Security Instrument Agreements and Reserve Instrument Agreements, as applicable, then these presents and the estate and rights granted by the Indenture shall cease, determine and be void, whereupon the Trustee shall cancel and discharge the lien hereof, and release, assign and deliver unto the Authority any and all estate, right, title and interest in and to any and all rights assigned or pledged to the Trustee, held by the Trustee, or otherwise subject to the lien of the Indenture, except moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds, the payment of amounts pursuant to any Security Instrument Agreements or the payment of amounts pursuant to any Reserve Instrument Agreements.

Any Bond shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture, or otherwise), either (a) shall have been made or caused to have been made in accordance with the terms of the Indenture, or (b) shall have been

provided by irrevocably depositing with or for the benefit of the Trustee, in trust, and irrevocably setting aside exclusively for such payment, (i) moneys sufficient to make such payment, or (ii) Government Obligations, maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, and all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agent pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond shall be deemed to be paid under the Indenture, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to their stated maturity, no deposit under the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until the Authority shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions:

- stating the date when the principal of each such Bond is to be paid, whether at maturity or on a redemption date (which shall be any redemption date permitted by the Indenture);
- to call for redemption any Bonds to be redeemed prior to maturity pursuant to the preceding paragraph; and
- to mail, as soon as practicable, in the manner prescribed by the Indenture, a notice to the Registered Owners of such Bonds that the deposit required by the Indenture has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, on said Bonds as specified above. If the redemption date for all Bonds, payment for which is to be provided by deposit of moneys or Government Obligations or both, shall fall within 120 days of the mailing of the notice of redemption, then the notices referred to above and in this subparagraph.

Any moneys so deposited with the Trustee may at the direction of the Authority also be invested and reinvested in Government Obligations, maturing in the amounts and times as set forth in the Indenture, and all income from all Government Obligations in the hands of the Trustee pursuant to the Indenture which is not and will not be required for the payment of the Bonds and interest thereon with respect to which such moneys shall have been so deposited shall be deposited in the Bond Fund as and when realized and collected for use and application as are other moneys deposited in that fund.

No such deposit shall be made or accepted under the Indenture and no use made of any such deposit unless the Trustee shall have received an opinion of nationally recognized municipal bond counsel to the effect that such deposit and use would not cause the Bonds to be treated as arbitrage bonds within the meaning of Section 148 of the Code.

Notwithstanding any provision of the Indenture to the contrary, all moneys or Government Obligations set aside and held in trust for the payment of Bonds (including interest thereon) shall be applied to and used solely for the payment of the particular Bonds (including interest thereon) with respect to which such moneys or Government Obligations have been so set aside in trust.

Anything in the Indenture to the contrary notwithstanding, if moneys or Government Obligations have been deposited or set aside with the Trustee for the payment of Bonds and such Bonds shall not in fact have been actually paid in full, no amendment to the provisions relating to the discharge of the Indenture shall be made without the consent of the Registered Owner of each Bond affected thereby.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Registered Owners, Security Instrument Issuers and Reserve Instrument Providers. The Authority and the Trustee may, without the consent of, or notice to, any of the Registered Owners or Reserve Instrument Providers, but with notice to any Security Instrument Issuer, enter into an indenture or indentures supplemental to the Indenture, as shall not be inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

- To provide for the issuance of a Series of Bonds in accordance with the provisions of the Indenture;
- To cure any ambiguity or formal defect or omission in the Indenture which will not materially adversely affect the Owners of the Bonds;
- To grant to or confer upon the Trustee for the benefit of the Registered Owners, any Security Instrument Issuers and any Reserve Instrument Providers any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners, any Security Instrument Issuers and any Reserve Instrument Providers or any of them;
- To subject to the Indenture additional revenues or other revenues, properties, collateral or security;
- To make any other change to the Indenture which, in the judgment of the Trustee, is not materially prejudicial to the interests of the Registered Owners, the Trustee, any Security Instrument Issuer or any Reserve Instrument Provider with the prior written consent of all Security Instrument Issuers then providing a Security Instrument;
- To make any change necessary (i) to establish or maintain the exclusion of interest on any Series of Bonds from gross income for federal income tax purposes as a result of any modifications or amendments to Section 148 of the Code (or any successor provision of law) or interpretations thereof by the Internal Revenue Service, of (ii) to comply with the provisions of Section 148(f) of the Code (or any successor provision of law), including provisions for the payment of all or a portion of the investment earnings of any of the Funds established under the Indenture to the United States of America;
- If the Bonds affected by such change are rated by a Rating Agency, to make any change which does not result in a reduction of the rating applicable to any of the Bonds so affected, provided that if any of the Bonds so affected are secured by a Security Instrument, such change must be approved in writing by the related Security Instrument Issuer;
- If the Bonds affected by such change are secured by a Security Instrument, to make any change approved in writing by the related Security Instrument Issuer, provided that if any of the Bonds so affected are rated by a Rating Agency, such change shall not result in a reduction of the rating applicable to any of the Bonds so affected; and
- To provide for the appointment of a successor Trustee, a Paying Agent, a separate or co-trustee, a remarketing agent, a transfer agent or a tender agent.

No modification or amendment shall be permitted pursuant to the two paragraphs preceding the last paragraph above unless the Authority delivers to the Trustee an opinion of nationally recognized bond

counsel to the effect that such modification or amendment will not adversely affect the tax-exempt status or validity of any Bonds affected by such modification or amendment.

Supplemental Indentures Requiring Consent of Registered Owners, Security Instrument Providers and Reserve Instrument Providers; Waivers and Consents by Registered Owners. Exclusive of Supplemental Indentures covered by the Indenture and subject to the terms and provisions contained in the Indenture, and not otherwise, the Registered Owners of 66 2/3% in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to (i) consent to and approve the execution by the Authority and the Trustee of such other indenture or indentures supplemental to the Indenture as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture, or (ii) waive or consent to the taking by the Authority of any action prohibited, or the omission by the Authority of the taking of any action required, by any of the provisions hereof or of any indenture supplemental to the Indenture; provided, however, that nothing in this paragraph contained shall permit or be construed as permitting (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate of or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Bond, without the consent of the Registered Owner of such Bond, or (b) a reduction in the amount or extension of the time of any payment required by any Fund established under the Indenture applicable to any Bonds without the consent of the Registered Owners of all the Bonds which would be affected by the action to be taken, or (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Registered Owners of which are required to consent to any such waiver or Supplemental Indenture, or (d) any other action that would materially adversely affect the rights of the Registered Owners of less than all Bonds then Outstanding, without the consent of the Registered Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken. In addition, no supplement to the Indenture shall modify the rights, duties or immunities of the Trustee, without the written consent of the Trustee. If a Security Instrument or a Reserve Instrument is in effect with respect to any Series of Bonds Outstanding and if a proposed modification or amendment would affect such Series of Bonds, then, except as described in the Indenture, neither the Indenture nor any Supplemental Indenture with respect to such Series of Bonds shall be modified or amended at any time without the prior written consent of the related Security Instrument Issuer or Reserve Instrument Provider, as applicable. Copies of any such modifications or amendments for which Security Instrument Issuer consent is required shall be sent to each Rating Agency.

SECOND SUPPLEMENTAL INDENTURE

Definitions

“Alternate Standby Agreement” means an irrevocable Liquidity Facility issued to replace the Standby Agreement to purchase Tendered Bonds.

“Authority Bonds” means the Series 2004B Bonds held by the Tender Agent for and on behalf of the Authority pursuant to the Second Supplemental Indenture and the Tender Agent Agreement.

“Authority Purchase Account” means the account relating to the purchase of Tendered Bonds by the Authority which is part of the Bond Purchase Fund.

“Authorized Denominations” means: (1) when interest is payable at a Weekly Rate, \$100,000 minimum denomination and integral multiples of \$5,000 in excess thereof; and (2) when interest is payable at a Long-Term Interest Rate, \$5,000 minimum denomination and integral multiples of \$5,000.

“Beneficial Owner” means, when the Series 2004B Bonds are registered in the Book-Entry System, any person who acquires a beneficial ownership interest in a Series 2004B Bond held by the Securities Depository.

“Bond Counsel” means any counsel of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States.

“Bond Purchase Fund” means the fund maintained by the Paying Agent relating to the deposit of the Tender Price of the Series 2004B Bonds pursuant to the Second Supplemental Indenture and established pursuant to thereof.

“Book-Entry System” means the system maintained by the Securities Depository and described in the Second Supplemental Indenture.

“Cede” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series 2004B Bonds pursuant to the Second Supplemental Indenture.

“Debt Service Reserve Requirement” means, with respect to the Series 2004B Bonds, an amount equal to the least of (i) 10% of the proceeds of the 2004B Bonds, as the term proceeds is used in Section 148(d)(1) of the Code, (ii) the maximum annual debt service on the Series 2004 B Bonds, or (iii) 125% of the average annual debt service on the Series 2004B Bonds.

“Drawing” means the drawing of money pursuant to a Liquidity Facility for the payment of the purchase price of the Series 2004B Bonds.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Favorable Opinion of Bond Counsel” means an Opinion of Bond Counsel addressed to the Authority, the Trustee, the Insurer and the Remarketing Agent to the effect that an action proposed to be taken is not prohibited by the laws of the State or by the Indenture and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Series 2004B Bonds.

"Financial Guaranty Agreement" means the Financial Guaranty Agreement by and between the Authority and the Insurer related to the Reserve Instrument for the Series 2004B Bonds, which Financial Guaranty Agreement shall be considered a Reserve Instrument Agreement as defined in the General Indenture.

“General Indenture” means the General Indenture of Trust dated as of April 1, 2004, between the Authority and the Trustee.

"Insurance Agreement" means the Insurance and Reimbursement Agreement by and among the Authority, the Trustee and the Insurer relating to the Series 2004B Bonds, which Insurance Agreement shall be considered a Security Instrument Agreement as defined in the General Indenture.

"Insurer" means MBIA Insurance Corporation, the issuer of the Policy and the Security Instrument Issuer for the Series 2004B Bonds.

“Interest Payment Date” is defined in the form of the Series 2004B Bonds attached to the Second Supplemental Indenture.

“Liquidity Facility” means a letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement provided by a Liquidity Facility Provider to provide liquidity support to pay the purchase price of any Series 2004B Bonds or Tendered Bonds, as applicable, and shall be considered a Security Instrument as defined in the General Indenture.

“Liquidity Facility Provider” means the provider of a Liquidity Facility.

“Long-Term Interest Rate” means the rate borne by the Series 2004B Bonds from the beginning of the Long-Term Interest Rate Period to the Maturity Date.

“Long-Term Interest Rate Period” means the period during which Series 2004B Bonds bear interest at a Long-Term Interest Rate.

“Mandatory Standby Tender” means the occurrence of a mandatory tender of Series 2004B Bonds pursuant to the Second Supplemental Indenture upon receipt by the Tender Agent of notice from the Liquidity Facility Provider after an event of default under the Standby Agreement which requires or gives the Liquidity Facility Provider the option to require all Bonds Outstanding be tendered for purchase.

“Maturity Date” means April 1, 2019.

“Maximum Rate” means 12% per annum.

“Maximum Weekly Rate” means the maximum Weekly Rate permitted to be charged to the Authority for any purpose under a Standby Agreement, including the payment of interest on Standby Bonds, being 12% per annum with respect to the Standby Agreement.

“Opinion of Bond Counsel” means an opinion of counsel experienced in matters relating to the tax exemption of interest on obligations issued by states and their political subdivisions.

“Participants” means those broker-dealers, banks and other financial institutions for which DTC from time to time holds Bonds as securities depository.

“Paying Agent,” when used with respect to the Series 2004B Bonds, means the person or persons authorized by the Authority to pay the principal of, premium, if any, and interest on, the Series 2004B Bonds on behalf of the Authority, and initially is the Trustee.

“Person” means natural persons, firms, partnerships, associations, corporations, trusts, public bodies and other entities.

“Policy” means the financial guaranty insurance policy issued by the Insurer with respect to the Series 2004B Bonds, which Policy shall be considered a Security Instrument as defined in the General Indenture.

“Purchase Date” means a day on which a payment of the purchase price for a Series 2004B Bond which has been optionally tendered or is subject to mandatory tender shall become due.

“Qualified Index Criteria” means yield evaluations at par of notes or bonds of not less than five “high grade” component issuers, which notes or bonds are rated in the highest short-term rating category by Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Group and are subject to tender upon seven days’ notice, and the interest on which under the Code is excluded from gross income for federal income tax purposes.

“Regular Record Date” is defined in the forms of the Series 2004B Bonds attached to the Second Supplemental Indenture.

“Remarketing Agent” means J.P. Morgan Securities Inc., as the initial remarketing agent for the Series 2004B Bonds under the Remarketing Agreement and any successor remarketing agent for the Series 2004B Bonds.

“Remarketing Agreement” means the agreement between the Authority and the Remarketing Agent providing for the remarketing of the Series 2004B Bonds, as amended and supplemented.

“Second Supplemental Indenture” means the Second Supplemental Indenture of Trust, dated as of September 1, 2004, between the Authority and the Trustee.

“Securities Depository” means The Depository Trust Company, New York, New York, or its nominee, and its successors and assigns.

“Series 2004B Bonds” means the \$10,000,000 New Mexico Finance Authority Cigarette Tax Variable Rate Revenue Bonds (UNM Health Sciences Center Project), Series 2004B, authorized by the Second Supplemental Indenture.

“Series 2004B Costs of Issuance” means the Costs of Issuance incurred in connection with the issuance of the Series 2004B Bonds.

“Series 2004B Construction Sub-Account” means the Series 2004B Construction Sub-Account created pursuant to the Second Supplemental Indenture.

“Series 2004B Debt Service Reserve Account” means the Series 2004B Debt Service Reserve Account created pursuant to the Second Supplemental Indenture.

“Series 2004B Liquidity Facility Account” means the Series 2004B Liquidity Facility Account created pursuant to the Second Supplemental Indenture.

“Series 2004B Liquidity Facility Costs” means all fees, expenses and other costs, other than Series 2004B Liquidity Facility Repayment Obligations, required to be paid to the Liquidity Facility Provider pursuant to and designated as Liquidity Facility Costs in the Standby Agreement.

“Series 2004B Liquidity Facility Repayment Obligations” means, as of any date of calculation and with respect to the Standby Agreement, those outstanding amounts payable by the Authority under the Standby Agreement necessary to repay the Liquidity Facility Provider for payments previously or concurrently made by it and designated as Liquidity Facility Repayment Obligations in the Standby Agreement. There shall not be included in the calculation of the amount of Series 2004B Liquidity Facility Repayment Obligations any Series 2004B Liquidity Facility Costs.

“Series 2004B Remarketing Account” means the Series 2004B Remarketing Account created pursuant to the Second Supplemental Indenture.

“Standby Agreement” or “Series 2004B Standby Agreement” means the Standby Bond Purchase Agreement or other Liquidity Facility delivered on the same date as delivery of the Series 2004B Bonds, as a source of funding for payment of all or part of the Tender Price of Tendered Bonds in accordance with the provisions of the Second Supplemental Indenture and any Alternate Standby Agreement.

“Standby Bonds” means the Series 2004B Bonds purchased by the Liquidity Facility Provider pursuant to the Standby Agreement.

“Standby Bond Rate” means, at any date of determination, the rate provided for Standby Bonds in the Standby Agreement in effect on such date, but in no event in excess of the Maximum Weekly Rate.

“TBMA Municipal Swap Index” means the TBMA Municipal Swap Index disseminated by Municipal Market Data, a Thompson Financial Services Company, or its successor.

“Tender Agent” means Bank of Albuquerque, N.A., and its successors as Tender Agent for the Series 2004B Bonds.

“Tender Agent Agreement” means the Tender Agent Agreement relating to the Series 2004B Bonds, dated as of September 1, 2004, by and among the Authority, the Remarketing Agent and the Tender Agent, as amended from time to time.

“Tender Date” means any date on which the Series 2004B Bonds are required to be purchased pursuant to the Second Supplemental Indenture.

“Tender Price” means the purchase price to be paid to the Owners of Tendered Bonds which shall be equal to the principal amount of Series 2004B Bonds tendered for purchase, without premium, plus accrued interest to the Tender Date (if the Tender Date is not an Interest Payment Date).

“Tendered Bonds” means Series 2004B Bonds, or beneficial interests therein which may be tendered, are tendered or deemed tendered and required to be purchased pursuant to the Second Supplemental Indenture.

“Undelivered Bonds” means any Series 2004B Bonds which are held other than pursuant to the Book-Entry System and which are subject to tender and whose Owner has submitted a notice of tender or which are subject to mandatory tender for purchase in accordance with the provisions of the Series 2004B Bonds, and which are not, in fact, delivered for purchase on the specified Purchase Date by the Owners thereof, but as to which the purchase price has been set aside by the Paying Agent.

“Weekly Rate” means an interest rate on the Series 2004B Bonds set under the Second Supplemental Indenture.

APPENDIX B

OTHER NMFA PROGRAMS AND PROJECTS

The Public Project Revolving Fund Program

The Public Project Revolving Fund Program of the NMFA is authorized by the NMFA Act and was created to fulfill the duty of the NMFA to develop and administer a program to assist qualified entities, individually or jointly, in financing all types of projects of a long-term capital nature, including but not limited to buildings and furnishings, water systems, water rights, sewerage and waste disposal systems, solid waste disposal systems, land, streets, airports, municipal utilities, parking facilities and capital equipment. To implement the Public Project Revolving Fund Program, the NMFA has been granted the following specific powers:

- to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA;
- to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to:
 - a loan to a qualified entity,
 - a purchase or sale of securities individually or on a pooled basis, or
 - the performance of its duties and execution of any of its powers under the NMFA Act;
- to purchase, hold or sell securities;
- to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities;
- in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and
- to acquire and hold title to or leasehold interest in real and personal property and to sell, convey or lease that property in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under State law.

The NMFA has issued several series of its Public Project Revolving Fund Revenue Bonds since July 1995. The proceeds of such bonds were used to make loans and grants (or reimburse the NMFA for making loans and grants) to numerous local governmental entities of the State, as well as two departments of State government, for the construction of infrastructure projects. The NMFA issued \$43,400,000 aggregate principal amount of its Series 2004 in January 2004 and \$49,540,000 aggregate principal amount of its Series 2004B in June 2004 for similar purposes. In August 2004, the NMFA authorized the issuance of up to \$205,000,000 principal amount of its Public Project Revolving Fund Bond Anticipation Note, Series 2004A (the "PPRF Note"), to provide for the interim financing of such loans and grants. Subsequent to that August 2004 authorization, the NMFA entered into an agreement with Bank of America, N.A., whereby Bank of America, N.A. agreed to purchase the PPRF Note from the NMFA in installments and as requested by the NMFA, in an aggregate sum not exceeding \$205,000,000. As of the

date of this Official Statement, the NMFA had not requested Bank of America, N.A. to make any such purchase.

Workers' Compensation Administration Building Financing

In 1993 and 1994, the Legislature authorized the NMFA to sell a total of \$6,000,000 in revenue bonds for the acquisition of land and site improvement, planning, designing, constructing, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The Legislature also provided that the first forty cents of each quarterly four dollars of Workers' Compensation assessment paid to the State would be pledged to the NMFA for payment of the revenue bonds associated with the WCA project. In July 1995, the NMFA publicly sold \$2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold \$4,310,000 in long-term bonds to retire the outstanding bonds and to finance construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of \$6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the Legislature authorized the NMFA to issue up to \$60,000,000 of revenue bonds payable from a separate and distinct portion of the net cigarette tax receipts collected by the State and distributed to the NMFA (which revenue bonds will include the Series 2004A Bonds, the Series 2004B Bonds and any additional Series of Bonds). The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the University of New Mexico Health Sciences Center. The NMFA issued the first series of the bonds in an aggregate principal amount of \$39,035,000 on April 1, 2004. The Series 2004B Bonds are the second series of the bonds. The NMFA expects to issue a final series in 2007.

Primary Care Capital Fund

In 1994, a \$5,000,000 revolving fund was created in the State treasury from which to provide loans and other financial assistance to rural primary care health clinics. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Health Department and the NMFA negotiated a joint powers agreement whereby the Health Department will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Health Department adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded 13 loans totaling approximately \$6,650,000.

Administrative Office of the Courts Financing

The 1996 and 1999 Legislatures authorized the NMFA to issue revenue bonds in an amount not to exceed \$12,000,000 for the purpose of financing acquisition of court automation systems for the State court system and development of statewide appellate automation, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. The NMFA sold \$8,500,000 in bonds in 1996 and an additional \$3,500,000 in bonds in 1999. Such bonds are

payable solely from a portion of the docketing fees and costs collected by the various courts of the State, and a portion of certain costs and penalty assessments to be collected upon conviction of persons of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The 1996 and 1999 Bonds were defeased on June 1, 2001.

Transportation Financings

During the 2003 special legislative session, the Legislature authorized the NMFA, when directed by the State Transportation Commission, to issue up to \$1,585,000,000 in bonds for the purpose of financing state transportation projects. The NMFA issued on May 20, 2004 \$700,000,000 of its State Transportation Revenue Bonds (Senior Lien) Series 2004A, \$237,950,000 of its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004B and \$200,000,000 of its Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C. The Series 2004A bonds financed various transportation projects of the State Department of Transportation and Series 2004B and Series 2004C bonds refunded and restructured the NMFA's outstanding Federal Highway Grant Anticipation Revenue Bonds, Series 1998A and Series 2001, and certain maturities of several issues of State Transportation Commission bonds, all of which were issued for the purposes of financing certain public lands highway projects in the State. The bonds are payable from State road fund and federal transportation revenues.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was signed into law on April 9, 1997. The Drinking Water Fund Act creates, in the NMFA, the New Mexico Drinking Water State Revolving Loan Fund (DWRLF), which is administered by the NMFA. The NMFA was charged with the establishment, in cooperation with the State Environment Department, of a loan program to provide local authorities with low-cost financial assistance in the construction of drinking water facilities necessary to protect the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act (SDWA), which required the Environmental Protection Agency (EPA) to make capitalization grants to the states to further the health objectives of the SDWA. Under the re-authorization, capitalization grants will be made to the states over the next seven years.

The State has been awarded a total of \$50,943,500 in capitalization grant dollars from the EPA through December 1, 2003, and has provided a total state match of \$10,188,700.

The NMFA can utilize funds in the DWRLF to make loans to localities for drinking water facility construction, renovation or expansion. For projects with proper legislative approval, these loans can be combined with loans from the Public Project Revolving Fund to leverage the funds in the DWRLF to create a greater dollar volume of loans. To date, the NMFA has funded 17 loans totaling approximately \$21,162,361.

Bernalillo Metropolitan Court

During the 1998 special legislative session and the 2000 legislative session, the Legislature authorized the NMFA to issue up to \$57,900,000 in revenue bonds for the purpose of financing the acquisition of real property and the design, construction and equipping of a new court building and an adjacent parking facility for the Bernalillo Metropolitan Court in Albuquerque, New Mexico. The first series of bonds for the Metropolitan Court Project, the Court Facilities Fee Revenue Bonds, were issued on August 16, 2001 in the amount of \$33,000,000. On September 5, 2002, the next series of bonds was issued in the amount of \$24,900,000. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to

be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle and certain other amounts.

During the 2003 legislative session, the Legislature authorized the NMFA to issue an additional \$3,900,000 in revenue bonds for the purpose of funding additional improvements to the Bernalillo Metropolitan Court. These bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Water and Wastewater Grant Fund Program

In 2000, the Legislature authorized the NMFA to issue up to \$5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the Legislature appropriated approximately \$41,000,000 to the Water and Wastewater Grant Fund Program to fund 72 public water and wastewater systems. In 2002, the Legislature appropriated \$15,000,000 to the Water and Wastewater Grant Fund, but did not identify specific projects to receive the benefit of these funds. For this reason, the NMFA has used the 2002 legislative appropriation only for certified emergency projects. In 2003, the Legislature granted a temporary increase in the total amount of emergency grants the NMFA can make in any fiscal year. As a result, through fiscal year 2006, the NMFA may make up to \$6,000,000 in emergency grants per fiscal year. As of December 31, 2003, the NMFA Board of Directors has approved 139 grants, totaling approximately \$51,000,000.

Water and Wastewater Planning Fund Program

The Water and Wastewater Planning Fund was created by the Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued \$1,000,000 in bonds to capitalize this grant fund. The 2003 Legislature appropriated an additional \$1,000,000 to this fund.

State Building Bonding Fund Program

The Legislature in 2001 authorized the NMFA to issue bonds in the amount of \$75,000,000 to finance four separate projects:

- purchase, renovate, equip and furnish the National Education Association Building on South Capitol Street in Santa Fe,
- plan, design, construct, equip and furnish a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe,
- purchase, renovate, equip and furnish the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, and
- purchase land adjacent to the District 5 Office of the State Highway and Transportation Department on Cerrillos Road in Santa Fe.

The bonds are payable from a pledge of a portion of the State's gross receipts tax. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of \$34,695,000 to finance a portion of the authorized projects.

The Legislature in 2003 authorized the NMFA to issue bonds in the amount of \$5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The bonds are payable from a pledge of a portion of the State's gross receipts tax. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Interim Loan Programs

The NMFA is authorized to use money on deposit in the public project revolving fund to make loans to qualified entities for the financing of:

- equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes, and
- the acquisition, construction and improvement of fire stations.

Interim loans may be made for those purposes in amounts not exceeding five hundred thousand dollars, and will, within two years after loans are made, be specifically authorized by law at a legislative session or, within that two year period, bonds will be issued by the NMFA, the proceeds of which will be used to reimburse the public project revolving fund for the amounts used to make interim loans. Projects funded with the proceeds of interim loans under the equipment program are not required to obtain specific authorization by law, as required of projects funded directly from the public project revolving fund.

The Subordinate Lien Program

The NMFA is authorized to issue bonds pursuant to the Subordinated General Indenture of Trust and Pledge dated as of June 1, 2002 and supplements thereto (collectively, the "Subordinated General Indenture") to provide funds to certain governmental units for projects that have been approved by the Legislature for funding through the Public Project Revolving Fund. In connection with the issuance of bonds issued pursuant to the Subordinated General Indenture (the "Subordinate PPRF Bonds"), the NMFA may enter into a loan agreement with the governmental unit or may purchase securities of the governmental unit in consideration for the loan of a portion of the proceeds of such Subordinate PPRF Bonds for projects. Such loan agreements and securities are referred to herein as "Subordinate PPRF Agreements." The Subordinate PPRF Bonds are secured by:

- all revenues received or earned by the NMFA from or attributable to the Subordinate PPRF Agreements (except for certain costs of administering the Public Project Revolving Fund program);
- public project revolving fund revenues released from the indenture relating to senior Public Project Revolving Fund revenue bonds;
- all revenues received or earned by the NMFA from or attributable to other loan agreements or securities pledged to the Subordinated General Indenture; and
- all interest earned by and profits derived from the sale of investments in certain funds and accounts created under the Subordinated General Indenture.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

PROPOSED FORMS OF OPINIONS

Form of Bond Counsel Opinion

New Mexico Finance Authority
Santa Fe, New Mexico

We have acted as bond counsel to the New Mexico Finance Authority (the “NMFA”) in connection with the issuance by the NMFA of its Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B (the “2004B Bonds”). The 2004B Bonds are being issued for the purpose of providing funds for the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Health Sciences Center.

The NMFA is a public body politic and corporate created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the “Act”). The 2004B Bonds are being issued pursuant to Chapter 341, Laws of New Mexico 2003 (the “Authorizing Act”), the Act, resolutions adopted by the NMFA on August 26, 2004, and September 23, 2004 (collectively, the “Resolutions”), and the General Indenture of Trust, dated as of April 1, 2004, and the Second Supplemental Indenture of Trust, dated as of September 1, 2004 (collectively, the “Indenture”), each between the NMFA and Bank of Albuquerque, N.A., as trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have reviewed the Act, the Authorizing Act, the Resolutions, the Indenture and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate duly organized and validly existing under the laws of the State and has lawful authority to issue the 2004B Bonds.

2. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Credit Enhancement Account for the payment of principal of and interest on the 2004B Bonds.

3. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2004B Bonds on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The 2004B Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the

NMFA, payable solely from the Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and from amounts deposited in the Credit Enhancement Account pledged to the payment of the principal of and interest on the 2004B Bonds under the Resolutions, and do not constitute a debt or liability of the State or any subdivision thereof within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the 2004B Bonds and the enforceability thereof and of the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the 2004B Bonds and we express no opinion relating thereto;

(d) we express no opinion as to the validity or enforceability of, or the security provided by, the bond insurance policy or the surety bond issued by MBIA Insurance Corporation with respect to the 2004B Bonds;

(e) our opinions represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result; and

(f) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters.

Respectfully submitted,
Modrall, Sperling, Roehl, Harris & Sisk, P.A.

Form of Special Tax Counsel Opinion

New Mexico Finance Authority
409 St. Michael's Drive
Santa Fe, NM 87505

Re: \$10,000,000 New Mexico Finance Authority Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Cigarette Tax Revenue Bonds (UNM Health Sciences Center Project), Series 2004B in the aggregate principal amount of \$10,000,000 (the "2004B Bonds"). The 2004B Bonds are being issued by the NMFA to finance a portion of the costs of the design, construction, equipping and furnishing of additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center, both at the University of New Mexico Health Sciences Center and to finance costs of issuance of the 2004B Bonds. The NMFA has authorized the issuance of the 2004B Bonds pursuant to resolutions adopted by the NMFA (collectively, the "Bond Resolutions") and a General Indenture of Trust, dated as of April 1, 2004, and a Second Supplemental Indenture of Trust, dated as of September 1, 2004 (collectively, the "Indenture"), and each between the NMFA and Bank of Albuquerque, N.A., as trustee for the 2004B Bonds.

We have examined the law and such certified proceedings and other documents and opinions as we deem necessary to render this opinion. As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. As to the validity and enforceability of the 2004B Bonds, the Bond Resolutions and the Indenture, we have relied upon the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the 2004B Bonds. The NMFA and the University of New Mexico have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the 2004B Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the 2004B Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and the University of New Mexico with such requirements and restrictions in rendering our opinion regarding the tax-exempt status of interest on the 2004B Bonds.

Based on our examination and the foregoing, we are of the opinion as of the date hereof and under existing law, as follows:

1. Interest on the 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the 2004B Bonds is excluded from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the 2004B Bonds; and

(b) although we have rendered an opinion that interest on the 2004B Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds.

Respectfully submitted,

APPENDIX D

THE BANK

The information in this appendix has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy of this information.

Bank of America, N.A. (the “Bank”), is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly owned indirect subsidiary of Bank of America Corporation and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2004, the Bank had consolidated assets of \$707 billion, consolidated deposits of \$480 billion and stockholder’s equity of \$50 billion based on regulatory accounting principles.

Bank of America Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding Bank of America Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any subsequent documents it filed with the Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

On April 1, 2004, Bank of America Corporation completed its merger with FleetBoston Financial Corporation (“FleetBoston”). As a result of the merger, FleetBoston stockholders received 0.5553 shares of Bank of America Corporation common stock for each of their FleetBoston shares.

Moody’s Investors Service, Inc. (“Moody’s”) currently rates the Bank’s long-term certificates of deposit as “Aa1” and its short-term certificates of deposit as “P-1.” Standard & Poor’s (“S&P”) currently rates the Bank’s long-term certificates of deposit as “AA-” and its short-term certificates of deposit as “A-1+.” Fitch Ratings, Inc. (“Fitch”) currently rates the Bank’s long-term certificates of deposit as “AA” and its short-term certificates of deposit as “F1+.” Further information with respect to such ratings may be obtained from Moody’s, S&P and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the most recent publicly available portions of the quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

PAYMENTS OF THE PURCHASE PRICE OF THE 2004B BONDS WILL BE MADE PURSUANT TO THE TERMS OF THE INITIAL STANDBY AGREEMENT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE INITIAL STANDBY AGREEMENT IS A BINDING OBLIGATION OF THE BANK, THE 2004B BONDS ARE NOT DEPOSITS OR

OBLIGATIONS OF BANK OF AMERICA CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2004B BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

Certain Disclaimers. The information contained in this Appendix relates to and has been obtained from the Bank. The information concerning Bank of America Corporation and the Bank contained herein is furnished solely to provide limited introductory information regarding Bank of America Corporation and the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of Bank of America Corporation or the Bank since the date of the Official Statement, or that the information contained or referred to in this Appendix is correct as of any time subsequent to the date of this Official Statement.

APPENDIX E

SPECIMEN BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest: _____
Assistant Secretary

SPECIMEN

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152