

\$225,000,000 (Approximate)



FannieMae®

**Guaranteed Grantor Trust Pass-Through Certificates
Fannie Mae Grantor Trust 2000-T1**

Consider carefully the risk factors starting on page 6 of this prospectus, on page S-10 of the attached Information Supplement and on page 4 of the attached Information Circular. Unless you understand and are able to tolerate these risks, you should not invest in the certificates.

The certificates, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

The certificates are exempt from registration under the Securities Act of 1933 and are "exempted securities" under the Securities Exchange Act of 1934.

The Certificates

We, the Federal National Mortgage Association or Fannie Mae, will issue the certificates listed in the chart below. The certificates will represent ownership interests in the trust assets.

Payments to Certificateholders

You, the investor, will receive monthly payments on your certificates, including

- interest in an amount equal to the interest paid in that month on the underlying security, and
- principal in an amount equal to the principal, if any, paid in that month on the underlying security.

We may pay principal at rates which vary from time to time. We may not pay principal for long periods of time.

The Fannie Mae Guaranty

We will guarantee that on each distribution date we will pay certificateholders the amounts required to be paid on that date under a certificate guaranty insurance policy issued by Ambac Assurance Corporation.

The Trust and Its Assets

The trust will own the underlying security described in this prospectus. This security initially will represent a 100% ownership interest in a group of home equity revolving credit line loans referred to as "loan group 1" in the attached Information Supplement. The percentage ownership interest represented by the underlying security will vary over time. Loan group 1 will consist of advances made, or to be made in the future, under home equity revolving credit line loan agreements. These future advances will not increase the principal balance of the underlying security or the certificates. The loans will be secured by first or second lien deeds of trust or mortgages on single-family properties and will bear interest at rates that adjust monthly based on the prime rate.

| Class | Original Class Balance(1) | Principal Type | Interest Rate | Interest Type | CUSIP Number | Final Distribution Date |
|-----------|---------------------------|----------------|---------------|---------------|--------------|-------------------------|
| A-1 | \$225,000,000 | PT | (2) | PT | 31359XUS6 | May 2026 |

(1) Approximate, subject to a permitted variance of plus or minus 10%.

(2) The certificates will bear interest at the variable rate described in the attached Information Supplement.

The dealer will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be February 28, 2000.



COUNTRYWIDE SECURITIES CORPORATION
A Countrywide Capital Markets Company

TABLE OF CONTENTS

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|---|-------------|
| ADDITIONAL INFORMATION | 3 | MATURITY AND PREPAYMENT CONSIDERATIONS | 11 |
| REFERENCE SHEET | 4 | THE TRUST AGREEMENT | 12 |
| RISK FACTORS | 6 | REPORTS TO CERTIFICATEHOLDERS | 12 |
| DESCRIPTION OF THE CERTIFICATES | 8 | CERTAIN MATTERS REGARDING FANNIE MAE | 12 |
| GENERAL | 8 | EVENTS OF DEFAULT | 12 |
| <i>Structure</i> | 8 | RIGHTS UPON EVENT OF DEFAULT | 13 |
| <i>Fannie Mae Guaranty</i> | 9 | AMENDMENT | 13 |
| <i>Characteristics of Certificates</i> | 9 | REPURCHASE OPTION | 13 |
| <i>Authorized Denominations</i> | 9 | TERMINATION | 13 |
| <i>Distribution Date</i> | 9 | CERTAIN FEDERAL INCOME TAX | |
| <i>Record Date</i> | 9 | CONSEQUENCES | 14 |
| <i>Class Factor</i> | 9 | TAXATION OF BENEFICIAL OWNERS OF | |
| <i>Mortgage Loan Clean-up Call; Fannie Mae</i> | | CERTIFICATES | 14 |
| <i>Repurchase Option; Termination of the</i> | | TAXATION OF THE UNDERLYING SECURITY | 15 |
| <i>Underlying Trust</i> | 9 | INFORMATION REPORTING AND BACKUP | |
| THE UNDERLYING SECURITY | 10 | WITHHOLDING | 15 |
| BOOK-ENTRY PROCEDURES | 10 | FOREIGN INVESTORS | 15 |
| <i>General</i> | 10 | LEGAL INVESTMENT CONSIDERATIONS ... | 16 |
| <i>Method of Distribution</i> | 10 | LEGAL OPINION | 16 |
| PAYMENTS OF INTEREST | 11 | ERISA CONSIDERATIONS | 17 |
| <i>Category of Class</i> | 11 | PLAN OF DISTRIBUTION | 17 |
| <i>Interest Distribution Amount</i> | 11 | LEGAL MATTERS | 17 |
| PAYMENTS OF PRINCIPAL | 11 | INDEX OF DEFINED TERMS | 18 |
| <i>Category of Class</i> | 11 | INFORMATION SUPPLEMENT | |
| <i>Principal Distribution Amount</i> | 11 | INFORMATION CIRCULAR | |
| CLASS DEFINITIONS AND ABBREVIATIONS | 11 | | |

ADDITIONAL INFORMATION

You should purchase the certificates only if you have read this prospectus and the following documents (the “Disclosure Documents”):

- the Information Supplement dated February 18, 2000 relating to the underlying security (the “Information Supplement”), which is attached to, and forms a part of, this prospectus;
- the Information Circular dated February 18, 2000 relating to various series of securities including the underlying security (the “Information Circular”), which is attached to, and forms a part of, this prospectus; and
- our current Information Statement dated March 31, 1999 and its supplements (the “Information Statement”).

You can obtain our Information Statement by writing us at:

Fannie Mae
3900 Wisconsin Avenue, N.W.
Area 2H-3S
Washington, D.C. 20016

This prospectus, our Information Statement and the class factor for the certificates are available on our website located at <http://www.fanniemae.com>. You can also obtain them by calling the Fannie Mae Helpline at 1-800-237-8627 or (202) 752-6547.

You also can obtain copies of this prospectus, including the Information Supplement and the Information Circular, by writing or calling:

Countrywide Securities Corporation
Prospectus Department
4500 Park Granada
Calabasas, California 91302
(telephone (800) 669-6091).

REFERENCE SHEET

This reference sheet highlights information contained elsewhere in this prospectus. As a reference sheet, it speaks in general terms without giving details or discussing any exceptions. You should purchase the certificates only after reading this prospectus and each of the other disclosure documents listed on page 3 of this prospectus.

General

- The certificates will represent ownership interests in the trust assets.
- The trust assets will consist of a security to be issued by Countrywide Home Equity Loan Trust 2000-A. The underlying security initially will represent a 100% ownership interest in a group of home equity revolving credit line loans referred to as “loan group 1” in the attached Information Supplement. The percentage ownership interest represented by the underlying security will vary over time. Certain general characteristics of the underlying security are described in the Information Circular with more specific information being provided in the Information Supplement.
- Loan group 1 will consist of advances made, or to be made in the future, under home equity revolving credit line loan agreements. These future advances will not increase the principal balance of the underlying security or the certificates. The loans will be secured by first or second lien deeds of trust or mortgages on single-family properties and will bear interest at rates that adjust based on changes in the prime rate, as further described in the Information Supplement.
- All amounts paid on the underlying security will be passed through to the certificateholders. For a description of Fannie Mae’s guaranty of the certificates, see “Description of the Certificates—General—*Fannie Mae Guaranty*” in this prospectus.

Characteristics of the Home Equity Revolving Credit Line Loans Backing the Underlying Security

For information about the nature of the home equity revolving credit line loans backing the underlying security, see the section of the Information Supplement entitled “Description of the Mortgage Loans.”

Class Factor

On or before each monthly distribution date, we will publish the class factor for the certificates. If you multiply the class factor by the initial principal balance of a certificate, you will obtain the current principal balance of that certificate, after giving effect to the current month’s payment.

Settlement Date

We expect to issue the certificates on February 28, 2000.

Distribution Dates

Beginning in April 2000, we will make payments on the certificates on the 15th day of each calendar month, or on the next business day if the 15th is not a business day.

Book-Entry Certificates

We will issue the certificates in book-entry form through The Depository Trust Company, which will track ownership of the certificates and payments on the certificates electronically.

Payments of Interest

We will pay monthly interest on the certificates in an amount equal to the interest paid in that month on the underlying security.

Payments of Principal

We will pay monthly principal on the certificates in an amount equal to the principal, if any, paid in that month on the underlying security.

RISK FACTORS

We describe below some of the risks associated with an investment in the certificates. Because each investor has different investment needs and a different risk tolerance, you should consult your own financial and legal advisors to determine whether the certificates are a suitable investment for you. In addition to the risks discussed below, you should read the section entitled “Risk Factors” beginning on page S-10 of the Information Supplement and on page 4 of the Information Circular.

Suitability

The certificates are **not** a suitable investment for every investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus and the other disclosure documents including the Information Supplement.
- You should thoroughly understand the terms of the certificates.
- You should thoroughly understand the terms of the underlying security and the related loans.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic, interest rate and other factors that may affect your investment.
- You should have sufficient financial resources and liquidity to bear all risks associated with the certificates.
- You should investigate any legal investment restrictions that may apply to you. Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy the certificates. You should get legal advice in determining whether your purchase of the certificates is a legal investment for you or is subject to any investment restrictions.

Yield Considerations

Your effective yield on the certificates will depend upon:

- monthly changes in the LIBOR index and the effect of periodic and lifetime

caps on the interest rates of the underlying loans;

- the price you paid for the certificates;
- how quickly or slowly borrowers repay or prepay the underlying loans;
- the extent to which borrowers borrow additional amounts during their “draw period”;
- the extent to which amounts on deposit in the Additional Loan Account (described below) are paid as principal of the certificates on the April 2000 distribution date;
- if and when the underlying loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when the underlying loans are repurchased; and
- the actual characteristics of the underlying loans.

The actual yield on your certificates probably will be lower than you expect:

- if you bought your certificates at a premium and principal payments on the underlying loans are faster than you expect relative to additional draws on the loans, or
- if you bought your certificates at a discount and principal payments on the underlying loans are slower than you expect relative to additional draws on the loans.

Even if principal of the underlying loans is repaid at a rate that on average is consistent with your expectations, variations over time in the principal payment rate of the underlying loans could significantly affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal payments on the

underlying loans during any period is faster or slower than you expect, a corresponding reduction or increase in the principal payment rate during a later period may not fully offset the impact of the earlier payment rate on your yield.

You must make your own decision as to the assumptions, including the interest rate and principal payment assumptions, you will use in deciding whether to purchase the certificates.

The actual final payment on the certificates may occur earlier, and could occur much earlier, than the distribution date in May 2026. If you assumed the actual final payment would occur on the final distribution date specified, your yield could be lower than you expect.

Prepayment Considerations

During the period when a borrower may draw on an underlying loan, the borrower must pay accrued interest on the amount drawn but has the option to repay some or all of the amount previously drawn. However, prepayments on loans secured by property in California and certain other jurisdictions may be subject to account termination fees during the first five years after loan origination. In addition, prior to the loan repayment period, borrowers may also borrow additional amounts up to their maximum credit line. As a result, the amount of funds received on the underlying credit line loans may vary significantly from month to month.

During the loan repayment period, borrowers generally may prepay their loans at any time without penalty. Because home equity revolving credit line loans typically are not viewed by borrowers as permanent financing, the underlying loans may be repaid at faster rates than traditional mortgage loans.

In general, the rates of prepayment may be influenced by:

- the level of current interest rates relative to the rates borne by the underlying loans,
- homeowner mobility,
- the availability of alternative financing, and

- general economic conditions.

In addition, substantially all of the underlying loans contain due-on-sale provisions that permit the lender to require repayment in full if the borrower sells the property securing the loan.

Furthermore, Countrywide Home Loans, Inc. has made representations and warranties with respect to the underlying loans and may be required to repurchase the related loans if they fail to conform to those representations and warranties. Any such repurchases also will affect the rate of repayment of principal.

Because so many factors affect the rate of prepayment of a pool of home equity revolving credit line loans, we cannot estimate the prepayment experience of the loans backing the underlying security.

As described below, funds on deposit in an account held in the underlying trust will be used to purchase additional home equity revolving credit line loans on or before March 6, 2000. Any funds remaining in the account will be paid as principal of the underlying security and, therefore, of the certificates. For a detailed description of this feature, you should read the Information Supplement.

Once the combined balances of the underlying security and the “Class A-2 Certificates” identified in the Information Supplement are reduced to 10% or less of their original balances and certain other conditions have been met, the holder of the transferor interest in the underlying trust may purchase all the remaining home equity revolving credit line loans in the underlying trust. If the home equity revolving credit line loans are purchased in this way, it would have the same effect as a prepayment in full of the loans. For a further description of the termination risks, you should read the Information Supplement.

Market and Liquidity Considerations

We cannot be sure that a market for resale of the certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your certificates. Even if you are able to sell your certificates, the sale price may not be comparable to similar investments that have a developed mar-

ket. Moreover, you may not be able to sell small or large amounts of certificates at prices comparable to those available to other investors.

A number of factors may affect the resale of certificates, including:

- the payment to certificateholders of interest and principal in amounts based on the interest and principal required to be paid on the underlying security;
- the characteristics of the underlying loans;
- past and expected prepayment levels of the underlying loans and comparable loans;
- past and expected additional borrowing levels of the underlying loans and comparable loans;
- the outstanding principal amount of the certificates;

- the amount of certificates offered for resale from time to time;
- any legal restrictions or tax treatment limiting demand for the certificates;
- the availability of comparable securities;
- the level, direction and volatility of interest rates generally; and
- general economic conditions.

Fannie Mae Guaranty Considerations

If Ambac Assurance Corporation does not make any required payments under its certificate guaranty insurance policy and we were unable to perform our guaranty obligations, certificateholders would receive only payments actually made on the underlying security. If that happened, delinquencies and defaults on the underlying loans could directly affect the amounts that certificateholders would receive each month.

DESCRIPTION OF THE CERTIFICATES

The material under this heading summarizes certain features of the Certificates (defined below). You will find additional information about the Certificates in the other sections of this prospectus, as well as in the other Disclosure Documents and the Trust Agreement (defined below). If we use a capitalized term in this prospectus without defining it, you will find the definition of such term in the applicable Disclosure Document or in the Trust Agreement.

General

Structure. We will create the Fannie Mae Grantor Trust specified on the cover page of this prospectus (the “Trust”) pursuant to a trust agreement dated as of February 1, 2000 (the “Trust Agreement”). We will execute the Trust Agreement in our corporate capacity and in our capacity as trustee (in such capacity, the “Trustee”). We will issue the Certificates specified on the cover page of this prospectus pursuant to the Trust Agreement.

The Guaranteed Grantor Trust Pass-Through Certificates offered by this prospectus (the “Certificates”) will represent beneficial ownership interests in the Trust. The assets of the Trust will consist of the Countrywide Home Equity Loan Trust 2000-A, Revolving Home Equity Loan Asset Backed Certificates, Series 2000-A, Class A-1 (the “Underlying Security”), initially evidencing a 100% ownership interest in a specified group of home equity revolving credit line loans (“Loan Group 1” or the “Mortgage Loans”) together with funds on deposit in an account (the “Additional Loan Account”) held in Countrywide Home Equity Loan Trust 2000-A (the “Underlying Trust”). Additional Loan Account funds (initially, \$15,000,000) will be used to purchase additional home equity revolving credit line loans for inclusion in Loan Group 1 through March 6, 2000, with any remaining funds being paid as principal of the Underlying Security on the Distribution Date in April 2000. The percentage ownership interest represented by the Underlying Security will vary over time as described in the Information Supplement. Loan Group 1 will consist primarily of advances made, or to be made in the future, under home equity revolving credit line loan agreements. These future advances will not increase the principal balance of the Underlying Security or the Certificates. The Mortgage

Loans will be secured by first or second lien deeds of trust or mortgages on one- to four-family (“single-family”) residential properties and are more fully described in the Information Supplement.

Fannie Mae Guaranty. We guarantee that on each Distribution Date we will pay to Certificateholders the amounts required to be paid on that date under the certificate guaranty insurance policy issued by Ambac Assurance Corporation (the “Insured Amounts”).

See “Description of the Certificates—The Policy” and “—The Fannie Mae Guaranty” in the Information Supplement.

If Ambac Assurance Corporation does not pay any Insured Amounts and we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts actually paid on the Underlying Security. If that happened, delinquencies and defaults on the Mortgage Loans could directly affect the amounts that Certificateholders would receive each month. Our guaranty is **not** backed by the full faith and credit of the United States.

Characteristics of Certificates. The Certificates will be represented by one or more certificates which will be registered in the name of the nominee of The Depository Trust Company (“DTC”). DTC will maintain the Certificates through its book-entry facilities. The “Holder” or “Certificateholder” of a DTC Certificate is the nominee of DTC. A Holder is not necessarily the beneficial owner of a Certificate. Beneficial owners ordinarily will “hold” Certificates through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations.

Authorized Denominations. We will issue the Certificates in minimum denominations of \$1,000 and whole dollar increments.

Distribution Date. Beginning in April 2000, we will make required payments of principal and interest on the Certificates on the 15th day of each month or, if the 15th is not a business day (as defined in the Information Supplement), on the first business day after the 15th. We refer to each such date as a “Distribution Date.”

Record Date. On each Distribution Date, we will make each monthly payment to Certificateholders who were Holders of record on the last day of the preceding month.

Class Factor. On or before each Distribution Date, we will publish the class factor (carried to eight decimal places) for the Certificates. When the class factor is multiplied by the original principal balance of a Certificate, the product will equal the current principal balance of the Certificate after taking into account payments on that Distribution Date.

Mortgage Loan Clean-up Call; Fannie Mae Repurchase Option; Termination of the Underlying Trust. The owner of the “Transferor Interest” (as that term is defined in the Information Supplement) in the Underlying Trust may repurchase all the Mortgage Loans in the Underlying Trust when

- the combined principal balances of the Underlying Security and the Countrywide Home Equity Loan Trust 2000-A, Revolving Home Equity Loan Asset Backed Certificates, Series 2000-A, Class A-2 (the “Class A-2 Certificates”) have been reduced to 10% or less of their original combined principal balances; and
- all amounts owing to Ambac Assurance Corporation and all amounts owing to Fannie Mae as described in the Information Supplement have been paid.

If the Mortgage Loans are purchased in this way, it will have the same effect on the Certificates as a prepayment in full of the Mortgage Loans.

In addition, we have the right to repurchase from Certificateholders all the Certificates when the aggregate principal balance of the Certificates is less than 1% of their aggregate original principal balance.

The Underlying Security

The Underlying Security will initially represent a 100% ownership interest in Loan Group 1 and funds on deposit in the Additional Loan Account held in the Underlying Trust. The percentage ownership interest represented by the Underlying Security will vary over time. Loan Group 1 consists of advances made, or to be made in the future, under home equity revolving credit line loan agreements. The future advances will not increase the principal balance of the Underlying Security or the Certificates. The Mortgage Loans will be secured by first or second lien deeds of trust or mortgages on single-family properties and bear interest at a rate that adjusts based on changes in the prime rate. After an initial “draw period” of either three or five years (which five year period is extendible under certain circumstances for an additional five year period), the Mortgage Loans are fully amortizing over a repayment term of either ten or 15 years, as more fully described in the Information Supplement.

Certain distributions on the Underlying Security will be insured under a certificate guaranty insurance policy to be issued by Ambac Assurance Corporation. See “Description of the Certificates—The Policy” in the Information Supplement.

As indicated in the Information Supplement, the Mortgage Loans will be deposited in the Underlying Trust by CWABS, Inc., an affiliate of Countrywide Securities Corporation.

The Underlying Security represents an entitlement to a portion of the interest and principal due on the Mortgage Loans in Loan Group 1, as described and subject to the payment priorities specified in the Information Supplement. Interest and principal paid on the Underlying Security will be passed through to Holders of the Certificates. Interest on the Underlying Security will accrue on its outstanding principal balance as described in the Information Supplement. Principal on the Underlying Security will be paid as described in the Information Supplement.

See the Information Supplement for detailed information about the Underlying Security.

Book-Entry Procedures

General. The Certificates will be registered in the name of the nominee of DTC, a New York-chartered limited purpose trust company, or any successor depository that we select or approve (the “Depository”). In accordance with its normal procedures, the Depository will record the positions held by each Depository participating firm (each, a “Depository Participant”) in the Certificates, whether held for its own account or as a nominee for another person. State Street Bank and Trust Company will act as Paying Agent for, and perform certain administrative functions with respect to, the Certificates.

A person who acquires a beneficial ownership interest in the Certificates (a “beneficial owner” or an “investor”) will not receive a physical certificate representing such interest. An investor’s interest in the Certificates will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains the investor’s account for such purpose. In turn, the financial intermediary’s record ownership of such interest will be recorded on the records of the Depository. If the intermediary is not a Depository Participant, the intermediary’s record ownership will be recorded on the records of a Depository Participant acting as an agent for the financial intermediary. Accordingly, neither the Trustee nor the Depository will recognize an investor as a Certificateholder. An investor must rely on the foregoing arrangements to evidence its interest in the Certificates. An investor may transfer its beneficial ownership interest in the Certificates only by complying with the procedures of its financial intermediary and of Depository Participants. In general, beneficial ownership of an investor’s interest in the Certificates will be subject to the rules, regulations and procedures governing the Depository and Depository Participants as in effect from time to time.

Method of Distribution. The Paying Agent will distribute each distribution on the Certificates to the Depository in immediately available funds. The Depository will credit such distributions to the

accounts of the Depository Participants entitled to them, in accordance with the Depository's normal procedures. The Depository currently provides for distributions in same-day funds settled through the New York clearing house. Each Depository Participant and each financial intermediary will disburse such distributions to the beneficial owners of the Certificates that it represents. Accordingly, the beneficial owners may experience a delay in receiving distributions.

Payments of Interest

Category of Class. For the purpose of interest payments, the Certificates fall into the following category:

| <u>Interest Type*</u> | <u>Class</u> |
|-----------------------|--------------|
| Pass-Through | A |

* See “—Class Definitions and Abbreviations” below.

Interest Distribution Amount. On each Distribution Date, we will pay to the Holders of the Certificates an amount of interest equal to the interest amount paid on the Underlying Security in the month of that Distribution Date.

Payments of Principal

Category of Class. For the purpose of principal payments, the Certificates fall into the following category:

| <u>Principal Type*</u> | <u>Class</u> |
|------------------------|--------------|
| Pass-Through | A |

* See “—Class Definitions and Abbreviations” below.

Principal Distribution Amount. On each Distribution Date, we will pay to the Holders of the Certificates an amount of principal equal to the principal amount paid on the Underlying Security in the month of that Distribution Date.

Class Definitions and Abbreviations

The following chart identifies and generally defines the category specified on the cover of this prospectus.

| <u>Abbreviation</u> | <u>Category of Class</u> | <u>Definitions</u> |
|-----------------------|--------------------------|---|
| INTEREST TYPE | | |
| PT | Pass-Through | Receives interest payments based on the actual distributions on the Underlying Security. |
| PRINCIPAL TYPE | | |
| PT | Pass-Through | Receives principal payments based on the actual distributions on the Underlying Security. |

Maturity and Prepayment Considerations

See the section of the Information Supplement entitled “Maturity and Prepayment Considerations.”

THE TRUST AGREEMENT

In the sections below, we summarize certain provisions of the Trust Agreement that are not discussed elsewhere in this prospectus. Certain capitalized terms that we use in these summaries are defined in the Trust Agreement. These summaries are, by definition, not complete. If there is ever a conflict between what we have summarized in this prospectus and the actual terms of the Trust Agreement, the terms of the Trust Agreement will prevail.

Reports to Certificateholders

As soon as practicable on or shortly before each Distribution Date, we will publish (in print or otherwise) the class factor for the Certificates. The “class factor” is a number (carried to eight decimal places) which, when multiplied by the original principal balance of a Certificate, will equal the principal balance of that Certificate that will still be outstanding after the principal to be paid in the current month has been paid.

Within a reasonable time after the end of each calendar year, we will also furnish to each person who was a Certificateholder at any time during that year a statement containing any information required by the federal income tax laws.

Fannie Mae, or a special agent that we engage, will make all the necessary numerical calculations.

Certain Matters Regarding Fannie Mae

The Trust Agreement provides that we may not resign from our obligations and duties unless they are no longer permissible under applicable law. Our resignation will be effective only after a successor has assumed our obligations and duties. However, no successor may succeed to our guaranty obligations, and we will continue to be responsible under our guaranty even if we are terminated or have resigned from our other duties and responsibilities under the Trust Agreement.

The Trust Agreement also provides that neither we nor any of our directors, officers, employees or agents will be under any liability to the Trust or to the Certificateholders for errors in judgment or for any action we take, or refrain from taking, in good faith pursuant to the Trust Agreement. However, neither we nor any such person will be protected against any liability due to willful misfeasance, bad faith, gross negligence or willful disregard of obligations and duties.

In addition, the Trust Agreement also provides that we are not under any obligation to appear in, prosecute or defend any legal action that is not incidental to our responsibilities under the Trust Agreement and that in our opinion may involve us in any expense or liability. However, in our discretion, we may undertake any legal action that we deem necessary or desirable in the interests of the Certificateholders. In that event, we will pay the legal expenses and costs of the action, which generally will not be reimbursable out of the trust fund.

Any corporation into which we are merged or consolidated, any corporation that results from a merger, conversion or consolidation to which we are a party or any corporation that succeeds to our business will be our successor under the Trust Agreement.

Events of Default

Any of the following will be considered an “Event of Default” under the Trust Agreement:

- if we fail to make a required payment to the Certificateholders and our failure continues uncorrected for 15 days after we receive written notice from Certificateholders who represent ownership interests totaling at least 5% of the Trust that they have not been paid; or

- if we fail in a material way to fulfill any of our obligations under the Trust Agreement and our failure continues uncorrected for 60 days after we receive written notice of our failure from Certificateholders who represent ownership interests totaling at least 25% of the Trust; or
- if we become insolvent or unable to pay our debts or if other events of insolvency occur.

Rights upon Event of Default

If one of the Events of Default listed above has occurred and continues uncorrected, Certificateholders who represent ownership interests totaling at least 25% of the Trust have the right to terminate, in writing, our obligations under the Trust Agreement both as Trustee and in our corporate capacity. However, our guaranty obligations will continue in effect. The same proportion of Certificateholders that has the right to terminate us may also appoint, in writing, a successor to all of our terminated obligations. In addition, the successor that they appoint will take legal title to the Underlying Security and any other assets of the Trust.

Amendment

We may amend the Trust Agreement for any of the following purposes without notifying the Certificateholders:

- to add to our duties;
- to evidence that another party has become our successor and has assumed our duties under the Trust Agreement in our capacity as trustee or in our corporate capacity or both;
- to eliminate any of our rights in our corporate capacity under the Trust Agreement; and
- to cure any ambiguity or correct or add to any provision in the Trust Agreement, so long as no Certificateholder is adversely affected in the case of an addition to any provision.

If the Certificateholders that represent ownership interests totaling at least 66% of the Trust consent, we may amend the Trust Agreement to eliminate, change or add to the terms of the Trust Agreement or to waive our compliance with any of those terms. Nevertheless, we may not terminate or change our guaranty obligations or reduce the percentage of Certificateholders who must consent to the types of amendments listed in the previous sentence. In addition, unless each affected Certificateholder consents, no amendment may reduce or delay the funds that are required to be distributed on any Certificate.

Repurchase Option

On any Distribution Date when the aggregate principal balance of the Certificates is less than 1% of the aggregate original principal balance of the Certificates, we will have the right to repurchase (the “Repurchase Option”) the Underlying Security, at a price equal to their aggregate outstanding principal balance plus any accrued interest, and thereby terminate the Trust.

Termination

The Trust Agreement will terminate (i) when the Underlying Security has been paid in full or liquidated, and their proceeds distributed or (ii) when we exercise our Repurchase Option, whichever occurs first. In no event, however, will the Trust continue beyond the expiration of 21 years from the death of the last survivor of the person named in the Trust Agreement.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Certificates and payments on the Certificates generally are subject to taxation. Therefore, you should consider the tax consequences of holding a Certificate before you acquire one. The following discussion describes certain U.S. federal income tax consequences to beneficial owners of Certificates. The discussion is general and does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. This discussion may not apply to your particular circumstances for various reasons, including the following:

- This discussion reflects federal tax laws in effect as of the date of this prospectus. Changes to any of these laws after the date of this prospectus may affect the tax consequences discussed below.
- This discussion addresses only Certificates acquired at original issuance and held as “capital assets” (generally, property held for investment).
- This discussion does not address tax consequences to beneficial owners subject to special rules, such as dealers in securities, certain traders in securities, banks, tax-exempt organizations, life insurance companies, persons that hold Certificates as part of a hedging transaction or as a position in a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar.
- This discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction.

For these reasons, you should consult your own tax advisors regarding the federal income tax consequences of holding and disposing of Certificates as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Taxation of Beneficial Owners of Certificates

The Trust will be classified as a trust under subpart E of part I of subchapter J of the Internal Revenue Code of 1986, as amended (the “Code”) and not as an association taxable as a corporation. The Underlying Security will be the asset of the Trust. Each beneficial owner of a Certificate will be treated as the beneficial owner of an undivided interest in the Underlying Security held by the Trust. Consequently, each beneficial owner of a Certificate will be required to report its pro rata share of the income with respect to the Underlying Security, and a sale or other disposition of a Certificate will constitute a sale or other disposition of a pro rata portion of the Underlying Security. In addition, each beneficial owner of a Certificate will be required to include in income its allocable share of the expenses paid by the Trust.

Each beneficial owner of a Certificate can deduct its allocable share of the expenses paid by the Trust as provided in section 162 or section 212 of the Code, consistent with its method of accounting. A beneficial owner’s ability to deduct its share of these expenses is limited under section 67 of the Code in the case of (i) estates and trusts, and (ii) individuals owning an interest in a Certificate directly or through an investment in a “pass-through entity” (other than in connection with such individual’s trade or business). Pass-through entities include partnerships, S corporations, grantor trusts, and non-publicly offered regulated investment companies, but do not include estates, nongrantor trusts, cooperatives, real estate investment trusts and publicly offered regulated investment companies. Generally, such a beneficial owner can deduct its share of these costs only to the extent that these costs, when aggregated with certain of the beneficial owner’s other miscellaneous itemized deductions, exceed two percent of the beneficial owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as in the case of an individual, except that deductions for administrative expenses of the estate or trust that would not have been incurred if the property were not held in such trust or estate are treated as allowable in arriving at adjusted gross income. In addition, section 68 of the Code provides that certain itemized deductions otherwise allowable for a beneficial owner who is an individual are reduced by an amount equal to 3% of the beneficial owner’s adjusted gross income in excess of a statutorily defined threshold,

but not more than 80% of itemized deductions otherwise allowable. Further, a beneficial owner may not be able to deduct any portion of these costs in computing its alternative minimum tax liability.

Taxation of the Underlying Security

The Information Supplement discusses tax consequences to beneficial owners of the Underlying Security. Because a beneficial owner of a Certificate will be required to report its pro rata share of the income with respect to the Underlying Security and will be required to treat the sale or other disposition of a Certificate as the sale or other disposition of a pro rata portion of the Underlying Security, you should review the discussion under the heading “Material Federal Income Tax Consequences” in the Information Supplement and in the Information Circular.

The Information Supplement states that Tax Counsel (as defined in the Information Supplement) is of the opinion that, taking into account certain assumptions, the Underlying Security will be treated as a debt instrument for federal income tax purposes. See “Material Federal Income Tax Consequences—Characterization of the Certificates as Indebtedness” in the Information Supplement. The remainder of this discussion assumes that the Underlying Security will be treated as a debt instrument for federal income tax purposes. You should consult your tax advisors regarding the tax consequences to a beneficial owner of a Certificate if the Underlying Security were not treated as a debt instrument for federal income tax purposes.

Information Reporting and Backup Withholding

Fannie Mae will furnish or make available, within a reasonable time after the end of each calendar year, to each Holder of a Certificate at any time during such year, such information as is required by Treasury regulations and such other information as Fannie Mae deems necessary or desirable to assist Holders in preparing their federal income tax returns, or to enable Holders to make such information available to beneficial owners or other financial intermediaries for which such Holders hold Certificates as nominees.

Distributions of interest and principal, as well as distributions of proceeds from the sale of Certificates, may be subject to the “backup withholding tax” under section 3406 of the Code at a rate of 31 percent if recipients of such distributions fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from such tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against such recipient’s federal income tax. Furthermore, certain penalties may be imposed by the Internal Revenue Service (“IRS”) on a recipient of distributions that is required to supply information but that does not do so in the proper manner.

Foreign Investors

Additional rules apply to a beneficial owner of a Certificate that is not a U.S. Person (a “Non-U.S. Person”). The term “U.S. Person” means:

- a citizen or resident of the United States,
- a corporation, partnership or other entity created or organized in or under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or
- a trust if a court within the United States can exercise primary supervision over its administration and at least one United States person has the authority to control all substantial decisions of the trust.

Payments on a Certificate made to, or on behalf of, a beneficial owner that is a Non-U.S. Person generally will be exempt from U.S. federal income and withholding taxes, provided the following conditions are satisfied:

- the beneficial owner is not subject to U.S. tax as a result of a connection to the United States other than ownership of the Certificate;
- the beneficial owner signs a statement under penalties of perjury certifying that it is a Non-U.S. Person, and provides the name, address and taxpayer identification number, if any, of the beneficial owner; and
- the last U.S. Person in the chain of payment to the beneficial owner receives such statement from the beneficial owner or a financial institution holding on behalf of the beneficial owner and does not have actual knowledge that such statement is false.

You should be aware that the IRS might take the position that this exemption does not apply to a beneficial owner that also owns 10% or more of the voting stock of Fannie Mae or of Countrywide Home Loans, Inc. or any of its affiliates, or to a beneficial owner that is a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code.

LEGAL INVESTMENT CONSIDERATIONS

If you are an institution whose investment activities are subject to legal investment laws and regulations or to review by certain regulatory authorities, you may be subject to restrictions on investment in the Certificates. If you are a financial institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration or other federal or state agencies with similar authority, you should review the rules, guidelines and regulations that apply to you prior to purchasing any Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Certificate.

The Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”) provides that securities issued or guaranteed by Fannie Mae, including the Certificates, will be legal investments for you to the same extent as obligations issued or guaranteed by the United States. However, SMMEA also gave each state the ability to limit an entity’s legal investment authority with respect to securities issued or guaranteed by Fannie Mae if the state acted prior to October 4, 1991. A number of states adopted this type of legislation before the deadline. **Investors should consult their own legal advisors in determining whether and to what extent the Certificates constitute legal investments or are subject to restrictions on investment and whether and to what extent the Certificates can be used as collateral for various types of borrowings.**

LEGAL OPINION

If you purchase Certificates, we will send you, upon request, an opinion of our General Counsel (or one of our Deputy General Counsels) as to the validity of the Certificates and the Trust Agreement.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code impose certain requirements on employee benefit plans subject to ERISA (such as employer-sponsored retirement plans) and upon other types of benefit plans and arrangements subject to section 4975 of the Code (such as individual retirement accounts). ERISA and the Code also impose these requirements on certain entities in which the benefit plans or arrangements that are subject to ERISA and the Code invest. We refer to these plans, arrangements and entities as “Plans.” Any person who is a fiduciary of a Plan also is subject to the requirements imposed by ERISA and the Code. Before a Plan invests in any Certificate, the Plan fiduciary must consider whether the governing instruments for the Plan would permit the investment, whether the Certificates would be a prudent and appropriate investment for the Plan under its investment policy and whether such an investment might result in a transaction prohibited under ERISA or the Code for which no exemption is available.

On November 13, 1986, the U.S. Department of Labor issued a final regulation covering the acquisition by a Plan of a “guaranteed governmental mortgage pool certificate,” defined to include certificates which are “backed by, or evidencing an interest in specified mortgages or participation interests therein” and are guaranteed by Fannie Mae as to the payment of interest and principal. Under the regulation, investment by a Plan in a “guaranteed governmental mortgage pool certificate” does not cause the assets of the Plan to include the mortgages underlying the certificate or the sponsor, trustee and other servicers of the mortgage pool to be subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or section 4975 of the Code in providing services with respect to the mortgages in the pool. Our counsel, Brown & Wood LLP, has advised us that the Certificates qualify under the definition of “guaranteed governmental mortgage pool certificates” and, as a result, the purchase and holding of Certificates by Plans will not cause the underlying Mortgage Loans or the assets of Fannie Mae to be subject to the fiduciary requirements of ERISA or to the prohibited transaction provisions of ERISA and the Code.

PLAN OF DISTRIBUTION

Pursuant to a Fannie Mae commitment, we will deliver the Certificates to Countrywide Securities Corporation (the “Dealer”) in exchange for the Underlying Security. The Dealer proposes to offer the Certificates directly to the public from time to time in negotiated transactions at varying prices to be determined at the time of sale. The Dealer may effect these transactions to or through other dealers.

LEGAL MATTERS

Brown & Wood LLP will provide legal representation for Fannie Mae. Stroock & Stroock & Lavan LLP will provide legal representation for the Dealer.

INDEX OF DEFINED TERMS

| | |
|------------------------------|----|
| Certificateholder | 9 |
| Certificates | 8 |
| Code | 14 |
| Dealer | 17 |
| Depository | 10 |
| Depository Participant | 10 |
| Disclosure Documents | 3 |
| Distribution Date | 9 |
| DTC | 9 |
| ERISA | 17 |
| Event of Default | 13 |
| Holder | 9 |
| Information Circular | 3 |
| Information Statement | 3 |
| Information Supplement | 3 |
| Insured Amounts | 9 |
| IRS | 15 |
| Loan Group 1 | 8 |
| Mortgage Loans | 8 |
| Non-U.S. Person | 15 |
| Plans | 17 |
| Repurchase Option | 13 |
| SMMEA | 16 |
| Trust | 8 |
| Trust Agreement | 8 |
| Trustee | 8 |
| Underlying Security | 8 |
| Underlying Trust | 8 |
| U.S. Person | 15 |

\$225,000,000
(Approximate)

Countrywide Home Equity Loan Trust 2000-A
Issuer

Revolving Home Equity Loan Asset Backed Certificates, Series 2000-A
Class A-1 Certificates

CWABS, Inc.
Depositor



Countrywide®

HOME LOANS

Sponsor and Master Servicer

Consider carefully the risk factors beginning on page S-10 in this information supplement and on page 4 in the information circular.

The certificates represent obligations of the trust only and do not represent an interest in or obligation of CWABS, Inc., Countrywide Home Loans, Inc. or any of their affiliates.

The Trust Fund

The trust fund will own a pool consisting of two loan groups of home equity revolving credit line loans made or to be made in the future under certain home equity revolving credit line loan agreements. The loans will be secured by first or second deeds of trust or mortgages on one- to four-family residential properties and will bear interest at rates that adjust based on the prime rate. The trust fund will also initially include funds from the sale of the certificates in excess of the cut-off date principal balances. These excess funds are expected to be used to acquire additional home equity revolving credit line loans after the cut-off date. The Class A-1 Certificates will represent an interest in loan group 1 only.

The Policy

Ambac Assurance Corporation will issue an irrevocable and unconditional certificate guaranty insurance policy which will guarantee certain payments to certificateholders.

Ambac®

The Class A-1 Certificates have not been and will not be registered under the Securities Act of 1933, as amended.

It is a further condition to the issuance of the Class A-1 Certificates that they be guaranteed by Fannie Mae as described in this Information Supplement. The Class A-1 Certificates, including any interest on the Class A-1 Certificates, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae.

It is expected that the Class A-1 Certificates will be issued on or about February 28, 2000.

February 18, 2000

TABLE OF CONTENTS

| <u>INFORMATION SUPPLEMENT</u> | <u>Page</u> | <u>INFORMATION CIRCULAR</u> | <u>Page</u> |
|---|-------------|--|-------------|
| Summary | S-3 | Important Notice About Information in This Information Circular and Each Accompanying Information Supplement..... | 3 |
| Risk Factors | S-10 | Risk Factors | 4 |
| The Master Servicer | S-17 | The Trust Fund..... | 16 |
| The Home Equity Loan Program ... | S-17 | Use of Proceeds | 21 |
| Description of the Mortgage Loans ... | S-20 | The Depositor | 21 |
| Maturity and Prepayment Considerations..... | S-36 | Loan Program | 21 |
| Pool Factor and Trading Information..... | S-38 | Description of the Securities..... | 24 |
| Description of the Certificates | S-38 | Credit Enhancement | 34 |
| Description of the Purchase Agreement | S-61 | Yield and Prepayment Considerations..... | 39 |
| Use of Proceeds | S-62 | The Agreements | 41 |
| Material Federal Income Tax Consequences | S-62 | Certain Legal Aspects of the Loans | 53 |
| State Taxes | S-65 | Material Federal Income Tax Consequences | 66 |
| Method of Distribution | S-65 | State Tax Considerations..... | 84 |
| Legal Matters..... | S-65 | Method of Distribution | 85 |
| Experts | S-65 | Legal Matters..... | 85 |
| Index of Defined Terms | S-66 | Financial Information | 85 |
| | | Index to Defined Terms | 86 |

Summary

This summary highlights selected information from this document and does not contain all of the information that you need to consider in making your investment decision. To understand all of the terms of an offering of the certificates, read carefully this entire document and the accompanying information circular.

Trust Fund

Countrywide Home Equity Loan Trust 2000-A. The trust fund will own a pool of home equity revolving credit line loans made or to be made in the future under certain home equity revolving credit line loan agreements. The loans will be secured by first or second deeds of trust or mortgages on one- to four-family residential properties and will bear interest at rates that adjust based on the prime rate. We sometimes refer to these loans as home equity loans or mortgage loans. The original principal balance of the certificates will exceed the aggregate cut-off date principal balances of the home equity loans initially transferred to the trust fund. Funds in an amount equal to this excess are expected to be used to acquire additional home equity loans that are not included in the cut-off date pool. Until they are so used, they will be held in the trust fund.

We will be dividing the mortgage loans in the trust fund into two groups. Each will be referred to as a loan group. The ownership interest of each loan group will be allocated between the Class A-1 Certificates and the Class A-2 Certificates, as applicable, and a single transferor interest. The Class A-1 Certificates will initially represent approximately a 100% interest in loan group 1 and the Class A-2 Certificates will initially represent approximately a 100% interest in loan group 2. The percentage interests in each loan group represented by the certificates will vary over time. The percentage interests in the trust fund not represented by the certificates will be

represented by the transferor interest, which will also vary over time.

The Offered Certificates

Countrywide Home Equity Loan Trust 2000-A will issue two classes of Revolving Home Equity Loan Asset Backed Certificates and a Transferor's Interest. Only the Class A-1 Certificates are offered by this information supplement.

Other Certificates

Countrywide Home Equity Loan Trust 2000-A is also issuing the Class A-2 Certificates and the Transferor's Interest. As described in this information supplement, except for limited cross-collateralization, the Class A-2 Certificates are not supported by the mortgage loans in loan group 1, the group that supports the offered certificates. As described in this information supplement, a portion of the Transferor's Interest is subordinated in right of payment to the Class A-1 and Class A-2 Certificates. Information regarding the Class A-2 Certificates and the Transferor's Interest is included in this information supplement chiefly to provide you with a better understanding of the Class A-1 Certificates.

Depositor

CWABS, Inc., a limited purpose finance subsidiary of Countrywide Credit Industries, Inc. Its address is 4500 Park Granada, Calabasas, California 91302, and its telephone number is (818) 225-3300.

See "The Depositor" in the information circular.

Sponsor and Master Servicer

Countrywide Home Loans, Inc., a New York corporation and a subsidiary of Countrywide Credit Industries, Inc.

See “The Master Servicer” in this information supplement.

Trustee

Bank One, National Association, a national banking association.

Certificate Insurer

Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation, will insure the Class A-1 Certificates as described in this information supplement.

See “Description of the Certificates—The Certificate Insurer” in this information supplement.

Fannie Mae Guaranty

Fannie Mae will also guarantee the Class A-1 Certificates as described in this information supplement.

See “Description of the Certificates—Fannie Mae” in this information supplement.

Pooling and Servicing Agreement

The certificates will be issued pursuant to the pooling and servicing agreement among the sponsor and master servicer, the depositor, Fannie Mae and the trustee under which the trust fund will be formed.

Cut-off Date

February 27, 2000. All references to cut-off date in this Information Supplement refer to this cut-off date for the mortgage loan pool before any additional home equity loans are added.

Closing Date

On or about February 28, 2000.

Distribution Dates

The trustee will make distributions on the 15th day of each calendar month beginning in April 2000. If the 15th day of a month is not a business day, then distributions will be made on the next business day after the 15th day of the month.

Record Date

The last day preceding a distribution date or, if the certificates are no longer book-entry certificates, the last day of the month preceding a distribution date.

Registration of Certificates

The Class A-1 Certificates will be issued as a single definitive fully-registered certificate that will be delivered to Fannie Mae.

See “Description of Certificates” in this information supplement.

The Mortgage Loans**General**

The mortgage loans are revolving lines of credit. During the applicable draw period, each borrower may borrow amounts from time to time up to the maximum amount of that borrower’s line of credit. If borrowed amounts are repaid, they can again be borrowed.

The pool balance equals the aggregate of the principal balances of all mortgage loans in both loan groups. The loan group balance of a loan group equals the aggregate of the principal balances of all mortgage loans in that loan group. The principal balance of a mortgage loan (other than a liquidated mortgage loan) on any day is equal to

- its cut-off date principal balance,

plus

- any additional balances in respect of that mortgage loan,

minus

- all collections credited against the principal balance of that mortgage loan prior to that day.

Once a mortgage loan is finally liquidated, its principal balance will be zero.

Loan Rate

Interest on each mortgage loan is payable monthly and computed on the related daily outstanding principal balance for each day in the billing cycle. The loan rate is a variable rate per annum equal to the sum of

- the highest prime rate published in the Money Rates table of *The Wall Street Journal* as of the first business day of each calendar month
- and
- a margin.

The loan rate is subject to applicable usury limits and certain maximum rates. Loan rates are adjusted monthly on the first business day of the calendar month preceding the due date. As to each mortgage loan, the due date is the fifteenth day of each month.

Principal Payments

Each home equity loan features a draw period during which the loan may be drawn upon, immediately followed by a repayment period during which the loan must be repaid. In general, home equity loans with 5-year draw periods have 15-year repayment periods. These five-year draw periods are generally extendible for an additional 5 years with the approval of the master servicer.

Statistics

The statistical information presented in this information supplement concerning the pool of mortgage loans does not reflect all of the mortgage loans which will be included in the pool on the closing date. Instead, such statistical information relates to statistical calculation loan groups which include the number and principal balances of only mortgage loans originated by the sponsor through the statistic calculation date and included in the applicable loan group. The aggregate principal balance of each statistic calculation loan group as of the statistic calculation date is the statistic calculation loan group balance. The statistic calculation date is January 27, 2000.

Unless otherwise noted, all statistical percentages in this information supplement are measured by the aggregate principal balance of the applicable statistic calculation loan group on the statistic calculation date.

See "Description of the Mortgage Loans" in this information supplement for additional information concerning the statistic calculation pool and the mortgage loans in general.

Summary of Loans in Statistic Calculation Loan Group 1 (as of Statistic Calculation Date)

| | |
|------------------------------|---|
| Loan Group 1 Statistic | |
| Calculation Date | |
| Balance | \$141,324,258.95 |
| Weighted Average | |
| Combined Loan-to- | |
| Value Ratio | 80.88% |
| Weighted Average Margin .. | 2.09% |
| Range of Principal | |
| Balances | \$0.00 to \$247,100.00 |
| Average Principal Balance .. | \$22,633.61 |
| Range of Credit Limits ... | \$7,500.00 to \$500,000.00 |
| Average Credit Limit | \$34,315.58 |
| Origination Period | August 31, 1999 through January 27, 2000 |

| | |
|---|--------------------------|
| Range of Loan Rates | 5.99% to 13.50% |
| Weighted Average Loan Rate | 7.63% |
| Weighted Average Maximum Loan Rate . . . | 17.82% |
| Weighted Average Minimum Loan Rate . . . | 7.62% |
| Maximum Credit Utilization Rate | 100.00% |
| Average Credit Utilization Rate | 70.60% |
| Weighted Average Credit Utilization Rate | 65.96% |
| Percentage of Pool Secured by 1st liens . . . | 3.90% |
| Percentage of Pool Secured by 2nd liens . . . | 96.10% |
| Weighted Average Second Mortgage Ratio | 26.89% |
| Percentage with Mortgaged Properties in: | |
| California | 26.50% |
| Michigan | 7.20% |
| Colorado | 5.93% |
| Florida | 4.52% |
| Washington | 4.36% |
| Range of Remaining Term to Scheduled Maturity . . | 119 months to 300 months |
| Weighted Average Remaining Term to Scheduled Maturity | 296.99 months |
| Percentage Single Family Residences | 81.21% |
| Percent Owner Occupied . . . | 99.54% |

The Class A-1 Certificates

Certificate Rate

The certificate rate on the Class A-1 Certificates may change from distribution date to distribution date. On any distribution date the certificate rate for the Class A-1 Certificates will equal the least of:

- LIBOR plus 0.14% per annum,
- the weighted average of the loan rates on the mortgage loans in loan group 1 minus certain fees, expenses and minimum spread requirements, and
- 16.00% per annum.

However, on any payment date for which the certificate rate for the Class A-1 Certificates has been determined pursuant

to the weighted average of the net loan rates on the mortgage loans in loan group 1, the excess, if any, of the lesser of

A. 16.00% per annum and

B. LIBOR + 0.14% per annum

over the certificate rate will be paid (with interest at the rate of LIBOR + 0.14% per annum, but not at a rate in excess of 16.00% per annum) to the Class A-1 Certificates on subsequent distribution dates to the extent that funds are available in the priority described in this information supplement.

See "Description of the Certificates—Interest" in this information supplement.

Interest Period

For each distribution date and class of certificates, the period beginning on the prior distribution date (or in the case of the first distribution date, beginning on the closing date) and ending on the day before the applicable distribution date. The trustee will calculate interest based on the actual number of days in the interest period and a year assumed to consist of 360 days.

Certificate Principal Balance

The original principal balance of either class of certificates may be reduced or increased by not more than 10% depending on the aggregate principal balance of the mortgage loans in the related loan group actually delivered on the closing date.

Principal

The amount of principal distributed on a class of certificates on a distribution date will depend on whether the distribution date occurs during the managed amortization period or the rapid amortization period.

The managed amortization period begins on the closing date and ends on the earlier of

- the distribution date in March 2005 and
- the existence of a rapid amortization event.

The rapid amortization period begins on the first distribution date after the end of the managed amortization period.

See “*Description of Certificates—Principal*” in this information supplement.

Additional Loan Account

On the closing date approximately \$15,000,000 will be deposited into an additional loan account held as a part of the trust fund. These funds represent the excess of the original principal balance of the Class A-1 Certificates over the cut-off date principal balance of the mortgage loans in loan group 1 initially transferred to the trust fund. These funds are expected to be used through March 6, 2000 to acquire additional home equity loans that are not included in the cut-off date pool. Any additional home equity loans acquired by the trust fund after the cut-off date have been underwritten using generally the same guidelines as were used to select the initial mortgage loans in the trust fund, and the trust fund will have the benefit of substantially the same representations and warranties covering the initial mortgage loans in the trust fund. The sponsor and master servicer will not exercise any discretion in the selection of the additional home equity loans to be acquired by the trust fund. The selection will be made by a mechanical procedure on a first-in, first-out basis. The purchase of these additional home equity loans is in addition to the ongoing purchase of additional balances during the managed amortization period with the proceeds of

principal repayments received on the trust fund’s mortgage loan portfolio. Any funds remaining in the additional loan account on March 6, 2000 will be used to prepay the Class A-1 Certificates on the first Distribution Date.

Termination

The trust fund will terminate on the distribution date following the later of

- A. payment in full of all amounts owing to the certificate insurer and Fannie Mae and
- B. the earliest of
 - the distribution date on which the principal balance of both classes of certificates have been reduced to zero,
 - the final payment or other liquidation of the last mortgage loan in the trust fund,
 - the optional transfer of the mortgage loans to the owner of the transferor interest, as described below, and
 - the distribution date in May 2026.

The mortgage loans in the trust fund will be subject to optional transfer to the owner of the transferor interest on any distribution date on or after which

- the combined principal balance of both classes of certificates is reduced to any amount less than or equal to 10% of the original combined principal balance of the certificates and
- all amounts due and owing to the certificate insurer and Fannie Mae, including any unreimbursed draws on the policy and payments on the Fannie Mae guaranty, together with interest on such amounts, have been paid as provided either in the insurance agreement under which the policy is issued or in accordance with the Fannie Mae guaranty.

See “Description of the Certificates—Termination; Retirement of the Certificates” in this information supplement and “The Agreements—Termination; Optional Termination” in the information circular.

Credit Enhancement

General

The trust fund includes various mechanisms that are intended to protect certificateholders against losses on the mortgage loans.

Excess Interest

The trustee will distribute certain interest collections on the mortgage loans in each loan group to cover losses which would otherwise be allocated to the certificates related to that loan group, and to the extent described in this information supplement, to the certificates related to the other loan group.

Limited Subordination of Transferor Interest

The portion of each loan group in the trust fund that is not represented by the certificates is the transferor interest. Initially, the transferor interest will be \$0. The transferor interest is expected to grow as interest collections in excess of trustee fees, amounts due the certificate insurer and Fannie Mae, interest accrued on the certificates and certain loss amounts due on the certificates are applied as principal distributions on the certificates, thereby creating overcollateralization of the certificates. For each loan group, once the required level of overcollateralization is reached, the acceleration feature for the related Class of Class A Certificates will cease, unless it is necessary to maintain the required level of overcollateralization. The transferor interest also is the mechanism which absorbs changes in the amount of

the mortgage loans in the related loan group due to new borrowings and repayments. In certain circumstances, amounts that would be distributed on the transferor interest will instead be distributed on the certificates.

Countrywide Home Loans, Inc. (or one of its affiliates) will be the owner of the transferor interest on the closing date.

See “Description of the Certificates—Limited Subordination of Transferor Interest” in this information supplement.

Policy

The policy will irrevocably and unconditionally guarantee on each distribution date to the trustee for the benefit of the certificateholders the full and complete payment of the policy guaranteed distributions consisting of

- the policy guaranteed principal distribution amount with respect to the certificates for such distribution date, and
- accrued and unpaid interest due on the certificates.

The effect of the policy is to guarantee the timely payment of interest on, and the ultimate payment of the principal amount of, the certificates. The policy does not cover payment of basis risk carryforward.

In addition, the policy will guarantee the payment of the outstanding certificate principal balance on the distribution date in May 2026 (after giving effect to all other amounts distributable and allocable to principal on that distribution date).

See “Description of the Certificates—The Policy” in this information supplement.

Fannie Mae Guaranty

It is a further condition to the issuance of the Class A-1 Certificates that they be purchased by Fannie Mae and that Fannie Mae guarantee payments on the Class A-1 Certificates only if and to the

extent the certificate insurer does not make required payments under the policy. The Fannie Mae guarantee is not backed by the full faith and credit of the United States.

Limited Crosscollateralization

The pooling and servicing agreement will allow for some limited cross-collateralization, in that certain excess cashflows from either loan group on any distribution date will be applied to the funding of certain deficiencies in interest and principal with respect to the certificates related to the other loan group.

Reserve Fund

On the closing date, an account will be set up in the name of the trustee on behalf of the certificateholders, but will not be funded. Once the required level of overcollateralization for a loan group has been reached, excess cashflow from that loan group may be deposited in the reserve fund on future distribution dates until the amount reaches a specified level. Amounts in the reserve fund may be used to cover shortfalls in amounts required to be distributed as interest to either Class

of Class A Certificates or to cover losses on the mortgage loans in either loan group.

Material Federal Income Tax Consequences

Subject to the qualifications described under “Material Federal Income Tax Consequences” in this information supplement, Brown & Wood LLP, special tax counsel to the depositor, is of the opinion that, under existing law, a certificate will be treated as a debt instrument for federal income tax purposes as of the closing date. Furthermore, special tax counsel to the depositor is of the opinion that neither the trust fund nor any portion of the trust fund will be treated as either an association or a publicly traded partnership taxable as a corporation or as a taxable mortgage pool.

See “Material Federal Income Tax Consequences” in this information supplement and in the information circular for additional information concerning the application of federal income tax laws.

Some statements contained in or incorporated by reference in this information supplement and the accompanying information circular consist of forward-looking statements relating to future economic performance or projections and other financial items. These statements can be identified by the use of forward-looking words such as “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or other comparable words. Forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include, among others, general economic and business conditions, regulatory initiatives and compliance with governmental regulations, customer preferences and various other matters, many of which are beyond our control. Because we cannot predict the future, what actually happens may be very different from what we predict in our forward-looking statements.

Risk Factors

- The following information, which you should carefully consider, identifies certain significant sources of risk associated with an investment in the certificates. You should also carefully consider the information set forth under “Risk Factors” in the information circular.

Cash flow disruptions could cause payment delays and losses

Substantial delays could result while liquidating delinquent mortgage loans. Resulting shortfalls in distributions to certificateholders could occur if the certificate insurer were unable to perform its obligations under the policy and if Fannie Mae were unable to fulfill its obligations under the guaranty. Further, liquidation expenses (such as legal fees, real estate taxes, and maintenance and preservation expenses) will reduce the security for the related mortgage loans and in turn reduce the proceeds payable to certificateholders. In the event any of the mortgaged properties fail to provide adequate security for the related mortgage loans, you could experience a loss if the certificate insurer were unable to perform its obligations under the policy and if Fannie Mae were unable to fulfill its obligations under the guaranty.

Yield and reinvestment may be adversely affected by unpredictability of prepayments.....

During the period that a borrower may borrow money under the borrower’s line of credit, the borrower may make monthly payments only for the accrued interest or may also repay some or all of the amount previously borrowed. In addition, borrowers may borrow additional amounts up to the maximum amounts of their lines of credit. As a result, the amount each loan group receives in any month (and in turn the amount distributed to the holders of the related class of certificates) may change significantly. Even during the repayment period, borrowers generally may prepay their mortgage loans at any time without penalty. However, prepayments on loans secured by property in California and certain other jurisdictions may be subject to account termination fees during the first five years after origination of the loan. Generally, revolving home equity loans are not viewed by borrowers as permanent financing. The mortgage loans may be repaid at faster rates than traditional mortgage loans. The trust fund’s

prepayment experience may be affected by a wide variety of factors, including:

- general economic conditions,
- interest rates,
- the availability of alternative financing and
- homeowner mobility.

In addition, substantially all of the mortgage loans contain due-on-sale provisions and the master servicer intends to enforce those provisions unless doing so is not permitted by applicable law or the master servicer, in a manner consistent with reasonable commercial practice, permits the purchaser of the mortgaged property in question to assume the mortgage loan. *See “Description of the Certificates” in this information supplement and “Certain Legal Aspects of the Loans—Due-on-Sale Clauses” in the information circular for a description of certain provisions of the credit line agreements that may affect the prepayment experience on the mortgage loans.*

The yield to maturity and weighted average life of your certificates will be affected primarily by

- the rate and timing of repayments and prepayments on the mortgage loans in your loan group as compared with the creation and amount, if any, of additional balances and,
- the realization of liquidation loss amounts.

You bear the reinvestment risks resulting from a faster or slower rate of principal payments than you expected. You also bear the reinvestment risk if by March 6, 2000 all of the funds in the additional loan account have not been used to acquire additional home equity loans, which would result in a prepayment of the Class A-1 Certificates in an amount equal to the amount remaining in the additional loan account on that date.

See “Maturity and Prepayment Considerations” in this information supplement and “Yield and Prepayment Considerations” in the information circular.

**Junior lien priority could
result in payment delay or
loss**

The mortgage loans are secured by mortgages which generally are second mortgages. The master servicer has the power under certain circumstances to consent

to a new mortgage lien on the mortgaged property having priority over the mortgage loan in the trust fund. Mortgage loans secured by second mortgages are entitled to proceeds that remain from the sale of the related mortgaged property after any related senior mortgage loan and prior statutory liens have been satisfied. In the event that the remaining proceeds are insufficient to satisfy the mortgage loans secured by second mortgages and prior liens in the aggregate, the certificate insurer is unable to perform its obligations under the policy and Fannie Mae is unable to fulfill its guaranty, you will bear

- the risk of delay in distributions while any deficiency judgment against the borrower is sought and
- the risk of loss if the deficiency judgment cannot be obtained or is not realized upon.

See “Certain Legal Aspects of the Loans” in the information circular.

**Trust fund may be unsecured
creditor under certain
mortgage loans since
mortgage loan assignments
not recorded**

Although the mortgage notes relating to the mortgage loans will be delivered to the trustee within 30 days of the closing date, assignments of mortgage loans to the trustee will not be recorded unless the long-term senior unsecured debt obligations of Countrywide Home Loans fall below a rating of “BBB” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or “Baa2” by Moody’s Investors Service, Inc. In addition, assignments of mortgage loans will not be required to be recorded if the master servicer delivers to the trustee an opinion of counsel reasonably acceptable to each rating agency and the certificate insurer to the effect that recording is not required

- to protect the trustee’s right, title and interest in and to the related mortgage loan or
- in case a court should recharacterize the sale of the mortgage loans as a financing, to perfect a first priority security interest in favor of the trustee in the related mortgage loan.

In certain states in which the mortgage properties are located, failure to record the assignments of the related mortgages to the trustee will have the result

of making the sale of the mortgage loans potentially ineffective against

- any creditors of Countrywide Home Loans who may have been fraudulently or inadvertently induced to rely on the mortgage loans as assets of Countrywide Home Loans, or
- any purchaser of a mortgage loan who had no notice of the prior conveyance to the trust fund if such purchaser perfects his interest in the mortgage loan by taking possession of the related documents or other evidence of indebtedness or otherwise.

In such events, the trust fund would be an unsecured creditor of Countrywide Home Loans.

Distributions to and rights of investors could be adversely affected by the bankruptcy or insolvency of certain parties

Countrywide Home Loans will treat its sale of the mortgage loans to the depositor as a sale of the mortgage loans. However, if Countrywide Home Loans becomes bankrupt, the trustee in bankruptcy of Countrywide Home Loans may argue that the mortgage loans were not sold but were only pledged to secure a loan to Countrywide Home Loans. If that argument is made you could experience delays or reductions in payments on the certificates. The depositor will warrant in the pooling and servicing agreement that the transfer of the mortgage loans by it to the trust fund is either a valid transfer and assignment of the mortgage loans to the trust fund or the grant to the trust fund of a security interest in the mortgage loans.

If certain events relating to the bankruptcy or insolvency of the transferor were to occur, no further additional home equity loans would be acquired with any funds remaining in the additional loan account, additional balances would not be sold to the trust fund, and the rapid amortization period would commence.

If the master servicer becomes bankrupt, the bankruptcy trustee or receiver may have the power to prevent the appointment of a successor master servicer.

**Developments in California
could have disproportionate
effect on the pool of
mortgage loans due to
geographic concentration of
mortgaged properties**

Approximately 26.50% of the mortgage loans in statistic calculation loan group 1 and approximately 38.01% of the mortgage loans in statistic calculation loan group 2 are secured by mortgaged properties which are located in the State of California. After the statistic calculation date, the geographic concentration could change as a result of the addition or removal of mortgage loans, prepayments and/or the creation of additional balances. Property in California may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, floods, mudslides and other natural disasters. In addition:

- economic conditions in California (which may or may not affect real property values) may affect the ability of borrowers to repay their loans on time;
- declines in the California residential real estate market may reduce the values of properties located in California, which would result in an increase in the loan-to-value ratios; and
- any increase in the market value of properties located in California would reduce the loan-to-value ratios and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans.

**Master servicer has ability to
change the terms of the
mortgage loans**

The master servicer may agree to changes in the terms of a credit line agreement, provided that such changes

- do not materially and adversely affect the interest of the related certificateholders, the certificate insurer or Fannie Mae, and
- are consistent with prudent business practice.

In addition, the master servicer, within certain limitations, may increase the credit limit of the related mortgage loan or reduce the loan rate for that mortgage loan. Any such increase in the credit limit of a mortgage loan would increase the combined loan-to-value ratio of that mortgage loan and, accordingly, would increase the risk of the related class of certificates' investment in such mortgage loan. In addition, any reduction in the loan rate of a

mortgage loan would reduce the related loan group's excess cash flow available to absorb losses.

Your return could be adversely affected by delinquent mortgage loans . . .

The trust fund may include mortgage loans which are 59 or fewer days delinquent as of February 27, 2000 (the cut-off date for the pool of mortgage loans). We expect that the principal balance of mortgage loans which are between 30 days and 59 days delinquent as of the cut-off date will not exceed approximately \$1,100,000. Mortgage loans that are already delinquent may increase the risk that the trust fund will experience a loss if

- there are not sufficient funds from the investor interest collections to cover the investor loss amounts for any distribution date,
- amounts intended to provide protection for the certificates that are otherwise payable to the owner of the transferor interest have been exhausted and
- the certificate insurer fails to perform its obligations under the policy and Fannie Mae fails to perform its obligations under the guaranty.

Effect of loan rates on the certificates

The certificates accrue interest at a rate based on the one-month LIBOR index plus a specified margin, but are subject to a cap based, in part, on the interest rates on the mortgage loans.

The mortgage loans have interest rates that are based on the prime rate, and have periodic and maximum limitations on adjustments to the loan rate. As a result, the certificates may accrue less interest than they would accrue if the certificate rate were based solely on the LIBOR index plus the specified margin.

A variety of factors could limit the certificate rate.

Some of these factors are described below:

- Each certificate rate adjusts monthly while the loan rates on the mortgage loans may adjust less frequently. Consequently, the loan rates may limit increases in one or both certificate rates for extended periods in a rising interest rate environment.
- The prime rate may respond to different economic and market factors than LIBOR and thus may increase or decrease at different times. As a result, it is possible that the loan rates may decline while LIBOR is stable or rising. It is also possible that both the loan rates and LIBOR may either decline or increase during the same period, but that the

loan rates may decline more rapidly or increase more slowly than LIBOR.

These factors may adversely affect the yield to maturity on the certificates.

For a discussion of additional risks pertaining to the certificates, see “Risk Factors” in the information circular.

**Certain rights may be affected
by the issuance of two
classes of certificates from a
single trust fund**

The ability to declare an event of master servicing termination or to amend the pooling and servicing agreement rests with the certificate insurer and the holders of specified percentages of the certificates in both groups. In addition, under certain circumstances Fannie Mae will have such rights as they relate to the Class A-1 Certificates. As a result you may have less ability to control certain actions than you would have had if only a single class of certificates had been issued from the trust fund.

**Year 2000 Computer Problems
Could Disrupt Distributions
On Certificates**

Many computer systems and microprocessors with data functions, including those in non-information technology equipment and systems, use only two digits to identify a year in the date field with the assumption that the first two digits of the year are always “19.” Consequently, on January 1, 2000 and thereafter, computers that are not year 2000 compliant may read the year as 1900 and malfunction.

The master servicer believes that its systems are year 2000 compliant and, to date, has not experienced any material year 2000 problems. In addition, the master servicer has not received notice from any of its third-party service providers, such as trustees, borrowers’ banks, loan servicers and DTC, that any of them have experienced any material year 2000 problems. Nonetheless, any failure by the master servicer, or the failure of any of its third-party service providers, to be fully year 2000 ready could disrupt, at least temporarily, the master servicer’s ability to carry out its servicing duties, including the calculation of amounts distributable to you and the timely transfer of funds to the trustee for your benefit. Your investment in the certificates could consequently suffer.

The Master Servicer

General

Countrywide Home Loans, Inc. (“Countrywide”) will service the mortgage loans consisting of adjustable rate home equity revolving credit line loans made or to be made in the future in accordance with the terms set forth in the pooling and servicing agreement. The mortgage loans will be secured by either first or second deeds of trust or mortgages on the residential properties that are one- to four-family properties, condominiums and planned unit developments (the “Mortgaged Properties”).

Countrywide may perform any of its obligations under the pooling and servicing agreement dated as of February 27, 2000 among CWABS, Inc., as depositor, Countrywide, as sponsor and master servicer, Fannie Mae, and Bank One, National Association, as trustee, through one or more subservicers. Notwithstanding any such subservicing arrangement, the master servicer will remain liable for its servicing duties and obligations under the pooling and servicing agreement as if the master servicer alone were servicing the mortgage loans. As of the Closing Date, the master servicer will service the mortgage loans without subservicing arrangements.

The Master Servicer

Countrywide, a New York corporation and a subsidiary of Countrywide Credit Industries, Inc., will act as master servicer for the mortgage loans pursuant to the pooling and servicing agreement. Countrywide is engaged primarily in the mortgage banking business, and as such, originates, purchases, sells and services mortgage loans. Countrywide originates mortgage loans through a retail branch system and through mortgage loan brokers and correspondents nationwide. Countrywide’s mortgage loans are principally first-lien, fixed or adjustable rate mortgage loans secured by single-family residences. Countrywide began servicing home equity lines of credit in October 1994.

At December 31, 1999, Countrywide provided servicing for approximately \$245.6 billion aggregate principal amount of mortgage loans, substantially all of which are being serviced for unaffiliated persons. At December 31, 1999, Countrywide provided servicing for approximately \$2.4 billion aggregate principal amount of first and second lien mortgage loans originated under its home equity lines of credit program.

The principal executive offices of Countrywide are located at 4500 Park Granada, Calabasas, California 91302. Its telephone number is (818) 225-3300. Countrywide conducts operations from its headquarters in Calabasas and from offices located throughout the nation.

The Home Equity Loan Program

Underwriting Procedures Relating to Home Equity Loans

The following is a description of the underwriting procedures customarily employed by the sponsor with respect to home equity loans. The underwriting process is intended to assess the applicant’s credit standing and repayment ability, and the value and adequacy of the real property security as collateral for the proposed loan. Exceptions to the sponsor’s underwriting guidelines will be made when compensating factors are present. Such factors include the borrower’s employment stability, favorable credit history, equity in the related property and the nature of the underlying first mortgage loan.

Each applicant for a home equity loan is required to complete an application which lists the applicant’s assets, liabilities, income, and employment history and other demographic and personal information. If information in the loan application demonstrates that the applicant has sufficient income and there is sufficient equity in the real property to justify making a home equity loan, the sponsor will conduct a further credit investigation of the applicant. This investigation includes obtaining and reviewing an independent credit bureau report on the credit history of the applicant in order to evaluate the applicant’s ability and willingness to repay. The credit report typically contains information relating to such matters as credit history with local merchants and lenders, installment and revolving debt payments and any record of delinquencies, defaults, bankruptcy, collateral repossessions, suits or judgments.

The sponsor originates or acquires mortgage loans pursuant to alternative sets of underwriting criteria under its Alternative Documentation Loan Program (the “Alternative Documentation Program”), its Reduced Documentation Loan Program (the “Reduced Documentation Loan Program”) and its Streamlined Documenta-

tion Loan Program (the “Streamlined Documentation Program”). Generally the Alternative Documentation Program permits a borrower to provide pay stubs and W-2 forms covering the most recent two years, in lieu of obtaining a Verification of Employment. The Reduced Documentation Program places more emphasis on property underwriting than on credit underwriting. Therefore certain credit underwriting documentation concerning income and employment verification is waived. The Reduced Documentation Program requires applicants to list their assets and also permits bank statements in lieu of verifications of deposits. Only self-employed borrowers with credit histories that demonstrate an established ability to repay indebtedness in a timely fashion are eligible for the Reduced Documentation Program. The Streamlined Documentation program is available for first-lien borrowers in good standing with Countrywide. The Streamlined Documentation Loan Program is available for borrowers who have recently purchased or refinanced (rate/term) with the sponsor, provided they have not been 30 days delinquent in payment during the previous twelve month period. Under the Streamlined Documentation Program, the value used in conjunction with obtaining the first lien from the sponsor is used in lieu of a new appraisal and subsequently used to determine the Combined Loan-to-Value Ratios for the new home equity line of credit. In most instances, the maximum loan amount is limited to \$30,000. In addition, credit review is conducted, however no debt ratio calculation, income documentation or asset verification is required. A telephonic verification of employment is required prior to loan closing.

Full appraisals are generally performed on all home equity loans which at origination had a credit limit greater than \$100,000. Such appraisals are determined on the basis of a sponsor-approved, independent third-party, fee-based appraisal completed on forms approved by Fannie Mae or Freddie Mac. For certain home equity loans which had at origination a credit limit equal to or less than \$100,000, a drive-by evaluation is generally completed by a state licensed, independent third-party, professional appraiser on forms approved by either Fannie Mae or Freddie Mac. The drive-by evaluation is an exterior examination of the premises by the appraiser to determine that the property is in good condition. The appraisal is based on various factors, including the market value of comparable homes and the cost of replacing the improvements and generally is required to have been made not earlier than 180 days prior to the date of origination of the mortgage loan. For certain home equity loans with credit limits equal to or less than \$100,000, Countrywide may have the related mortgaged property appraised electronically. Electronic appraisals utilize commercially-available home price indices and will only be completed on mortgaged properties where Countrywide also services the first mortgage. The minimum and maximum loan amounts for home equity loans are generally \$7,500 and \$500,000, respectively. Borrowers may draw under the home equity loans in minimum amounts of \$250 and maximum amounts up to the remaining available credit thereunder, in each case after giving effect to all prior draws and payments thereon.

After obtaining all applicable employment, credit and property information, the sponsor generally uses a debt-to-income ratio to assist in determining whether the prospective borrower has sufficient monthly income available to support the payments on the home equity loan in addition to any senior mortgage loan payments (including any escrows for property taxes and hazard insurance premiums) and other monthly credit obligations. The “debt-to-income ratio” is the ratio of the borrower’s total monthly credit obligations (assuming the mortgage loan interest rate is based on the applicable fully indexed interest rate) to the borrower’s gross monthly income. Based on the foregoing, the maximum monthly debt-to-income ratio is 45%. Variations in the monthly debt-to-income ratios limits are permitted based on compensating factors. The sponsor currently offers home equity loan products that allow maximum Combined Loan-to-Value Ratios of up to 100%.

It is generally the sponsor’s policy to require a title search or limited coverage policy before it makes a home equity loan for amounts less than or equal to \$100,000. In addition, if the home equity loan has a maximum draw amount of more than \$100,000, the sponsor requires that the borrower obtain an ALTA policy, or other assurance of title customary in the relevant jurisdiction. In addition, ALTA title policies are generally obtained in situations where the property is on leased land or there has been a change in title or such home equity loan is in first lien position.

Servicing of the Mortgage Loans

The master servicer has established standard policies for the servicing and collection of the home equity loans. Servicing includes, but is not limited to,

- the collection and aggregation of payments relating to the mortgage loans;

- the supervision of delinquent mortgage loans, loss mitigation efforts, foreclosure proceedings and, if applicable, the disposition of the mortgaged properties; and
- the preparation of tax related information in connection with the mortgage loans.

Billing statements are mailed monthly by the master servicer. The statements detail all debits and credits and specify the minimum payment due and the available credit line. Notice of changes in the applicable loan rate are provided by the master servicer to the mortgagor with such statements. All payments are due by the fifteenth day of the month.

With respect to mortgage loans, the general policy of the master servicer is to initiate foreclosure in the underlying property

- after such loan is 60 days or more delinquent and satisfactory arrangements cannot be made with the mortgagor; or
- if a notice of default on a senior lien is received by the master servicer. Foreclosure proceedings may be terminated if the delinquency is cured. Mortgage loans to borrowers in bankruptcy proceedings may be restructured in accordance with law and with a view to maximizing recovery of such loans, including any deficiencies.

Once foreclosure is initiated by the master servicer, a foreclosure tracking system is used to monitor the progress of the proceedings. The system includes state specific parameters to monitor whether proceedings are progressing within the time frame typical for the state in which the property is located. During the foreclosure proceeding, the master servicer determines the amount of the foreclosure bid and whether to liquidate the loan.

After foreclosure, if the home equity loan is secured by a first mortgage lien, the master servicer may liquidate the mortgaged property and charge off the home equity loan balance which was not recovered through liquidation proceeds. If the mortgaged property was subject to a senior lien, the master servicer will either directly manage the foreclosure sale of the property and satisfy such lien at the time of sale or take other action as deemed necessary to protect the interest in the mortgaged property. If in the judgment of the master servicer, the cost of maintaining or purchasing the senior lien position exceeds the economic benefit of such action, the master servicer will generally charge off the entire home equity loan and may seek a money judgment against the borrower.

Servicing and charge-off policies and collection practices may change over time in accordance with, among other things, the master servicer's business judgment, changes in the portfolio and applicable laws and regulations.

Foreclosure and Delinquency Experience

The following table summarizes the delinquency and foreclosure experience, respectively, on the dates indicated, of home equity loans serviced by the master servicer. The delinquency and foreclosure percentages may be affected by the size and relative lack of seasoning of the servicing portfolio because many of such loans were not outstanding long enough to give rise to some or all of the periods of delinquency indicated in the chart below. Accordingly, the information should not be considered as a basis for assessing the likelihood, amount or severity of delinquency or losses on the mortgage loans and no assurances can be given that the foreclosure and delinquency experience presented in the table below will be indicative of such experience on the mortgage loans:

For the purposes of the following table,

- The period of delinquency is based on the number of days payments are contractually past due.
- Certain total percentages and dollar amounts may not equal the sum of the percentages and dollar amounts indicated in the columns due to differences in rounding.
- "Foreclosure Rate" is the dollar amount of mortgage loans in foreclosure as a percentage of the total principal balance of mortgage loans outstanding as of the date indicated.
- "Bankruptcy Rate" is the dollar amount of mortgage loans for which the related borrower has declared bankruptcy as a percentage of the total principal balance of mortgage loans outstanding as of the date indicated.

Delinquency and Foreclosure Experience

| | As of December 31, 1997 | | As of December 31, 1998 | | As of December 31, 1999 | |
|------------------------|------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
| | <u>Principal Balance</u> | <u>Percentage</u> | <u>Principal Balance</u> | <u>Percentage</u> | <u>Principal Balance</u> | <u>Percentage</u> |
| Portfolio | \$1,053,313,150.66 | — | \$1,323,711,736.54 | — | \$2,412,534,167.47 | — |
| Delinquency percentage | | | | | | |
| 30-59 Days | \$ 3,789,570.37 | 0.36% | \$ 4,483,412.01 | 0.34% | \$ 5,554,389.27 | 0.23% |
| 60-89 Days | 533,225.80 | 0.05 | 747,337.11 | 0.06 | 2,123,878.51 | 0.09 |
| 90+ Days | 1,101,964.19 | 0.10 | 2,439,328.76 | 0.18 | 4,665,157.69 | 0.19 |
| Total | <u>\$ 5,424,760.36</u> | <u>0.52%</u> | <u>\$ 7,670,077.88</u> | <u>0.58%</u> | <u>\$ 12,343,425.47</u> | <u>0.51%</u> |
| Foreclosure Rate | \$ 1,166,826.32 | 0.11% | \$ 1,835,608.61 | 0.14% | \$ 646,956.56 | 0.03% |
| Bankruptcy Rate | \$ 3,071,686.84 | 0.29% | \$ 4,801,943.11 | 0.36% | \$ 7,706,013.75 | 0.32% |

Description of the Mortgage Loans

General

Certain statistical information concerning the pool of mortgage loans (such pool is referred to as the “Statistic Calculation Pool” and each such mortgage loan is referred to as a “Statistic Calculation Pool Mortgage Loan”) is set forth below. The mortgage pool will be divided into two groups of mortgage loans (each is referred to as a loan group)—loan group 1 and loan group 2. The mortgage loans in loan group 1 are eligible for sale to Fannie Mae. Certain of the mortgage loans in loan group 2 are not eligible for sale to Fannie Mae. The Class A-1 Certificates will represent an interest in loan group 1 only. Loan group 2 information is included chiefly to provide a better understanding about the trust fund. A detailed description of the loan group 1 mortgage loans actually delivered into loan group 1 (the “Detailed Description”) will be provided to Fannie Mae following the termination of the Additional Loan Account. The Detailed Description will specify the aggregate of the principal balances of the mortgage loans included in the trust fund as of the cut-off date and the principal balances of the additional home equity loans and will also include, among other things, the following information regarding such mortgage loans:

- the outstanding principal balances of the loan group 1 cut-off date mortgage loans as of February 27, 2000 (referred to as the “cut-off date”) together with the principal balances of the Additional Home Equity Loans,
- the lien priorities of such mortgage loans,
- the loan rates borne by such mortgage loans as of the cut-off date,
- the combined loan-to-value ratios of such mortgage loans,
- the remaining term to scheduled maturity of such mortgage loans,
- the type of properties securing such mortgage loans,
- the geographical distribution of such mortgage loans by state and
- the credit limits and Credit Limit Utilization Rates of such mortgage loans as of the cut-off date.

The mortgage loans will have been originated pursuant to credit line agreements and will be secured by mortgages or deeds of trust, which are either first or second mortgages or deeds of trust, on mortgaged properties expected to be located in 49 states and the District of Columbia as of the cut-off date. The mortgaged properties securing the mortgage loans will consist of residential properties that are one- to four-family properties. *See “—Mortgage Loan Terms” below.*

Information regarding the Statistical Calculation Pool Mortgage Loans as of January 27, 2000 (the “Statistic Calculation Date”) can be found on the tables on pages S-23 through S-34.

Mortgage Loan Terms

General. A borrower may access a mortgage loan by writing a check in a minimum amount of \$250. The mortgage loans bear interest at a variable rate which changes monthly on the first business day of the related month with changes in the applicable Index Rate. The Statistic Calculation Pool Mortgage Loans are subject to a maximum per annum interest rate ranging from 12.25% to 18.50% per annum, subject to applicable usury

limitations. See “*Certain Legal Aspects of the Loans—Applicability of Usury Laws*” in the *Information Circular*. The daily periodic rate on the mortgage loans (i.e., the loan rate) is the sum of the Index Rate plus the applicable margin, divided by 365 days. The margin generally ranges between –1.750% and 7.625%. The “Index Rate” is based on the highest “prime rate” (the “Index”) published in the “Money Rates” table of *The Wall Street Journal* as of the first business day of each calendar month.

The second mortgage ratio for a mortgage loan is the credit limit for the related mortgage loan, provided such mortgage loan was in the second lien position, divided by the sum of such credit limit and the outstanding principal balance of any mortgage loan senior to the related mortgage loan as of the date of related loan application. The weighted average second mortgage loan ratio for the Loan Group 1 Statistic Calculation Pool Mortgage Loans was approximately 26.89%. The weighted average second mortgage ratio for the Loan Group 2 Statistic Calculation Pool Mortgage Loans was approximately 31.46%.

Countrywide generally offers introductory loan rates on its home equity lines of credit. The introductory rate applies to payments made during the first three months or first six months after origination. After such introductory period, the loan rate will adjust to the Index Rate plus the applicable margin.

In general, the home equity loans may be drawn upon during a draw period of five years. Home equity loans with a draw period of five years (which generally may be extendible for an additional five years, upon Countrywide’s approval) constitute approximately 98.41% of the Loan Group 1 Statistic Calculation Pool Mortgage Loans and approximately 97.60% of the Loan Group 2 Statistic Calculation Pool Mortgage Loans, each by Statistic Calculation Date Principal Balance. These loans are generally subject to a fifteen year repayment period following the end of the draw period. During this repayment period, the outstanding principal balance of the loan will be paid in monthly installments equal to 1/180 of the outstanding principal balance as of the end of the draw period.

The minimum payment due during the draw period will be equal to the finance charges accrued on the outstanding principal balance of the home equity loan during the related billing period, any such amounts past due and any other charges owed. The minimum payment due during the repayment period will be equal to the sum of the finance charges accrued on the outstanding principal balance of the mortgage loan during the related billing period, any amounts past due, any other charges owed and the principal payment described above.

The “principal balance” of a mortgage loan (other than a Liquidated Mortgage Loan) on any day is equal to

- its principal balance as of the cut-off date for the mortgage loans purchased on the Closing Date and as of the relevant date for the additional home equity loans *plus*
- any Additional Balances in respect of such mortgage loan, *minus*
- all collections credited against the principal balance of such mortgage loan in accordance with the related credit line agreement prior to such day.

The principal balance of a Liquidated Mortgage Loan after final recovery of related liquidation proceeds shall be zero.

Difference between Statistic Calculation Pool and Cut-off Date Pool. The statistical information presented in this Information Supplement for each loan group reflects the mortgage loans originated by the sponsor through the Statistic Calculation Date, and is based on the number and the principal balances of such mortgage loans in each loan group as of the Statistic Calculation Date. The depositor expects that the actual pool as of the Closing Date will represent approximately \$345,000,000 aggregate principal balance of mortgage loans. Loan group 1, which has a Statistic Calculation Date Principal Balance of approximately \$141,324,259, is expected to have a cut-off date principal balance of approximately \$210,000,000. Loan group 2, which has a Statistic Calculation Date Principal Balance of approximately \$91,041,486, is expected to have a cut-off date principal balance of approximately \$135,000,000. The trust also will include approximately \$15,000,000 for Loan Group 1 and \$10,000,000 for Loan Group 2 in the relevant additional loan accounts that may be applied to the purchase of additional mortgage loans as described below. The initial mortgage loans to be included in the cut-off date pool will represent mortgage loans originated or to be originated by the sponsor on or prior to the cut-off date and sold by the sponsor to the depositor, and by the depositor to the trust fund, on the Closing Date. In addition, with respect to the Statistic Calculation Pool Mortgage Loans, as to which statistical information is presented herein, some amortization will occur and some Additional Balances may be created prior to the cut-

off date. Moreover, certain Statistic Calculation Pool Mortgage Loans may prepay in full or may be determined not to meet the eligibility requirements for the cut-off date pool and as a result may not be included in the cut-off date pool. As a result of the foregoing, the statistical distribution of characteristics as of the cut-off date for the cut-off date mortgage loan pool will vary from the statistical distribution of such characteristics of each Statistic Calculation Loan Group as presented in this Information Supplement, although such variance will not be material. In the event that the sponsor does not, as of the cut-off date, have the full amount of mortgage loans which the depositor expects to purchase from the sponsor and sell to the trust fund on such date (i.e., approximately \$225,000,000 aggregate principal balance of mortgage loans), the depositor may reduce the size of the offering. Likewise, if the sponsor has more mortgage loans than anticipated, the depositor may increase the size of the offering. The original principal amount of either class of Certificates may not decrease or increase by more than 10%. For each loan group, the excess of the original principal balance of the related certificates over the cut-off date principal balance of that loan group will be deposited into an account (the account for loan group 1, the "Additional Loan Account"). These funds are expected to be used to acquire additional home equity loans not in the cut-off date pool (these loans for loan group 1, the "Additional Home Equity Loans"). Consequently, the statistical distribution characteristics of loan group 1 after the addition of Additional Home Equity Loans will vary from that of both the loan group 1 cut-off date mortgage loan pool and the Loan Group 1 Statistical Calculation Pool Mortgage Loans. Any funds remaining in the Additional Loan Account on March 6, 2000 will be used to prepay the Class A-1 Certificates on the first Distribution Date.

The sum of the columns below may not equal the total indicated for each loan group due to rounding. The following tables describe the Statistic Calculation Pool Mortgage Loans in each loan group and the related mortgaged properties based upon the Loan Group 1 Statistic Calculation Pool or the Loan Group 2 Statistic Calculation Pool, as applicable, as of the close of business on the Statistic Calculation Date:

LOAN GROUP 1

Principal Balances

| <u>Range of Principal Balances</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|------------------------------------|---|---|--|
| \$ 0.00–\$ 10,000 | 1,843 | \$ 11,233,135 | 7.95% |
| \$ 10,000.01–\$ 20,000 | 1,885 | 29,195,294 | 20.66 |
| \$ 20,000.01–\$ 30,000 | 1,137 | 28,704,421 | 20.31 |
| \$ 30,000.01–\$ 40,000 | 554 | 19,594,901 | 13.87 |
| \$ 40,000.01–\$ 50,000 | 307 | 14,006,683 | 9.91 |
| \$ 50,000.01–\$ 60,000 | 163 | 9,014,869 | 6.38 |
| \$ 60,000.01–\$ 70,000 | 122 | 7,964,831 | 5.64 |
| \$ 70,000.01–\$ 80,000 | 82 | 6,228,053 | 4.41 |
| \$ 80,000.01–\$ 90,000 | 46 | 3,963,542 | 2.80 |
| \$ 90,000.01–\$100,000 | 71 | 6,975,029 | 4.94 |
| \$100,000.01–\$125,000 | 25 | 2,893,307 | 2.05 |
| \$125,000.01–\$150,000 | 4 | 517,876 | 0.37 |
| \$175,000.01–\$200,000 | 3 | 569,219 | 0.40 |
| \$200,000.01–\$225,000 | 1 | 216,000 | 0.15 |
| \$225,000.01–\$250,000 | 1 | 247,100 | 0.17 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Combined Loan-to-Value Ratios⁽¹⁾

| <u>Range of Combined Loan-to-Value Ratios</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|---|---------------------------------|---|--|
| Less than 10.00% | 18 | \$ 285,146 | 0.20% |
| 10.01– 20.00 | 46 | 934,299 | 0.66 |
| 20.01– 30.00 | 57 | 1,865,548 | 1.32 |
| 30.01– 40.00 | 73 | 1,438,227 | 1.02 |
| 40.01– 50.00 | 150 | 3,602,523 | 2.55 |
| 50.01– 60.00 | 297 | 6,329,532 | 4.48 |
| 60.01– 70.00 | 832 | 17,624,603 | 12.47 |
| 70.01– 80.00 | 1,421 | 31,522,734 | 22.31 |
| 80.01– 90.00 | 2,183 | 48,009,828 | 33.97 |
| 90.01–100.00 | <u>1,167</u> | <u>29,711,818</u> | <u>21.02</u> |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

- (1) The ratio (expressed as a percentage) of (A) the sum of (i) the credit limit of the mortgage loans and (ii) any outstanding principal balances of mortgage loans senior or of equal priority to the mortgage loans (calculated generally at the date of origination of the mortgage loans) to (B) the lesser of (i) the appraised value of the related mortgaged property as set forth in loan files at such date of origination or (ii) in the case of a mortgaged property purchased within one year of the origination of the related mortgage loan, the purchase price of such mortgaged property.

Loan Rates⁽¹⁾

| <u>Range of Loan Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------|---------------------------------|---|--|
| 5.501– 6.000% | 77 | \$ 2,224,885 | 1.57% |
| 6.501– 7.000 | 40 | 1,499,425 | 1.06 |
| 7.001– 7.500 | 5,767 | 127,036,756 | 89.89 |
| 7.501– 8.000 | 1 | 27,999 | 0.02 |
| 8.001– 8.500 | 2 | 33,500 | 0.02 |
| 8.501– 9.000 | 26 | 916,204 | 0.65 |
| 9.001– 9.500 | 60 | 2,175,278 | 1.54 |
| 9.501–10.000 | 48 | 1,076,818 | 0.76 |
| 10.001–10.500 | 41 | 1,140,908 | 0.81 |
| 10.501–11.000 | 62 | 1,649,900 | 1.17 |
| 11.001–11.500 | 62 | 1,960,420 | 1.39 |
| 11.501–12.000 | 46 | 1,247,149 | 0.88 |
| 12.001–12.500 | 7 | 250,086 | 0.18 |
| 12.501–13.000 | 4 | 54,930 | 0.04 |
| 13.001–13.500 | <u>1</u> | <u>30,000</u> | <u>0.02</u> |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

- (1) Approximately 24.65% of the Loan Group 1 Statistic Calculation Pool Mortgage Loans by Statistic Calculation Date Principal Balance are currently subject to an introductory rate of 7.25% per annum and 65.08% of the Loan Group 1 Statistic Calculation Pool Mortgage Loans by Statistic Calculation Date Principal Balance are currently subject to an introductory rate of 7.50% per annum.

Geographic Distribution⁽¹⁾

| <u>State</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------|---|---|--|
| Alabama..... | 105 | \$ 2,075,264 | 1.47% |
| Alaska | 12 | 293,072 | 0.21 |
| Arizona | 195 | 4,472,831 | 3.16 |
| California..... | 1,292 | 37,456,602 | 26.50 |
| Colorado | 322 | 8,386,359 | 5.93 |
| Connecticut | 53 | 1,236,477 | 0.87 |
| Delaware | 14 | 335,964 | 0.24 |
| District of Columbia | 6 | 204,912 | 0.14 |
| Florida | 312 | 6,382,881 | 4.52 |
| Georgia | 171 | 3,821,476 | 2.70 |
| Hawaii | 36 | 789,373 | 0.56 |
| Idaho..... | 70 | 1,478,215 | 1.05 |
| Illinois | 250 | 5,746,852 | 4.07 |
| Indiana | 109 | 1,741,683 | 1.23 |
| Iowa | 23 | 338,404 | 0.24 |
| Kansas | 82 | 1,496,065 | 1.06 |
| Kentucky | 47 | 1,010,679 | 0.72 |
| Louisiana | 68 | 1,284,203 | 0.91 |
| Maine | 22 | 301,694 | 0.21 |
| Maryland | 75 | 1,741,875 | 1.23 |
| Massachusetts | 168 | 3,694,919 | 2.61 |
| Michigan | 499 | 10,171,832 | 7.20 |
| Minnesota | 54 | 1,212,479 | 0.86 |
| Mississippi | 20 | 322,339 | 0.23 |
| Missouri..... | 135 | 2,568,786 | 1.82 |
| Montana..... | 47 | 837,265 | 0.59 |
| Nebraska | 34 | 822,660 | 0.58 |
| Nevada | 72 | 1,744,435 | 1.23 |
| New Hampshire..... | 37 | 637,841 | 0.45 |
| New Jersey | 185 | 3,854,228 | 2.73 |
| New Mexico | 58 | 1,020,639 | 0.72 |
| New York | 155 | 3,535,599 | 2.50 |
| North Carolina | 147 | 2,339,768 | 1.66 |
| North Dakota | 3 | 51,474 | 0.04 |
| Ohio | 178 | 3,680,423 | 2.60 |
| Oklahoma | 91 | 1,673,163 | 1.18 |
| Oregon | 136 | 2,976,562 | 2.11 |
| Pennsylvania | 182 | 3,627,129 | 2.57 |
| Rhode Island | 10 | 143,928 | 0.10 |
| South Carolina | 60 | 864,436 | 0.61 |
| South Dakota | 4 | 53,823 | 0.04 |
| Tennessee | 124 | 2,154,289 | 1.52 |
| Texas | 9 | 385,775 | 0.27 |
| Utah | 98 | 2,033,893 | 1.44 |
| Vermont | 9 | 120,572 | 0.09 |
| Virginia | 115 | 2,186,011 | 1.55 |
| Washington | 250 | 6,168,608 | 4.36 |
| West Virginia | 7 | 97,820 | 0.07 |
| Wisconsin | 63 | 1,031,182 | 0.73 |
| Wyoming | 30 | 717,499 | 0.51 |
| Total..... | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

(1) Geographic location is determined by the address of the mortgaged property securing the related mortgage loan.

Property Type

| <u>Property Type</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| Single Family | 5,138 | \$114,767,341 | 81.21% |
| PUD | 770 | 20,192,257 | 14.29 |
| Lo Condo | 297 | 5,365,114 | 3.80 |
| 2-4 Units | 39 | 999,546 | 0.71 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Lien Priority

| <u>Lien Priority</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| 1st Liens | 147 | \$ 5,517,891 | 3.90% |
| 2nd Liens | 6,097 | 135,806,368 | 96.10 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Margins

| <u>Range of Margins</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------|---|---|--|
| 0.000% | 285 | \$ 7,310,508 | 5.17% |
| 0.001-0.250 | 73 | 2,158,052 | 1.53 |
| 0.251-0.500 | 384 | 10,258,250 | 7.26 |
| 0.501-0.750 | 570 | 10,177,004 | 7.20 |
| 0.751-1.000 | 279 | 6,058,208 | 4.29 |
| 1.001-1.250 | 836 | 17,344,245 | 12.27 |
| 1.251-1.500 | 95 | 2,261,088 | 1.60 |
| 1.501-1.750 | 71 | 2,179,136 | 1.54 |
| 1.751-2.000 | 692 | 14,648,992 | 10.37 |
| 2.001-2.250 | 252 | 6,577,028 | 4.65 |
| 2.251-2.500 | 296 | 9,179,296 | 6.50 |
| 2.501-2.750 | 446 | 9,045,294 | 6.40 |
| 2.751-3.000 | 501 | 11,552,810 | 8.17 |
| 3.001-3.250 | 300 | 6,369,873 | 4.51 |
| 3.251-3.500 | 265 | 7,054,898 | 4.99 |
| 3.501-3.750 | 318 | 6,954,745 | 4.92 |
| 3.751-4.000 | 41 | 601,192 | 0.43 |
| 4.001-4.250 | 183 | 4,055,479 | 2.87 |
| 4.251-4.500 | 166 | 3,900,654 | 2.76 |
| 4.501-4.750 | 10 | 193,578 | 0.14 |
| 4.751-5.000 | 31 | 382,909 | 0.27 |
| 5.001-5.250 | 100 | 2,272,571 | 1.61 |
| 5.251-5.500 | 20 | 485,855 | 0.34 |
| 5.751-6.000 | 21 | 214,160 | 0.15 |
| 6.001-6.250 | 5 | 56,585 | 0.04 |
| 6.751-7.000 | 1 | 7,500 | 0.01 |
| 7.001-7.250 | 1 | 16,000 | 0.01 |
| 7.251-7.500 | 2 | 8,350 | 0.01 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Credit Limit Utilization Rates⁽¹⁾

| <u>Range of Credit Limit Utilization Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|--|---|---|--|
| 0.00% | 386 | \$ 0 | 0.00% |
| 0.01– 10.00 | 128 | 511,719 | 0.36 |
| 10.01– 20.00 | 210 | 2,146,710 | 1.52 |
| 20.01– 30.00 | 274 | 3,042,608 | 2.15 |
| 30.01– 40.00 | 320 | 4,125,512 | 2.92 |
| 40.01– 50.00 | 487 | 6,462,447 | 4.57 |
| 50.01– 60.00 | 358 | 6,516,144 | 4.61 |
| 60.01– 70.00 | 418 | 8,677,867 | 6.14 |
| 70.01– 80.00 | 454 | 10,635,488 | 7.53 |
| 80.01– 90.00 | 332 | 8,789,987 | 6.22 |
| 90.01–100.00 | <u>2,877</u> | <u>90,415,778</u> | <u>63.98</u> |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

(1) The “Credit Limit Utilization Rate” is determined by dividing the Loan Group 1 Statistic Calculation Date Balance by the aggregate of the credit limits of the related credit line agreements.

Maximum Rates

| <u>Maximum Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| 12.250% | 27 | \$ 390,678 | 0.28% |
| 12.500 | 95 | 1,643,629 | 1.16 |
| 15.000 | 42 | 693,416 | 0.49 |
| 16.000 | 147 | 2,339,768 | 1.66 |
| 17.000 | 331 | 7,296,976 | 5.16 |
| 18.000 | <u>5,602</u> | <u>128,959,792</u> | <u>91.25</u> |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Months Remaining to Scheduled Maturity⁽¹⁾

| <u>Range of Months Remaining to Scheduled Maturity</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|--|---|---|--|
| 109–120 | 7 | \$ 97,820 | 0.07% |
| 169–180 | 38 | 1,334,526 | 0.94 |
| 229–240 | 124 | 2,154,289 | 1.52 |
| 289–300 | <u>6,075</u> | <u>137,737,624</u> | <u>97.46</u> |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

(1) Assumes that the Draw Period for Loan Group 1 Statistic Calculation Pool Mortgage Loans with (a) five year draw periods and fifteen year repayment periods will be extended for an additional five years and (b) five year draw periods and ten year repayment periods will not be extended.

Origination Year

| <u>Origination Year</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------|---|---|--|
| 1999 | 4,208 | \$ 96,450,220 | 68.25% |
| 2000 | 2,036 | 44,874,039 | 31.75 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Delinquency Status

| <u>Number of Days Delinquent</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------------|---|---|--|
| Current | 6,244 | \$141,324,259 | 100.00% |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

Credit Limits

| <u>Range of Credit Limits</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 1 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------------|---|---|--|
| \$ 0.00-\$ 10,000 | 221 | \$ 1,544,094 | 1.09% |
| \$ 10,000.01-\$ 20,000 | 2,045 | 24,299,935 | 17.19 |
| \$ 20,000.01-\$ 30,000 | 1,636 | 30,105,278 | 21.30 |
| \$ 30,000.01-\$ 40,000 | 807 | 20,889,809 | 14.78 |
| \$ 40,000.01-\$ 50,000 | 576 | 16,511,948 | 11.68 |
| \$ 50,000.01-\$ 60,000 | 239 | 9,612,740 | 6.80 |
| \$ 60,000.01-\$ 70,000 | 179 | 8,372,360 | 5.92 |
| \$ 70,000.01-\$ 80,000 | 145 | 6,950,061 | 4.92 |
| \$ 80,000.01-\$ 90,000 | 80 | 4,597,049 | 3.25 |
| \$ 90,000.01-\$100,000 | 215 | 11,147,071 | 7.89 |
| \$100,000.01-\$125,000 | 34 | 2,890,705 | 2.05 |
| \$125,000.01-\$150,000 | 32 | 1,656,809 | 1.17 |
| \$150,000.01-\$175,000 | 9 | 498,895 | 0.35 |
| \$175,000.01-\$200,000 | 9 | 663,653 | 0.47 |
| \$200,000.01-\$225,000 | 2 | 251,950 | 0.18 |
| \$225,000.01-\$250,000 | 3 | 423,400 | 0.30 |
| \$275,000.01-\$300,000 | 7 | 572,534 | 0.41 |
| \$300,000.01-\$325,000 | 1 | 73,501 | 0.05 |
| \$350,000.01-\$375,000 | 1 | 12,468 | 0.01 |
| \$475,000.01-\$500,000 | 3 | 250,000 | 0.18 |
| Total | <u>6,244</u> | <u>\$141,324,259</u> | <u>100.00%</u> |

LOAN GROUP 2

Principal Balances

| <u>Range of Principal Balances</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|------------------------------------|---|---|--|
| \$ 0.00–\$ 10,000 | 643 | \$ 4,039,824 | 4.44% |
| \$ 10,000.01–\$ 20,000 | 768 | 11,968,351 | 13.15 |
| \$ 20,000.01–\$ 30,000 | 467 | 11,886,025 | 13.06 |
| \$ 30,000.01–\$ 40,000 | 235 | 8,334,631 | 9.15 |
| \$ 40,000.01–\$ 50,000 | 155 | 7,108,834 | 7.81 |
| \$ 50,000.01–\$ 60,000 | 99 | 5,501,457 | 6.04 |
| \$ 60,000.01–\$ 70,000 | 67 | 4,394,879 | 4.83 |
| \$ 70,000.01–\$ 80,000 | 43 | 3,265,632 | 3.59 |
| \$ 80,000.01–\$ 90,000 | 22 | 1,884,184 | 2.07 |
| \$ 90,000.01–\$100,000 | 56 | 5,478,519 | 6.02 |
| \$100,000.01–\$125,000 | 14 | 1,610,059 | 1.77 |
| \$125,000.01–\$150,000 | 52 | 7,388,601 | 8.12 |
| \$150,000.01–\$175,000 | 15 | 2,413,323 | 2.65 |
| \$175,000.01–\$200,000 | 20 | 3,936,602 | 4.32 |
| \$200,000.01–\$225,000 | 7 | 1,493,296 | 1.64 |
| \$225,000.01–\$250,000 | 14 | 3,364,508 | 3.70 |
| \$250,000.01–\$275,000 | 3 | 797,831 | 0.88 |
| \$275,000.01–\$300,000 | 3 | 869,300 | 0.95 |
| \$300,000.01–\$325,000 | 1 | 325,000 | 0.36 |
| \$325,000.01–\$350,000 | 1 | 349,929 | 0.38 |
| \$350,000.01–\$375,000 | 1 | 375,000 | 0.41 |
| \$375,000.01–\$400,000 | 2 | 800,000 | 0.88 |
| \$425,000.01–\$450,000 | 1 | 442,900 | 0.49 |
| \$450,000.01–\$475,000 | 1 | 466,000 | 0.51 |
| \$475,000.01–\$500,000 | 1 | 500,000 | 0.55 |
| \$525,000.01–\$550,000 | 1 | 546,800 | 0.60 |
| \$675,000.01–\$700,000 | 1 | 700,000 | 0.77 |
| \$775,000.01–\$800,000 | 1 | 800,000 | 0.88 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Combined Loan-to-Value Ratios⁽¹⁾

| <u>Range of Combined Loan-to-Value Ratios</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|---|---------------------------------|---|--|
| Less than 10.00% | 7 | \$ 150,700 | 0.17% |
| 10.01– 20.00 | 24 | 759,730 | 0.83 |
| 20.01– 30.00 | 20 | 599,830 | 0.66 |
| 30.01– 40.00 | 25 | 1,449,432 | 1.59 |
| 40.01– 50.00 | 36 | 1,781,488 | 1.96 |
| 50.01– 60.00 | 78 | 3,659,949 | 4.02 |
| 60.01– 70.00 | 283 | 12,053,584 | 13.24 |
| 70.01– 80.00 | 405 | 20,334,673 | 22.34 |
| 80.01– 90.00 | 1,134 | 31,463,238 | 34.56 |
| 90.01–100.00 | 682 | 18,788,861 | 20.64 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

- (1) The ratio (expressed as a percentage) of (A) the sum of (i) the credit limit of the mortgage loans and (ii) any outstanding principal balances of mortgage loans senior or of equal priority to the mortgage loans (calculated generally at the date of origination of the mortgage loans) to (B) the lesser of (i) the appraised value of the related mortgaged property as set forth in loan files at such date of origination or (ii) in the case of a mortgaged property purchased within one year of the origination of the related mortgage loan, the purchase price of such mortgaged property.

Loan Rates⁽¹⁾

| <u>Range of Loan Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------|---------------------------------|---|--|
| 5.501– 6.000% | 49 | \$ 2,512,671 | 2.76% |
| 6.501– 7.000 | 23 | 754,417 | 0.83 |
| 7.001– 7.500 | 2,374 | 78,290,219 | 85.99 |
| 7.501– 8.000 | 3 | 875,693 | 0.96 |
| 8.501– 9.000 | 7 | 957,083 | 1.05 |
| 9.001– 9.500 | 15 | 1,037,821 | 1.14 |
| 9.501–10.000 | 12 | 372,208 | 0.41 |
| 10.001–10.500 | 56 | 1,681,510 | 1.85 |
| 10.501–11.000 | 55 | 1,454,808 | 1.60 |
| 11.001–11.500 | 54 | 1,758,625 | 1.93 |
| 11.501–12.000 | 22 | 485,319 | 0.53 |
| 12.001–12.500 | 13 | 503,245 | 0.55 |
| 12.501–13.000 | 6 | 157,669 | 0.17 |
| 13.001–13.500 | 5 | 200,198 | 0.22 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

- (1) Approximately 19.98% are currently subject to an introductory rate of 7.25% per annum and 65.93% of the Loan Group 2 Statistic Calculation Pool Mortgage Loans by Statistic Calculation Date Principal Balance are currently subject to an introductory rate of 7.50% per annum.

Geographic Distribution⁽¹⁾

| <u>State</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------|---|---|--|
| Alabama | 52 | \$ 1,279,612 | 1.41% |
| Alaska | 5 | 130,303 | 0.14 |
| Arizona | 69 | 2,174,564 | 2.39 |
| California | 634 | 34,605,261 | 38.01 |
| Colorado | 130 | 5,169,701 | 5.68 |
| Connecticut | 27 | 796,308 | 0.87 |
| Delaware | 3 | 71,228 | 0.08 |
| District of Columbia | 1 | 9,904 | 0.01 |
| Florida | 125 | 2,971,250 | 3.26 |
| Georgia | 75 | 2,111,135 | 2.32 |
| Hawaii | 18 | 785,442 | 0.86 |
| Idaho | 19 | 622,109 | 0.68 |
| Illinois | 127 | 3,819,220 | 4.20 |
| Indiana | 43 | 707,327 | 0.78 |
| Iowa | 8 | 225,857 | 0.25 |
| Kansas | 32 | 1,003,532 | 1.10 |
| Kentucky | 16 | 379,961 | 0.42 |
| Louisiana | 23 | 692,640 | 0.76 |
| Maine | 14 | 330,060 | 0.36 |
| Maryland | 30 | 793,671 | 0.87 |
| Massachusetts | 76 | 2,608,805 | 2.87 |
| Michigan | 242 | 5,454,870 | 5.99 |
| Minnesota | 28 | 598,262 | 0.66 |
| Mississippi | 10 | 148,187 | 0.16 |
| Missouri | 50 | 1,170,876 | 1.29 |
| Montana | 21 | 699,853 | 0.77 |
| Nebraska | 18 | 303,591 | 0.33 |
| Nevada | 21 | 485,647 | 0.53 |
| New Hampshire | 10 | 209,744 | 0.23 |
| New Jersey | 84 | 2,643,740 | 2.90 |
| New Mexico | 34 | 1,103,263 | 1.21 |
| New York | 64 | 2,100,878 | 2.31 |
| North Carolina | 54 | 1,056,603 | 1.16 |
| North Dakota | 3 | 111,830 | 0.12 |
| Ohio | 86 | 2,081,501 | 2.29 |
| Oklahoma | 52 | 1,022,807 | 1.12 |
| Oregon | 63 | 1,678,181 | 1.84 |
| Pennsylvania | 83 | 1,928,227 | 2.12 |
| Rhode Island | 7 | 259,931 | 0.29 |
| South Carolina | 24 | 419,811 | 0.46 |
| South Dakota | 1 | 19,847 | 0.02 |
| Tennessee | 3 | 132,500 | 0.15 |
| Texas | 3 | 301,000 | 0.33 |
| Utah | 46 | 1,356,757 | 1.49 |
| Vermont | 3 | 36,127 | 0.04 |
| Virginia | 46 | 974,090 | 1.07 |
| Washington | 72 | 2,286,318 | 2.51 |
| Wisconsin | 24 | 673,895 | 0.74 |
| Wyoming | 15 | 495,257 | 0.54 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

(1) Geographic location is determined by the address of the mortgaged property securing the related mortgage loan.

Property Type

| <u>Property Type</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| Single Family | 2,212 | \$72,480,221 | 79.61% |
| PUD | 324 | 14,703,890 | 16.15 |
| Lo Condo | 129 | 2,975,753 | 3.27 |
| 2-4 Units | 29 | 881,622 | 0.97 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Lien Priority

| <u>Lien Priority</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| 1st Liens | 87 | \$ 4,702,000 | 5.16% |
| 2nd Liens | <u>2,607</u> | <u>86,339,486</u> | <u>94.84</u> |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Margins

| <u>Range of Margins</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------|---|---|--|
| 0.00% | 83 | \$ 6,659,343 | 7.31% |
| 0.001-0.250 | 25 | 1,917,739 | 2.11 |
| 0.251-0.500 | 109 | 10,574,714 | 11.62 |
| 0.501-0.750 | 113 | 4,050,559 | 4.45 |
| 0.751-1.000 | 59 | 2,308,543 | 2.54 |
| 1.001-1.250 | 162 | 6,629,076 | 7.28 |
| 1.251-1.500 | 24 | 1,081,197 | 1.19 |
| 1.501-1.750 | 66 | 2,130,388 | 2.34 |
| 1.751-2.000 | 345 | 10,235,429 | 11.24 |
| 2.001-2.250 | 147 | 5,638,374 | 6.19 |
| 2.251-2.500 | 186 | 6,132,070 | 6.74 |
| 2.501-2.750 | 221 | 5,014,093 | 5.51 |
| 2.751-3.000 | 261 | 7,077,851 | 7.77 |
| 3.001-3.250 | 153 | 3,566,223 | 3.92 |
| 3.251-3.500 | 113 | 3,084,977 | 3.39 |
| 3.501-3.750 | 204 | 5,143,141 | 5.65 |
| 3.751-4.000 | 37 | 593,711 | 0.65 |
| 4.001-4.250 | 134 | 3,590,896 | 3.94 |
| 4.251-4.500 | 121 | 2,923,964 | 3.21 |
| 4.501-4.750 | 13 | 331,200 | 0.36 |
| 4.751-5.000 | 11 | 195,997 | 0.22 |
| 5.001-5.250 | 75 | 1,605,131 | 1.76 |
| 5.251-5.500 | 14 | 308,825 | 0.34 |
| 5.751-6.000 | 12 | 121,780 | 0.13 |
| 6.001-6.250 | 4 | 50,964 | 0.06 |
| 7.001-7.250 | 1 | 25,300 | 0.03 |
| 7.251-7.500 | 1 | 50,000 | 0.05 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Credit Limit Utilization Rates⁽¹⁾

| <u>Range of Credit Limit Utilization Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|--|---|---|--|
| 0.00% | 128 | \$ 0 | 0.00% |
| 0.01– 10.00 | 33 | 129,075 | 0.14 |
| 10.01– 20.00 | 61 | 636,512 | 0.70 |
| 20.01– 30.00 | 81 | 796,031 | 0.87 |
| 30.01– 40.00 | 101 | 1,703,982 | 1.87 |
| 40.01– 50.00 | 176 | 2,796,125 | 3.07 |
| 50.01– 60.00 | 105 | 2,074,114 | 2.28 |
| 60.01– 70.00 | 177 | 4,310,195 | 4.73 |
| 70.01– 80.00 | 189 | 5,135,063 | 5.64 |
| 80.01– 90.00 | 173 | 5,995,672 | 6.59 |
| 90.01–100.00 | 1,470 | 67,464,717 | 74.10 |
| Total | 2,694 | \$91,041,486 | 100.00% |

(1) The “Credit Limit Utilization Rate” is determined by dividing the Loan Group 2 Statistic Calculation Date Balance by the aggregate of the credit limits of the related credit line agreements.

Maximum Rates

| <u>Maximum Rates</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------|---|---|--|
| 12.500% | 2 | \$ 102,500 | 0.11% |
| 15.000 | 21 | 699,853 | 0.77 |
| 16.000 | 54 | 1,056,603 | 1.16 |
| 17.000 | 139 | 3,686,778 | 4.05 |
| 18.000 | 2,477 | 85,245,751 | 93.63 |
| 18.500 | 1 | 250,000 | 0.27 |
| Total | 2,694 | \$91,041,486 | 100.00% |

Months Remaining to Scheduled Maturity⁽¹⁾

| <u>Range of Months Remaining to Scheduled Maturity</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|--|---|---|--|
| 169–180 | 35 | \$ 1,586,777 | 1.74% |
| 229–240 | 3 | 132,500 | 0.15 |
| 289–300 | 2,656 | 89,322,209 | 98.11 |
| Total | 2,694 | \$91,041,486 | 100.00% |

(1) Assumes that the Draw Period for Loan Group 2 Statistic Calculation Pool Mortgage Loans with (a) five year draw periods and fifteen year repayment periods will be extended for an additional five years and (b) five year draw periods and ten year repayment periods will not be extended.

Origination Year

| <u>Origination Year</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------|---|---|--|
| 1999 | 1,828 | \$60,976,384 | 66.98% |
| 2000 | 866 | 30,065,102 | 33.02 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Delinquency Status

| <u>Number of Days Delinquent</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|----------------------------------|---|---|--|
| Current | 2,694 | \$91,041,486 | 100.00% |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Credit Limits

| <u>Range of Credit Limits</u> | <u>Number of Mortgage Loans</u> | <u>Aggregate Unpaid Principal Balance</u> | <u>Percentage of Loan Group 2 Statistic Calculation Date Aggregate Principal Balance</u> |
|-------------------------------|---|---|--|
| \$ 0.00–\$ 10,000 | 101 | \$ 776,854 | 0.85% |
| \$ 10,000.01–\$ 20,000 | 846 | 10,437,836 | 11.46 |
| \$ 20,000.01–\$ 30,000 | 608 | 11,943,154 | 13.12 |
| \$ 30,000.01–\$ 40,000 | 333 | 8,956,542 | 9.84 |
| \$ 40,000.01–\$ 50,000 | 216 | 7,428,018 | 8.16 |
| \$ 50,000.01–\$ 60,000 | 129 | 5,414,341 | 5.95 |
| \$ 60,000.01–\$ 70,000 | 86 | 4,171,133 | 4.58 |
| \$ 70,000.01–\$ 80,000 | 66 | 3,807,061 | 4.18 |
| \$ 80,000.01–\$ 90,000 | 44 | 2,726,912 | 3.00 |
| \$ 90,000.01–\$100,000 | 102 | 6,984,828 | 7.67 |
| \$100,000.01–\$125,000 | 17 | 1,441,766 | 1.58 |
| \$125,000.01–\$150,000 | 64 | 7,917,749 | 8.70 |
| \$150,000.01–\$175,000 | 11 | 1,766,923 | 1.94 |
| \$175,000.01–\$200,000 | 27 | 4,561,000 | 5.01 |
| \$200,000.01–\$225,000 | 5 | 1,061,337 | 1.17 |
| \$225,000.01–\$250,000 | 13 | 3,050,752 | 3.35 |
| \$250,000.01–\$275,000 | 5 | 1,142,831 | 1.26 |
| \$275,000.01–\$300,000 | 5 | 1,158,064 | 1.27 |
| \$300,000.01–\$325,000 | 3 | 585,000 | 0.64 |
| \$325,000.01–\$350,000 | 1 | 349,929 | 0.38 |
| \$375,000.01–\$400,000 | 3 | 1,175,000 | 1.29 |
| \$400,000.01–\$425,000 | 1 | 282,000 | 0.31 |
| \$425,000.01–\$450,000 | 1 | 246,756 | 0.27 |
| \$450,000.01–\$475,000 | 1 | 466,000 | 0.51 |
| \$475,000.01–\$500,000 | 3 | 1,142,900 | 1.26 |
| \$525,000.01–\$550,000 | 1 | 546,800 | 0.60 |
| \$675,000.01–\$700,000 | 1 | 700,000 | 0.77 |
| \$775,000.01–\$800,000 | 1 | 800,000 | 0.88 |
| Total | <u>2,694</u> | <u>\$91,041,486</u> | <u>100.00%</u> |

Conveyance of Mortgage Loans

The obligation of the trust fund to purchase mortgage loans for loan group 1 on the Closing Date is subject to the following requirements, any of which requirements (other than with respect to Fannie Mae conforming loan balances) may be waived or modified in any respect by the Certificate Insurer:

- such mortgage loan may not be 60 or more days delinquent as of the Closing Date;
- the remaining term to stated maturity of such mortgage loan will not exceed 302 months;
- such mortgage loan will be secured by a mortgage in a first or second lien position;
- such mortgage loan will not have a loan rate less than 5.75%;
- such mortgage loan will be otherwise acceptable to the Certificate Insurer and Fannie Mae;
- following the purchase of such mortgage loan by the trust fund, the mortgage loans as of the Closing Date
 - (a) will have a weighted average loan rate of at least 6.00%;
 - (b) will have a weighted average remaining term to stated maturity of not more than 300 months;
 - (c) will have a weighted average Combined Loan-to-Value Ratio of not more than 84.00%;
 - (d) will have no mortgage loan with a principal balance in excess of \$252,700;
 - (e) will have a concentration in any one state not in excess of 48.00%; and will have a concentration in any one zip code not in excess of 3.50%;
 - (f) will have not more than 3.00% in aggregate principal balance of mortgage loans relating to non-owner occupied properties; and
 - (g) will not have more than 5.50% in aggregate principal balance of mortgage loans that were appraised electronically;
- such mortgage loan shall have a Combined Loan-to-Value Ratio not in excess of 100%;
- such mortgage loan will have a credit limit between \$7,250 and \$500,000;
- such mortgage loan will have a margin between -1.750% and 7.625%;
- such mortgage loan will comply with the representations and warranties in the pooling and servicing agreement; and
- each mortgage loan in loan group 1 will conform to Fannie Mae conforming loan balance requirements.

The trust fund may acquire Additional Home Equity Loans through March 6, 2000 that will be included in loan group 1 so long as they conform to the criteria listed above. Each Additional Home Equity Loan will have been underwritten substantially in accordance with the criteria described under “The Home Equity Loan Program—Underwriting Procedures Relating to Home Equity Loans.” Additional Home Equity Loans will be purchased using amounts on deposit in the Additional Loan Account at a cash purchase price of 100% of their principal balance on a designated cut-off date before March 6, 2000. The amount paid from the Additional Loan Account for Additional Home Equity Loans will not include accrued interest. Following each purchase of Additional Home Equity Loans, the aggregate principal balance of loan group 1 will increase by an amount equal to the aggregate principal balance of the Additional Home Equity Loans so acquired and the amount in the Additional Loan Account will decrease accordingly.

Any conveyance of Additional Home Equity Loans is subject to various conditions including:

- that they satisfy substantially the same loan representations and warranties as the initial home equity loans;
- that they were identified by means of a selection process reasonably believed not to be adverse to the interests of the holders of the certificates, the Certificate Insurer or Fannie Mae;
- that the trust fund receive opinions of counsel acceptable to the Certificate Insurer and the trustee with respect to the validity of the conveyance of the Additional Home Equity Loans; and
- that as of their cut-off date, each Additional Home Equity Loan satisfied the eligibility requirements that the mortgage loans had to satisfy on the closing date.

No discretion will be exercised in the selection of the Additional Home Equity Loans to be acquired by the trust fund. They will all be mortgage loans that had been applied for by the related borrowers before the cut-off date, but that were not included in the cut-off date pool. The exact mortgage loans to be acquired will be determined on a first-in, first-out basis. Mortgage loans otherwise meeting the eligibility requirements will be aggregated by the date on which they were funded, and all of these Additional Home Equity Loans will be purchased in date order up through the day substantially all of the funds in the Additional Loan Account are expended. On that last day, the Additional Home Equity Loans will be ordered and acquired alphabetically by the last name of the primary obligor. These acquisitions may occur in one or more closings after the initial closing date.

The Additional Loan Account

The assets of the trust fund will include the Additional Loan Account that will contain approximately \$15,000,000 on the closing date representing the excess of the original principal balance of the Class A-1 Certificates over the cut-off date principal balance of the mortgage loans in loan group 1 initially transferred to the trust fund on the closing date. Monies in the Additional Loan Account are expected to be used to purchase Additional Home Equity Loans through March 6, 2000. The Additional Loan Account will be part of the trust fund, but will not be available to cover losses on the mortgage loans. Any funds remaining on deposit in the Additional Loan Account on March 6, 2000 will be used to prepay the Class A-1 Certificates on the first Distribution Date. Net income on investment of funds in the Additional Loan Account will be paid to the master servicer, and will not be available for payments on the Certificates.

Maturity and Prepayment Considerations

The pooling and servicing agreement, except as otherwise described herein, provides that the Certificateholders will be entitled to receive on each distribution date distributions of principal, in the amounts described under “Description of the Certificates—Distributions on the Certificates” herein, until the certificate principal balance is reduced to zero. During the Managed Amortization Period, Certificateholders will receive amounts from principal collections based upon the applicable Investor Fixed Allocation Percentage for the related loan group, subject to reduction as described below. In addition, the funds remaining in the Additional Loan Account on March 6, 2000 after the purchase of any Additional Home Equity Loans on that date will be used to prepay the Class A-1 Certificates on the first Distribution Date. With respect to any date of calculation on or prior to the first distribution date on which the balance of the Transferor Interest with respect to such loan group is equal to the applicable Required Transferor Subordinated Amount, the “Investor Fixed Allocation Percentage” will equal the greater of (i) 98.5% and (ii) 100% minus the percentage obtained by dividing the amount of the Transferor Interest allocable to a loan group at the beginning of such Collection Period by the loan group balance at the beginning of such Collection Period. Thereafter, the Investor Fixed Allocation Percentage will equal 98.5%. During the related Rapid Amortization Period, Certificateholders will receive amounts from principal collections based solely upon the Investor Fixed Allocation Percentage for the related loan group. Because prior distributions of principal collections to Certificateholders serve to reduce the related Investor Floating Allocation Percentage but may not change the related Investor Fixed Allocation Percentage in all instances, allocations of principal collections from the mortgage loans in a loan group based on the related Investor Fixed Allocation Percentage may result in distributions of principal to the Certificateholders in amounts that are, in most cases, greater relative to the declining balance of the mortgage loans in that loan group than would be the case if the related Investor Floating Allocation Percentage were used to determine the percentage of principal collections from the mortgage loans in that loan group distributed to Certificateholders. This is especially true during the Rapid Amortization Period when the Certificateholders are entitled to receive their respective Investor Principal Collections and not a lesser amount. In addition, respective Investor Interest Collections may be distributed as principal to Certificateholders of Certificates in a particular loan group in connection with the applicable Accelerated Principal Distribution Amount, if any. Moreover, to the extent of losses allocable to the Certificateholders of Certificates related to a particular loan group, those Certificateholders may also receive as payment of principal the amount of such losses from the related Investor Interest Collections, Investor Interest Collections from the other loan group, the Subordinated Transferor Collections, the Reserve Fund, or, in some instances, draws under the Policy or payments under the Fannie Mae Guaranty. The level of losses may therefore affect the rate of payment of principal on the Certificates.

As of the closing date, the Transferor Interest with respect to each loan group will be \$0. The Transferor Interest is expected to grow in the early months of the transaction due to the payment of the applicable Accelerated Principal Distribution Amount. In addition, to the extent obligors make more draws than principal payments on the mortgage loans in a loan group, the Transferor Interest may grow. An increase in the Transferor Interest due to additional draws may also result in Certificateholders receiving principal at a greater rate during the Rapid Amortization Period because the Certificateholders' share of principal collections on the mortgage loans in a loan group is based upon the applicable Investor Fixed Allocation Percentage (without reduction). The pooling and servicing agreement permits the Transferor, at its option, but subject to the satisfaction of certain conditions specified in the pooling and servicing agreement, including the conditions described below, to remove certain mortgage loans from a loan group at any time during the life of the trust fund, so long as the portion of the Transferor Interest related to the applicable loan group (after giving effect to such removal) is not less than the related Minimum Transferor Interest. Such removals may affect the rate at which principal is distributed to Certificateholders by reducing the overall loan group balance and thus the related amount of principal collections. See *"Description of the Certificates—Optional Transfers of Mortgage Loans to the Transferor"* herein.

All of the mortgage loans may be prepaid in full or in part at any time. However, mortgage loans secured by mortgaged properties in California are subject to an account termination fee equal to the lesser of \$350 or six months interest on the amount prepaid, to the extent the prepaid amount exceeds 20% of the unpaid principal balance, if the account is terminated on or before its fifth year anniversary. In addition, mortgage loans secured by mortgaged properties in other jurisdictions may be subject to account termination fees to the extent permitted by law. In general, such account termination fees do not exceed \$350 and do not apply to accounts terminated subsequent to a date designated in the related mortgage note which, depending on the jurisdiction, ranges between six months and five years following origination. The prepayment experience with respect to the mortgage loans in a loan group will affect the weighted average life of the related Certificates.

The rate of prepayment on the mortgage loans cannot be predicted. Generally, it is assumed that home equity revolving credit lines are not viewed by borrowers as permanent financing. Accordingly, the mortgage loans may experience a higher rate of prepayment than traditional first mortgage loans. On the other hand, because the mortgage loans amortize as described under *"Description of the Mortgage Loans—Mortgage Loan Terms"* herein, rates of principal payments on the mortgage loans will generally be slower than those of traditional fully-amortizing first mortgages in the absence of prepayments on such mortgage loans. The prepayment experience of the mortgage loans in a loan group may be affected by a wide variety of factors, including general economic conditions, prevailing interest rate levels, the availability of alternative financing, homeowner mobility, the frequency and amount of any future draws on the credit line agreements and changes affecting the deductibility for federal income tax purposes of interest payments on home equity credit lines. Substantially all of the mortgage loans contain "due-on-sale" provisions, and the master servicer intends to enforce such provisions, unless

- such enforcement is not permitted by applicable law or
- the master servicer, in a manner consistent with reasonable commercial practice, permits the purchaser of the related mortgaged property to assume the mortgage loan.

The enforcement of a "due-on-sale" provision will have the same effect as a prepayment of the related mortgage loan. See *"Certain Legal Aspects of the Loans—Due-on-Sale Clauses"* in the Information Circular.

The sponsor is not required to deliver certain documents relating to the mortgage loans to the trustee until 30 days after the Closing Date (or in the case of the Additional Home Equity Loans, until 21 days after they are acquired by the trust fund). See *"Description of the Certificates—Assignment of Mortgage Loans"* herein. Should the sponsor fail to deliver all or a portion of such documents with respect to any such mortgage loan to the depositor, or, at the depositor's direction, to the trustee within such period, the sponsor will be obligated to accept the transfer of such mortgage loan from the trust fund. Upon such transfer, the principal balance of such mortgage loan will be deducted from the related loan group balance, thus reducing the amount of the Transferor Interest related to such loan group. If the deduction would cause such portion of the Transferor Interest to become less than the related Minimum Transferor Interest at such time, the sponsor will be obligated to either substitute an Eligible Substitute Mortgage Loan or make a deposit into the Collection Account in an amount equal to the amount by which such portion of the Transferor Interest would be reduced to less than the related

Minimum Transferor Interest at such time. Any such deduction, substitution or deposit, will be treated under the pooling and servicing agreement as a payment in full of such mortgage loan.

The yield to an investor who purchases the Certificates in the secondary market at a price other than par will vary from the anticipated yield if the rate of prepayment on the mortgage loans in the related loan group is actually different than the rate anticipated by such investor at the time such Certificates were purchased.

Collections on the mortgage loans may vary because, among other things, borrowers may make payments during any month as low as the minimum monthly payment for such month or as high as the entire outstanding principal balance plus accrued interest and the fees and charges thereon. It is possible that borrowers may fail to make scheduled payments. Collections on the mortgage loans may vary due to seasonal purchasing and payment habits of borrowers.

No assurance can be given as to the level of prepayments that will be experienced by the trust fund and it can be expected that a portion of borrowers will not prepay their mortgage loans to any significant degree. See *“Yield and Prepayment Considerations” in the Information Circular.*

Pool Factor and Trading Information

The “Pool Factor” is a seven-digit decimal which the trustee will compute monthly expressing the Certificate Principal Balance of each class of certificates as of each distribution date (after giving effect to any distribution of principal to that class of certificates on such distribution date) as a proportion of the Original Certificate Principal Balance. On the Closing Date, the Pool Factor for each class of certificates will be 1.0000000. See *“Description of the Certificates—Distributions on the Certificates” herein.* Thereafter, the Pool Factor for each class of certificates will decline to reflect reductions in the related certificate principal balance resulting from distributions of principal to that class of certificates and the related Invested Amount of any unreimbursed Liquidation Loss Amounts from mortgage loans in the related loan group.

Pursuant to the pooling and servicing agreement, monthly reports concerning the Invested Amount, the Pool Factor and various other items of information for each class of certificates will be made available to the Certificateholders. In addition, within 60 days after the end of each calendar year, beginning with the 2001 calendar year, information for tax reporting purposes will be made available to Fannie Mae. See *“Description of the Certificates” and “—Reports to Certificateholders” herein.*

Description of the Certificates

The Revolving Home Equity Loan Asset Backed Certificates Class A-1 and Class A-2 (each is sometimes referred to as a “Class”), Series 2000-A (the “Certificates”) will be issued pursuant to the pooling and servicing agreement. The following is a description of the material provisions of the pooling and servicing agreement. Wherever particular sections or defined terms of the pooling and servicing agreement are referred to, such sections or defined terms are hereby incorporated herein by reference.

General

The Class A-1 Certificates will be issued as a single definitive fully-registered certificate in the name of Fannie Mae and will evidence specified undivided interests in loan group 1. Together with the Transferor’s Interest and the Class A-2 Certificates (which are not offered by this information supplement), they comprise Countrywide Home Equity Loan Trust 2000-A (referred to as the trust fund). The property of the trust fund will consist of, to the extent provided in the pooling and servicing agreement:

- the principal balance of each mortgage loan as of the cut-off date (referred to as the cut-off date principal balance), plus any new advances made in respect thereof under the applicable credit line agreement during the life of the trust fund (“Additional Balances”);
- collections on the mortgage loans received after the cut-off date (exclusive of payments in respect of accrued interest due on or prior to the cut-off date);
- mortgaged properties relating to the mortgage loans that are acquired by foreclosure or deed in lieu of foreclosure;
- the Collection Account for the Certificates (excluding net earnings thereon);

- the Additional Loan Account and the similar account for loan group 2 and any additional loans purchased with their proceeds;
- the Reserve Fund (excluding net earnings thereon);
- the Policy;
- the Fannie Mae Guaranty; and
- an assignment of the depositor's rights under the Purchase Agreement.

The aggregate undivided interest in the trust fund represented by the Certificates as of the Closing Date is expected to equal approximately \$370,000,000 (the "Original Invested Amount"), which represents approximately 100% of the sum of the aggregate principal balances of the mortgage loans included in the trust fund as of the cut-off date and the additional loan accounts. As of the Closing Date, the Class A-1 Certificates are expected to equal approximately \$225,000,000 (the "Class A-1 Original Invested Amount"), which represents approximately 100% of the sum of the cut-off date loan group 1 principal balance and the Additional Loan Account. The "Class A-1 Original Certificate Principal Balance" is expected to equal approximately \$225,000,000. As of the Closing Date, the Class A-2 Certificates are expected to equal approximately \$145,000,000 (the "Class A-2 Original Invested Amount"), which represents approximately 100% of the sum of the cut-off date loan group 2 principal balance and its related additional loan account. The "Class A-2 Original Certificate Principal Balance" is expected to equal approximately \$145,000,000. Of the Class A-1 Original Invested Amount, approximately \$15,000,000 represents the proceeds deposited into the Additional Loan Account which may be used through March 6, 2000 to purchase additional home equity loans for addition to loan group 1. Following the Closing Date, the "Invested Amount" for each class of certificates with respect to any distribution date will be an amount equal to the Original Invested Amount for such class of certificates *minus*

- the amount of the related Investor Principal Collections previously distributed on such class of certificates and any return of the related additional loan account funds, *minus*
- an amount equal to the product of the related Investor Floating Allocation Percentage and the Liquidation Loss Amounts on the mortgage loans in the related loan group (each as defined herein) for such distribution date.

For each class of certificates, the principal amount of the outstanding Certificates in that class (the "Certificate Principal Balance") on any distribution date is equal to the applicable Original Certificate Principal Balance minus the aggregate of amounts actually distributed as principal to the certificates in that class. See "*Distributions on the Certificates*" below. Each Certificate represents the right to receive payments of interest at the related Certificate Rate and payments of principal as described below.

The remaining interest in the mortgage loans in the trust fund will be represented by a single transferor interest (the "Transferor Interest") that will be owned by the transferor. In each loan group, the portion of the Transferor Interest in that loan group, as of any date of determination, will equal the related loan group balance as of the close of business on the day preceding such date of determination, less the Invested Amount for such loan group as of the close of business on the preceding distribution date. The Required Transferor Subordinated Amount initially is approximately \$5,550,000, which, in the aggregate, will represent approximately 1.5% of the cut-off date loan group 1 balance and the amount originally deposited in the Additional Loan Account plus approximately 1.5% of the cut-off date loan group 2 balance and the amount originally deposited in the related additional loan account, but the pooling and servicing agreement requires the Transferor Interest (once it is fully funded) to be at least equal to the Minimum Transferor Interest (as defined in this Information Supplement). The owner of the Transferor Interest (the "Transferor") will initially be the sponsor (or one of its affiliates). In general, the loan group balance of each loan group will vary each day as principal is paid on the mortgage loans in that loan group, liquidation losses are incurred and Additional Balances are drawn down by borrowers on mortgage loans in that loan group and transferred to the related loan group.

The Certificate Insurer will require, based upon the terms and conditions of the Insurance Agreement, that the portion of the Transferor's Interest with respect to each class of certificates be maintained at the related Required Transfer Subordinated Amount with respect to such class.

The portion of the Transferor's Interest related to each class of certificates as of the closing date will be zero, which is less than the initial Required Transferor Subordinated Amount, thus requiring an increase in the Transferor's Interest on future Distribution Dates until it equals the Required Transferor Subordinated Amount.

With respect to each class of certificates, certain excess cashflow will be applied as a payment of principal of that class of certificates on each Distribution Date to increase or maintain the portion of the Transferor's Interest related to that class to or at the Required Transferor Subordinated Amount for such class for such Distribution Date. The amount of such excess cashflow with respect to a class of certificates so applied as a payment of principal on a Distribution Date is an "Accelerated Principal Distribution Amount" for the related class of certificates. The requirement to maintain the Transferor's Interest at the Required Transferor Subordinated Amount, or to increase it to the Required Transferor Subordinated Amount, is not an obligation of the sponsor, the master servicer, the trustee, the Certificate Insurer or any other person.

The pooling and servicing agreement requires excess cashflow not required to maintain or achieve the Required Transferor Subordinated Amount of the related class of certificates to be applied to the funding of a reserve fund, which has been required by the Certificate Insurer to be established and maintained with respect to the certificates (the "Reserve Fund"). The amount on deposit in the Reserve Fund will not exceed the excess of (x) the sum of the Required Transferor Subordinated Amounts with respect to each class of certificates over (y) the sum of the portion of the Transferor's Interest with respect to each class of certificates. Amounts in the Reserve Fund may only be withdrawn therefrom and applied in accordance with the terms of the pooling and servicing agreement.

The Certificate Insurer may permit the Required Transferor Subordinated Amount for a class of certificates to decrease or "step down" over time, subject to certain floors and triggers. The dollar amount of any decrease in a Required Transferor Subordinated Amount is an "Overcollateralization Reduction Amount," which, with respect to each class of certificates, may result in a release of cash from the trust fund in an amount up to such Overcollateralization Reduction Amounts (net of any Reimbursement Amounts due to the Certificate Insurer or reimbursement amounts due to Fannie Mae), and/or result in the removal of cash or mortgage loans from the trust fund on Distribution Dates occurring after such step-downs take effect. The dollar amount of any Overcollateralization Reduction Amount with respect to a class will first be released from the Reserve Fund, to the extent of the amount on deposit therein. If the amount on deposit in the Reserve Fund with respect to a class is not sufficient to fund the full amount of such Overcollateralization Reduction Amount with respect to such class, then an amount equal to the remaining portion of such Overcollateralization Reduction Amount will be released from the monthly cashflow with respect to such class, thus reducing the portion of the Transferor's Interest for such class.

The Transferor has the right to sell or pledge the Transferor Interest at any time, provided

- the Rating Agencies have notified the Transferor and the Trustee in writing that such action will not result in the reduction or withdrawal of the ratings assigned to the Certificates without regard to the Policy or the Fannie Mae Guaranty, and
- certain other conditions specified in the pooling and servicing agreement are satisfied.

Assignment of Mortgage Loans

At the time of issuance of the Certificates, the depositor will transfer to the trust fund the amounts to be deposited into the additional loan accounts and all of its interest in each mortgage loan acquired on the closing date (including any Additional Balances arising in the future), related credit line agreements, mortgages and certain other related documents (collectively, the "Related Documents"), including all collections received on each such mortgage loan after the cut-off date (exclusive of payments in respect of accrued interest due on or before the cut-off date). The trustee, concurrently with such transfer, will deliver the Certificates to the depositor and the Transferor Certificate (as defined in the pooling and servicing agreement) to the transferor. Subsequent closings may occur for the purchase of Additional Home Equity Loans on dates specified by the depositor through March 6, 2000. On those closing dates the depositor will transfer to the trust fund all of its interest in the Additional Home Equity Loans being acquired by the trust fund that day, the Related Documents and all collections received on the Additional Home Equity Loans after a date designated in connection with the transfer. Each mortgage loan transferred to the trust fund will be identified on a mortgage loan schedule delivered to the trustee pursuant to the pooling and servicing agreement. Such schedule will include information

as to the cut-off date principal balance of each mortgage loan as well as information with respect to the loan rate.

The pooling and servicing agreement will require that

- on the initial Closing Date, with respect to not less than 50% of the mortgage loans transferred to the trust fund on that date;
- not later than 30 days after the initial Closing Date, with respect to the remaining mortgage loans; and
- not later than 21 days after the relevant closing date, with respect to the Additional Home Equity Loans,

Countrywide deliver to the depositor for delivery to the trustee or, at the depositor's direction, directly to the trustee, the mortgage notes related to the mortgage loans endorsed in blank and the Related Documents.

In lieu of delivery of original documentation, Countrywide may deliver documents which have been imaged optically upon delivery of an opinion of counsel that such documents are enforceable to the same extent as the originals and do not impair the enforceability of the transfer to the trust fund of the mortgage loans, provided the retention of such documents in such format will not result in a reduction in the then current rating of the Certificates, without regard to the Policy or the Fannie Mae Guaranty.

In addition, with respect to any of the mortgage loans, in lieu of transferring the related mortgage to the trustee as one of the Related Documents, the Depositor may at its discretion provide evidence that the related mortgage is held through the MERS® System. In addition, the mortgage for some or all of the mortgage loans in the trust fund that are not already held in the MERS® System may, at the discretion of the master servicer, in the future be held through the MERS® System. For any mortgage held through the MERS® System, the mortgage is recorded in the name of the Mortgage Electronic Registration Systems, Inc., or MERS, as nominee for the owner of the mortgage loan, and subsequent assignments of the mortgage were, or in the future may be, at the discretion of the master servicer, registered electronically through the MERS® System. For each of these mortgage loans, MERS serves as mortgagee of record on the mortgage solely as a nominee in an administrative capacity on behalf of the trustee, and does not have any interest in that mortgage loan.

The pooling and servicing agreement will not require Countrywide to record assignments of the mortgage loans to the trustee provided that the long-term senior unsecured debt obligations of Countrywide do not fall below a rating of "BBB" by Standard & Poor's or "Baa2" by Moody's. In the event that Countrywide's long-term senior unsecured debt obligations rating does not satisfy the above-described standard (an "Assignment Event"), Countrywide will have 90 days to record assignments of the mortgages for each such mortgage loan in favor of the trustee (unless opinions of counsel satisfactory to the Rating Agencies and the Certificate Insurer to the effect that recordation of such assignments or delivery of such documentation is not required in the relevant jurisdiction to protect the interest of Countrywide and the trustee in the mortgage loans).

Within 180 days of the Closing Date with respect to the mortgage loans acquired on the Closing Date and within 180 days of the relevant closing date with respect to Additional Home Equity Loans, the trustee will review the mortgage loans and the Related Documents and if any mortgage loan or Related Document is found to be defective in any material respect and such defect is not cured within 90 days following notification thereof to the sponsor and the depositor by the trustee, the sponsor will be obligated to accept the transfer of such mortgage loan from the trust fund. Upon such transfer, the principal balance of such mortgage loan will be deducted from the applicable loan group balance, thus reducing the amount of the Transferor Interest. If the deduction would cause the portion of the Transferor Interest related to that loan group to become less than the related Minimum Transferor Interest at such time (a "Transfer Deficiency"), the sponsor will be obligated to either substitute an Eligible Substitute mortgage loan and/or make a deposit into the Collection Account in the amount (the "Transfer Deposit Amount") equal to the amount by which the portion of the Transferor Interest related to that loan group would be reduced to less than the related Minimum Transferor Interest at such time. Any such deduction, substitution or deposit, will be treated under the pooling and servicing agreement as a payment in full of such mortgage loan. Any Transfer Deposit Amount will be treated as a principal collection on the related loan group. Notwithstanding the foregoing, however, no such transfer shall be considered to have occurred unless and until all required deposits to the Collection Account are actually made. The obligation of the sponsor to accept a transfer of a Defective Mortgage Loan and to make any required deposits are the sole remedies regarding any defects in the mortgage loans and Related Documents available to the trustee or the Certificateholders.

An “Eligible Substitute Mortgage Loan” is a mortgage loan substituted by the sponsor for a defective mortgage loan which must, on the date of such substitution,

- comply with Fannie Mae conforming loan balance requirements (in the case of loan group 1);
- have an outstanding principal balance (or in the case of a substitution of more than one mortgage loan for a Defective Mortgage Loan, an aggregate principal balance) that is not 10% more or less than the Transfer Deficiency relating to such Defective Mortgage Loan;
- have a loan rate not less than the loan rate of the Defective Mortgage Loan and not more than 1% in excess of the loan rate of such Defective Mortgage Loan;
- have a loan rate based on the same Index with adjustments to such loan rate made on the same Interest Rate Adjustment Date as that of the Defective Mortgage Loan;
- have a margin that is not less than the margin of the Defective Mortgage Loan and not more than 100 basis points higher than the margin for the Defective Mortgage Loan;
- have a mortgage of the same or higher level of priority as the mortgage relating to the Defective Mortgage Loan;
- have a remaining term to maturity not more than six months earlier and not more than 60 months later than the remaining term to maturity of the Defective Mortgage Loan;
- comply with each representation and warranty as to the mortgage loans set forth in the pooling and servicing agreement (deemed to be made as of the date of substitution);
- have an original combined loan-to-value ratio not greater than that of the Defective Mortgage Loan; and
- satisfy certain other conditions specified in the pooling and servicing agreement.

The sponsor will make certain representations and warranties as to the accuracy in all material respects of certain information furnished to the trustee with respect to each mortgage loan (e.g., cut-off date principal balance and loan rate). In addition, the sponsor will represent and warrant on the Closing Date that at the time of transfer to the depositor, the sponsor has transferred or assigned all of its interest in each mortgage loan and the Related Documents, free of any lien, and likewise represent and warrant on each relevant closing date with respect to each Additional Home Equity Loan. Upon discovery of a breach of any such representation and warranty which materially and adversely affects the interests of the Certificateholders, Fannie Mae or the Certificate Insurer in the related mortgage loan and Related Documents, the sponsor will have a period of 90 days after discovery or notice of the breach to effect a cure. If the breach cannot be cured within the 90-day period, the sponsor will be obligated to accept a transfer of the Defective Mortgage Loan from the trust fund. The same procedure and limitations that are set forth in the second preceding paragraph for the transfer of Defective Mortgage Loans will apply to the transfer of a mortgage loan that is required to be transferred because of such breach of a representation or warranty in the pooling and servicing agreement that materially and adversely affects the interests of the Certificateholders.

Mortgage loans required to be transferred to the sponsor as described in the preceding paragraphs are referred to as “Defective Mortgage Loans.”

Pursuant to the pooling and servicing agreement, the master servicer will service and administer the mortgage loans as more fully set forth above.

Amendments to Credit Line Agreements

Subject to applicable law and to certain limitations described in the pooling and servicing agreement, the master servicer may change the terms of the credit line agreements at any time provided that such changes

- do not materially and adversely affect the interest of the Certificateholders, Fannie Mae or the Certificate Insurer, and
- are consistent with prudent business practice.

In addition, the pooling and servicing agreement permits the master servicer, within certain limitations described therein, to increase the credit limit of the related mortgage loan or reduce the margin for such mortgage loan.

Optional Transfers of Mortgage Loans to the Transferor

In order to permit the transferor to remove mortgage loans from either loan group at such times, if any, as the portion of the Transferor Interest related to that loan group exceeds the level required by the Certificate Insurer, Fannie Mae (in the case of loan group 1 only) and the Rating Agencies, on any Distribution Date the transferor may, but shall not be obligated to, remove on such distribution date (the "Transfer Date") from the loan group, certain mortgage loans without notice to the Certificateholders. The transferor is permitted to designate the mortgage loans to be removed. Mortgage loans so designated will only be removed upon satisfaction of the following conditions:

- no Rapid Amortization Event (as defined herein) has occurred;
- the portion of the Transferor Interest (allocable to that loan group) as of such Transfer Date (after giving effect to such removal) exceeds the Minimum Transferor Interest;
- the transfer of any mortgage loans from either loan group on any Transfer Date during the Managed Amortization Period (as defined herein) shall not, in the reasonable belief of the transferor, cause a Rapid Amortization Event to occur or an event which with notice or lapse of time or both would constitute a Rapid Amortization Event;
- the transferor shall have delivered to the trustee a "Mortgage Loan Schedule" containing a list of all mortgage loans remaining in the related loan group after such removal;
- the transferor shall represent and warrant that no selection procedures which the transferor reasonably believes are adverse to the interests of the Certificateholders, the Certificate Insurer or Fannie Mae were used by the transferor in selecting such mortgage loans;
- in connection with each such retransfer of mortgage loans, the Rating Agencies and the Certificate Insurer shall have been notified of the proposed transfer and prior to the Transfer Date no Rating Agency has notified the transferor or the Certificate Insurer in writing that such transfer would result in a reduction or withdrawal of the ratings assigned to either class of Certificates without regard to the Policy or the Fannie Mae Guaranty;
- the Transferor shall have delivered to the Trustee and the Certificate Insurer an officer's certificate confirming the six conditions preceding this one; and
- if the mortgage loan in question is a group 1 mortgage loan, the transferor shall have received Fannie Mae's consent.

As of any date of determination within any Collection Period, the "Minimum Transferor Interest" for either loan group is an amount equal to *the lesser of* (a) 5% of the related loan group balance at the end of the immediately preceding Collection Period and (b) 1.5% of the cut-off date balance of the related loan group.

Payments on Mortgage Loans; Deposits to Collection Account

The master servicer shall establish and maintain an account (the "Collection Account") in trust for the Certificateholders, the transferor, Fannie Mae and the Certificate Insurer, as their interests may appear. The Collection Account will be an Eligible Account (as defined herein). Subject to the investment provision described in the following paragraphs and except under the circumstances described below, within two business days of receipt by the master servicer of amounts in respect of the mortgage loans (excluding amounts representing administrative charges, annual fees, taxes, assessments, credit insurance charges, insurance proceeds to be applied to the restoration or repair of a mortgaged property or similar items), the master servicer will deposit such amounts in the Collection Account. Notwithstanding the foregoing, such amounts in respect of the mortgage loans may be remitted to the Collection Account by the master servicer on a monthly basis not later than the business day immediately preceding the related distribution date so long as Countrywide is the master servicer, Countrywide's long-term senior unsecured debt obligations are rated at least equal to "Baa2" by Moody's and "BBB" by Standard & Poor's and the Certificate Insurer's claims-paying ability is rated "Aaa" by Moody's and "AAA" by Standard & Poor's.

Amounts so deposited may be invested in Eligible Investments (as described in the pooling and servicing agreement) maturing no later than one business day prior to the next distribution date or on such Distribution Date if approved by the Rating Agencies, Fannie Mae and the Certificate Insurer. Not later than the fifth

business day prior to each distribution date (the “Determination Date”), the master servicer will notify the trustee of the amount of such deposit to be included in funds available for the related distribution date.

An “Eligible Account” is

- an account that is maintained with a depository institution whose debt obligations throughout the time of any deposit therein have the highest short-term debt rating by the Rating Agencies,
- one or more accounts with a depository institution having a minimum long-term unsecured debt rating of “BBB” by Standard & Poor’s and “Baa3” by Moody’s, which accounts are fully insured by either the Savings Association Insurance Fund (“SAIF”) or the Bank Insurance Fund (“BIF”) of the Federal Deposit Insurance Corporation established by such fund,
- a segregated trust account maintained with the trustee or an affiliate of the trustee in its fiduciary capacity or
- otherwise acceptable to each Rating Agency and the Certificate Insurer as evidenced by a letter from each Rating Agency and the Certificate Insurer to the trustee, without reduction or withdrawal of each Rating Agency’s then current ratings of the Certificates without regard to the Policy or the Fannie Mae Guaranty.

Eligible Investments are specified in the pooling and servicing agreement and are limited to

- obligations of the United States or any agency thereof, provided the timely payment of such obligations are backed by the full faith and credit of the United States;
- general obligations of or obligations guaranteed by any state of the United States or the District of Columbia receiving the highest long-term debt rating of each Rating Agency, or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to the Certificates by each Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- commercial paper issued by Countrywide Home Loans, Inc. or any of its affiliates; provided that such commercial paper is rated no lower than “A-1” by Standard & Poor’s and “P-2” by Moody’s and the long-term debt of Countrywide Home Loans, Inc. is rated at least A3 by Moody’s, or such lower ratings as will not result in the downgrading or withdrawal of the rating then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- commercial or finance company paper which is then receiving the highest commercial or finance company paper rating of each Rating Agency, or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- certificates of deposit, demand or time deposits, or bankers’ acceptances issued by any depository institution or trust company incorporated under the laws of the United States or of any state thereof and subject to supervision and examination by federal and/or state banking authorities, provided that the commercial paper and/or long term unsecured debt obligations of such depository institution or trust company (or in the case of the principal depository institution in a holding company system, the commercial paper or long-term unsecured debt obligations of such holding company, but only if Moody’s is not a Rating Agency) are then rated one of the two highest long-term and the highest short-term ratings of each Rating Agency for such securities, or such lower ratings as will not result in the downgrading or withdrawal of the rating then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- demand or time deposits or certificates of deposit issued by any bank or trust company or savings institution to the extent that such deposits are fully insured by the FDIC;
- guaranteed reinvestment agreements issued by any bank, insurance company or other corporation containing, at the time of the issuance of such agreements, such terms and conditions as will not result in the downgrading or withdrawal of the rating then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- repurchase obligations with respect to any security described in the first and second bullet points, in either case entered into with a depository institution or trust company (acting as principal) described in the fifth bullet point;

- securities (other than stripped bonds, stripped coupons or instruments sold at a purchase price in excess of 115% of the face amount thereof) bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof which, at the time of such investment, have one of the two highest ratings of each Rating Agency (except if the Rating Agency is Moody's, such rating shall be the highest commercial paper rating of Moody's for any such securities), or such lower rating as will not result in the downgrading or withdrawal of the rating then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty, as evidenced by a signed writing delivered by each Rating Agency;
- interests in any money market fund which at the date of acquisition of the interests in such fund and throughout the time such interests are held in such fund has the highest applicable rating by each Rating Agency or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to the Certificates by each Rating Agency without regard to the Policy or the Fannie Mae Guaranty;
- short term investment funds sponsored by any trust company or national banking association incorporated under the laws of the United States or any state thereof which on the date of acquisition has been rated by each Rating Agency in their respective highest applicable rating category or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to the Certificates by each Rating Agency without regard to the Policy or the Fannie Mae Guaranty; and
- such other investments having a specified stated maturity and bearing interest or sold at a discount acceptable to each Rating Agency as will not result in the downgrading or withdrawal of the rating then assigned to the Certificates by any Rating Agency without regard to the Policy or the Fannie Mae Guaranty, as evidenced by a signed writing delivered by each Rating Agency;

provided that no such instrument shall be an Eligible Investment if such instrument evidences the right to receive

- interest only payments with respect to the obligations underlying such instrument or
- both principal and interest payments derived from obligations underlying such instrument and the interest and principal payments with respect to such instrument provide a yield to maturity at par greater than 120% of the yield to maturity at par of the underlying obligations;

and provided, further, that no instrument described hereunder may be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

Allocations and Collections

All collections on the mortgage loans will generally be allocated in accordance with the credit line agreements between amounts collected in respect of interest and amounts collected in respect of principal. As to any distribution date, "Interest Collections" will be determined on a loan group basis and will be equal to the amounts collected during the related Collection Period (as defined herein), including without limitation such portion of Net Liquidation Proceeds, allocated to interest pursuant to the terms of the credit line agreements less

- Servicing Fees for the related Collection Period and
- amounts payable to the master servicer pursuant to the pooling and servicing agreement as reimbursement of optional advances of the interest component of any delinquent monthly payments on the mortgage loans.

As to any distribution date, "Principal Collections" will be determined on a loan group basis and will be equal to the sum of

- the amounts collected during the related Collection Period, including without limitation such portion of Net Liquidation Proceeds, allocated to principal pursuant to the terms of the credit line agreements and
- any Transfer Deposit Amounts.

"Net Liquidation Proceeds" with respect to a mortgage loan are equal to the liquidation proceeds, reduced by related expenses, but not including the portion, if any, of such amount that exceeds the principal balance of the mortgage loan plus accrued and unpaid interest thereon to the end of the Collection Period during which such mortgage loan became a Liquidated Mortgage Loan. "Liquidation Proceeds" are the proceeds (excluding

any amounts drawn on the Policy or paid under the Fannie Mae Guaranty) received in connection with the liquidation of any mortgage loan, whether through trustee's sale, foreclosure sale or otherwise.

With respect to any distribution date and loan group, the portion of interest collections allocable to the related class of Certificates ("Investor Interest Collections") will equal the product of (a) Interest Collections for such Distribution Date and loan group and (b) the Investor Floating Allocation Percentage for such loan group. With respect to any distribution date and loan group, the "Investor Floating Allocation Percentage" is the percentage equivalent of a fraction determined by dividing the Invested Amount at the close of business on the preceding distribution date (or the Closing Date in the case of the first distribution date) by the loan group balance for such loan group at the beginning of the related Collection Period. The remaining amount of interest collections will be allocated to the portion of the Transferor Interest related to that loan group.

With respect to the mortgage loans in each loan group, principal collections will be allocated between the Certificateholders and the transferor ("Investor Principal Collections" and "Transferor Principal Collections," respectively) as described herein.

The trustee will apply any amounts drawn under the Policy or paid under the Fannie Mae Guaranty as provided in the pooling and servicing agreement.

With respect to any date and loan group, the "loan group balance" will be equal to the aggregate of the principal balances of all mortgage loans in that loan group as of such date. The principal balance of a mortgage loan (other than a Liquidated Mortgage Loan) on any day is equal to its cut-off date principal balance, *plus* (1) any Additional Balances in respect of such mortgage loan *minus* (2) all collections credited against the principal balance of such mortgage loan in accordance with the related credit line agreement prior to such day. The principal balance of a Liquidated Mortgage Loan after final recovery of related liquidation proceeds shall be zero.

Distributions on the Certificates

Beginning with the first distribution date (which will occur on April 17, 2000), distributions on the Certificates will be made by the trustee or the Paying Agent on each distribution date to the persons in whose names such Certificates are registered at the close of business on the day prior to each distribution date or, if the Certificates are no longer book-entry certificates, at the close of business on the record date (which is the last day of the month preceding such distribution date). The term "distribution date" means the fifteenth day of each month or, if such day is not a business day, then the first business day thereafter. All distributions on the Class A-1 Certificates will be made directly to Fannie Mae. For purposes of the pooling and servicing agreement, a "business day" is any day other than (1) a Saturday or Sunday or (2) a day on which banking institutions in the states of New York, California or Illinois are required or authorized by law to be closed.

Application of Interest Collections. On each distribution date, the trustee or the Paying Agent will apply the Investor Interest Collections for loan group 1 in the following manner and order of priority:

- (1) as payment to the trustee for the related fee for services rendered pursuant to the pooling and servicing agreement;
- (2) sequentially, first as payment to the Certificate Insurer for the portion of the premium for the Policy related to loan group 1 and second, as payment to Fannie Mae of its Guaranty Fee;
- (3) as payment to Certificateholders for the interest accrued at the related certificate rate and any overdue accrued interest (with interest thereon to the extent permitted by applicable law) on the Certificate Principal Balance of the Certificates;
- (4) to pay to Certificateholders the related Investor Loss Amount for such Distribution Date;
- (5) as payment to Certificateholders for any related Investor Loss Amount for a previous distribution date that was not previously (a) funded by related Investor Interest Collections, (b) absorbed by a reduction in the related portion of the Transferor Interest, (c) funded by related Subordinated Transferor Collections as described below, (d) previously funded by the Reserve Fund, (e) previously funded pursuant to clause (9) below, (f) funded by draws on the Policy, or (g) funded by payments under the Fannie Mae Guaranty;

- (6) to reimburse the Certificate Insurer for prior draws made from the Policy or Fannie Mae for prior payments made under the Fannie Mae Guaranty (in each case with interest thereon);
- (7) to pay to Certificateholders principal on the Certificates until the related portion of the Transferor's Interest equals the related Required Transferor Subordinated Amount (such amount so paid, the "Accelerated Principal Distribution Amount");
- (8) in respect of any other amounts owed to the Certificate Insurer pursuant to the Insurance Agreement or owed to Fannie Mae in connection with the Fannie Mae Guaranty;
- (9) to pay to the other class of certificates any deficiency in items (3), (4) and (5) above, after taking into account the allocation of 100% of such other Class' Investor Interest Collections relating to such other Class on such distribution date (the amount of one Class' remaining Investor Interest Collections which is allocated with respect to the other Class on such distribution date is a "Crossover Amount");
- (10) to the Reserve Fund for application in accordance with the pooling and servicing agreement, to the extent that the sum of the portion of the Transferor's Interest for both loan groups as of such distribution date is less than the sum of the Required Transferor Subordinated Amounts for both loan groups as of such distribution date;
- (11) as payment to the master servicer for certain amounts that may be required to be paid to the master servicer pursuant to the pooling and servicing agreement;
- (12) to pay to the Certificateholders any Basis Risk Carryforward with respect to such Certificates; and
- (13) to pay to the transferor to the extent permitted as described herein.

Payments to Certificateholders pursuant to clause (3) will be interest payments on the Certificates. Payments to Certificateholders pursuant to clauses (4), (5) and (7) will be principal payments on the Certificates and will therefore reduce the related Certificate Principal Balance; however, payments pursuant to clause (7) will not reduce the related Invested Amount. The Accelerated Principal Distribution Amount for a Class is not guaranteed by the Policy or the Fannie Mae Guaranty.

On each distribution date, if Investor Interest Collections with respect to a Class of Certificates, plus any Crossover Amount available from the other Class of Certificates, are insufficient to pay the amounts specified in items (3), (4) and (5) above with respect to a Class of Certificates, the amount of such insufficiency shall be withdrawn from the Reserve Fund to the extent of funds on deposit therein.

The amount on deposit in the Reserve Fund will not exceed the excess of (x) the sum of the Required Transferor Subordinated Amounts with respect to both loan groups over (y) the sum of the portion of the Transferor's Interest with respect to each loan group. Amounts in the Reserve Fund may only be withdrawn therefrom and applied in accordance with the terms of the pooling and servicing agreement.

To the extent that Investor Interest Collections from a loan group are applied to pay the interest on the related class of Certificates, Investor Interest Collections for that loan group may be insufficient to cover related Investor Loss Amounts. If such insufficiency exists after the related Available Transferor Subordinated Amount, the Crossover Amount and the Reserve Fund have each been reduced to zero and results in the related Certificate Principal Balance exceeding the related Invested Amount, a draw will be made on the Policy in accordance with the terms of the Policy (and, if necessary, a payment will be made under the Fannie Mae Guaranty).

"Liquidation Loss Amount" means with respect to any Liquidated Mortgage Loan, the unrecovered principal balance thereof at the end of the Collection Period in which such mortgage loan became a Liquidated Mortgage Loan, after giving effect to the Net Liquidation Proceeds in connection therewith. The "Investor Loss Amount" for a loan group shall be the product of the Investor Floating Allocation Percentage for that loan group and the Liquidation Loss Amount for that loan group for such distribution date.

A "Liquidated Mortgage Loan" means, as to any distribution date, any mortgage loan in respect of which the master servicer has determined, based on the servicing procedures specified in the pooling and servicing agreement, as of the end of the preceding Collection Period, that all Liquidation Proceeds which it expects to recover with respect to the disposition of the mortgage loan or the related mortgaged property have been recovered. The Investor Loss Amount for a loan group will be allocated to the Certificates related to that loan group.

As to any distribution date, the "Collection Period" is the calendar month preceding each distribution date (or, in the case of the first Collection Period, the period beginning on the cut-off date and ending on the last day of March 2000).

Interest will be distributed on each distribution date at the applicable certificate rate for the related Interest Period (as defined below). The "certificate rate" for the Class A-1 Certificates for a Distribution Date will generally equal a per annum rate equal to *the least of*:

- (a) the sum of
 - the London Interbank offered rate for one-month United States dollar deposits ("LIBOR"), calculated as specified below, as of the second LIBOR Business Day prior to the first day of such Interest Period (or as of two LIBOR Business Days prior to the Closing Date, in the case of the first distribution date) plus
 - 0.14%;
- (b) a per annum rate equal to the weighted average of the loan rates of the mortgage loans in loan group 1, net of
 - the Servicing Fee Rate,
 - the rate at which the fee payable to the trustee is calculated,
 - the rate at which the premium payable to the Certificate Insurer and the Guaranty Fee to Fannie Mae are each calculated, and
 - commencing with the distribution date in April 2001, 0.50% per annum, weighted on the basis of the daily average balance of each mortgage loan included in loan group 1 during the related billing cycle prior to the Collection Period relating to such distribution date; and
- (c) 16.00%.

However, on any distribution date for which the certificate rate for a class of certificates has been determined pursuant to clause (b) of the preceding sentence, the excess of

- the amount of interest that would have accrued on those certificates during the related Interest Period had such amount been determined pursuant to clause (a) of the definition of the preceding sentence (but not at a rate in excess of 16.00% per annum) over
- the interest actually accrued on those certificates during such Interest Period (such excess is referred to as "Basis Risk Carryforward") will accrue interest at the certificate rate calculated pursuant to clause (a), but not to exceed clause (c) (as adjusted from time to time) and will be paid on subsequent distribution dates to the extent funds are available therefor.

Interest on the Certificates in respect of any distribution date will accrue on the Certificate Principal Balance from the preceding distribution date (or in the case of the first distribution date, from the Closing Date) through the day preceding such distribution date (each such period, an "Interest Period") on the basis of the actual number of days in the Interest Period and a 360-day year. Interest payments on the Certificates will be funded from Investor Interest Collections, Subordinated Transferor Collections, overcollateralization, the Reserve Fund, and, if necessary, from draws on the Policy or payments under the Fannie Mae Guaranty.

Calculation of the LIBOR Rate. On the second LIBOR business day immediately preceding each distribution date, the trustee shall determine LIBOR for the Interest Period commencing on such distribution date. LIBOR for the first Interest Period will be determined on the second LIBOR business day preceding the Closing Date. LIBOR will equal the rate for United States dollar deposits for one month which appears on the Telerate Screen Page 3750 as of 11:00 A.M., London time, on the second LIBOR business day prior to the first day of such Interest Period. "Telerate Screen Page 3750" means the display designated as page 3750 on the Bridge Telerate Service (or such other page as may replace page 3750 on that service for the purpose of displaying London interbank offered rates of major banks). If such rate does not appear on such page (or such other page as may replace that page on that service, or if such service is no longer offered, such other service for displaying LIBOR or comparable rates as may be selected by the depositor after consultation with the trustee), the rate will be the Reference Bank Rate. The "Reference Bank Rate" will be determined on the basis of the rates at which deposits in United States dollars are offered by the reference banks (which shall be three major banks that are engaged in transactions in the London interbank market, selected by the depositor after

consultation with the trustee) as of 11:00 A.M., London time, on the day that is two LIBOR business days prior to the first day of such Interest Period to prime banks in the London interbank market for a period of one month in amounts approximately equal to the principal amount of the Certificates then outstanding. The trustee will request the principal London office of each of the reference banks to provide a quotation of its rate. If at least two such quotations are provided, the rate will be the arithmetic mean of the quotations. If on such date fewer than two quotations are provided as requested, the rate will be the arithmetic mean of the rates quoted by one or more major banks in New York City, selected by the depositor after consultation with the trustee, as of 11:00 A.M., New York City time, on such date for loans in United States dollars to leading European banks for a period of one month in amounts approximately equal to the principal amount of the Certificates then outstanding. If no such quotations can be obtained, the rate will be LIBOR for the preceding Interest Period. "LIBOR business day" means any day other than (a) a Saturday or a Sunday or (b) a day on which banking institutions in the State of New York or in the city of London, England are required or authorized by law to be closed.

Transferor Collections. Collections allocable to the Transferor Interest in respect of a loan group will be distributed to the transferor only to the extent that such distribution will not reduce the amount of the portion of the Transferor Interest relating to that loan group as of the related distribution date below the applicable Minimum Transferor Interest. Amounts not distributed to the transferor because of such limitations will be retained in the Collection Account until the portion of the Transferor Interest relating to each loan group exceeds the applicable Minimum Transferor Interest, at which time such excess shall be released to the transferor. If any such amounts are still retained in the Collection Account upon the commencement of the Rapid Amortization Period, such amounts will be paid to the Certificateholders of the related class of certificates as a reduction of the related Certificate Principal Balance.

Distributions of Principal Collections. For each loan group, the period beginning on the Closing Date and, unless a Rapid Amortization Event shall have earlier occurred, through and including the Distribution Date in March 2005 (the "Managed Amortization Period"), the amount of principal collections payable to Certificateholders as of each distribution date during the Managed Amortization Period will equal, to the extent funds are available therefor, the Scheduled Principal Collections Distribution Amount for such loan group and distribution date. On any distribution date during the Managed Amortization Period, the "Scheduled Principal Collections Distribution Amount" for a loan group shall equal the lesser of the applicable Maximum Principal Payment and the applicable Alternative Principal Payment. With respect to any loan group and distribution date, the "Maximum Principal Payment" will equal the product of the Investor Fixed Allocation Percentage for that loan group and principal collections for such loan group and distribution date. With respect to any loan group and distribution date, the "Alternative Principal Payment" for that loan group will equal the amount, but not less than zero, of Principal Collections for such loan group and distribution date less the aggregate of Additional Balances created on the mortgage loans in that loan group during the related Collection Period.

Beginning with the first distribution date following the end of the Managed Amortization Period (such period, the "Rapid Amortization Period"), the amount of principal collections payable to Certificateholders on each distribution date will be equal to the Maximum Principal Payment for that loan group.

If on any distribution date the Required Transferor Subordinated Amount for a loan group is reduced below the then existing Available Transferor Subordinated Amount for that loan group, the amount of principal collections from the mortgage loans in that loan group payable to Certificateholders on such distribution date will be correspondingly reduced by the amount of such reduction.

The amount of Principal Collections for a loan group to be distributed to Certificateholders on the first Distribution Date will reflect Principal Collections and Additional Balances from the mortgage loans in that loan group during the first Collection Period which is the period beginning on the cut-off date and ending on the last day of March 2000.

Distributions of Principal Collections from the mortgage loans in a loan group based upon the related Investor Fixed Allocation Percentage may result in distributions of principal to the related Certificateholders in amounts that are greater relative to the declining balance of that loan group than would be the case if the related Investor Floating Allocation Percentage were used to determine the percentage of principal collections distributed in respect of such Invested Amount. Principal Collections from the mortgage loans in a loan group not allocated to the Certificateholders will be allocated to the portion of the Transferor Interest related to that

loan group. The aggregate distributions of principal to the Certificateholders will not exceed the Original Certificate Principal Balance.

In addition, to the extent of funds available therefor (including funds available under the Policy or the Fannie Mae Guaranty), on the distribution date in May 2026, Certificateholders will be entitled to receive as a payment of principal an amount equal to the outstanding Certificate Principal Balance.

The Paying Agent. The Paying Agent shall initially be the trustee, together with any successor thereto in such capacity (the “Paying Agent”). The Paying Agent shall have the revocable power to withdraw funds from the Collection Account for the purpose of making distributions to the Certificateholders.

Limited Subordination of Transferor Interest

If Investor Interest Collections, Crossover Amounts and amounts on deposit in the Reserve Fund on any distribution date are insufficient to pay (i) accrued interest due and any overdue accrued interest (with interest thereon to the extent permitted by applicable law) on the related Certificates and (ii) the applicable Investor Loss Amount on such distribution date (such insufficiency being the “Required Amount”), a portion of the Interest Collections from the mortgage loans in that loan group and principal collections allocable to the portion of the Transferor Interest related to that loan group (but not in excess of the applicable Available Transferor Subordinated Amount) (the “Subordinated Transferor Collections”) will be applied to cover the Required Amount for that loan group. The portion of the Required Amount for a loan group in respect of clause (ii) above not covered by such Subordinated Transferor Collections will be reallocated to the portion of the Transferor Interest related to that loan group, thereby reducing the Transferor Interest (up to the applicable remaining Available Transferor Subordinated Amount and not in excess of the Investor Loss Amounts for that loan group). The portion of the Required Amount not covered by the application of funds pursuant to the provisions of the preceding sentence may then be satisfied by amounts available from the remaining Available Transferor Subordinated Amount from the other loan group. If such Investor Interest Collections for a loan group, Crossover Amounts, amounts on deposit in the Reserve Fund and the amount of Subordinated Transferor Collections which have been so applied to cover the applicable Required Amount are together insufficient to pay the amounts set forth in item (i) of the definition of Required Amount, then a draw will be made on the Policy (and, if necessary, a payment will be made under the Fannie Mae Guaranty) to cover the amount of such shortfall. In addition, if on any distribution date on which the Available Transferor Subordinated Amount for a loan group is reduced to zero the Certificate Principal Balance for that loan group exceeds the applicable Invested Amount (after giving effect to all allocations and distributions with respect to principal to be made on the Certificates on such distribution date), a draw will be made on the Policy (and, if necessary, a payment will be made under the Fannie Mae Guaranty) in the amount of such excess for such distribution date. *See “—The Policy” and “—The Fannie Mae Guaranty.”*

With respect to any distribution date and loan group, the “Available Transferor Subordinated Amount” shall equal the lesser of the portion of the Transferor Interest for that loan group and the related Required Transferor Subordinated Amount for such distribution date.

Rapid Amortization Events

As described above, the Managed Amortization Period will continue through and including the distribution date in March 2005, unless a Rapid Amortization Event occurs prior to such date. “Rapid Amortization Event” refers to any of the following events:

- (a) the failure on the part of the sponsor
 - to make a payment or deposit required under the pooling and servicing agreement within three business days after the date such payment or deposit is required to be made,
 - to record assignments of mortgage loans when required pursuant to the pooling and servicing agreement or
 - to observe or perform in any material respect any other covenants or agreements of the sponsor set forth in the pooling and servicing agreement, which failure materially and adversely affects the interests of the Certificateholders, Fannie Mae or the Certificate Insurer and, with certain exceptions, continues unremedied for a period of 60 days after written notice;

(b) any representation or warranty made by the sponsor or the depositor in the pooling and servicing agreement proves to have been incorrect in any material respect when made and continues to be incorrect in any material respect for a period of 60 days after written notice and as a result of which the interests of the Certificateholders, Fannie Mae or the Certificate Insurer are materially and adversely affected; provided, however, that a Rapid Amortization Event shall not be deemed to occur if the sponsor has purchased or made a substitution for the related mortgage loan or mortgage loans if applicable during such period (or within an additional 60 days with the consent of the trustee) in accordance with the provisions of the pooling and servicing agreement;

(c) the occurrence of certain events of bankruptcy, insolvency or receivership relating to the transferor;

(d) the trust fund becomes subject to regulation by the Securities and Exchange Commission as an investment company within the meaning of the Investment Company Act of 1940, as amended; or

(e) the aggregate of all draws under the Policy or amounts paid pursuant to the Fannie Mae Guaranty incurred during the Managed Amortization Period exceeds 1% of the Original Invested Amount.

In the case of any event described in clause (a) or (b), a Rapid Amortization Event will be deemed to have occurred only if, after the applicable grace period, if any, described in such clauses, either the trustee or Certificateholders holding Certificates evidencing more than 51% of the aggregate principal amount of the Certificates, the Certificate Insurer (so long as there is no default by the Certificate Insurer in the performance of its obligations under the Policy) or Fannie Mae, by written notice to the transferor, the depositor and the master servicer (and to the trustee, if given by the Certificate Insurer, Fannie Mae or the Certificateholders) declare that a Rapid Amortization Event has occurred as of the date of such notice. In the case of any event described in clause (c), (d) or (e), a Rapid Amortization Event will be deemed to have occurred without any notice or other action on the part of the trustee, the Certificate Insurer or the Certificateholders immediately upon the occurrence of such event.

Notwithstanding the foregoing, if a conservator, receiver or trustee-in-bankruptcy is appointed for the transferor and no Rapid Amortization Event exists other than such conservatorship, receivership or insolvency of the transferor, the conservator, receiver or trustee-in-bankruptcy may have the power to prevent the commencement of the Rapid Amortization Period.

The Policy

On or before the Closing Date, the Policy will be issued by the Certificate Insurer pursuant to the provisions of the pooling and servicing agreement and the Insurance and Indemnity Agreement (the "Insurance Agreement") to be dated as of the Closing Date, among the sponsor, the depositor, the master servicer, the trustee and the Certificate Insurer.

The Policy will irrevocably and unconditionally guarantee payment on each distribution date to the trustee for the benefit of the Certificateholders of each class of Certificates the full and complete payment of Insured Amounts with respect to the related Certificates for such distribution date. An "Insured Amount" shall equal with respect to each class of Certificates as of any distribution date any shortfall in amounts available in the Collection Account to pay (a) (i) the Guaranteed Principal Distribution Amount (as defined herein) with respect to the related Certificates for such distribution date and (ii) accrued and unpaid interest due on the related Certificates (together, the "Guaranteed Distributions"), with such Guaranteed Distributions having been calculated in accordance with the original terms of the Certificates or the pooling and servicing agreement after giving effect to amendments or modifications to which the Certificate Insurer has given its prior written consent and (b) any Preference Amount (as defined herein) which occurs prior to the related determination date. The effect of the Policy is to guarantee the timely payment of interest on, and the ultimate payment of the principal amount of, all of the Certificates. The Policy does not cover any Basis Risk Carryforward.

The "Guaranteed Principal Distribution Amount" for any Class of Certificates and distribution date (other than the distribution date in May 2026) on which the sum of the Available Transferor Subordinated Amounts for both loan groups and the Reserve Fund has been reduced to or equals zero, shall be the amount, if any, by which the Certificate Principal Balance of such Class of Certificates (after giving effect to all other amounts distributable and allocable to principal on the Certificates) exceeds the related Invested Amount as of such distribution date (after giving effect to all other amounts distributable and allocable to principal on the Certificates for such distribution date) and on the distribution date in May 2026 (after giving effect to all other

amounts distributable and allocable to principal on such distribution date) any amount necessary to pay the outstanding Certificate Principal Balance.

A “Preference Amount” means any amount previously distributed to a Certificateholder that is recoverable and recovered as a voidable preference by a trustee in bankruptcy pursuant to the United States Bankruptcy Code, as amended from time to time, in accordance with a final nonappealable order of a court having competent jurisdiction.

Payment of claims on the Policy will be made by the Certificate Insurer following Receipt by the Certificate Insurer of the appropriate notice for payment (and any other required documentation) on the later to occur of (i) 12:00 noon, New York City time, on the second Business Day following Receipt of such notice for payment and (ii) 12:00 noon, New York City time, on the relevant Distribution Date.

The terms “Receipt” and “Received”, with respect to the Policy, mean actual delivery to the Certificate Insurer prior to 12:00 noon, New York City time, on a business day; delivery either on a day that is not a business day or after 12:00 noon, New York City time, shall be deemed to be Received on the next succeeding business day. If any notice or certificate given under the Policy by the trustee is not in proper form or is not properly completed, executed or delivered, it shall be deemed not to have been Received, and the Certificate Insurer shall promptly so advise the trustee and the trustee may submit an amended notice.

Under the Policy, “business day” means any day other than (i) a Saturday or Sunday or (ii) a day on which banking institutions in the states of New York, California or Illinois or the city in which the corporate trust office of the trustee or the Certificate Insurer is located, are authorized or obligated by law or executive order to be closed.

The Certificate Insurer’s obligations under the Policy in respect of Insured Amounts shall be discharged to the extent funds are transferred to the trustee as provided in the Policy, whether or not such funds are properly applied by the trustee.

The Certificate Insurer shall be subrogated to the rights of each Certificateholder to receive payments of principal and interest, as applicable, with respect to distributions on the Certificates to the extent of any payment by the Certificate Insurer under the Policy. To the extent the Certificate Insurer pays Insured Amounts, either directly or indirectly (as by paying through the Trustee), to the Certificateholders, the Certificate Insurer will be subrogated to the rights of the Certificateholders, as applicable, with respect to such Insured Amounts and shall be deemed to the extent of the payments so made to be a registered Certificateholder for purposes of payment.

The terms of the Policy cannot be modified, altered or affected by any other agreement or instrument, or by the merger, consolidation or dissolution of the sponsor. The Policy by its terms may not be cancelled or revoked. The Policy is governed by the laws of the State of New York.

Insured Amounts shall be paid only at the time set forth in the Policy and no accelerated Insured Amounts shall be paid regardless of any acceleration of the Certificates, unless such acceleration is at the sole option of the Certificate Insurer. The Policy does not cover shortfalls, if any, attributable to the liability of the trust fund or the trustee for withholding taxes, if any (including interest and penalties in respect of any such liability).

Capitalized terms used in the Policy and not otherwise defined in the Policy shall have the respective meanings set forth in the pooling and servicing agreement as of the date of execution of the Policy, without giving effect to any subsequent amendment or modification to the pooling and servicing agreement unless such amendment or modification has been approved in writing by the Certificate Insurer.

Pursuant to the terms of the pooling and servicing agreement, unless a Certificate Insurer default exists, the Certificate Insurer shall be deemed to be the Holder of the Certificates for certain purposes (other than with respect to payment on the Certificates), will be entitled to exercise all rights of the Certificateholders thereunder without the consent of such Holders, and the Holders of the Certificates may exercise such rights only with the prior written consent of the Certificate Insurer. In addition, the Certificate Insurer will have certain additional rights as a third party beneficiary to the pooling and servicing agreement.

The Certificate Insurer

The following information set forth in this section has been provided by Ambac Assurance Corporation (the “Certificate Insurer”). Accordingly, none of the depositor, the sponsor and master servicer or Fannie Mae makes any representation as to the accuracy and completeness of such information.

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the Territory of Guam. The Certificate Insurer primarily insures newly-issued municipal and structured finance obligations. The Certificate Insurer is a wholly-owned subsidiary of Ambac Financial Group, Inc. (formerly, AMBAC, Inc.), a 100% publicly-held company. Moody's, Standard & Poor's and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to the Certificate Insurer.

The consolidated financial statements of Ambac Assurance Corporation and subsidiaries as of December 31, 1998 and December 31, 1997, and for each of the years in the three year period ended December 31, 1998, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of Ambac Financial Group, Inc. (which was filed with the Securities and Exchange Commission on March 30, 1999; Commission File Number 1-10777), the unaudited consolidated financial statements of Ambac Assurance Corporation and subsidiaries as of September 30, 1999 and for the periods ending September 30, 1999 and September 30, 1998 included in the Quarterly Report on Form 10-Q of Ambac Financial Group, Inc. for the period ended September 30, 1999 (which was filed with the Securities and Exchange Commission on November 12, 1999) and the unaudited interim financial statements and accompanying discussion of Ambac Financial Group, Inc. as of December 31, 1999 and for the periods ending December 31, 1999 and December 31, 1998 contained in the press release issued on January 26, 2000 included in the Form 8-K of Ambac Financial Group, Inc. (which was filed with the Securities and Exchange Commission on January 27, 2000) are hereby incorporated by reference into this Information Supplement and shall be deemed to be a part hereof. Any statement contained in a document incorporated herein by reference shall be modified or superseded for the purposes of this Information Supplement to the extent that a statement contained herein by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Supplement.

All financial statements of the Certificate Insurer and subsidiaries included in documents filed by Ambac Financial Group, Inc. with the Securities and Exchange Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Information Supplement and prior to the termination of the offering of the Certificates shall be deemed to be incorporated by reference into this Information Supplement and to be a part hereof from the respective dates of filing such documents.

The following table sets forth the capitalization of the Certificate Insurer as of December 31, 1996, December 31, 1997, December 31, 1998 and September 30, 1999, respectively, in conformity with generally accepted accounting principles.

Ambac Assurance Corporation
CONSOLIDATED CAPITALIZATION TABLE
(Dollars in Millions)

| | December 31, 1996 | December 31, 1997 | December 31, 1998 | September 30, 1999 (unaudited) |
|---|----------------------|----------------------|----------------------|--------------------------------------|
| Unearned premiums..... | \$ 995 | \$1,184 | \$1,303 | \$1,376 |
| Other liabilities..... | 259 | 562 | 548 | 465 |
| | <u>\$1,254</u> | <u>\$1,746</u> | <u>\$1,851</u> | <u>\$1,841</u> |
| Stockholder's equity(1) | | | | |
| Common stock..... | \$ 82 | \$ 82 | \$ 82 | \$ 82 |
| Additional paid-in capital..... | 515 | 521 | 541 | 643 |
| Accumulated other comprehensive income (loss)..... | 66 | 118 | 138 | (23) |
| Retained earnings..... | <u>992</u> | <u>1,180</u> | <u>1,405</u> | <u>1,600</u> |
| Total stockholder's equity..... | <u>1,655</u> | <u>1,901</u> | <u>2,166</u> | <u>2,302</u> |
| Total liabilities and stockholder's equity..... | <u>\$2,909</u> | <u>\$3,647</u> | <u>\$4,017</u> | <u>\$4,143</u> |

(1) Components of stockholder's equity have been restated for all periods presented to reflect "Accumulated other comprehensive income" in accordance with the Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" adopted by the Certificate Insurer effective January 1, 1998. As this new standard only requires additional information in the financial statements, it does not affect the Certificate Insurer's financial position or results of operations.

For additional financial information concerning the Certificate Insurer, see the audited and unaudited financial statements of the Certificate Insurer incorporated by reference herein. Copies of the financial statements of the Certificate Insurer incorporated herein by reference and copies of the Certificate Insurer's annual statement for the year ended December 31, 1998 prepared in accordance with statutory accounting standards are available, without charge, from the Certificate Insurer. The address of the Certificate Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Information Supplement other than the information supplied by the Certificate Insurer and presented under the headings "Description of the Certificates—The Policy" and "Description of the Certificates—The Certificate Insurer" and in the financial statements incorporated herein by reference.

Each rating of the Certificate Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the financial strength of the Certificate Insurer. Any further explanation as to the significance of the rating of the Certificate Insurer may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Certificates, 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 Certificates. The Certificate Insurer does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

Fannie Mae Guaranty

It is a further condition to the issuance of the Class A-1 Certificates that they be purchased by Fannie Mae and that Fannie Mae guarantee that all Insured Amounts will be paid to holders of the Class A-1 Certificates on each Distribution Date. The Fannie Mae Guaranty is intended to protect the Class A-1 Certificateholders only in the event and to the extent that required payments under the Policy are not made. The guaranty of Fannie Mae (the "Fannie Mae Guaranty") is not backed by the full faith and credit of the United States. If Fannie Mae were unable to pay under the Fannie Mae Guaranty, the Class A-1 Certificates could be subject to losses.

On each distribution date, Fannie Mae shall be entitled to receive a fee (the "Guaranty Fee") payable from interest collections on the group 1 mortgage loans with respect to such distribution date. In addition, Fannie Mae will have certain additional rights under the pooling and servicing agreement. Furthermore, in the event that the claims-paying ability of the Certificate Insurer is downgraded or a Certificate Insurer default exists and no replacement Certificate Insurer shall have been appointed, Fannie Mae generally will succeed to the rights of the Certificate Insurer under the pooling and servicing agreement and the Insurance Agreement with respect to the Class A-1 Certificates, including, without limitation, rights described in this Information Supplement.

Reports to Certificateholders

Concurrently with each distribution, the master servicer will forward to the trustee for mailing to Fannie Mae a statement setting forth among other items:

- (i) the Investor Floating Allocation Percentage for each loan group for the preceding Collection Period;
- (ii) the amount being distributed to each class of certificates;
- (iii) the amount of interest included in such distribution and the related certificate rate for each class of certificates;
- (iv) the amount, if any, of overdue accrued interest for a class of certificates included in such distribution (and the amount of interest thereon to the extent permitted by applicable law);
- (v) the amount, if any, of the remaining overdue accrued interest for a class of certificates after giving effect to such distribution;
- (vi) the amount, if any, of principal included in such distribution;

- (vii) the amount, if any, of the reimbursement of previous Investor Loss Amounts for a class of certificates included in such distribution,
- (viii) the amount, if any, of Basis Risk Carryforward for a class of certificates paid and the amount, if any, of Basis Risk Carryforward accrued;
- (ix) the amount, if any, of the aggregate unreimbursed Investor Loss Amounts for a class of certificates after giving effect to such distribution;
- (x) the Servicing Fee for such distribution date;
- (xi) for each class of certificates: the Invested Amount, the Certificate Principal Balance and the Pool Factor, each after giving effect to such distribution;
- (xii) the loan group balance of each loan group as of the end of the preceding Collection Period;
- (xiii) the number and aggregate principal balances of the mortgage loans in each loan group as to which the minimum monthly payment is delinquent for 30-59 days, 60-89 days and 90 or more days, respectively, as of the end of the preceding Collection Period;
- (xiv) the book value of any real estate in each loan group which is acquired by the trust fund through foreclosure or grant of deed in lieu of foreclosure;
- (xv) the amount of any draws on the Policy or payments under the Fannie Mae Guaranty;
- (xvi) the amount on deposit in the Reserve Fund on the preceding distribution date, after giving effect to all distributions made on that date, the amount withdrawn from the Reserve Fund with respect to this distribution date, and the amount remaining on deposit in the Reserve Fund; and
- (xvii) with respect to the first and second distribution dates, the number and aggregate balance of any mortgage loans in either loan group not delivered to the trustee within 30 days after the Closing Date.

In the case of information furnished pursuant to clauses (iii), (iv), (v), (vi), (vii) and (viii) above, the amounts shall be expressed as a dollar amount per \$1,000 increment of Certificates.

Within 60 days after the end of each calendar year commencing in 2001, the master servicer will be required to forward to the Trustee a statement containing the information set forth in clauses (iii) and (vi) above aggregated for such calendar year.

Collection and Other Servicing Procedures on Mortgage Loans

The master servicer will make reasonable efforts to collect all payments called for under the mortgage loans and will, consistent with the pooling and servicing agreement, follow such collection procedures as it follows from time to time with respect to the home equity loans in its servicing portfolio comparable to the mortgage loans. Consistent with the above, the master servicer may in its discretion waive any late payment charge or any assumption or other fee or charge that may be collected in the ordinary course of servicing the mortgage loans.

With respect to the mortgage loans, the master servicer may arrange with a borrower a schedule for the payment of interest due and unpaid for a period, provided that any such arrangement is consistent with the master servicer's policies with respect to the mortgage loans it owns or services. In accordance with the terms of the pooling and servicing agreement, the master servicer may consent under certain circumstances to the placing of a subsequent senior lien in respect of a mortgage loan.

Hazard Insurance

The pooling and servicing agreement provides that the master servicer maintain certain hazard insurance on the mortgaged properties relating to the mortgage loans. While the terms of the related credit line agreements generally require borrowers to maintain certain hazard insurance, the master servicer will not monitor the maintenance of such insurance.

The pooling and servicing agreement requires the master servicer to maintain for any mortgaged property relating to a mortgage loan acquired upon foreclosure of a mortgage loan, or by deed in lieu of such foreclosure, hazard insurance with extended coverage in an amount equal to the lesser of

- the maximum insurable value of such mortgaged property or
- the outstanding balance of such mortgage loan plus the outstanding balance on any mortgage loan senior to such mortgage loan at the time of foreclosure or deed in lieu of foreclosure, plus accrued interest and the master servicer's good faith estimate of the related liquidation expenses to be incurred in connection therewith.

The pooling and servicing agreement provides that the master servicer may satisfy its obligation to cause hazard policies to be maintained by maintaining a blanket policy insuring against losses on such mortgaged properties. If such blanket policy contains a deductible clause, the master servicer will be obligated to deposit in the Collection Account the sums which would have been deposited therein but for such clause. The master servicer will satisfy these requirements by maintaining a blanket policy. As set forth above, all amounts collected by the master servicer (net of any reimbursements to the master servicer) under any hazard policy (except for amounts to be applied to the restoration or repair of the mortgaged property) will ultimately be deposited in the Collection Account.

In general, the standard form of fire and extended coverage policy covers physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm and hail, and the like, strike and civil commotion, subject to the conditions and exclusions specified in each policy. Although the policies relating to the mortgage loans will be underwritten by different insurers and therefore will not contain identical terms and conditions, the basic terms thereof are dictated by state laws and most of such policies typically do not cover any physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement (including earthquakes, landslides and mudflows), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in certain cases, vandalism. The foregoing list is merely indicative of certain kinds of uninsured risks and is not intended to be all-inclusive or an exact description of the insurance policies relating to the mortgaged properties.

Realization Upon Defaulted Mortgage Loans

The master servicer will foreclose upon or otherwise comparably convert to ownership mortgaged properties securing such of the mortgage loans as come into default when, in accordance with applicable servicing procedures under the pooling and servicing agreement, no satisfactory arrangements can be made for the collection of delinquent payments. In connection with such foreclosure or other conversion, the master servicer will follow such practices as it deems necessary or advisable and as are in keeping with its general mortgage servicing activities, provided the master servicer will not be required to expend its own funds in connection with foreclosure or other conversion, correction of default on a related senior mortgage loan or restoration of any property unless, in its sole judgment, such foreclosure, correction or restoration will increase net liquidation proceeds. The master servicer will be reimbursed out of liquidation proceeds and, if necessary, from other collections on or in respect of the mortgage loans, for advances of its own funds as liquidation expenses before any net liquidation proceeds are distributed to Certificateholders or the transferor.

Optional Purchase of Defaulted Loan

The master servicer may, at its option, purchase from the trust fund any mortgage loan which is delinquent in payment for 91 days or more. Any such purchase shall be at a price equal to 100% of the principal balance of such mortgage loan plus accrued interest thereon at the applicable loan rate from the date through which interest was last paid by the related mortgagor to the first day of the month in which such amount is to be distributed to Certificateholders.

Servicing Compensation and Payment of Expenses

With respect to each Collection Period, the master servicer will receive from interest received on the mortgage loans a portion of such interest collections as a monthly Servicing Fee in the amount equal to 0.50% per annum ("Servicing Fee Rate") on the aggregate principal balances of the mortgage loans as of the first day of the related Collection Period. All assumption fees, late payment charges and other fees and charges, to the extent collected from borrowers, will be retained by the master servicer as additional servicing compensation.

The master servicer will pay certain ongoing expenses associated with the trust fund and incurred by it in connection with its responsibilities under the pooling and servicing agreement. In addition, the master servicer will be entitled to reimbursement for certain expenses incurred by it in connection with defaulted mortgage loans and in connection with the restoration of mortgaged properties, such right of reimbursement being prior to the rights of Certificateholders to receive any related net liquidation proceeds and, if necessary, other collections on or in respect of the mortgage loans.

Evidence as to Compliance

The pooling and servicing agreement provides for delivery on or before May 31 in each year, beginning May 31, 2001, to the trustee of an annual statement signed by an officer of the master servicer to the effect that the master servicer has fulfilled its material obligations under the pooling and servicing agreement throughout the preceding fiscal year, except as specified in such statement.

On or before May 31 of each year, beginning May 31, 2001, the master servicer will furnish a report prepared by a firm of nationally recognized independent public accountants (who may also render other services to the master servicer or the transferor) to the trustee, the Certificate Insurer, Fannie Mae and the Rating Agencies to the effect that such firm has examined certain documents and the records relating to servicing of the mortgage loans under the pooling and servicing agreement and that, on the basis of such examination, such firm believes that such servicing was conducted in compliance with the pooling and servicing agreement except for (a) such exceptions as such firm believes to be immaterial and (b) such other exceptions as shall be set forth in such report.

Certain Matters Regarding the Master Servicer and the Transferor

The pooling and servicing agreement provides that the master servicer may not resign from its obligations and duties thereunder, except in connection with a permitted transfer of servicing, unless

- (a) such duties and obligations are no longer permissible under applicable law or are in material conflict by reason of applicable law with any other activities of a type and nature presently carried on by it or its affiliate or
- (b) upon the satisfaction of the following conditions:
 - the master servicer has proposed a successor servicer to the trustee in writing and such proposed successor servicer is reasonably acceptable to the trustee;
 - the Rating Agencies have confirmed to the trustee that the appointment of such proposed successor servicer as the master servicer will not result in the reduction or withdrawal of the then current rating of the certificates without regard to the Policy or the Fannie Mae Guaranty; and
 - such proposed successor servicer is reasonably acceptable to the Certificate Insurer.

No such resignation will become effective until the trustee or a successor servicer has assumed the master servicer's obligations and duties under the pooling and servicing agreement.

The master servicer may perform any of its duties and obligations under the pooling and servicing agreement through one or more subservicers or delegates, which may be affiliates of the master servicer. Notwithstanding any such arrangement, the master servicer will remain liable and obligated to the trustee and the Certificateholders for the master servicer's duties and obligations under the pooling and servicing agreement, without any diminution of such duties and obligations and as if the master servicer itself were performing such duties and obligations.

The pooling and servicing agreement provides that the master servicer will indemnify the trust fund and the trustee from and against any loss, liability, expense, damage or injury suffered or sustained as a result of the master servicer's actions or omissions in connection with the servicing and administration of the mortgage loans which are not in accordance with the provisions of the pooling and servicing agreement. Under the pooling and servicing agreement, the transferor will indemnify an injured party for the entire amount of any losses, claims, damages or liabilities arising out of or based on the pooling and servicing agreement to the extent described therein (other than losses resulting from defaults under the mortgage loans). In the event of an Event of Servicing Termination (as defined below) resulting in the assumption of servicing obligations by a successor

master servicer, the successor master servicer will indemnify the transferor for any losses, claims, damages and liabilities of the transferor as described in this paragraph arising from the successor master servicer's actions or omissions. The pooling and servicing agreement provides that neither the depositor, the transferor nor the master servicer nor their directors, officers, employees or agents will be under any other liability to the trust fund, the trustee, the Certificateholders or any other person for any action taken or for refraining from taking any action pursuant to the pooling and servicing agreement. However, neither the depositor, the transferor nor the master servicer will be protected against any liability which would otherwise be imposed by reason of willful misconduct, bad faith or gross negligence of the depositor, the transferor or the master servicer in the performance of its duties under the pooling and servicing agreement or by reason of reckless disregard of its obligations thereunder. In addition, the pooling and servicing agreement provides that the master servicer will not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its servicing responsibilities under the pooling and servicing agreement and which in its opinion may expose it to any expense or liability. The master servicer may, in its sole discretion, undertake any such legal action which it may deem necessary or desirable with respect to the pooling and servicing agreement and the rights and duties of the parties thereto and the interest of the Certificateholders thereunder.

Any corporation into which the master servicer may be merged or consolidated, or any corporation resulting from any merger, conversion or consolidation to which the master servicer shall be a party, or any corporation succeeding to the business of the master servicer shall be the successor of the master servicer under the pooling and servicing agreement, without the execution or filing of any paper or any further act on the part of any of the parties thereto, anything in the pooling and servicing agreement to the contrary notwithstanding.

Events of Servicing Termination

"Events of Servicing Termination" will consist of:

- (i) any failure by the master servicer to deposit in the Collection Account any deposit required to be made under the pooling and servicing agreement, which failure continues unremedied for five business days (or, if the master servicer is permitted to remit collections in respect of the mortgage loans to the Collection Account on a monthly basis as described under "—Payments on Mortgage Loans; Deposits to Collection Account," three business days) after the giving of written notice of such failure to the master servicer by the trustee, or to the master servicer and the trustee by the Certificate Insurer or Certificateholders evidencing an aggregate undivided interest in the Trust Fund of at least 25% of the aggregate Certificate Principal Balance;
- (ii) any failure by the master servicer duly to observe or perform in any material respect any other of its covenants or agreements in the Certificates or the pooling and servicing agreement which, in each case, materially and adversely affects the interests of the Certificateholders, Fannie Mae or the Certificate Insurer and continues unremedied for 60 days after the giving of written notice of such failure to the master servicer by the trustee, or to the master servicer and the trustee by the Certificate Insurer, Fannie Mae or Certificateholders evidencing an aggregate, undivided interest in the trust fund of at least 25% of the aggregate Certificate Principal Balance; or
- (iii) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings relating to the master servicer and certain actions by the master servicer indicating insolvency, reorganization or inability to pay its obligations. Under certain other circumstances, the Certificate Insurer or the holders of Certificates evidencing an aggregate, undivided interest in the trust fund of at least 51% of the aggregate Certificate Principal Balance may deliver written notice to the master servicer terminating all the rights and obligations of the master servicer under the pooling and servicing agreement.

Notwithstanding the foregoing, a delay in or failure of performance referred to under clause (i) above for a period of five or more business days or referred to under clause (ii) above for a period of 60 or more days, shall not constitute an Event of Servicing Termination if such delay or failure could not be prevented by the exercise of reasonable diligence by the master servicer and such delay or failure was caused by an act of God or other similar occurrence. Upon the occurrence of any such event the master servicer shall not be relieved from using its best efforts to perform its obligations in a timely manner in accordance with the terms of the pooling and servicing agreement and the master servicer shall provide the trustee, the depositor, the transferor, the Certificate

Insurer, Fannie Mae and the Certificateholders prompt notice of such failure or delay by it, together with a description of its efforts to so perform its obligations.

Rights Upon an Event of Servicing Termination

So long as an Event of Servicing Termination remains unremedied, either the trustee, or Certificateholders evidencing an aggregate undivided interest in the trust fund of at least 51% of the aggregate Certificate Principal Balance (with the consent of the Certificate Insurer), or the Certificate Insurer may terminate all of the rights and obligations of the master servicer under the pooling and servicing agreement, whereupon the trustee will succeed to all the responsibilities, duties and liabilities of the master servicer under the pooling and servicing agreement and will be entitled to similar compensation arrangements. In the event that the trustee would be obligated to succeed the master servicer but is unwilling or unable so to act, it may appoint, or petition a court of competent jurisdiction for the appointment of, a housing and home finance institution or other mortgage loan or home equity loan servicer with all licenses and permits required to perform its obligations under the pooling and servicing agreement and having a net worth of at least \$15,000,000 and acceptable to the Certificate Insurer to act as successor to the master servicer under the pooling and servicing agreement. Pending such appointment, the trustee will be obligated to act in such capacity unless prohibited by law. Such successor will be entitled to receive the same compensation that the master servicer would otherwise have received (or such lesser compensation as the trustee and such successor may agree upon). A receiver or conservator for the master servicer may be empowered to prevent the termination and replacement of the master servicer where the Event of Servicing Termination that has occurred is an Insolvency Event.

Amendment

The pooling and servicing agreement may be amended from time to time by the sponsor, the master servicer, the depositor and the trustee and with the consent of the Certificate Insurer, but without the consent of the Certificateholders,

- to cure any ambiguity,
- to correct any defective provision or to correct or supplement any provisions therein which may be inconsistent with any other provisions of the pooling and servicing agreement,
- to add to the duties of the depositor, the sponsor, the transferor or the master servicer,
- to add or amend any provisions of the pooling and servicing agreement as required by the Rating Agencies in order to maintain or improve any rating of the Certificates (it being understood that, after obtaining the ratings in effect on the Closing Date, neither the transferor, the sponsor, the depositor, the trustee nor the master servicer is obligated to obtain, maintain, or improve any such rating),
- to add any other provisions with respect to matters or questions arising under the pooling and servicing agreement or the Policy which shall not be inconsistent with the provisions of the pooling and servicing agreement,
- to comply with any requirement imposed by the Code (as defined herein) or
- to increase the limits set forth in the pooling and servicing agreement as to the amount of senior liens which the master servicer may consent to, provided that such action will not, as evidenced by an opinion of counsel, materially and adversely affect the interests of any Certificateholder, the Certificate Insurer or Fannie Mae;

provided, that any such amendment will not be deemed to materially and adversely affect the Certificateholders and no such opinion will be required to be delivered if the person requesting such amendment obtains a letter from the Rating Agencies stating that such amendment would not result in a downgrading of the then current rating of the Certificates without regard to the Policy or the Fannie Mae Guaranty.

The pooling and servicing agreement may also be amended from time to time by the sponsor, the master servicer, the depositor, and the trustee, and the master servicer and the Certificate Insurer may from time to time consent to the amendment of the Policy, with the consent of Certificateholders with certificates evidencing at least 51% of the Certificate Principal Balance of the affected class or, if both classes are affected, of the aggregate Certificate Principal Balance of all classes of certificates and the Certificate Insurer for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the pooling and

servicing agreement or of modifying in any manner the rights of the Certificateholders, provided that no such amendment will

- reduce in any manner the amount of, or delay the timing of, payments on the Certificates or distributions or payments under the Policy which are required to be made on any Certificate without the consent of the Holder of such Certificate,
- reduce the aforesaid percentage required to consent to any such amendment, without the consent of the Holders of all Certificates then outstanding or
- adversely affect in any material respect the interests of the Certificate Insurer or Fannie Mae.

Termination; Retirement of the Certificates

The trust fund will terminate on the distribution date following the later of

(A) payment in full of all amounts owing to the Certificate Insurer and Fannie Mae and

(B) the earliest of

- the distribution date on which the Certificate Principal Balance of each class of certificates has been reduced to zero,
- the final payment or other liquidation of the last mortgage loan in the trust fund,
- the optional transfer to the transferor of the mortgage loans, as described below, and
- the distribution date in May 2026.

The mortgage loans will be subject to optional transfer to the transferor on any distribution date on or after which the aggregate Certificate Principal Balance of both classes of certificates is reduced to an amount less than or equal to 10% of the aggregate Original Certificate Principal Balance for both classes of certificates and all amounts due and owing to the Certificate Insurer and Fannie Mae, including any unreimbursed draws on the Policy and unreimbursed payments under the Fannie Mae Guaranty, together with interest thereon, have been paid. The transfer price will be equal to the sum of

- the outstanding Certificate Principal Balance of each class of certificates plus accrued and unpaid interest thereon at the applicable Certificate Rate through the day preceding the final distribution date and
- an amount equal to any Basis Risk Carryforward for each class of certificates plus accrued and unpaid interest thereon.

In no event, however, will the trust fund created by the pooling and servicing agreement continue for more than 21 years after the death of certain individuals named in the pooling and servicing agreement. Written notice of termination of the pooling and servicing agreement will be given to each certificateholder, and the final distribution will be made only upon surrender and cancellation of the certificates at an office or agency appointed by the trustee which will be specified in the notice of termination.

In addition, Certificates must be prepaid and redeemed in part with any funds remaining in the relevant additional loan account on March 6, 2000 after the purchase of any Additional Home Equity Loans on that day.

The Trustee

Bank One, National Association, a national banking association with its principal place of business in Illinois, has been named trustee pursuant to the pooling and servicing agreement.

The commercial bank or trust company serving as trustee may own Certificates and have normal banking relationships with the depositor, the master servicer, the sponsor, Fannie Mae and the Certificate Insurer and/or their affiliates.

The trustee may resign at any time, in which event the depositor will be obligated to appoint a successor trustee, as approved by the Certificate Insurer. The depositor may also remove the trustee if the trustee ceases to be eligible to continue as such under the pooling and servicing agreement or if the trustee becomes insolvent. Upon becoming aware of such circumstances, the depositor will be obligated to appoint a successor trustee, as approved by the Certificate Insurer. Any resignation or removal of the trustee and appointment of a successor trustee will not become effective until acceptance of the appointment by the successor trustee.

No holder of a Certificate will have any right under the pooling and servicing agreement to institute any proceeding with respect to the pooling and servicing agreement unless such holder previously has given to the trustee written notice of default and unless Certificateholders evidencing an aggregate, undivided interest in the trust fund of at least 51% of the aggregate Certificate Principal Balance have made written requests upon the trustee to institute such proceeding in its own name as trustee thereunder and have offered to the trustee reasonable indemnity and the trustee for 60 days has neglected or refused to institute any such proceeding. The trustee will be under no obligation to exercise any of the trusts or powers vested in it by the pooling and servicing agreement or to make any investigation of matters arising thereunder or to institute, conduct or defend any litigation thereunder or in relation thereto at the request, order or direction of any of the Certificateholders, unless such Certificateholders have offered to the trustee reasonable security or indemnity against the cost, expenses and liabilities which may be incurred therein or thereby.

Certain Activities

The Trust Fund will not borrow money, make loans, invest in securities for the purpose of exercising control, underwrite securities, except as provided in the pooling and servicing agreement, engage in the purchase and sale (or turnover) of investments, offer securities in exchange for property (except the Certificates for the mortgage loans), or repurchase or otherwise reacquire its securities. *See “—Evidence as to Compliance” above for information regarding reports as to the compliance by the master servicer with the terms of the pooling and servicing agreement.*

Description of the Purchase Agreement

The mortgage loans to be transferred to the trust fund by the depositor will be purchased by the depositor from the sponsor pursuant to a purchase agreement (the “Purchase Agreement”) to be entered into between the depositor, as purchaser of the mortgage loans, and the sponsor, as transferor of the mortgage loans. Under the Purchase Agreement, the sponsor will agree to transfer the mortgage loans and related Additional Balances to the depositor. Pursuant to the pooling and servicing agreement, the mortgage loans will be immediately transferred by the depositor to the trust fund, and the depositor will assign its rights in, to and under the Purchase Agreement to the trust fund. The following is a description of the material provisions of the Purchase Agreement.

Transfers of Mortgage Loans

Pursuant to the Purchase Agreement, the sponsor will transfer and assign to the depositor, all of its interest in the mortgage loans (including any Additional Home Equity Loans), and all of the Additional Balances thereafter created. The purchase price of the mortgage loans is a specified percentage of the face amount thereof as of the time of transfer and is payable by the depositor in cash. The purchase price of each Additional Balance comprising the principal balance of a mortgage loan is the amount of such Additional Balance.

Representations and Warranties

The sponsor will represent and warrant to the depositor that, among other things, as of the Closing Date, it is duly organized and in good standing and that it has the authority to consummate the transactions contemplated by the Purchase Agreement. The sponsor will also represent and warrant to the depositor that, among other things, immediately prior to the sale of the mortgage loans to the depositor, the sponsor was the sole owner and holder of the mortgage loans free and clear of any and all liens and security interests. The sponsor will make similar representations and warranties in the pooling and servicing agreement. The sponsor will also represent and warrant to the depositor that, among other things, as of the Closing Date, (a) the Purchase Agreement constitutes a legal, valid and binding obligation of the sponsor and (b) the Purchase Agreement constitutes a valid sale to the depositor of all right, title and interest of the sponsor in and to the mortgage loans and the proceeds thereof.

Assignment to Trust Fund

The sponsor will expressly acknowledge and consent to the depositor's transfer of its rights relating to the mortgage loans under the pooling and servicing agreement to the trust fund. The sponsor also will agree to perform its obligations under the Purchase Agreement for the benefit of the trust fund.

Termination

The Purchase Agreement will terminate upon the termination of the trust fund.

Use of Proceeds

The net proceeds to be received from the sale of the Class A-1 Certificates will be applied by the depositor towards the purchase of the initial group 1 mortgage loans and the deposit to the Additional Loan Account.

Material Federal Income Tax Consequences

General

The following discussion, which summarizes the material U.S. federal income tax aspects of the purchase, ownership and disposition of the Certificates, is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations thereunder, and published rulings and court decisions in effect as of the date hereof, all of which are subject to change, possibly retroactively. This discussion does not address every aspect of the U.S. federal income tax laws which may be relevant to Certificate Owners in light of their personal investment circumstances or to certain types of Certificate Owners subject to special treatment under the U.S. federal income tax laws (for example, banks and life insurance companies). Accordingly, investors should consult their tax advisors regarding U.S. federal, state, local, foreign and any other tax consequences to them of investing in the Certificates.

Characterization of the Certificates as Indebtedness

Based on the application of existing law to the facts as set forth in the pooling and servicing agreement and other relevant documents and assuming compliance with the terms of the pooling and servicing agreement as in effect on the date of issuance of the Certificates, Brown & Wood LLP, special tax counsel to the depositor ("Tax Counsel"), is of the opinion that the Certificates will be treated as debt instruments for federal income tax purposes as of such date. Accordingly, upon issuance, the Certificates will be treated as "Debt Securities" as described in the Information Circular. Furthermore, special tax counsel to the depositor is of the opinion that neither the trust fund nor any portion of the trust fund will be treated as either an association or a publicly traded partnership taxable as a corporation or as a taxable mortgage pool. *See "Material Federal Income Tax Consequences" in the Information Circular.*

The transferor and the Certificateholders express in the pooling and servicing agreement their intent that, for applicable tax purposes, the Certificates will be indebtedness secured by the mortgage loans. The transferor, the depositor and the Certificateholders, by accepting the Certificates, and each Certificate Owner by its acquisition of a beneficial interest in a Certificate, have agreed to treat the Certificates as indebtedness for U.S. federal income tax purposes. However, because different criteria are used to determine the non-tax accounting characterization of the transaction, the Transferor intends to treat this transaction as a sale of an interest in the principal balances of the mortgage loans for financial accounting purposes.

In general, whether for U.S. federal income tax purposes a transaction constitutes a sale of property or a loan, the repayment of which is secured by property, is a question of fact, the resolution of which is based upon the economic substance of the transaction rather than its form or the manner in which it is labeled. While the Internal Revenue Service and the courts have set forth several factors to be taken into account in determining whether the substance of a transaction is a sale of property or a secured loan, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Tax Counsel has analyzed and relied on several factors in reaching its opinion that the weight of the benefits and burdens of ownership of the mortgage loans has been retained by the transferor and has not been transferred to the Certificate Owners.

In some instances, courts have held that a taxpayer is bound by the particular form it has chosen for a transaction, even if the substance of the transaction does not accord with its form. Tax Counsel has advised that the rationale of those cases will not apply to this transaction, because the form of the transaction as reflected in the operative provisions of the documents either accords with the characterization of the Certificates as debt or otherwise makes the rationale of those cases inapplicable to this situation.

Taxation of Interest Income of Certificate Owners

Assuming that the Certificate Owners are holders of debt obligations for U.S. federal income tax purposes, the Certificates generally will be taxable as Debt Securities. See *“Material Federal Income Tax Consequences” in the Information Circular*.

While it is not anticipated that the Certificates will be issued at a greater than *de minimis* discount, under Treasury regulations (the “OID Regulations”) it is possible that the Certificates could nevertheless be deemed to have been issued with original issue discount (“OID”) if the interest were not treated as “unconditionally payable” under the OID Regulations. If such regulations were to apply, all of the taxable income to be recognized with respect to the Certificates would be includible in income of Certificate Owners as OID, but would not be includible again when the interest is actually received. See *“Material Federal Income Tax Consequences—Taxation of Debt Securities; Interest and Acquisition Discount” in the Information Circular for a discussion of the application of the OID rules if the Certificates are in fact issued at a greater than de minimis discount or are treated as having been issued with OID under the OID Regulations*. For purposes of calculating OID, it is likely that the Certificates will be treated as Pay-Through Securities.

Possible Classification of the Certificates as a Partnership or Association Taxable as a Corporation

The opinion of Tax Counsel is not binding on the courts or the IRS. It is possible that the IRS could assert that, for purposes of the Code, the transaction contemplated by this Information Supplement and the accompanying Information Circular with respect to the Certificates constitutes a sale of the mortgage loans (or an interest therein) to the Certificate Owners and that the proper classification of the legal relationship between the transferor and the Certificate Owners resulting from this transaction is that of a partnership, a publicly traded partnership treated as a corporation, or an association taxable as a corporation. Since Tax Counsel has advised that the Certificates will be treated as indebtedness in the hands of the Certificateholders for U.S. federal income tax purposes, the transferor will not attempt to comply with U.S. federal income tax reporting requirements applicable to partnerships or corporations.

If it were determined that this transaction created an entity classified as a corporation (including a publicly traded partnership taxable as a corporation), the trust fund would be subject to U.S. federal income tax at corporate income tax rates on the income it derives from the mortgage loans, which would reduce the amounts available for distribution to the Certificate Owners. Cash distributions to the Certificate Owners generally would be treated as dividends for tax purposes to the extent of such corporation’s earnings and profits.

If the transaction were treated as creating a partnership between the Certificate Owners and the transferor, the partnership itself would not be subject to U.S. federal income tax (unless it were to be characterized as a publicly traded partnership taxable as a corporation); rather, the transferor and each Certificate Owner would be taxed individually on their respective distributive shares of the partnership’s income, gain, loss, deductions and credits. The amount and timing of items of income and deductions of the Certificate Owner could differ if the Certificates were held to constitute partnership interests rather than indebtedness. Assuming that all of the provisions of the pooling and servicing agreement, as in effect on the date of the issuance, are complied with, it is the opinion of Tax Counsel that the trust fund will not be treated as either an association or a partnership taxable as a corporation or as a taxable mortgage pool.

Possible Classification as a Taxable Mortgage Pool

In relevant part, Section 7701(i) of the Code provides that any entity (or a portion of an entity) that is a “taxable mortgage pool” will be classified as a taxable corporation and will not be permitted to file a consolidated U.S. federal income tax return with another corporation. Any entity (or a portion of any entity) will be a taxable mortgage pool if (i) substantially all of its assets consist of debt instruments, more than 50% of which are real estate mortgages, (ii) the entity is the obligor under debt obligations with two or more maturities,

and (iii) under the terms of the entity's debt obligations (or an underlying arrangement), payments on such debt obligations bear a relationship to the debt instruments held by the entity.

Assuming that all of the provisions of the pooling and servicing agreement, as in effect on the date of issuance, are complied with, Tax Counsel is of the opinion that neither the trust fund nor any portion of the trust fund will be a taxable mortgage pool under Section 7701(i) of the Code because payments on each loan group support only one class of indebtedness.

The opinion of Tax Counsel is not binding on the IRS or the courts. If the IRS were to contend successfully (or future regulations were to provide) that the arrangement created by the pooling and servicing agreement is a taxable mortgage pool, such arrangement would be subject to U.S. federal corporate income tax on its taxable income generated by ownership of the mortgage loans. Such a tax might reduce amounts available for distributions to Certificate Owners. The amount of such a tax would depend upon whether distributions to Certificate Owners would be deductible as interest expense in computing the taxable income of such an arrangement as a taxable mortgage pool.

Foreign Investors

In general, subject to certain exceptions, interest (including OID) paid on a Certificate to a nonresident alien individual, foreign corporation or other non-United States person is not subject to U.S. federal income tax, provided that such interest is not effectively connected with a trade or business of the recipient in the United States and the Certificate Owner provides the required foreign person information certification. See *"Material Federal Income Tax Consequences—Tax Treatment of Foreign Investors" in the Information Circular*.

Interest paid (or accrued) to a Certificateholder who is a non-U.S. Person will be considered "portfolio interest," and generally will not be subject to United States federal income tax and withholding tax, provided, that (i) the interest is not effectively connected with the conduct of a trade or business within the United States by the non-U.S. Person, (ii) the non-U.S. Person provides the trust fund or other person who is otherwise required to withhold U.S. tax with respect to the Certificate with an appropriate statement (on Form W-8 or other similar form), signed under penalties of perjury, certifying that the beneficial owner of the Certificate is a foreign person and providing that non-U.S. person's name and address. If a Certificate is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide the relevant signed statement to the withholding agent; in that case, however, the signed statement must be accompanied by a Form W-8 or substitute form provided by the non-U.S. Person that owns that interest in the mortgage loan. If such interest does not constitute portfolio interest, then it will be subject to U.S. federal income and withholding tax at a rate of 30%, unless reduced or eliminated pursuant to an applicable tax treaty and the non-U.S. Person provides the Trust Fund, or an organization or financial institution described above, with an appropriate statement (e.g., a Form 1001), signed under penalties of perjury, to that effect.

Final regulations dealing with backup withholding and information reporting on income paid to foreign persons and related matters (the "New Withholding Regulations") were published in the Federal Register on October 14, 1997. In general, the New Withholding Regulations do not significantly alter the substantive withholding and information reporting requirements, but do unify current certification procedures and forms and clarify reliance standards. The New Withholding Regulations generally will be effective for payments made after December 31, 2000, subject to certain transition rules. **The Discussion set forth above does not take the New Withholding Regulations into account. Prospective Non-U.S. Persons who own interests in Mortgage Loans are strongly urged to consult their own tax advisor with respect to the New Withholding Regulations.**

If the interests of the Certificate Owners were deemed to be partnership interests, the partnership would be required, on a quarterly basis, to pay withholding tax equal to the product, for each foreign partner, of such foreign partner's distributive share of "effectively connected" income of the partnership multiplied by the highest rate of tax applicable to that foreign partner. In addition, a corporate foreign partner would be subject to branch profits tax. Each non-foreign partner would be required to certify to the partnership that it is not a foreign person. The tax withheld from each foreign partner would be credited against such foreign partner's U.S. income tax liability.

In addition, the interest paid on Certificates could be subject to a 30% withholding tax (or lower treaty rate) either because the interest on the mortgage loans does not appear to satisfy the requirements to be treated as "portfolio interest" under the Code, or because, even if such mortgage loan interest were to be treated as

portfolio interest, interest payments on the Certificates could be treated as “guaranteed payments” within the meaning of the partnership provisions of the Code.

If the trust fund were taxable as a corporation, distributions to foreign persons, to the extent treated as dividends, would generally be subject to withholding at the rate of 30%, unless such rate were reduced by an applicable tax treaty.

Backup Withholding

Certain Certificate Owners may be subject to backup withholding at the rate of 31% with respect to interest paid on the Certificates if the Certificate Owner, upon issuance, fails to supply the trustee or his broker with his taxpayer identification number, furnish an incorrect taxpayer identification number, fail to report interest, dividends, or other “reportable payments” (as defined in the Code) properly, or, under certain circumstances, fail to provide the Trustee or his broker with a certified statement, under penalty of perjury, that he is not subject to backup withholding.

The trustee will be required to report annually to the IRS, and to each Certificateholder of record, the amount of interest paid (and OID accrued, if any) on the Certificates (and the amount of interest withheld for U.S. federal income taxes, if any) for each calendar year, except as to exempt holders (generally, holders that are corporations, certain tax-exempt organizations or nonresident aliens who provide certification as to their status as nonresidents). Each non-exempt Certificate Owner will be required to provide, under penalty of perjury, a certificate on IRS Form W-9 containing his or her name, address, correct federal taxpayer identification number and a statement that he or she is not subject to backup withholding. Should a nonexempt Certificate Owner fail to provide the required certification, the trustee will be required to withhold 31% of the interest (and principal) otherwise payable to the holder, and remit the withheld amount to the IRS as a credit against the holder’s federal income tax liability.

As previously mentioned, the New Withholding Regulations were published in the Federal Register on October 14, 1997 and generally will be effective for payments made after December 31, 2000, subject to certain transition rules. **The Discussion set forth above does not take the New Withholding Regulations into account. Prospective Non-U.S. Persons who own Regular Certificates are strongly urged to consult their own tax advisor with respect to the New Withholding Regulations.**

State Taxes

The depositor makes no representations regarding the tax consequences of purchase, ownership or disposition of the Certificates under the tax laws of any state. Investors considering an investment in the Certificates should consult their own tax advisors regarding such tax consequences.

All investors should consult their own tax advisors regarding the federal, state, local or foreign income tax consequences of the purchase, ownership and disposition of the Certificates.

Method of Distribution

On the closing date the depositor will transfer the Class A-1 Certificates to Countrywide Securities Corporation, an affiliate of the depositor and the sponsor and master servicer. The Class A-1 Certificates will not be issued unless they are purchased by Fannie Mae and Fannie Mae guarantees their payment if and to the extent the Certificate Insurer fails to make payments under the Policy. Countrywide Securities Corporation will then transfer the Class A-1 Certificates to Fannie Mae.

Legal Matters

Certain legal matters with respect to the Certificates will be passed upon for the Depositor by Brown & Wood LLP, New York, New York.

Experts

The consolidated financial statements of the Certificate Insurer, Ambac Assurance Corporation and subsidiaries, as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998, are incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Index of Defined Terms

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|---|-------------|
| Accelerated Principal Distribution Amount | S-40, S-47 | Interest Collections | S-45 |
| Accumulated Other Comprehensive Income | S-53 | Interest Period | S-48 |
| Additional Balances | S-38 | Invested Amount | S-39 |
| Additional Home Equity Loans | S-22 | Investor Fixed Allocation Percentage | S-36 |
| Additional Loan Account | S-22 | Investor Floating Allocation Percentage | S-46 |
| Alternative Documentation Program ... | S-17 | Investor Interest Collections | S-46 |
| Alternative Principal Payment | S-49 | Investor Loss Amount | S-47 |
| Assignment Event | S-41 | Investor Principal Collections | S-46 |
| Available Transferor Subordinated Amount | S-50 | LIBOR | S-48 |
| Bankruptcy Rate | S-19 | LIBOR Business Day | S-49 |
| Basis Risk Carryforward | S-48 | Liquidated Mortgage Loan | S-47 |
| BIF | S-44 | Liquidation Loss Amount | S-47 |
| Business Day | S-46 | Liquidation Proceeds | S-45 |
| Certificate Insurer | S-52 | Loan Group Balance | S-46 |
| Certificate Principal Balance | S-39 | Managed Amortization Period | S-49 |
| Certificate Rate | S-48 | Maximum Principal Payment | S-49 |
| Certificates | S-38 | Minimum Transferor Interest | S-43 |
| Class | S-38 | Mortgage Loan Schedule | S-43 |
| Class A-1 Original Certificate Principal Balance | S-39 | Mortgaged Properties | S-17 |
| Class A-1 Original Invested Amount .. | S-39 | Net Liquidation Proceeds | S-45 |
| Class A-2 Original Certificate Principal Balance | S-62 | New Withholding Regulations | S-64 |
| Class A-2 Original Invested Amount .. | S-39 | OID | S-63 |
| Code | S-62 | OID Regulations | S-63 |
| Collection Account | S-43 | Original Invested Amount | S-39 |
| Collection Period | S-48 | Overcollateralization Reduction Amount | S-40 |
| Countrywide | S-17 | Paying Agent | S-50 |
| Credit Limit Utilization Rate | S-27 | Pool Factor | S-38 |
| Crossover Amount | S-47 | Preference Amount | S-52 |
| Cut-off Date | S-20 | principal balance | S-21 |
| Debt-to-Income Ratio | S-18 | Principal Collections | S-45 |
| Debt Securities | S-62 | Purchase Agreement | S-61 |
| Defective Mortgage Loans | S-42 | Rapid Amortization Event | S-50 |
| Detailed Description | S-20 | Rapid Amortization Period | S-49 |
| Determination Date | S-44 | Receipt | S-52 |
| Distribution Date | S-46 | Received | S-52 |
| Eligible Account | S-44 | Reduced Documentation Loan Program | S-17 |
| Eligible Substitute Mortgage Loan ... | S-42 | Reference Bank Rate | S-48 |
| Events of Servicing Termination | S-58 | Related Documents | S-40 |
| Fannie Mae Guaranty | S-54 | Reporting Comprehensive Income | S-53 |
| Foreclosure Rate | S-19 | Required Amount | S-50 |
| Guaranteed Distributions | S-51 | Required Transferor Subordinated Amount | S-39 |
| Guaranteed Principal Distribution Amount | S-51 | Reserve Fund | S-40 |
| Guaranty Fee | S-54 | SAIF | S-44 |
| Index | S-21 | Scheduled Principal Collections Distribution Amount | S-49 |
| Index Rate | S-21 | Servicing Fee Rate | S-56 |
| Insurance Agreement | S-51 | Statistic Calculation Date | S-20 |
| Insured Amount | S-51 | Statistic Calculation Date Principal Balance | S-21 |

| | <u>Page</u> | | <u>Page</u> |
|---|-------------|--|-------------|
| Statistic Calculation Pool | S-20 | Transfer Date | S-43 |
| Statistic Calculation Pool Mortgage | | Transfer Deficiency | S-41 |
| Loan | S-20 | Transfer Deposit Amount | S-41 |
| Streamlined Documentation Program .. | S-18 | Transferor | S-39 |
| Subordinated Transferor Collections ... | S-50 | Transferor Interest | S-39 |
| Taxable Mortgage Pool | S-63 | Transferor Principal Collections | S-46 |
| Tax Counsel | S-62 | | |
| Telerate Screen Page 3750 | S-48 | | |

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INFORMATION CIRCULAR

CWABS, INC.

Depositor

Asset Backed Securities

(Issuable in Series)

Please carefully consider our discussion of some of the risks of investing in the securities under “Risk Factors” beginning on page 4.

The Trusts

Each trust will be established to hold assets in its trust fund transferred to it by CWABS, Inc. The assets in each trust fund will be specified in the information supplement for the particular trust and will generally consist of:

- first lien mortgage loans secured by one- to four-family residential properties,
- mortgage loans secured by first and/or subordinate liens on small multifamily residential properties, such as rental apartment buildings or projects containing five to fifty residential units,
- closed-end and/or revolving home equity loans, secured in whole or in part by first and/or subordinate liens on one- to four-family residential properties, or
- home improvement installment sale contracts and installment loan agreements that are either unsecured or secured by first or subordinate liens on one- to four-family residential properties, or by purchase money security interests in the financed home improvements.

The Securities

CWABS, Inc. will sell either certificates or notes pursuant to an information supplement. The securities will be grouped into one or more series, each having its own distinct designation. Each series will be issued in one or more classes and each class will evidence beneficial ownership of a specified portion of future payments on the assets in the trust fund that the series relates to. An information supplement for a series will specify all of the terms of the series and of each of the classes in the series.

Offers of Securities

The securities will be sold to Fannie Mae.

The SEC and state securities regulators have not approved or disapproved these securities or determined if this information circular is truthful or complete. Any representation to the contrary is a criminal offense.

February 18, 2000

Table of Contents

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|---|-------------|
| Important Notice About Information in This Information Circular and Each Accompanying Information Supplement..... | 3 | Collection Procedures | 45 |
| Risk Factors | 4 | Hazard Insurance | 46 |
| The Trust Fund | 16 | Realization Upon Defaulted Loans..... | 47 |
| General | 16 | Servicing and Other Compensation and Payment of Expenses | 48 |
| The Loans | 17 | Evidence as to Compliance | 48 |
| Substitution of Trust Fund Assets | 20 | Certain Matters Regarding the Master Servicer and the Depositor | 49 |
| Reports to Securityholders | 20 | Events of Default; Rights Upon Event of Default..... | 49 |
| Use of Proceeds | 21 | Amendment | 51 |
| The Depositor | 21 | Termination; Optional Termination..... | 52 |
| Loan Program | 21 | The Trustee | 53 |
| Underwriting Standards | 21 | Certain Legal Aspects of the Loans General | 53 |
| Qualifications of Sellers..... | 22 | Foreclosure..... | 54 |
| Representations by Sellers; Repurchases | 22 | Environmental Risks | 56 |
| Description of the Securities | 24 | Rights of Redemption..... | 57 |
| General | 24 | Anti-Deficiency Legislation and Other Limitations on Lenders | 57 |
| Distributions on Securities | 25 | Due-on-Sale Clauses | 58 |
| Advances | 27 | Enforceability of Prepayment and Late Payment Fees | 59 |
| Reports to Securityholders | 28 | Applicability of Usury Laws | 59 |
| Categories of Classes of Securities | 29 | Home Improvement Contracts... | 59 |
| Indices Applicable to Floating Rate and Inverse Floating Rate Classes | 30 | Installment Contracts..... | 61 |
| Credit Enhancement | 34 | Soldiers' and Sailors' Civil Relief Act | 61 |
| General | 34 | Junior Mortgages and Rights of Senior Mortgagees | 61 |
| Subordination | 34 | The Title I Program | 62 |
| Letter of Credit | 35 | Consumer Protection Laws..... | 65 |
| Insurance Policies, Surety Bonds and Guaranties | 35 | Material Federal Income Tax Consequences | 66 |
| Over-Collateralization | 35 | State Tax Considerations..... | 84 |
| Reserve Accounts | 35 | Method of Distribution | 85 |
| Pool Insurance Policies | 37 | Legal Matters | 85 |
| Cross Support..... | 38 | Financial Information | 85 |
| Yield and Prepayment Considerations | 39 | Index to Defined Terms..... | 86 |
| The Agreements | 41 | | |
| Assignment of the Trust Fund Assets | 41 | | |
| Payments on Loans; Deposits to Security Account | 42 | | |
| Pre-Funding Account..... | 44 | | |
| Sub-Servicing by Sellers | 44 | | |

Important Notice About Information in This Information Circular and Each Accompanying Information Supplement

Information about each series of securities is contained in two separate documents:

- this information circular, which provides general information, some of which may not apply to a particular series; and
- the accompanying information supplement for a particular series, which describes the specific terms of the securities of that series.

The information supplement will contain information about a particular series that supplements the information contained in this information circular, and you should rely on that supplementary information in the information supplement.

You should rely only on the information in this information circular and the accompanying information supplement. We have not authorized anyone to provide you with information that is different from that contained in this information circular and the accompanying information supplement.

If you require additional information, the mailing address of our principal executive offices is CWABS, Inc., 4500 Park Granada, Calabasas, California 91302 and the telephone number is (818) 225-3000.

Risk Factors

You should carefully consider the following information since it identifies significant risks associated with an investment in the securities.

**Limited source of payments—
no recourse to sellers,
depositor or servicer**

The applicable information supplement may provide that securities will be payable from other trust funds in addition to their associated trust fund, but if it does not, they will be payable solely from their associated trust fund. If the trust fund does not have sufficient assets to distribute the full amount due to you as a securityholder, your yield will be impaired, and perhaps even the return of your principal may be impaired, without your having recourse to anyone else. Furthermore, at the times specified in the applicable information supplement, certain assets of the trust fund may be released and paid out to other people, such as the depositor, a servicer, a credit enhancement provider, or any other person entitled to payments from the trust fund. Those assets will no longer be available to make payments to you. Those payments are generally made after other specified payments that may be set forth in the applicable information supplement have been made.

You will not have any recourse against the depositor or any servicer if you do not receive a required distribution on the securities. Nor will you have recourse against the assets of the trust fund of any other series of securities.

The securities will not represent an interest in the depositor, any servicer, any seller to the depositor, or anyone else except the trust fund. The only obligation of the depositor to a trust fund comes from certain representations and warranties made by it about assets transferred to the trust fund. If these representations and warranties turn out to be untrue, the depositor may be required to repurchase some of the transferred assets. CWABS, Inc., which is the depositor, does not have significant assets and is unlikely to have significant assets in the future. So if the depositor were required to repurchase a loan because of a breach of a representation, its only sources of funds for the repurchase would be:

- funds obtained from enforcing a corresponding obligation of a seller or originator of the loan, or

- funds from a reserve fund or similar credit enhancement established to pay for loan repurchases.

The only obligations of the master servicer to a trust fund (other than its master servicing obligations) comes from certain representations and warranties made by it in connection with its loan servicing activities. If these representations and warranties turn out to be untrue, the master servicer may be required to repurchase or substitute for some of the loans. However, the master servicer may not have the financial ability to make the required repurchase or substitution.

The only obligations to a trust fund of a seller of loans to the depositor comes from certain representations and warranties made by it in connection with its sale of the loans and certain document delivery requirements. If these representations and warranties turn out to be untrue, or the seller fails to deliver required documents, it may be required to repurchase or substitute for some of the loans. However, the seller may not have the financial ability to make the required repurchase or substitution.

Credit enhancement may not be sufficient to protect you from losses

Credit enhancement is intended to reduce the effect of loan losses. But credit enhancements may benefit only some classes of a series of securities and the amount of any credit enhancement will be limited as described in the applicable information supplement. Furthermore, the amount of a credit enhancement may decline over time pursuant to a schedule or formula or otherwise, and could be depleted from payments or for other reasons before the securities covered by the credit enhancement are paid in full. In addition, a credit enhancement may not cover all potential sources of loss. For example, a credit enhancement may or may not cover fraud or negligence by a loan originator or other parties. Also, the trustee may be permitted to reduce, substitute for, or even eliminate all or a portion of a credit enhancement so long as the rating agencies that have rated the securities at the request of the depositor indicate that that would not cause them to change adversely their rating of the securities. Consequently, securityholders may suffer losses even though a credit enhancement exists and its provider does not default.

Nature of Mortgages

Junior Status of Liens Securing Home Equity Loans Could Adversely Affect You

The mortgages and deeds of trust securing the home equity loans will be primarily junior liens subordinate to the rights of the mortgagee under the related senior mortgage(s) or deed(s) of trust. Accordingly, the proceeds from any liquidation, insurance or condemnation proceeds will be available to satisfy the outstanding balance of the junior lien only to the extent that the claims of the related senior mortgagees have been satisfied in full, including any related foreclosure costs. In addition, if a junior mortgagee forecloses on the property securing a junior mortgage, it forecloses subject to any senior mortgage and must take one of the following steps to protect its interest in the property:

- pay the senior mortgage in full at or prior to the foreclosure sale, or
- assume the payments on the senior mortgage in the event the mortgagor is in default under the senior mortgage.

The trust fund may effectively be prevented from foreclosing on the related property since it will have no funds to satisfy any senior mortgages or make payments due to any senior mortgagees.

Some states have imposed legal limits on the remedies of a secured lender in the event that the proceeds of any sale under a deed of trust or other foreclosure proceedings are insufficient to pay amounts owed to that secured lender. In some states, including California, if a lender simultaneously originates a loan secured by a senior lien on a particular property and a loan secured by a junior lien on the same property, that lender as the holder of the junior lien may be precluded from obtaining a deficiency judgment with respect to the excess of:

- the aggregate amount owed under both the senior and junior loans over
- the proceeds of any sale under a deed of trust or other foreclosure proceedings.

*See “Certain Legal Aspects of the Loans—
Anti-Deficiency Legislation; Bankruptcy Laws; Tax
Liens.”*

Declines in Property Values May Adversely Affect You

The value of the properties underlying the loans held in the trust fund may decline over time. Among the

factors that could adversely affect the value of the properties are:

- an overall decline in the residential real estate market in the areas in which they are located,
- a decline in their general condition from the failure of borrowers to maintain their property adequately, and
- natural disasters that are not covered by insurance, such as earthquakes and floods.

In the case of home equity loans, declining property values could diminish or extinguish the value of a junior mortgage before reducing the value of a senior mortgage on the same property.

If property values decline, the actual rates of delinquencies, foreclosures, and losses on all underlying loans could be higher than those currently experienced in the mortgage lending industry in general. These losses, to the extent not otherwise covered by a credit enhancement, will be borne by the holder of one or more classes of securities.

Delays In Liquidation May Adversely Affect You

Even if the properties underlying the loans held in the trust fund provide adequate security for the loans, substantial delays could occur before defaulted loans are liquidated and their proceeds are forwarded to investors. Property foreclosure actions are regulated by state statutes and rules and are subject to many of the delays and expenses of other lawsuits if defenses or counterclaims are made, sometimes requiring several years to complete. Furthermore, in some states if the proceeds of the foreclosure are insufficient to repay the loan, the borrower is not liable for the deficit. Thus, if a borrower defaults, these restrictions may impede the trust's ability to dispose of the property and obtain sufficient proceeds to repay the loan in full. In addition, the servicer will be entitled to deduct from liquidation proceeds all expenses reasonably incurred in attempting to recover on the defaulted loan, including legal fees and costs, real estate taxes, and property maintenance and preservation expenses.

Disproportionate Effect of Liquidation Expenses May Adversely Affect You

Liquidation expenses of defaulted loans generally do not vary directly with the outstanding principal balance of the loan at the time of default. Therefore, if a servicer takes the same steps for a defaulted loan having a small remaining principal balance as it does

*Consumer Protection Laws
May Adversely Affect You*

for a defaulted loan having a large remaining principal balance, the amount realized after expenses is smaller as a percentage of the outstanding principal balance of the small loan than it is for the defaulted loan having a large remaining principal balance.

State laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of mortgage loan originators and servicers. In addition, most states have other laws and public policies for the protection of consumers that prohibit unfair and deceptive practices in the origination, servicing, and collection of mortgage loans. Depending on the particular law and the specific facts involved, violations may limit the ability to collect all or part of the principal or interest on the underlying loans held in the trust fund. In some cases, the borrower may even be entitled to a refund of amounts previously paid.

The loans held in the trust fund may also be subject to certain federal laws, including:

- the Federal Truth in Lending Act and its regulations, which require disclosures to the borrowers regarding the terms of any mortgage loan;
- the Equal Credit Opportunity Act and its regulations, which prohibit discrimination in the extension of credit on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance, or the exercise of any right under the Consumer Credit Protection Act; and
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience.

Home Equity Loan Consumer Protection Act. For loans that were originated or closed after November 7, 1989, the Home Equity Loan Consumer Protection Act of 1988, which requires additional application disclosures, limits changes that may be made to the loan documents without the borrower's consent and restricts a lender's ability to declare a default or to suspend or reduce a borrower's credit limit to certain enumerated events.

The Riegle Act. Certain mortgage loans may be subject to the Riegle Community Development and Regulatory Improvement Act of 1994, known as the Riegle Act, which incorporates the Home Ownership and Equity Protection Act of 1994. These provisions impose additional disclosure and other requirements on creditors with respect to non-purchase money mortgage loans with high interest rates or high up-front fees and charges. The provisions of the Riegle Act apply on a mandatory basis to all mortgage loans originated on or after October 1, 1995. These provisions can impose specific statutory liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of the related loans. In addition, any assignee of the creditor would generally be subject to all claims and defenses that the consumer could assert against the creditor, including the right to rescind the mortgage loan.

Holder in Due Course Rules. The home improvement contracts are also subject to the so-called holder in due course rules which comprise the Preservation of Consumers' Claims and Defenses regulations of the Federal Trade Commission and other similar federal and state statutes and regulations. The holder in due course rules protect the homeowner from defective craftsmanship or incomplete work by a contractor. These laws permit the obligor to withhold payment if the work does not meet the quality and durability standards agreed to by the homeowner and the contractor. The holder in due course rules have the effect of subjecting any assignee of the seller in a consumer credit transaction to all claims and defenses which the obligor in the credit sale transaction could assert against the seller of the goods.

Some violations of these federal laws may limit the ability to collect the principal or interest on the loans held in the trust fund, and in addition could subject the trust fund to damages and administrative enforcement. Losses on loans from the application of those laws that are not otherwise covered by a credit enhancement will be borne by the holders of one or more classes of securities.

*Losses on Balloon Payment
Mortgages Are Borne by You*

Some of the mortgage loans held in the trust fund may not be fully amortizing over their terms to maturity and, thus, will require substantial principal payments (that is, balloon payments) at their stated

Your risk of loss may be higher than you expect if your securities are backed by multifamily loans

maturity. Loans with balloon payments involve a greater degree of risk than fully amortizing loans because typically the borrower must be able to refinance the loan or sell the property to make the balloon payment at maturity. The ability of a borrower to do this will depend on such factors as mortgage rates at the time of sale or refinancing, the borrower's equity in the property, the relative strength of the local housing market, the financial condition of the borrower, and tax laws. Losses on these loans that are not otherwise covered by a credit enhancement will be borne by the holders of one or more classes of certificates.

Multifamily lending may expose the lender to a greater risk of loss than single family residential lending. Owners of multifamily residential properties rely on monthly lease payments from tenants to

- pay for maintenance and other operating expenses of those properties,
- fund capital improvements and
- service any mortgage loan and any other debt that may be secured by those properties.

Various factors, many of which are beyond the control of the owner or operator of a multifamily property, may affect the economic viability of that property.

Changes in payment patterns by tenants may result from a variety of social, legal and economic factors. Economic factors include the rate of inflation, unemployment levels and relative rates offered for various types of housing. Shifts in economic factors may trigger changes in payment patterns including increased risks of defaults by tenants and higher vacancy rates. Adverse economic conditions, either local or national, may limit the amount of rent that can be charged and may result in a reduction in timely lease payments or a reduction in occupancy levels. Occupancy and rent levels may also be affected by construction of additional housing units, competition and local politics, including rent stabilization or rent control laws and policies. In addition, the level of mortgage interest rates may encourage tenants to purchase single family housing. We are unable to determine and have no basis to predict whether, or to what extent, economic, legal or

social factors will affect future rental or payment patterns.

The location and construction quality of a particular building may affect the occupancy level as well as the rents that may be charged for individual units. The characteristics of a neighborhood may change over time or in relation to newer developments. The effects of poor construction quality will increase over time in the form of increased maintenance and capital improvements. Even good construction will deteriorate over time if adequate maintenance is not performed in a timely fashion.

Your risk of loss may be higher than you expect if your securities are backed by unsecured home improvement loans and/or partially unsecured home equity loans

The trust fund may include home improvement loans that are not secured by an interest in real estate or otherwise. The trust fund may also include home equity loans that were originated with loan-to-value ratios or combined loan-to-value ratios in excess of the value of the related mortgaged property. Under these circumstances, the trust fund could be treated as a general unsecured creditor as to any unsecured portion of any related loan. In the event of a default under a loan that is unsecured in whole or in part, the trust fund will have recourse only against the borrower's assets generally for the unsecured portion of the loan, along with all other general unsecured creditors of the borrower. In a bankruptcy or insolvency proceeding relating to a borrower on a partially or wholly unsecured loan, the unsecured obligations of the borrower with respect to that loan may be discharged. This could be the case even though the value of the borrower's assets made available to the related trust fund is insufficient to pay amounts due and owing under the related loan.

You could be adversely affected by violations of environmental laws

Federal, state, and local laws and regulations impose a wide range of requirements on activities that may affect the environment, health, and safety. In certain circumstances, these laws and regulations impose obligations on owners or operators of residential properties such as those that secure the loans held in the trust fund. Failure to comply with these laws and regulations can result in fines and penalties that could be assessed against the trust as owner of the related property.

In some states, a lien on the property due to contamination has priority over the lien of an existing mortgage. Also, a mortgage lender may be held liable

Ratings of the securities do not assure their payment

as an “owner” or “operator” for costs associated with the release of petroleum from an underground storage tank under certain circumstances. If the trust is considered the owner or operator of a property, it will suffer losses as a result of any liability imposed for environmental hazards on the property.

Any class of securities issued under this information circular and the accompanying information supplement may be rated by one or more nationally recognized rating agencies. A rating is based on the adequacy of the value of the trust assets and any credit enhancement for that class, and reflects the rating agency’s assessment of how likely it is that holders of the class of securities will receive the payments to which they are entitled. A rating does not constitute an assessment of how likely it is that principal prepayments on the underlying loans will be made, the degree to which the rate of prepayments might differ from that originally anticipated, or the likelihood that the securities will be redeemed early. A rating is not a recommendation to purchase, hold, or sell securities because it does not address the market price of the securities or the suitability of the securities for any particular investor.

A rating may not remain in effect for any given period of time and the rating agency could lower or withdraw the rating entirely in the future. For example, the rating agency could lower or withdraw its rating due to:

- a decrease in the adequacy of the value of the trust assets or any related credit enhancement,
- an adverse change in the financial or other condition of a credit enhancement provider, or
- a change in the rating of the credit enhancement provider’s long-term debt.

The amount, type, and nature of credit enhancement established for a class of securities will be determined on the basis of criteria established by each rating agency rating classes of the securities. These criteria are sometimes based upon an actuarial analysis of the behavior of similar loans in a larger group. That analysis is often the basis upon which each rating agency determines the amount of credit enhancement required for a class. The historical data supporting any actuarial analysis may not accurately

reflect future experience, and the data derived from a large pool of similar loans may not accurately predict the delinquency, foreclosure, or loss experience of any particular pool of mortgage loans. Mortgaged properties may not retain their values. If residential real estate markets experience an overall decline in property values such that the outstanding principal balances of the loans held in a particular trust fund and any secondary financing on the related mortgaged properties become equal to or greater than the value of the mortgaged properties, the rates of delinquencies, foreclosures, and losses could be higher than those now generally experienced in the mortgage lending industry. In addition, adverse economic conditions may affect timely payment by mortgagors on their loans whether or not the conditions affect real property values and, accordingly, the rates of delinquencies, foreclosures, and losses in any trust fund. Losses from this that are not covered by a credit enhancement will be borne, at least in part, by the holders of one or more classes of securities.

Bankruptcy or insolvency may affect the timing and amount of distributions on the securities

The seller and the depositor will treat the transfer of the loans held in the trust fund by the seller to the depositor as a sale for accounting purposes. The depositor and the trust fund will treat the transfer of the loans from the depositor to the trust fund as a sale for accounting purposes. If these characterizations are correct, then if the seller were to become bankrupt, the loans would not be part of the seller's bankruptcy estate and would not be available to the seller's creditors. On the other hand, if the seller becomes bankrupt, its bankruptcy trustee or one of its creditors may attempt to recharacterize the sale of the loans as a borrowing by the seller, secured by a pledge of the loans. Presenting this position to a bankruptcy court could prevent timely payments on the securities and even reduce the payments on the securities. Similarly, if the characterizations of the transfers as sales are correct, then if the depositor were to become bankrupt, the loans would not be part of the depositor's bankruptcy estate and would not be available to the depositor's creditors. On the other hand, if the depositor becomes bankrupt, its bankruptcy trustee or one of its creditors may attempt to recharacterize the sale of the loans as a borrowing

by the depositor, secured by a pledge of the loans. Presenting this position to a bankruptcy court could prevent timely payments on the securities and even reduce the payments on the securities.

If the master servicer becomes bankrupt, the bankruptcy trustee may have the power to prevent the appointment of a successor master servicer. The period during which cash collections may be commingled with the master servicer's own funds before each distribution date for securities will be specified in the applicable information supplement. If the master servicer becomes bankrupt and cash collections have been commingled with the master servicer's own funds for at least ten days, the trust fund will likely not have a perfected interest in those collections. In this case the trust might be an unsecured creditor of the master servicer as to the commingled funds and could recover only its share as a general creditor, which might be nothing. Collections commingled less than ten days but still in an account of the master servicer might also be included in the bankruptcy estate of the master servicer even though the trust may have a perfected security interest in them. Their inclusion in the bankruptcy estate of the master servicer may result in delays in payment and failure to pay amounts due on the securities.

Federal and state statutory provisions affording protection or relief to distressed borrowers may affect the ability of the secured mortgage lender to realize upon its security in other situations as well. For example, in a proceeding under the federal Bankruptcy Code, a lender may not foreclose on a mortgaged property without the permission of the bankruptcy court. And in certain instances a bankruptcy court may allow a borrower to reduce the monthly payments, change the rate of interest, and alter the mortgage loan repayment schedule for under collateralized mortgage loans. The effect of these types of proceedings can be to cause delays in receiving payments on the loans underlying securities and even to reduce the aggregate amount of payments on the loans underlying securities.

The principal amount of securities may exceed the market value of the trust fund assets

The market value of the assets relating to a series of securities at any time may be less than the principal amount of the securities of that series then outstanding, plus accrued interest. After an event of default and a sale of the assets relating to a series of securities, the trustee, the master servicer, the credit enhancer, if any, and any other service provider specified in the related information supplement generally will be entitled to receive the proceeds of that sale to the extent of unpaid fees and other amounts owing to them under the related transaction document prior to distributions to securityholders. Upon any such sale, the proceeds may be insufficient to pay in full the principal of and interest on the securities of the related series.

Certain capitalized terms are used in this information circular to assist you in understanding the terms of the securities. The capitalized terms used in this information circular are defined on the pages indicated under the caption “Index to Defined Terms” beginning on page 86.

The Trust Fund

General

The securities of each series will represent interests in the assets of the related trust fund, and the notes of each series will be secured by the pledge of the assets of the related trust fund. The trust fund for each series will be held by the trustee for the benefit of the related securityholders. Each trust fund will consist of the trust fund assets (the “Trust Fund Assets”) consisting of a pool comprised of loans as specified in the related information supplement, together with payments relating to those loans as specified in the related information supplement.* The pool will be created on the first day of the month of the issuance of the related series of securities or such other date specified in the related information supplement. The securities will be entitled to payment from the assets of the related trust fund or funds or other assets pledged for the benefit of the securityholders, as specified in the related information supplement and will not be entitled to payments in respect of the assets of any other trust fund established by the depositor.

The Trust Fund Assets will be acquired by the depositor, either directly or through affiliates, from originators or sellers which may be affiliates of the depositor (the “Sellers”), and conveyed without recourse by the depositor to the related trust fund. Loans acquired by the depositor will have been originated in accordance with the underwriting criteria specified below under “Loan Program—Underwriting Standards” or as otherwise described in the related information supplement. See “Loan Program—Underwriting Standards”.

The depositor will cause the Trust Fund Assets to be assigned to the trustee named in the related information supplement for the benefit of the holders of the securities of the related series. The master servicer named in the related information supplement will service the Trust Fund Assets, either directly or through other servicing institutions called sub-servicers, pursuant to a Pooling and Servicing Agreement among the depositor, the master servicer and the trustee with respect to a series consisting of certificates, or a master servicing agreement (each, a “Master Servicing Agreement”) between the trustee and the master servicer with respect to a series consisting of certificates and notes, and will receive a fee for such services. See “Loan Program” and “The Agreements”. With respect to loans serviced by the master servicer through a sub-servicer, the master servicer will remain liable for its servicing obligations under the related Agreement as if the master servicer alone were servicing such loans.

As used herein, “Agreement” means, with respect to a series consisting of certificates, the Pooling and Servicing Agreement, and with respect to a series consisting of certificates and notes, the Trust Agreement, the Indenture and the Master Servicing Agreement, as the context requires.

If so specified in the related information supplement, a trust fund relating to a series of securities may be a business trust formed under the laws of the state specified in the related information supplement pursuant to a trust agreement (each, a “Trust Agreement”) between the depositor and the trustee of such trust fund.

With respect to each trust fund, prior to the initial offering of the related series of securities, the trust fund will have no assets or liabilities. No trust fund is expected to engage in any activities other than acquiring, managing and holding of the related Trust Fund Assets and other assets contemplated herein specified and in the related information supplement and the proceeds thereof, issuing securities and making payments and distributions thereon and certain related activities. No trust fund is expected to have any source of capital other than its assets and any related credit enhancement.

The applicable information supplement may provide for additional obligations of the depositor, but if it does not, the only obligations of the depositor with respect to a series of securities will be to obtain certain representations and warranties from the sellers and to assign to the trustee for such series of securities the depositor’s rights with respect to such representations and warranties. See “The Agreements—Assignment of

* Whenever the terms pool, certificates, notes and securities are used in this information circular, those terms will be considered to apply, unless the context indicates otherwise, to one specific pool and the securities of one series including the certificates representing undivided interests in, and/or notes secured by the assets of, a single trust fund consisting primarily of the loans in that pool. Similarly, the term “Pass-Through Rate” will refer to the pass-through rate borne by the certificates and the term interest rate will refer to the interest rate borne by the notes of one specific series, as applicable, and the term trust fund will refer to one specific trust fund.

the Trust Fund Assets”. The obligations of the master servicer with respect to the loans will consist principally of its contractual servicing obligations under the related Agreement (including its obligation to enforce the obligations of the sub-servicers or sellers, or both, as more fully described herein under “Loan Program—Representations by Sellers; Repurchases” and “The Agreements—Sub-Servicing By Sellers” and “—Assignment of the Trust Fund Assets”) and its obligation, if any, to make certain cash advances in the event of delinquencies in payments on or with respect to the loans in the amounts described herein under “Description of the Securities—Advances”. The obligations of the master servicer to make advances may be subject to limitations, to the extent provided herein and in the related information supplement.

The following is a brief description of the assets expected to be included in the trust funds. If specific information respecting the Trust Fund Assets is not known at the time the related series of securities initially is offered, more general information of the nature described below will be provided in the related information supplement, and specific information will be made available to Fannie Mae upon request within fifteen days after the initial issuance of such securities (the “Detailed Description”). A copy of the Agreement with respect to each series of securities will be made available to Fannie Mae upon request and will be available for inspection at the corporate trust office of the trustee specified in the related information supplement. A schedule of the loans relating to such series will be attached to the Agreement delivered to the trustee upon delivery of the securities.

The Loans

General. Loans will consist of single family loans, multifamily loans, home equity loans or home improvement contracts. For purposes hereof, “home equity loans” includes “closed-end loans” and “revolving credit line loans”. If so specified, the loans may include cooperative apartment loans (“cooperative loans”) secured by security interests in shares issued by private, non-profit, cooperative housing corporations (“cooperatives”) and in the related proprietary leases or occupancy agreements granting exclusive rights to occupy specific dwelling units in such cooperatives’ buildings. As more fully described in the related information supplement, the loans may be “conventional” loans or loans that are insured or guaranteed by a governmental agency such as the Federal Housing Administration (the “FHA”) or the Department of Veterans’ Affairs (the “VA”).

The applicable information supplement may specify the day on which monthly payments on the loans in a pool will be due, but if it does not, all of the mortgage loans in a pool will have monthly payments due on the first day of each month. The payment terms of the loans to be included in a trust fund will be described in the related information supplement and may include any of the following features or combination thereof or other features described in the related information supplement:

- Interest may be payable at a fixed rate, a rate adjustable from time to time in relation to an index (which will be specified in the related information supplement), a rate that is fixed for a period of time or under certain circumstances and is followed by an adjustable rate, a rate that otherwise varies from time to time, or a rate that is convertible from an adjustable rate to a fixed rate. Changes to an adjustable rate may be subject to periodic limitations, maximum rates, minimum rates or a combination of the limitations. Accrued interest may be deferred and added to the principal of a loan for the periods and under the circumstances as may be specified in the related information supplement. Loans may provide for the payment of interest at a rate lower than the specified interest rate borne by such loan (the “Loan Rate”) for a period of time or for the life of the loan, and the amount of any difference may be contributed from funds supplied by the seller of the Property or another source.
- Principal may be payable on a level debt service basis to fully amortize the loan over its term, may be calculated on the basis of an assumed amortization schedule that is significantly longer than the original term to maturity or on an interest rate that is different from the Loan Rate or may not be amortized during all or a portion of the original term. Payment of all or a substantial portion of the principal may be due on maturity, called balloon payments. Principal may include interest that has been deferred and added to the principal balance of the loan.
- Monthly payments of principal and interest may be fixed for the life of the loan, may increase over a specified period of time or may change from period to period. The terms of a loan may include limits on

periodic increases or decreases in the amount of monthly payments and may include maximum or minimum amounts of monthly payments.

- The loans generally may be prepaid at any time. Prepayments of principal may be subject to a prepayment fee, which may be fixed for the life of the loan or may decline over time, and may be prohibited for the life of the loan or for certain periods, which are called lockout periods. Certain loans may permit prepayments after expiration of the applicable lockout period and may require the payment of a prepayment fee in connection with any subsequent prepayment. Other loans may permit prepayments without payment of a fee unless the prepayment occurs during specified time periods. The loans may include “due-on-sale” clauses that permit the mortgagee to demand payment of the entire loan in connection with the sale or certain transfers of the related mortgaged property. Other loans may be assumable by persons meeting the then applicable underwriting standards of the seller.

A trust fund may contain buydown loans that include provisions whereby a third party partially subsidizes the monthly payments of the obligors on the loans during the early years of the loans, the difference to be made up from a buydown fund contributed by the third party at the time of origination of the loan. A buydown fund will be in an amount equal either to the discounted value or full aggregate amount of future payment subsidies. Thereafter, buydown funds are applied to the applicable loan upon receipt by the master servicer of the mortgagor’s portion of the monthly payment on the loan. The master servicer administers the buydown fund to ensure that the monthly allocation from the buydown fund combined with the monthly payment received from the mortgagor equals the scheduled monthly payment on the applicable loan. The underlying assumption of buydown plans is that the income of the mortgagor will increase during the buydown period as a result of normal increases in compensation and inflation, so that the mortgagor will be able to meet the full mortgage payments at the end of the buydown period. To the extent that this assumption as to increased income is not fulfilled, the possibility of defaults on buydown loans is increased. The related information supplement will contain information with respect to any Buydown Loan concerning limitations on the interest rate paid by the mortgagor initially, on annual increases in the interest rate and on the length of the buydown period.

The real property which secures repayment of the loans is referred to as the mortgaged properties. Home improvement contracts may, and the other loans will, be secured by mortgages or deeds of trust or other similar security instruments creating a lien on a mortgaged property. In the case of home equity loans, such liens generally will be subordinated to one or more senior liens on the related mortgaged properties as described in the related information supplement. As specified in the related information supplement, home improvement contracts may be unsecured or secured by purchase money security interests in the home improvements financed thereby. If so specified in the related information supplement, the home equity loans may include loans (primarily for home improvement or debt consolidation purposes) that are in amounts in excess of the value of the related mortgaged properties at the time of origination. The mortgaged properties and the home improvements are collectively referred to herein as the “Properties”. The Properties may be located in any one of the fifty states, the District of Columbia, Guam, Puerto Rico or any other territory of the United States.

Loans with certain Loan-to-Value Ratios and/or certain principal balances may be covered wholly or partially by primary mortgage guaranty insurance policies (each, a “Primary Mortgage Insurance Policy”). The existence, extent and duration of any such coverage will be described in the applicable information supplement.

The aggregate principal balance of loans secured by Properties that are owner-occupied will be disclosed in the related information supplement. The applicable information supplement may provide for the basis for representations relating to Single Family Properties, but if it does not, the sole basis for a representation that a given percentage of the loans is secured by Single Family Properties that are owner-occupied will be either (i) the making of a representation by the borrower at origination of the loan either that the underlying Property will be used by the borrower for a period of at least six months every year or that the borrower intends to use the Property as a primary residence or (ii) a finding that the address of the underlying Property is the borrower’s mailing address.

Single Family Loans. The mortgaged properties relating to single family loans will consist of detached or semi-detached one- to four-family dwelling units, townhouses, rowhouses, individual condominium units, individual units in planned unit developments, manufactured housing that is permanently affixed and treated as real property under local law, and certain other dwelling units (“Single Family Properties”). Single Family Properties may include vacation and second homes, investment properties and leasehold interests. In the case of

leasehold interests, the applicable information supplement may provide for the leasehold term, but if it does not, the term of the leasehold will exceed the scheduled maturity of the loan by at least five years.

Multifamily Loans. Mortgaged properties which secure multifamily loans may include small multifamily residential properties such as rental apartment buildings or projects containing five to fifty residential units, including mid-rise and garden apartments. Certain of the multifamily loans may be secured by apartment buildings owned by cooperatives. In such cases, the cooperative owns all the apartment units in the building and all common areas. The cooperative is owned by tenant-stockholders who, through ownership of stock, shares or membership certificates in the corporation, receive proprietary leases or occupancy agreements which confer exclusive rights to occupy specific apartments or units. Generally, a tenant-stockholder of a cooperative must make a monthly payment to the cooperative representing such tenant-stockholder's pro rata share of the cooperative's payments for its mortgage loan, real property taxes, maintenance expenses and other capital or ordinary expenses. Those payments are in addition to any payments of principal and interest the tenant-stockholder must make on any loans to the tenant-stockholder secured by its shares in the cooperative. The cooperative will be directly responsible for building management and, in most cases, payment of real estate taxes and hazard and liability insurance. A cooperative's ability to meet debt service obligations on a multifamily loan, as well as all other operating expenses, will be dependent in large part on the receipt of maintenance payments from the tenant-stockholders, as well as any rental income from units the cooperative might control. Unanticipated expenditures may in some cases have to be paid by special assessments on the tenant-stockholders.

Home Equity Loans. The mortgaged properties relating to home equity loans will consist of Single Family Properties. As more fully described in the related information supplement, interest on each revolving credit line loan, excluding introductory rates offered from time to time during promotional periods, is computed and payable monthly on the average daily outstanding principal balance of such loan. Principal amounts on a revolving credit line loan may be drawn down (up to a maximum amount as set forth in the related information supplement) or repaid under each revolving credit line loan from time to time, but may be subject to a minimum periodic payment. Except to the extent provided in the related information supplement, the trust fund will not include any amounts borrowed under a revolving credit line loan after the cut-off date. The full amount of a closed-end loan is advanced at the inception of the loan and generally is repayable in equal (or substantially equal) installments of an amount to fully amortize such loan at its stated maturity. Except to the extent provided in the related information supplement, the original terms to stated maturity of closed-end loans will not exceed 360 months. Under certain circumstances, under either a revolving credit line loan or a closed-end loan, a borrower may choose an interest only payment option and is obligated to pay only the amount of interest which accrues on the loan during the billing cycle. An interest only payment option may be available for a specified period before the borrower must begin paying at least the minimum monthly payment of a specified percentage of the average outstanding balance of the loan.

Home Improvement Contracts. The Trust Fund Assets for a series of securities may consist, in whole or in part, of home improvement contracts originated by a home improvement contractor, a thrift or a commercial mortgage banker in the ordinary course of business. The home improvements securing the home improvement contracts may include, but are not limited to, replacement windows, house siding, new roofs, swimming pools, satellite dishes, kitchen and bathroom remodeling goods and solar heating panels. As specified in the related information supplement, the home improvement contracts will either be unsecured or secured by mortgages on Single Family Properties which are generally subordinate to other mortgages on the same Property, or secured by purchase money security interests in the home improvements financed thereby. In general, the home improvement contracts will be fully amortizing and may have fixed interest rates or adjustable interest rates and may provide for other payment characteristics as described below and in the related information supplement. The initial Loan-to-Value Ratio of a home improvement contract is computed in the manner described in the related information supplement.

Additional Information. Each information supplement will contain information, as of the date of the information supplement and to the extent then specifically known to the depositor, with respect to the loans contained in the related pool, including

- the aggregate outstanding principal balance and the average outstanding principal balance of the loans as of the first day of the month of issuance of the related series of certificates or another date specified in the related information supplement called a cut-off date,

- the type of property securing the loans (e.g., single-family residences, individual units in condominium apartment buildings or in buildings owned by cooperatives, small multifamily properties, other real property or home improvements),
- the original terms to maturity of the loans,
- the largest principal balance and the smallest principal balance of any of the loans,
- the earliest origination date and latest maturity date of any of the loans,
- the Loan-to-Value Ratios or Combined Loan-to-Value Ratios, as applicable, of the loans,
- the Loan Rates or annual percentage rates (“APR”) or range of Loan Rates or APR’s borne by the loans,
- the maximum and minimum per annum Loan Rates and
- the geographical distribution of the loans. If specific information respecting the loans is not known to the depositor at the time the related securities are initially offered, more general information of the nature described above will be provided in the detailed description of Trust Assets.

The “Loan-to-Value Ratio” of a loan at any given time is the fraction, expressed as a percentage, the numerator of which is the original principal balance of the related loan and the denominator of which is the Collateral Value of the related Property. The “Combined Loan-to-Value Ratio” of a loan at any given time is the ratio, expressed as a percentage, of (i) the sum of (a) the original principal balance of the loan (or, in the case of a revolving credit line loan, the maximum amount thereof available) and (b) the outstanding principal balance at the date of origination of the loan of any senior mortgage loan(s) or, in the case of any open-ended senior mortgage loan, the maximum available line of credit with respect to such mortgage loan, regardless of any lesser amount actually outstanding at the date of origination of the loan, to (ii) the Collateral Value of the related Property. The “Collateral Value” of the Property, other than with respect to certain loans the proceeds of which were used to refinance an existing mortgage loan (each, a “Refinance Loan”), is the lesser of (a) the appraised value determined in an appraisal obtained by the originator at origination of such loan and (b) the sales price for such Property. In the case of Refinance Loans, the “Collateral Value” of the related Property is generally the appraised value thereof determined in an appraisal obtained at the time of refinancing.

No assurance can be given that values of the Properties have remained or will remain at their levels on the dates of origination of the related loans. If the residential real estate market should experience an overall decline in property values such that the outstanding principal balances of the loans, and any secondary financing on the Properties, in a particular pool become equal to or greater than the value of the Properties, the actual rates of delinquencies, foreclosures and losses could be higher than those now generally experienced in the mortgage lending industry. In addition, adverse economic conditions and other factors (which may or may not affect real property values) may affect the timely payment by borrowers of scheduled payments of principal and interest on the loans and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to any pool. To the extent that the losses are not covered by subordination provisions or alternative arrangements, the losses will be borne, at least in part, by the holders of the securities of the related series.

Substitution of Trust Fund Assets

Substitution of Trust Fund Assets will be permitted in the event of breaches of representations and warranties with respect to any original Trust Fund Asset or in the event the documentation with respect to any Trust Fund Asset is determined by the trustee to be incomplete. The period during which such substitution will be permitted generally will be indicated in the related information supplement.

This information circular and any applicable information circular supplement do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities offered by this information circular and the information supplement nor an offer of the securities to any person in any state or other jurisdiction in which the offer would be unlawful.

Reports to Securityholders

Periodic and annual reports concerning the trust fund will be forwarded to securityholders. However, such reports will neither be examined nor reported on by an independent public accountant. See “Description of the Securities—Reports to Securityholders.”

Use of Proceeds

The net proceeds to be received from the sale of the securities will be applied by the depositor to the purchase of Trust Fund Assets or will be used by the depositor for general corporate purposes. The depositor expects to sell securities in series from time to time, but the timing and amount of offerings of securities will depend on a number of factors, including the volume of Trust Fund Assets acquired by the depositor, prevailing interest rates, availability of funds and general market conditions.

The Depositor

CWABS, Inc., a Delaware corporation, the depositor, was incorporated in August 1996 for the limited purpose of acquiring, owning and transferring Trust Fund Assets and selling interests therein or bonds secured thereby. The depositor is a limited purpose finance subsidiary of Countrywide Credit Industries, Inc., a Delaware corporation. The depositor maintains its principal office at 4500 Park Granada, Calabasas, California 91302. Its telephone number is (818) 225-3000.

Neither the depositor nor any of the depositor's affiliates will insure or guarantee distributions on the securities of any series.

Loan Program

The loans will have been purchased by the depositor, either directly or through affiliates, from sellers. The applicable information supplement may provide for the underwriting criteria used in originating the loans, but if it does not, the loans so acquired by the depositor will have been originated in accordance with the underwriting criteria specified below under "Underwriting Standards."

Underwriting Standards

The applicable information supplement may provide for the seller's representations and warranties relating to the loans, but if it does not, each seller will represent and warrant that all loans originated and/or sold by it to the depositor or one of its affiliates will have been underwritten in accordance with standards consistent with those utilized by mortgage lenders generally during the period of origination for similar types of loans. As to any loan insured by the FHA or partially guaranteed by the VA, the seller will represent that it has complied with underwriting policies of the FHA or the VA, as the case may be.

Underwriting standards are applied by or on behalf of a lender to evaluate the borrower's credit standing and repayment ability, and the value and adequacy of the related Property as collateral. In general, a prospective borrower applying for a loan is required to fill out a detailed application designed to provide to the underwriting officer pertinent credit information, including the principal balance and payment history with respect to any senior mortgage, if any. The applicable information supplement may specify whether that credit information will be verified by the seller, but if it does not, the credit information supplied by the borrower will be verified by the related seller. As part of the description of the borrower's financial condition, the borrower generally is required to provide a current list of assets and liabilities and a statement of income and expenses, as well as an authorization to apply for a credit report which summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. In most cases, an employment verification is obtained from an independent source (typically the borrower's employer) which verification reports, among other things, the length of employment with that organization and the borrower's current salary. If a prospective borrower is self-employed, the borrower may be required to submit copies of signed tax returns. The borrower may also be required to authorize verification of deposits at financial institutions where the borrower has demand or savings accounts.

In determining the adequacy of the property to be used as collateral, an appraisal will generally be made of each property considered for financing. The appraiser is generally required to inspect the property, issue a report on its condition and, if applicable, verify construction, if new, has been completed. The appraisal is generally based on the market value of comparable homes, the estimated rental income (if considered applicable by the appraiser) and the cost of replacing the home. The value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance.

The maximum loan amount will vary depending upon a borrower's credit grade and loan program but will not generally exceed \$1,000,000. Variations in maximum loan amount limits will be permitted based on compensating factors. Compensating factors may generally include, to the extent specified in the related information supplement, low loan-to-value ratio, low debt-to-income ratio, stable employment, favorable credit history and the nature of the underlying first mortgage loan, if applicable.

Each seller's underwriting standards will generally permit loans with loan-to-value ratios at origination of up to 100% depending on the loan program, type and use of the property, creditworthiness of the borrower and debt-to-income ratio. If so specified in the related prospectus supplement, a seller's underwriting criteria may permit loans with loan-to-value ratios at origination in excess of 100%, such as for debt consolidation or home improvement purposes. Loan-to-value ratios may not be evaluated in the case of Title I loans.

After obtaining all applicable employment, credit and property information, the related seller will use a debt-to-income ratio to assist in determining whether the prospective borrower has sufficient monthly income available to support the payments of principal and interest on the mortgage loan in addition to other monthly credit obligations. The "debt-to-income ratio" is the ratio of the borrower's total monthly payments to the borrower's gross monthly income. The maximum monthly debt-to-income ratio will vary depending upon a borrower's credit grade and loan program but will not generally exceed 55%. Variations in the monthly debt-to-income ratio limit will be permitted based on compensating factors to the extent specified in the related information supplement.

In the case of a loan secured by a leasehold interest in real property, the title to which is held by a third party lessor, the applicable information supplement may provide for the related representations and warranties of the seller, but if it does not, the related seller will represent and warrant, among other things, that the remaining term of the lease and any sublease is at least five years longer than the remaining term on the loan.

Certain of the types of loans that may be included in a trust fund are recently developed and may involve additional uncertainties not present in traditional types of loans. For example, certain of such loans may provide for escalating or variable payments by the borrower. These types of loans are underwritten on the basis of a judgment that the borrowers have the ability to make the monthly payments required initially. In some instances, a borrower's income may not be sufficient to permit continued loan payments as such payments increase. These types of loans may also be underwritten primarily upon the basis of Loan-to-Value Ratios or other favorable credit factors.

Qualifications of Sellers

Each seller will be required to satisfy the following qualifications. Each seller must be an institution experienced in originating and servicing loans of the type contained in the related pool in accordance with accepted practices and prudent guidelines, and must maintain satisfactory facilities to originate and service those loans. Each seller must be a seller/servicer approved by either Fannie Mae or Freddie Mac. Each seller must be a mortgagee approved by the FHA or an institution the deposit accounts of which are insured by the FDIC.

Representations by Sellers; Repurchases

Each seller will have made representations and warranties in respect of the loans sold by such seller and evidenced by all, or a part, of a series of securities. Such representations and warranties may include, among other things:

- that title insurance (or in the case of Properties located in areas where such policies are generally not available, an attorney's certificate of title) and any required hazard insurance policy were effective at origination of each loan, other than cooperative loans and certain home equity loans, and that each policy (or certificate of title as applicable) remained in effect on the date of purchase of the loan from the seller by or on behalf of the depositor;
- that the seller had good title to each such loan and such loan was subject to no offsets, defenses, counterclaims or rights of rescission except to the extent that any buydown agreement may forgive certain indebtedness of a borrower;
- that each loan constituted a valid lien on, or a perfected security interest with respect to, the Property (subject only to permissible liens disclosed, if applicable, title insurance exceptions, if applicable, and

certain other exceptions described in the Agreement) and that the Property was free from damage and was in acceptable condition;

- that there were no delinquent tax or assessment liens against the Property;
- that no required payment on a loan was delinquent more than the number of days specified in the related information supplement; and
- that each loan was made in compliance with, and is enforceable under, all applicable local, state and federal laws and regulations in all material respects.

If so specified in the related information supplement, the representations and warranties of a seller in respect of a loan will be made not as of the cut-off date but as of the date on which such seller sold the loan to the depositor or one of its affiliates. Under such circumstances, a substantial period of time may have elapsed between the sale date and the date of initial issuance of the series of securities evidencing an interest in such loan. Since the representations and warranties of a seller do not address events that may occur following the sale of a loan by such seller, its repurchase obligation described below will not arise if the relevant event that would otherwise have given rise to such an obligation with respect to a loan occurs after the date of sale of such loan by such seller to the depositor or its affiliates. However, the depositor will not include any loan in the trust fund for any series of securities if anything has come to the depositor's attention that would cause it to believe that the representations and warranties of a seller will not be accurate and complete in all material respects in respect of such loan as of the date of initial issuance of the related series of securities. If the master servicer is also a seller of loans with respect to a particular series of securities, such representations will be in addition to the representations and warranties made by the master servicer in its capacity as a master servicer.

The master servicer or the trustee, if the master servicer is the seller, will promptly notify the relevant seller of any breach of any representation or warranty made by it in respect of a loan which materially and adversely affects the interests of the securityholders in such loan. If such seller cannot cure such breach within 90 days following notice from the master servicer or the trustee, as the case may be, the applicable information supplement may provide for the seller's obligations under those circumstances, but if it does not, then such seller will be obligated either

- to repurchase such loan from the trust fund at a price (the "Purchase Price") equal to 100% of the unpaid principal balance thereof as of the date of the repurchase plus accrued interest thereon to the first day of the month following the month of repurchase at the Loan Rate (less any Advances or amount payable as related servicing compensation if the seller is the master servicer) or
- substitute for such loan a replacement loan that satisfies the criteria specified in the related information supplement.

If a REMIC election is to be made with respect to a trust fund, the applicable information supplement may provide for the obligations of the master servicer or residual certificateholder, but if it does not, the master servicer or a holder of the related residual certificate generally will be obligated to pay any prohibited transaction tax which may arise in connection with any such repurchase or substitution and the trustee must have received a satisfactory opinion of counsel that such repurchase or substitution will not cause the trust fund to lose its status as a REMIC or otherwise subject the trust fund to a prohibited transaction tax. The master servicer may be entitled to reimbursement for any such payment from the assets of the related trust fund or from any holder of the related residual certificate. See "Description of the Securities—General". Except in those cases in which the master servicer is the seller, the master servicer will be required under the applicable Agreement to enforce this obligation for the benefit of the trustee and the holders of the securities, following the practices it would employ in its good faith business judgment were it the owner of such loan. This repurchase or substitution obligation will constitute the sole remedy available to holders of securities or the trustee for a breach of representation by a seller.

Neither the depositor nor the master servicer (unless the master servicer is the seller) will be obligated to purchase or substitute a loan if a seller defaults on its obligation to do so, and no assurance can be given that sellers will carry out their respective repurchase or substitution obligations with respect to loans. However, to the extent that a breach of a representation and warranty of a seller may also constitute a breach of a representation made by the master servicer, the master servicer may have a repurchase or substitution obligation as described below under "The Agreements—Assignment of Trust Fund Assets".

Description of the Securities

Each series of certificates will be issued pursuant to separate agreements (each, a “Pooling and Servicing Agreement” or a “Trust Agreement”) among the depositor, the master servicer and the trustee. A form of Pooling and Servicing Agreement and Trust Agreement has been filed as an exhibit to the Registration Statement of which this prospectus forms a part. Each series of notes will be issued pursuant to an indenture (the “Indenture”) between the related trust fund and the entity named in the related information supplement as trustee with respect to such series, and the related loans will be serviced by the master servicer pursuant to a Master Servicing Agreement. A form of Indenture and Master Servicing Agreement has been filed as an exhibit to the Registration Statement of which this information circular forms a part. A series of securities may consist of both notes and certificates. Each Agreement, dated as of the related cut-off date, will be among the depositor, the master servicer and the trustee for the benefit of the holders of the securities of such series. The provisions of each Agreement will vary depending upon the nature of the securities to be issued thereunder and the nature of the related trust fund. The following are descriptions of the material provisions which may appear in each Agreement. The descriptions are subject to, and are qualified in their entirety by reference to, all of the provisions of the Agreement for each series of securities and the applicable information supplement. The depositor will provide a copy of the Agreement (without exhibits) relating to any series without charge upon written request of a holder of record of a security of such series addressed to CWABS, Inc., 4500 Park Granada, Calabasas, California 91302, Attention: Secretary.

General

The securities of each series will be issued in fully registered form, in the authorized denominations specified in the related information supplement, will, in the case of certificates, evidence specified beneficial ownership interests in, and in the case of notes, be secured by, the assets of the related trust fund created pursuant to each Agreement and will not be entitled to payments in respect of the assets included in any other trust fund established by the depositor. The applicable information supplement may provide for guarantees or insurance obtained from a governmental entity or other person, but if it does not, the Trust Fund Assets will not be guaranteed or insured by any governmental entity or other person. Each trust fund will consist of, to the extent provided in the related Agreement,

- the Trust Fund Assets, as from time to time are subject to the related Agreement (exclusive of any amounts specified in the related information supplement (“Retained Interest”)), including all payments of interest and principal received with respect to the loans after the cut-off date (to the extent not applied in computing the principal balance of such loans as of the cut-off date (the “Cut-off Date Principal Balance”));
- the assets required to be deposited in the related Security Account from time to time;
- property which secured a loan and which is acquired on behalf of the securityholders by foreclosure or deed in lieu of foreclosure and
- any insurance policies or other forms of credit enhancement required to be maintained pursuant to the related Agreement.

If so specified in the related information supplement, a trust fund may also include one or more of the following: reinvestment income on payments received on the Trust Fund Assets, a reserve fund, a mortgage pool insurance policy, a special hazard insurance policy, a bankruptcy bond, one or more letters of credit, a surety bond, guaranties or similar instruments.

Each series of securities will be issued in one or more classes. Each class of certificates of a series will evidence beneficial ownership of a specified percentage (which may be 0%) or portion of future interest payments and a specified percentage (which may be 0%) or portion of future principal payments on, and each class of notes of a series will be secured by, the related Trust Fund Assets. A series of securities may include one or more classes that are senior in right to payment to one or more other classes of securities of such series. Certain series or classes of securities may be covered by insurance policies, surety bonds or other forms of credit enhancement, in each case as described under “Credit Enhancement” herein and in the related information supplement. One or more classes of securities of a series may be entitled to receive distributions of principal, interest or any combination thereof. Distributions on one or more classes of a series of securities may be made prior to one or more other classes, after the occurrence of specified events, in accordance with a

schedule or formula or on the basis of collections from designated portions of the related Trust Fund Assets, in each case as specified in the related information supplement. The timing and amounts of such distributions may vary among classes or over time as specified in the related information supplement.

Distributions of principal and interest (or, where applicable, of principal only or interest only) on the related securities will be made by the trustee on each distribution date (i.e., monthly, quarterly, semi-annually or at such other intervals and on the dates as are specified in the related information supplement) in proportion to the percentages specified in the related information supplement. Distributions will be made to the persons in whose names the securities are registered at the close of business on the dates specified in the related information supplement (each, a “Record Date”). Distributions will be made in the manner specified in the related information supplement to the persons entitled thereto at the address appearing in the register maintained for holders of securities (the “Security Register”); provided, however, that the final distribution in retirement of the securities will be made only upon presentation and surrender of the securities at the office or agency of the trustee or other person specified in the notice to securityholders of such final distribution.

The securities will be freely transferable and exchangeable at the Corporate Trust Office of the trustee as set forth in the related information supplement. No service charge will be made for any registration of exchange or transfer of securities of any series, but the trustee may require payment of a sum sufficient to cover any related tax or other governmental charge.

Under current law the purchase and holding of a class of securities entitled only to a specified percentage of payments of either interest or principal or a notional amount of either interest or principal on the related loans or a class of securities entitled to receive payments of interest and principal on the loans only after payments to other classes or after the occurrence of certain specified events by or on behalf of any employee benefit plan or other retirement arrangement (including individual retirement accounts and annuities, Keogh plans and collective investment funds in which such plans, accounts or arrangements are invested) subject to provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or the Internal Revenue Code of 1986, as amended (the “Code”), may result in prohibited transactions, within the meaning of ERISA and the Code. See “ERISA Considerations”. The applicable information supplement may provide for the conditions for transferring a security of that type of class, but if it does not, the transfer of securities of such a class will not be registered unless the transferee (i) represents that it is not, and is not purchasing on behalf of, any such plan, account or arrangement or (ii) provides an opinion of counsel satisfactory to the trustee and the depositor that the purchase of securities of such a class by or on behalf of such plan, account or arrangement is permissible under applicable law and will not subject the trustee, the master servicer or the depositor to any obligation or liability in addition to those undertaken in the Agreements.

As to each series, an election may be made to treat the related trust fund or designated portions thereof as a “real estate mortgage investment conduit” or REMIC as defined in the Code. The related information supplement will specify whether a REMIC election is to be made. Alternatively, the Agreement for a series may provide that a REMIC election may be made at the discretion of the depositor or the master servicer and may only be made if certain conditions are satisfied. As to any such series, the terms and provisions applicable to the making of a REMIC election will be set forth in the related information supplement. If such an election is made with respect to a series, one of the classes will be designated as evidencing the sole class of “residual interests” in the related REMIC, as defined in the Code. All other classes of securities in such a series will constitute “regular interests” in the related REMIC, as defined in the Code. As to each series with respect to which a REMIC election is to be made, the master servicer or a holder of the related residual certificate will be obligated to take all actions required in order to comply with applicable laws and regulations and will be obligated to pay any prohibited transaction taxes. The master servicer, unless otherwise provided in the related information supplement, will be entitled to reimbursement for any such payment from the assets of the trust fund or from any holder of the related residual certificate.

Distributions on Securities

General. In general, the method of determining the amount of distributions on a particular series of securities will depend on the type of credit support, if any, that is used with respect to such series. See “Credit Enhancement”. Set forth below are descriptions of various methods that may be used to determine the amount of distributions on the securities of a particular series. The information supplement for each series of securities will describe the method to be used in determining the amount of distributions on the securities of such series.

Distributions allocable to principal and interest on the securities will be made by the trustee out of, and only to the extent of, funds in the related Security Account, including any funds transferred from any reserve fund. As between securities of different classes and as between distributions of principal (and, if applicable, between distributions of Principal Prepayments, as defined below, and scheduled payments of principal) and interest, distributions made on any distribution date will be applied as specified in the related information supplement. The information supplement will also describe the method for allocating distributions among securities of a particular class.

Available Funds. All distributions on the securities of each series on each distribution date will be made from the Available Funds described below, in accordance with the terms described in the related information supplement and specified in the Agreement. “Available Funds” for each distribution date will generally equal the amount on deposit in the related Security Account on such distribution date (net of related fees and expenses payable by the related trust fund) other than amounts to be held therein for distribution on future distribution dates.

Distributions of Interest. Interest will accrue on the aggregate principal balance of the securities (or, in the case of securities entitled only to distributions allocable to interest, the aggregate notional amount) of each class of securities (the “Class Security Balance”) entitled to interest from the date, at the Pass-Through Rate or interest rate, as applicable (which in either case may be a fixed rate or rate adjustable as specified in such information supplement), and for the periods specified in such information supplement. To the extent funds are available therefor, interest accrued during each such specified period on each class of securities entitled to interest (other than a class of securities that provides for interest that accrues, but is not currently payable) will be distributable on the distribution dates specified in the related information supplement until the aggregate Class Security Balance of the securities of such class has been distributed in full or, in the case of securities entitled only to distributions allocable to interest, until the aggregate notional amount of such securities is reduced to zero or for the period of time designated in the related information supplement. The original Class Security Balance of each security will equal the aggregate distributions allocable to principal to which such security is entitled. Distributions allocable to interest on each security that is not entitled to distributions allocable to principal will be calculated based on the notional amount of such security. The notional amount of a security will not evidence an interest in or entitlement to distributions allocable to principal but will be used solely for convenience in expressing the calculation of interest and for certain other purposes.

Interest payable on the securities of a series on a distribution date will include all interest accrued during the period specified in the related information supplement. In the event interest accrues over a period ending two or more days prior to a distribution date, the effective yield to securityholders will be reduced from the yield that would otherwise be obtainable if interest payable on the security were to accrue through the day immediately preceding such distribution date, and the effective yield (at par) to securityholders will be less than the indicated coupon rate.

With respect to any class of accrual securities, if specified in the related information supplement, any interest that has accrued but is not paid on a given distribution date will be added to the aggregate Class Security Balance of such class of securities on that distribution date. Distributions of interest on any class of accrual securities will commence only after the occurrence of the events specified in such information supplement. Prior to such time, the beneficial ownership interest in the trust fund or the principal balance, as applicable, of such class of accrued securities, as reflected in the aggregate Class Security Balance of such class of accrual securities, will increase on each distribution date by the amount of interest that accrued on such class of accrual securities during the preceding interest accrual period but that was not required to be distributed to such class on such distribution date. Any such class of accrual securities will thereafter accrue interest on its outstanding Class Security Balance as so adjusted.

Distributions of Principal. The related information supplement will specify the method by which the amount of principal to be distributed on the securities on each distribution date will be calculated and the manner in which such amount will be allocated among the classes of securities entitled to distributions of principal. The aggregate Class Security Balance of any class of securities entitled to distributions of principal generally will be the aggregate original Class Security Balance of such class of securities specified in such information supplement, reduced by all distributions reported to the holders of such securities as allocable to principal and,

- in the case of accrual securities, in general, increased by all interest accrued but not then distributable on such accrual securities; and
- in the case of adjustable rate securities, subject to the effect of negative amortization, if applicable.

If so provided in the related information supplement, one or more classes of securities will be entitled to receive all or a disproportionate percentage of the payments of principal which are received from borrowers in advance of their scheduled due dates and are not accompanied by amounts representing scheduled interest due after the month of such payments (“Principal Prepayments”) in the percentages and under the circumstances or for the periods specified in such information supplement. Any such allocation of Principal Prepayments to such class or classes of securities will have the effect of accelerating the amortization of such securities while increasing the interests evidenced by one or more other classes of securities in the trust fund. Increasing the interests of the other classes of securities relative to that of certain securities is intended to preserve the availability of the subordination provided by such other securities. See “Credit Enhancement—Subordination”.

Unscheduled Distributions. If specified in the related information supplement, the securities will be subject to receipt of distributions before the next scheduled distribution date under the circumstances and in the manner described below and in the information supplement. If applicable, the trustee will be required to make unscheduled distributions on the day and in the amount specified in the related information supplement if, due to substantial payments of principal (including Principal Prepayments) on the Trust Fund Assets, the trustee or the master servicer determines that the funds available or anticipated to be available from the Security Account and, if applicable, any reserve fund, may be insufficient to make required distributions on the securities on that distribution date. The applicable information supplement may provide for limits on the amount of an unscheduled distribution, but if it does not, the amount of any unscheduled distribution that is allocable to principal will not exceed the amount that would otherwise have been required to be distributed as principal on the securities on the next distribution date. The applicable information supplement may specify whether the unscheduled distribution will include interest, but if it does not, the unscheduled distributions will include interest at the applicable Pass-Through Rate (if any) or interest rate (if any) on the amount of the unscheduled distribution allocable to principal for the period and to the date specified in the information supplement.

Advances

To the extent provided in the related information supplement, the master servicer will be required to advance on or before each distribution date (from its own funds, funds advanced by sub-servicers or funds held in the Security Account for future distributions to the holders of securities of the related series), an amount equal to the aggregate of payments of interest and/or principal that were delinquent on the related Determination Date (as such term is defined in the related information supplement) and were not advanced by any sub-servicer, subject to the master servicer’s determination that such advances may be recoverable out of late payments by borrowers, Liquidation Proceeds, Insurance Proceeds or otherwise. In the case of cooperative loans, the master servicer also may be required to advance any unpaid maintenance fees and other charges under the related proprietary leases as specified in the related information supplement.

In making advances, the master servicer will endeavor to maintain a regular flow of scheduled interest and principal payments to holders of the securities, rather than to guarantee or insure against losses. If advances are made by the master servicer from cash being held for future distribution to securityholders, the master servicer will replace such funds on or before any future distribution date to the extent that funds in the applicable Security Account on such distribution date would be less than the amount required to be available for distributions to securityholders on such date. Any master servicer funds advanced will be reimbursable to the master servicer out of recoveries on the specific loans with respect to which such advances were made (e.g., late payments made by the related borrower, any related Insurance Proceeds, Liquidation Proceeds or proceeds of any loan purchased by the depositor, a sub-servicer or a seller pursuant to the related Agreement). advances by the master servicer (and any advances by a sub-servicer) also will be reimbursable to the master servicer (or sub-servicer) from cash otherwise distributable to securityholders (including the holders of Senior securities) to the extent that the master servicer determines that any such advances previously made are not ultimately recoverable as described above. To the extent provided in the related information supplement, the master servicer also will be obligated to make advances, to the extent recoverable out of Insurance Proceeds, Liquidation Proceeds or otherwise, in respect of certain taxes and insurance premiums not paid by borrowers on a timely basis. Funds so advanced are reimbursable to the master servicer to the extent permitted by the related

Agreement. The obligations of the master servicer to make advances may be supported by a cash advance reserve fund, a surety bond or other arrangement of the type described herein under “Credit Enhancement”, in each case as described in the related information supplement.

In the event the master servicer or a sub-servicer fails to make a required advance, the applicable information supplement may specify whether another party will have advancing obligations, but if it does not, the trustee will be obligated to make such advance in its capacity as successor servicer. If the trustee makes such an advance, it will be entitled to be reimbursed for such advance to the same extent and degree as the master servicer or a sub-servicer is entitled to be reimbursed for advances. See “Description of the Securities—Distributions on Securities”.

Reports to Securityholders

Prior to or concurrently with each distribution on a distribution date the master servicer or the trustee will furnish to each securityholder of record of the related series a statement setting forth, to the extent applicable to such series of securities, among other things:

- the amount of such distribution allocable to principal, separately identifying the aggregate amount of any Principal Prepayments and if so specified in the related information supplement, any applicable prepayment penalties included therein;
- the amount of such distribution allocable to interest;
- the amount of any advance;
- the aggregate amount (a) otherwise allocable to the Subordinated Securityholders on such distribution date, and (b) withdrawn from the reserve fund, if any, that is included in the amounts distributed to the Senior Securityholders;
- the outstanding principal balance or notional amount of each class of the related series after giving effect to the distribution of principal on such distribution date;
- the percentage of principal payments on the loans (excluding prepayments), if any, which each such class will be entitled to receive on the following distribution date;
- the percentage of Principal Prepayments on the loans, if any, which each such class will be entitled to receive on the following distribution date;
- the related amount of the servicing compensation retained or withdrawn from the Security Account by the master servicer, and the amount of additional servicing compensation received by the master servicer attributable to penalties, fees, excess Liquidation Proceeds and other similar charges and items;
- the number and aggregate principal balances of loans (A) delinquent (exclusive of loans in foreclosure) 1 to 30 days, 31 to 60 days, 61 to 90 days and 91 or more days and (B) in foreclosure and delinquent 1 to 30 days, 31 to 60 days, 61 to 90 days and 91 or more days, as of the close of business on the last day of the calendar month preceding such distribution date;
- the book value of any real estate acquired through foreclosure or grant of a deed in lieu of foreclosure;
- the Pass-Through Rate or interest rate, as applicable, if adjusted from the date of the last statement, of any such class expected to be applicable to the next distribution to such class;
- if applicable, the amount remaining in any reserve fund at the close of business on the distribution date;
- the Pass-Through Rate or interest rate, as applicable, as of the day prior to the immediately preceding distribution date; and
- any amounts remaining under letters of credit, pool policies or other forms of credit enhancement.

Where applicable, any amount set forth above may be expressed as a dollar amount per single security of the relevant class having the percentage interest specified in the related information supplement. The report to securityholders for any series of securities may include additional or other information of a similar nature to that specified above.

In addition, within a reasonable period of time after the end of each calendar year, the master servicer or the trustee will mail to each securityholder of record at any time during such calendar year a report (a) as to the

aggregate of amounts reported pursuant to (i) and (ii) above for such calendar year or, in the event such person was a securityholder of record during a portion of such calendar year, for the applicable portion of such year and (b) such other customary information as may be deemed necessary or desirable for securityholders to prepare their tax returns.

Categories of Classes of Securities

The securities of any series may be comprised of one or more classes. Such classes, in general, fall into different categories. The following chart identifies and generally defines certain of the more typical categories. The information supplement for a series of securities may identify the classes which comprise such series by reference to the following categories.

Categories of Classes

Definition

PRINCIPAL TYPES

| | |
|---------------------------------------|--|
| Accretion Directed | A class that receives principal payments from the accreted interest from specified Accrual classes. An accretion directed class also may receive principal payments from principal paid on the underlying Trust Fund Assets for the related series. |
| Component Securities | A class consisting of “components.” The components of a class of component securities may have different principal and/or interest payment characteristics but together constitute a single class. Each component of a class of component securities may be identified as falling into one or more of the categories in this chart. |
| Notional Amount Securities .. | A class having no principal balance and bearing interest on the related notional amount. The notional amount is used for purposes of the determination of interest distributions. |
| Planned Principal Class or PACs | A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming two constant prepayment rates for the underlying Trust Fund Assets. These two rates are the endpoints for the “structuring range” for the planned principal class. The planned principal classes in any series of certificates may be subdivided into different categories (e.g., primary planned principal classes, secondary planned principal classes and so forth) having different effective structuring ranges and different principal payment priorities. The structuring range for the secondary planned principal class of a series of certificates will be narrower than that for the primary planned principal class of the series. |
| Scheduled Principal Class .. | A class that is designed to receive principal payments using a predetermined principal balance schedule but is not designated as a Planned Principal Class or Targeted Principal class. In many cases, the schedule is derived by assuming two constant prepayment rates for the underlying Trust Fund Assets. These two rates are the endpoints for the “structuring range” for the scheduled principal class. |
| Sequential Pay | Classes that receive principal payments in a prescribed sequence, that do not have predetermined principal balance schedules and that under all circumstances receive payments of principal continuously from the first distribution date on which they receive principal until they are retired. A single class that receives principal payments before or after all other classes in the same series of securities may be identified as a sequential pay class. |
| Strip | A class that receives a constant proportion, or “strip,” of the principal payments on the underlying Trust Fund Assets. |

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| Support Class (also sometimes referred to as “companion classes”) | A class that receives principal payments on any distribution date only if scheduled payments have been made on specified planned principal classes, targeted principal classes and/or Scheduled Principal Classes. |
| Targeted Principal Class or TACs | A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming a single constant prepayment rate for the underlying Trust Fund Assets. |

INTEREST TYPES

| | |
|----------------------------|--|
| Fixed Rate | A class with an interest rate that is fixed throughout the life of the class. |
| Floating Rate | A class with an interest rate that resets periodically based upon a designated index and that varies directly with changes in such index. |
| Inverse Floating Rate..... | A class with an interest rate that resets periodically based upon a designated index and that varies inversely with changes in such index. |
| Variable Rate | A class with an interest rate that resets periodically and is calculated by reference to the rate or rates of interest applicable to specified assets or instruments (e.g., the Loan Rates borne by the underlying loans). |
| Interest Only | A class that receives some or all of the interest payments made on the underlying Trust Fund Assets and little or no principal. Interest Only classes have either a nominal principal balance or a notional amount. A nominal principal balance represents actual principal that will be paid on the class. It is referred to as nominal since it is extremely small compared to other classes. A notional amount is the amount used as a reference to calculate the amount of interest due on an Interest Only class that is not entitled to any distributions in respect of principal. |
| Principal Only | A class that does not bear interest and is entitled to receive only distributions in respect of principal. |
| Partial Accrual..... | A class that accretes a portion of the amount of accrued interest thereon, which amount will be added to the principal balance of such class on each applicable distribution date, with the remainder of such accrued interest to be distributed currently as interest on such class. Such accretion may continue until a specified event has occurred or until such Partial Accrual class is retired. |
| Accrual | A class that accretes the amount of accrued interest otherwise distributable on such class, which amount will be added as principal to the principal balance of such class on each applicable distribution date. Such accretion may continue until some specified event has occurred or until such Accrual class is retired. |

Indices Applicable to Floating Rate and Inverse Floating Rate Classes

LIBOR

The applicable information supplement may specify some other basis for determining LIBOR, but if it does not, on the LIBOR determination date (as defined in the related prospectus supplement) for each class of certificates of a series for which the applicable interest rate is determined by reference to an index denominated as LIBOR, the person designated in the related pooling and servicing agreement as the calculation agent will determine LIBOR in accordance with one of the two methods described below (which method will be specified in the related information supplement):

LIBO Method

If using this method to calculate LIBOR, the calculation agent will determine LIBOR by reference to the quotations, as set forth on the Reuters Screen LIBO Page, offered by the principal London office of each of the designated reference banks meeting the criteria set forth in this information circular for making one-month United States dollar deposits in leading banks in the London Interbank market, as of 11:00 a.m. (London time) on the LIBOR determination date. In lieu of relying on the quotations for those reference banks that appear at the time on the Reuters Screen LIBO Page, the calculation agent will request each of the reference banks to provide the offered quotations at the time.

Under this method LIBOR will be established by the calculation agent on each LIBOR determination date as follows:

(a) If on any LIBOR determination date two or more reference banks provide offered quotations, LIBOR for the next interest accrual period shall be the arithmetic mean of the offered quotations (rounded upwards if necessary to the nearest whole multiple of $\frac{1}{32}\%$).

(b) If on any LIBOR determination date only one or none of the reference banks provides offered quotations, LIBOR for the next interest accrual period shall be whichever is the higher of

- LIBOR as determined on the previous LIBOR determination date or
- the reserve interest rate.

The reserve interest rate shall be the rate per annum which the calculation agent determines to be either

- the arithmetic mean (rounded upwards if necessary to the nearest whole multiple of $\frac{1}{32}\%$) of the one-month United States dollar lending rates that New York City banks selected by the calculation agent are quoting, on the relevant LIBOR determination date, to the principal London offices of at least two of the reference banks to which the quotations are, in the opinion of the calculation agent being so made, or
- if the calculation agent cannot determine the arithmetic mean, the lowest one-month United States dollar lending rate which New York City banks selected by the calculation agent are quoting on the LIBOR determination date to leading European banks.

(c) If on any LIBOR determination date for a class specified in the related information supplement, the calculation agent is required but is unable to determine the reserve interest rate in the manner provided in paragraph (b) above, LIBOR for the next interest accrual period shall be LIBOR as determined on the preceding LIBOR determination date, or, in the case of the first LIBOR determination date, LIBOR shall be considered to be the per annum rate specified as such in the related information supplement.

Each reference bank shall be a leading bank engaged in transactions in Eurodollar deposits in the international Eurocurrency market; shall not control, be controlled by, or be under common control with the calculation agent; and shall have an established place of business in London. If a reference bank should be unwilling or unable to act as such or if appointment of a reference bank is terminated, another leading bank meeting the criteria specified above will be appointed.

BBA Method

If using this method of determining LIBOR, the calculation agent will determine LIBOR on the basis of the British Bankers' Association "Interest Settlement Rate" for one-month deposits in United States dollars as found on Telerate page 3750 as of 11:00 a.m. London time on each LIBOR determination date. Interest Settlement Rates currently are based on rates quoted by eight British Bankers' Association designated banks as being, in the view of the banks, the offered rate at which deposits are being quoted to prime banks in the London interbank market. The Interest Settlement Rates are calculated by eliminating the two highest rates and the two lowest rates, averaging the four remaining rates, carrying the result (expressed as a percentage) out to six decimal places, and rounding to five decimal places.

If on any LIBOR determination date, the calculation agent is unable to calculate LIBOR in accordance with the method set forth in the immediately preceding paragraph, LIBOR for the next interest accrual period shall be calculated in accordance with the LIBOR method described under "LIBOR Method."

The establishment of LIBOR on each LIBOR determination date by the calculation agent and its calculation of the rate of interest for the applicable classes for the related interest accrual period shall (in the absence of manifest error) be final and binding.

COFI

The Eleventh District Cost of Funds Index is designed to represent the monthly weighted average cost of funds for savings institutions in Arizona, California and Nevada that are member institutions of the Eleventh Federal Home Loan Bank District (the "Eleventh District"). The Eleventh District Cost of Funds Index for a particular month reflects the interest costs paid on all types of funds held by Eleventh District member institutions and is calculated by dividing the cost of funds by the average of the total amount of those funds outstanding at the end of that month and of the prior month and annualizing and adjusting the result to reflect the actual number of days in the particular month. If necessary, before these calculations are made, the component figures are adjusted by the Federal Home Loan Bank of San Francisco ("FHLBSF") to neutralize the effect of events such as member institutions leaving the Eleventh District or acquiring institutions outside the Eleventh District. The Eleventh District Cost of Funds Index is weighted to reflect the relative amount of each type of funds held at the end of the relevant month. The major components of funds of Eleventh District member institutions are: savings deposits, time deposits, FHLBSF advances, repurchase agreements and all other borrowings. Because the component funds represent a variety of maturities whose costs may react in different ways to changing conditions, the Eleventh District Cost of Funds Index does not necessarily reflect current market rates.

A number of factors affect the performance of the Eleventh District Cost of Funds Index, which may cause it to move in a manner different from indices tied to specific interest rates, such as United States Treasury bills or LIBOR. Because the liabilities upon which the Eleventh District Cost of Funds Index is based were issued at various times under various market conditions and with various maturities, the Eleventh District Cost of Funds Index may not necessarily reflect the prevailing market interest rates on new liabilities of similar maturities. Moreover, as stated above, the Eleventh District Cost of Funds Index is designed to represent the average cost of funds for Eleventh District savings institutions for the month prior to the month in which it is due to be published. Additionally, the Eleventh District Cost of Funds Index may not necessarily move in the same direction as market interest rates at all times, since as longer term deposits or borrowings mature and are renewed at prevailing market interest rates, the Eleventh District Cost of Funds Index is influenced by the differential between the prior and the new rates on those deposits or borrowings. In addition, movements of the Eleventh District Cost of Funds Index, as compared to other indices tied to specific interest rates, may be affected by changes instituted by the FHLBSF in the method used to calculate the Eleventh District Cost of Funds Index.

The FHLBSF publishes the Eleventh District Cost of Funds Index in its monthly Information Bulletin. Any individual may request regular receipt by mail of Information Bulletins by writing the Federal Home Loan Bank of San Francisco, P.O. Box 7948, 600 California Street, San Francisco, California 94120, or by calling (415) 616-1000. The Eleventh District Cost of Funds Index may also be obtained by calling the FHLBSF at (415) 616-2600.

The FHLBSF has stated in its Information Bulletin that the Eleventh District Cost of Funds Index for a month "will be announced on or near the last working day" of the following month and also has stated that it "cannot guarantee the announcement" of such index on an exact date. So long as such index for a month is announced on or before the tenth day of the second following month, the interest rate for each class of securities of a series as to which the applicable interest rate is determined by reference to an index denominated as COFI (each, a class of "COFI securities") for the Interest Accrual Period commencing in such second following month will be based on the Eleventh District Cost of Funds Index for the second preceding month. If publication is delayed beyond such tenth day, such interest rate will be based on the Eleventh District Cost of Funds Index for the third preceding month.

The applicable information supplement may specify some other basis for determining COFI, but if it does not, then if on the tenth day of the month in which any interest accrual period commences for a class of COFI certificates the most recently published Eleventh District Cost of Funds Index relates to a month before the third preceding month, the index for the current interest accrual period and for each succeeding interest accrual period will, except as described in the next to last sentence of this paragraph, be based on the National Monthly

Median Cost of Funds Ratio to SAIF-Insured Institutions (the “National Cost of Funds Index”) published by the Office of Thrift Supervision (the “OTS”) for the third preceding month (or the fourth preceding month if the National Cost of Funds Index for the third preceding month has not been published on the tenth day of an interest accrual period). Information on the National Cost of Funds Index may be obtained by writing the OTS at 1700 G Street, N.W., Washington, D.C. 20552 or calling (202) 906-6677, and the current National Cost of Funds Index may be obtained by calling (202) 906-6988. If on the tenth day of the month in which an interest accrual period commences the most recently published National Cost of Funds Index relates to a month before the fourth preceding month, the applicable index for the interest accrual period and each succeeding interest accrual period will be based on LIBOR, as determined by the calculation agent in accordance with the Agreement relating to the series of certificates. A change of index from the Eleventh District Cost of Funds Index to an alternative index will result in a change in the index level and could increase its volatility, particularly if LIBOR is the alternative index.

The establishment of COFI by the calculation agent and its calculation of the rates of interest for the applicable classes for the related interest accrual period shall (in the absence of manifest error) be final and binding.

Treasury Index

The applicable information supplement may specify some other basis for determining and defining the Treasury index, but if it does not, on the Treasury index determination date for each class of securities of a series for which the applicable interest rate is determined by reference to an index denominated as a Treasury index, the calculation agent will ascertain the Treasury index for Treasury securities of the maturity and for the period (or, if applicable, date) specified in the related information supplement. The Treasury index for any period means the average of the yield for each business day during the specified period (and for any date means the yield for the date), expressed as a per annum percentage rate, on U.S. Treasury securities adjusted to the “constant maturity” specified in the information supplement or if no “constant maturity” is so specified, U.S. Treasury securities trading on the secondary market having the maturity specified in the information supplement, in each case as published by the Federal Reserve Board in its Statistical Release No. H.15 (519). Statistical Release No. H.15 (519) is published on Monday or Tuesday of each week and may be obtained by writing or calling the Publications Department at the Board of Governors of the Federal Reserve System, 21st and C Streets, Washington, D.C. 20551 (202) 452-3244. If the calculation agent has not yet received Statistical Release No. H.15 (519) for a week, then it will use the Statistical Release from the preceding week.

Yields on U.S. Treasury securities at “constant maturity” are derived from the U.S. Treasury’s daily yield curve. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations reported by five leading U.S. Government securities dealers to the Federal Reserve Bank of New York. This method provides a yield for a given maturity even if no security with that exact maturity is outstanding. In the event that the Treasury Index is no longer published, a new index based upon comparable data and methodology will be designated in accordance with the Agreement relating to the particular series of securities. The Calculation Agent’s determination of the Treasury Index, and its calculation of the rates of interest for the applicable classes for the related Interest Accrual Period shall (in the absence of manifest error) be final and binding.

Prime Rate

The applicable information supplement may specify the party responsible for determining the Prime Rate, but if it does not, on the Prime Rate Determination Date (as such term is defined in the related information supplement) for each class of securities of a series as to which the applicable interest rate is determined by reference to an index denominated as the Prime Rate, the calculation agent will ascertain the Prime Rate for the related interest accrual period. The applicable information supplement may provide for the means of determining the Prime Rate, but if it does not, the Prime Rate for an interest accrual period will be the “Prime Rate” as published in the “Money Rates” section of The Wall Street Journal (or if not so published, the “Prime Rate” as published in a newspaper of general circulation selected by the calculation agent in its sole discretion) on the related Prime Rate Determination Date. If a prime rate range is given, then the average of such range will be used. In the event that the Prime Rate is no longer published, a new index based upon comparable data and

methodology will be designated in accordance with the Agreement relating to the particular series of securities. The calculation agent's determination of the Prime Rate and its calculation of the rates of interest for the related interest accrual period shall (in the absence of manifest error) be final and binding.

Credit Enhancement

General

Credit enhancement may be provided with respect to one or more classes of a series of securities or with respect to the related Trust Fund Assets. Credit enhancement may be in the form of a limited financial guaranty policy issued by an entity named in the related information supplement, the subordination of one or more classes of the securities of such series, the establishment of one or more reserve funds, the use of a cross-collateralization feature, use of a mortgage pool insurance policy, FHA Insurance, VA Guarantee, bankruptcy bond, special hazard insurance policy, surety bond, letter of credit, guaranteed investment contract, overcollateralization, or another method of credit enhancement contemplated herein and described in the related information supplement, or any combination of the foregoing. The applicable information supplement may provide for credit enhancement which covers all the classes of securities, but if it does not, credit enhancement will not provide protection against all risks of loss and will not guarantee repayment of the entire principal balance of the securities and interest thereon. If losses occur which exceed the amount covered by credit enhancement or which are not covered by the credit enhancement, securityholders will bear their allocable share of any deficiencies.

Subordination

If so specified in the related information supplement, protection afforded to holders of one or more classes of securities of a series by means of the subordination feature may be accomplished by the preferential right of holders of one or more other classes of such series (the "Senior Securities") to distributions in respect of scheduled principal, Principal Prepayments, interest or any combination thereof that otherwise would have been payable to holders of subordinated securities under the circumstances and to the extent specified in the related information supplement. Protection may also be afforded to the holders of Senior Securities of a series by: (i) reducing the ownership interest (if applicable) of the related subordinated securities; (ii) a combination of the immediately preceding sentence and clause (i) above; or (iii) as otherwise described in the related information supplement. If so specified in the related information supplement, delays in receipt of scheduled payments on the loans and losses on defaulted loans may be borne first by the various classes of subordinated securities and thereafter by the various classes of Senior Securities, in each case under the circumstances and subject to the limitations specified in such information supplement. The aggregate distributions in respect of delinquent payments on the loans over the lives of the securities or at any time, the aggregate losses in respect of defaulted loans which must be borne by the Subordinated Securities by virtue of subordination and the amount of the distributions otherwise distributable to the Subordinated Securityholders that will be distributable to Senior Securityholders on any distribution date may be limited as specified in the related information supplement. If aggregate distributions in respect of delinquent payments on the loans or aggregate losses in respect of such loans were to exceed an amount specified in the related information supplement, holders of Senior Securities would experience losses on the securities.

In addition to or in lieu of the foregoing, if so specified in the related information supplement, all or any portion of distributions otherwise payable to holders of Subordinated Securities on any distribution date may instead be deposited into one or more reserve funds established with the trustee or distributed to holders of Senior Securities. Such deposits may be made on each distribution date, for specified periods or until the balance in the reserve fund has reached a specified amount and, following payments from the reserve fund to holders of Senior Securities or otherwise, thereafter to the extent necessary to restore the balance in the reserve fund to required levels, in each case as specified in the related information supplement. Amounts on deposit in the reserve fund may be released to the holders of certain classes of securities at the times and under the circumstances specified in such information supplement.

If specified in the related information supplement, various classes of Senior Securities and Subordinated Securities may themselves be subordinate in their right to receive certain distributions to other classes of Senior and Subordinated Securities, respectively, through a cross-collateralization mechanism or otherwise.

As between classes of Senior Securities and as between classes of Subordinated Securities, distributions may be allocated among such classes (i) in the order of their scheduled final distribution dates, (ii) in accordance with a schedule or formula, (iii) in relation to the occurrence of events, or (iv) otherwise, in each case as specified in the related information supplement. As between classes of Subordinated Securities, payments to holders of Senior Securities on account of delinquencies or losses and payments to any reserve fund will be allocated as specified in the related information supplement.

Letter of Credit

The letter of credit, if any, with respect to a series of securities will be issued by the bank or financial institution specified in the related prospectus supplement (the “L/C Bank”). Under the letter of credit, the L/C Bank will be obligated to honor drawings thereunder in an aggregate fixed dollar amount, net of unreimbursed payments thereunder, equal to the percentage specified in the related information supplement of the aggregate principal balance of the loans on the related cut-off date or of one or more Classes of securities (the “L/C Percentage”). If so specified in the related information supplement, the letter of credit may permit drawings in the event of losses not covered by insurance policies or other credit support, such as losses arising from damage not covered by standard hazard insurance policies, losses resulting from the bankruptcy of a borrower and the application of certain provisions of the federal Bankruptcy Code, or losses resulting from denial of insurance coverage due to misrepresentations in connection with the origination of a loan. The amount available under the letter of credit will, in all cases, be reduced to the extent of the unreimbursed payments thereunder. The obligations of the L/C Bank under the letter of credit for each series of securities will expire at the earlier of the date specified in the related information supplement or the termination of the trust fund. See “The Agreements—Termination: Optional Termination.” A copy of the letter of credit for a series, if any, will be made available to Fannie Mae within 15 days of issuance of the securities of the related series.

Insurance Policies, Surety Bonds and Guaranties

If so provided in the information supplement for a series of securities, deficiencies in amounts otherwise payable on such securities or certain classes thereof will be covered by insurance policies and/or surety bonds provided by one or more insurance companies or sureties. Such instruments may cover, with respect to one or more classes of securities of the related series, timely distributions of interest and/or full distributions of principal on the basis of a schedule of principal distributions set forth in or determined in the manner specified in the related information supplement. In addition, if specified in the related information supplement, a trust fund may also include bankruptcy bonds, special hazard insurance policies, other insurance or guaranties for the purpose of (i) maintaining timely payments or providing additional protection against losses on the assets included in such trust fund, (ii) paying administrative expenses or (iii) establishing a minimum reinvestment rate on the payments made in respect of such assets or principal payment rate on such assets. Such arrangements may include agreements under which securityholders are entitled to receive amounts deposited in various accounts held by the trustee upon the terms specified in such information supplement. A copy of any such instrument for a series will be made available to Fannie Mae within 15 days of issuance of the securities of the related series.

Over-Collateralization

If so provided in the information supplement for a series of securities, a portion of the interest payment on each loan may be applied as an additional distribution in respect of principal to reduce the principal balance of a certain class or classes of securities and, thus, accelerate the rate of payment of principal on such class or classes of securities. Reducing the principal balance of the securities without a corresponding reduction in the principal balance of the underlying Trust Fund Assets will result in over-collateralization.

Reserve Accounts

If specified in the related information supplement, credit support with respect to a series of securities will be provided by the establishment and maintenance with the trustee for such series of securities, in trust, of one or more reserve funds for such series. The related information supplement will specify whether or not any such reserve funds will be included in the trust fund for such series.

The reserve fund for a series will be funded (i) by the deposit therein of cash, United States Treasury securities, instruments evidencing ownership of principal or interest payments thereon, letters of credit, demand notes, certificates of deposit or a combination thereof in the aggregate amount specified in the related information supplement, (ii) by the deposit therein from time to time of certain amounts, as specified in the related information supplement to which the Subordinate Securityholders, if any, would otherwise be entitled or (iii) in such other manner as may be specified in the related information supplement.

Any amounts on deposit in the reserve fund and the proceeds of any other instrument upon maturity will be held in cash or will be invested in "Permitted Investments" which may include

- (i) obligations of the United States or any agency thereof, provided such obligations are backed by the full faith and credit of the United States;
- (ii) general obligations of or obligations guaranteed by any state of the United States or the District of Columbia receiving the highest long-term debt rating of each nationally recognized statistical rating agency (each a "Rating Agency") specified in the related Information Supplement rating the related series of securities, or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to such securities by each such Rating Agency;
- (iii) commercial paper issued by Countrywide Home Loans, Inc. or any of its affiliates; provided that such commercial paper is rated no lower than the rating specified in the related information supplement;
- (iv) commercial or finance company paper which is then receiving the highest commercial or finance company paper rating of each such Rating Agency, or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to such securities by each such Rating Agency;
- (v) certificates of deposit, demand or time deposits, or bankers' acceptances issued by any depository institution or trust company incorporated under the laws of the United States or of any state thereof and subject to supervision and examination by federal and/or state banking authorities, provided that the commercial paper and/or long term unsecured debt obligations of such depository institution or trust company (or in the case of the principal depository institution in a holding company system, the commercial paper or long-term unsecured debt obligations of such holding company, but only if Moody's Investors Service, Inc. ("Moody's") is not a Rating Agency) are then rated one of the two highest long-term and the highest short-term ratings of each such Rating Agency for such securities, or such lower ratings as will not result in the downgrading or withdrawal of the rating then assigned to such securities by any such Rating Agency;
- (vi) demand or time deposits or certificates of deposit issued by any bank or trust company or savings institution to the extent that such deposits are fully insured by the FDIC;
- (vii) guaranteed reinvestment agreements issued by any bank, insurance company or other corporation containing, at the time of the issuance of such agreements, such terms and conditions as will not result in the downgrading or withdrawal of the rating then assigned to such securities by any such Rating Agency;
- (viii) repurchase obligations with respect to any security described in clauses (i) and (ii) above, in either case entered into with a depository institution or trust company (acting as principal) described in clause (v) above;
- (ix) securities (other than stripped bonds, stripped coupons or instruments sold at a purchase price in excess of 115% of the face amount thereof) bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof which, at the time of such investment, have one of the two highest ratings of each Rating Agency (except if the Rating Agency is Moody's, such rating shall be the highest commercial paper rating of Moody's for any such securities), or such lower rating as will not result in the downgrading or withdrawal of the rating then assigned to such securities by any such Rating Agency, as evidenced by a signed writing delivered by each such Rating Agency;
- (x) interests in any money market fund which at the date of acquisition of the interests in such fund and throughout the time such interests are held in such fund has the highest applicable rating by each such Rating Agency or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to such securities by each such Rating Agency;

- (xi) short term investment funds sponsored by any trust company or national banking association incorporated under the laws of the United States or any state thereof which on the date of acquisition has been rated by each such Rating Agency in their respective highest applicable rating category or such lower rating as will not result in the downgrading or withdrawal of the ratings then assigned to such securities by each such Rating Agency; and
- (xii) such other investments having a specified stated maturity and bearing interest or sold at a discount acceptable to each Rating Agency as will not result in the downgrading or withdrawal of the rating then assigned to such securities by any such Rating Agency, as evidenced by a signed writing delivered by each such Rating Agency; provided that no such instrument shall be a Permitted Investment if such instrument evidences the right to receive interest only payments with respect to the obligations underlying such instrument; and provided, further, that no investment specified in clause (x) or clause (xi) above shall be a Permitted Investment for any pre-funding account or any related Capitalized Interest Account.

If a letter of credit is deposited with the trustee, that letter of credit will be irrevocable and will name the trustee, in its capacity as trustee for the holders of the securities, as beneficiary and will be issued by an entity acceptable to each Rating Agency that rates the securities of the related series. Additional information with respect to such instruments deposited in the reserve funds will be set forth in the related information supplement.

Any amounts so deposited and payments on instruments so deposited will be available for withdrawal from the reserve fund for distribution to the holders of securities of the related series for the purposes, in the manner and at the times specified in the related information supplement.

Pool Insurance Policies

If specified in the related information supplement, a separate pool insurance policy (“Pool Insurance Policy”) will be obtained for the pool and issued by the insurer (the “Pool Insurer”) named in such information supplement. Each Pool Insurance Policy will, subject to the limitations described below, cover loss by reason of default in payment on loans in the pool in an amount equal to a percentage specified in such information supplement of the aggregate principal balance of such loans on the cut-off date which are not covered as to their entire outstanding principal balances by Primary Mortgage Insurance Policies. As more fully described below, the master servicer will present claims thereunder to the Pool Insurer on behalf of itself, the trustee and the holders of the securities of the related series. The Pool Insurance Policies, however, are not blanket policies against loss, since claims thereunder may only be made respecting particular defaulted loans and only upon satisfaction of certain conditions precedent described below. The applicable information supplement may provide for the extent of coverage provided by the related Pool Insurance Policy, but if it does not, the Pool Insurance Policies will not cover losses due to a failure to pay or denial of a claim under a Primary Mortgage Insurance Policy.

The applicable information supplement may provide for the conditions for the presentation of claims under a Pool Insurance Policy, but if it does not, the Pool Insurance Policy will provide that no claims may be validly presented unless (i) any required Primary Mortgage Insurance Policy is in effect for the defaulted loan and a claim thereunder has been submitted and settled; (ii) hazard insurance on the related Property has been kept in force and real estate taxes and other protection and preservation expenses have been paid; (iii) if there has been physical loss or damage to the Property, it has been restored to its physical condition (reasonable wear and tear excepted) at the time of issuance of the policy; and (iv) the insured has acquired good and merchantable title to the Property free and clear of liens except certain permitted encumbrances. Upon satisfaction of these conditions, the Pool Insurer will have the option either (a) to purchase the property securing the defaulted loan at a price equal to the principal balance thereof plus accrued and unpaid interest at the Loan Rate to the date of such purchase and certain expenses incurred by the master servicer on behalf of the trustee and securityholders, or (b) to pay the amount by which the sum of the principal balance of the defaulted loan plus accrued and unpaid interest at the Loan Rate to the date of payment of the claim and the aforementioned expenses exceeds the proceeds received from an approved sale of the Property, in either case net of certain amounts paid or assumed to have been paid under the related Primary Mortgage Insurance Policy. If any Property securing a defaulted loan is damaged and proceeds, if any, from the related hazard insurance policy or the applicable special hazard insurance policy are insufficient to restore the damaged Property to a condition sufficient to

permit recovery under the Pool Insurance Policy, the master servicer will not be required to expend its own funds to restore the damaged Property unless it determines that (i) such restoration will increase the proceeds to securityholders on liquidation of the loan after reimbursement of the master servicer for its expenses and (ii) such expenses will be recoverable by it through proceeds of the sale of the Property or proceeds of the related Pool Insurance Policy or any related Primary Mortgage Insurance Policy.

The applicable information supplement may provide for a Pool Insurance Policy covering losses resulting from defaults, but if it does not, the Pool Insurance Policy will not insure (and many Primary Mortgage Insurance Policies do not insure) against loss sustained by reason of a default arising from, among other things,

- fraud or negligence in the origination or servicing of a loan, including misrepresentation by the borrower, the originator or persons involved in the origination thereof, or
- failure to construct a Property in accordance with plans and specifications.

A failure of coverage attributable to one of the foregoing events might result in a breach of the related seller's representations described above, and, in such events might give rise to an obligation on the part of such seller to repurchase the defaulted loan if the breach cannot be cured by such seller. No Pool Insurance Policy will cover (and many Primary Mortgage Insurance Policies do not cover) a claim in respect of a defaulted loan occurring when the servicer of such loan, at the time of default or thereafter, was not approved by the applicable insurer.

The applicable information supplement may provide for a Pool Insurance Policy featuring a fixed amount of coverage over the life of the policy, but if it does not, the original amount of coverage under each Pool Insurance Policy will be reduced over the life of the related securities by the aggregate dollar amount of claims paid less the aggregate of the net amounts realized by the Pool Insurer upon disposition of all foreclosed properties. The applicable information supplement may provide for the exclusion of specified expenses from the coverage of the Pool Insurance Policy, but if it does not, the amount of claims paid will include certain expenses incurred by the master servicer as well as accrued interest on delinquent loans to the date of payment of the claim. Accordingly, if aggregate net claims paid under any Pool Insurance Policy reach the original policy limit, coverage under that Pool Insurance Policy will be exhausted and any further losses will be borne by the related securityholders.

Cross Support

If specified in the related information supplement, the beneficial ownership of separate groups of assets included in a trust fund may be evidenced by separate classes of the related series of securities. In that case, credit support may be provided by a cross support feature that requires that distributions be made on securities evidencing a beneficial ownership interest in other asset groups within the same trust fund. The related information supplement for a series that includes a cross support feature will describe the manner and conditions for applying the cross support feature.

If specified in the related information supplement, the coverage provided by one or more forms of credit support may apply concurrently to two or more related trust funds. If applicable, the related information supplement will identify the trust funds to which the credit support relates and the manner of determining the amount of the coverage provided by it and of the application of the coverage to the identified trust funds.

Yield and Prepayment Considerations

The yields to maturity and weighted average lives of the securities will be affected primarily by the amount and timing of principal payments received on or in respect of the Trust Fund Assets included in the related trust fund. The original terms to maturity of the loans in a given pool will vary depending upon the type of loans included therein. Each information supplement will contain information with respect to the type and maturities of the loans in the related pool. The related information supplement will specify the circumstances, if any, under which the related loans will be subject to prepayment penalties. The prepayment experience on the loans in a pool will affect the weighted average life of the related series of securities.

The rate of prepayment on the loans cannot be predicted. Home equity loans and home improvement contracts have been originated in significant volume only during the past few years and the depositor is not aware of any publicly available studies or statistics on the rate of prepayment of such loans. Generally, home equity loans and home improvement contracts are not viewed by borrowers as permanent financing. Accordingly, such loans may experience a higher rate of prepayment than traditional first mortgage loans. On the other hand, because home equity loans such as the revolving credit line loans generally are not fully amortizing, the absence of voluntary borrower prepayments could cause rates of principal payments lower than, or similar to, those of traditional fully-amortizing first mortgage loans. The prepayment experience of the related trust fund may be affected by a wide variety of factors, including general economic conditions, prevailing interest rate levels, the availability of alternative financing, homeowner mobility and the frequency and amount of any future draws on any revolving credit line loans. Other factors that might be expected to affect the prepayment rate of a pool of home equity mortgage loans or home improvement contracts include the amounts of, and interest rates on, the underlying senior mortgage loans, and the use of first mortgage loans as long-term financing for home purchase and subordinate mortgage loans as shorter-term financing for a variety of purposes, including home improvement, education expenses and purchases of consumer durables such as automobiles. Accordingly, such loans may experience a higher rate of prepayment than traditional fixed-rate mortgage loans. In addition, any future limitations on the right of borrowers to deduct interest payments on home equity loans for federal income tax purposes may further increase the rate of prepayments of the loans. The enforcement of a “due-on-sale” provision (as described below) will have the same effect as a prepayment of the related loan. See “Certain Legal Aspects of the Loans—Due-on-Sale Clauses”. The yield to an investor who purchases securities in the secondary market at a price other than par will vary from the anticipated yield if the rate of prepayment on the loans is actually different than the rate anticipated by such investor at the time such securities were purchased.

Collections on revolving credit line loans may vary because, among other things, borrowers may (i) make payments during any month as low as the minimum monthly payment for such month or, during the interest-only period for certain revolving credit line loans and, in more limited circumstances, closed-end loans, with respect to which an interest-only payment option has been selected, the interest and the fees and charges for such month or (ii) make payments as high as the entire outstanding principal balance plus accrued interest and the fees and charges thereon. It is possible that borrowers may fail to make the required periodic payments. In addition, collections on the loans may vary due to seasonal purchasing and the payment habits of borrowers.

Generally, all conventional loans will contain due-on-sale provisions permitting the mortgagee to accelerate the maturity of the loan upon sale or certain transfers by the borrower of the related Property. Loans insured by the FHA, and single family loans partially guaranteed by the VA, are assumable with the consent of the FHA and the VA, respectively. Thus, the rate of prepayments on such loans may be lower than that of conventional loans bearing comparable interest rates. The master servicer generally will enforce any due-on-sale or due-on-encumbrance clause, to the extent it has knowledge of the conveyance or further encumbrance or the proposed conveyance or proposed further encumbrance of the Property and reasonably believes that it is entitled to do so under applicable law; provided, however, that the master servicer will not take any enforcement action that would impair or threaten to impair any recovery under any related insurance policy. See “The Agreements—Collection Procedures” and “Certain Legal Aspects of the Loans” for a description of certain provisions of each Agreement and certain legal developments that may affect the prepayment experience on the loans.

The rate of prepayments with respect to conventional mortgage loans has fluctuated significantly in recent years. In general, if prevailing rates fall significantly below the Loan Rates borne by the loans, such loans are more likely to be subject to higher prepayment rates than if prevailing interest rates remain at or above such Loan Rates. Conversely, if prevailing interest rates rise appreciably above the Loan Rates borne by the loans,

such loans are more likely to experience a lower prepayment rate than if prevailing rates remain at or below such Loan Rates. However, there can be no assurance that such will be the case.

When a full prepayment is made on a loan, the borrower is charged interest on the principal amount of the loan so prepaid only for the number of days in the month actually elapsed up to the date of the prepayment, rather than for a full month. The effect of prepayments in full will be to reduce the amount of interest passed through or paid in the following month to holders of securities because interest on the principal amount of any loan so prepaid will generally be paid only to the date of prepayment. Partial prepayments in a given month may be applied to the outstanding principal balances of the loans so prepaid on the first day of the month of receipt or the month following receipt. In the latter case, partial prepayments will not reduce the amount of interest passed through or paid in such month. The applicable information supplement may specify when prepayments are passed through to securityholders, but if it does not, neither full nor partial prepayments will be passed through or paid until the month following receipt.

Even assuming that the Properties provide adequate security for the loans, substantial delays could be encountered in connection with the liquidation of defaulted loans and corresponding delays in the receipt of related proceeds by securityholders could occur. An action to foreclose on a Property securing a loan is regulated by state statutes and rules and is subject to many of the delays and expenses of other lawsuits if defenses or counterclaims are interposed, sometimes requiring several years to complete. Furthermore, in some states an action to obtain a deficiency judgment is not permitted following a nonjudicial sale of a property. In the event of a default by a borrower, these restrictions among other things, may impede the ability of the master servicer to foreclose on or sell the Property or to obtain liquidation proceeds sufficient to repay all amounts due on the related loan. In addition, the master servicer will be entitled to deduct from related liquidation proceeds all expenses reasonably incurred in attempting to recover amounts due on defaulted loans and not yet repaid, including payments to senior lienholders, legal fees and costs of legal action, real estate taxes and maintenance and preservation expenses.

Liquidation expenses with respect to defaulted mortgage loans generally do not vary directly with the outstanding principal balance of the loan at the time of default. Therefore, assuming that a servicer took the same steps in realizing upon a defaulted mortgage loan having a small remaining principal balance as it would in the case of a defaulted mortgage loan having a large remaining principal balance, the amount realized after expenses of liquidation would be smaller as a percentage of the remaining principal balance of the small mortgage loan than would be the case with the other defaulted mortgage loan having a large remaining principal balance.

Applicable state laws generally regulate interest rates and other charges, require certain disclosures, and require licensing of certain originators and servicers of loans. In addition, most have other laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and practices which may apply to the origination, servicing and collection of the loans. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the master servicer to collect all or part of the principal of or interest on the loans, may entitle the borrower to a refund of amounts previously paid and, in addition, could subject the master servicer to damages and administrative sanctions.

If the rate at which interest is passed through or paid to the holders of securities of a series is calculated on a loan-by-loan basis, disproportionate principal prepayments among loans with different Loan Rates will affect the yield on such securities. In most cases, the effective yield to securityholders will be lower than the yield otherwise produced by the applicable Pass-Through Rate or interest rate and purchase price, because while interest will generally accrue on each loan from the first day of the month, the distribution of such interest will not be made earlier than the month following the month of accrual.

Under certain circumstances, the master servicer, the holders of the residual interests in a REMIC or any person specified in the related information supplement may have the option to purchase the assets of a trust fund thereby effecting earlier retirement of the related series of securities. See “The Agreements—Termination; Optional Termination”.

The relative contribution of the various factors affecting prepayment may vary from time to time. There can be no assurance as to the rate of payment of principal of the Trust Fund Assets at any time or over the lives of the securities.

The information supplement relating to a series of securities will discuss in greater detail the effect of the rate and timing of principal payments (including prepayments), delinquencies and losses on the yield, weighted average lives and maturities of such securities.

The Agreements

Set forth below is a description of the material provisions of each Agreement which are not described elsewhere in this information circular. The description is subject to, and qualified in its entirety by reference to, the provisions of each Agreement. Where particular provisions or terms used in the Agreements are referred to, such provisions or terms are as specified in the Agreements.

Assignment of the Trust Fund Assets

Assignment of the Loans. At the time of issuance of the securities of a series, the depositor will cause the loans comprising the related trust fund to be assigned to the trustee, without recourse, together with all principal and interest received by or on behalf of the depositor on or with respect to such loans after the cut-off date, other than principal and interest due on or before the cut-off date and other than any Retained Interest specified in the related information supplement. The trustee will, concurrently with such assignment, deliver such securities to the depositor in exchange for the loans. Each loan will be identified in a schedule appearing as an exhibit to the related Agreement. Such schedule will include information as to the outstanding principal balance of each loan after application of payments due on or before the cut-off date, as well as information regarding the Loan Rate or APR, the maturity of the loan, the Loan-to-Value Ratios or Combined Loan-to-Value Ratios, as applicable, at origination and certain other information.

In addition, the depositor will also deliver or cause to be delivered to the trustee (or to the custodian) for each single family loan, multifamily loan or home equity loan,

- the mortgage note or contract endorsed without recourse in blank or to the order of the trustee,
- the mortgage, deed of trust or similar instrument (a "Mortgage") with evidence of recording indicated thereon (except for any Mortgage not returned from the public recording office, in which case the depositor will deliver or cause to be delivered a copy of such Mortgage together with a certificate that the original of such Mortgage was delivered to such recording office),
- an assignment of the Mortgage to the trustee, which assignment will be in recordable form in the case of a Mortgage assignment, and
- any other security documents, including those relating to any senior interests in the Property, as may be specified in the related information supplement or the related Agreement.

The applicable information supplement may provide other arrangements for assuring the priority of assignments, but if it does not, the depositor will promptly cause the assignments of the related loans to be recorded in the appropriate public office for real property records, except in states in which, in the opinion of counsel acceptable to the trustee, such recording is not required to protect the trustee's interest in such loans against the claim of any subsequent transferee or any successor to or creditor of the depositor or the originator of such loans.

With respect to any loans that are cooperative loans, the depositor will cause to be delivered to the trustee the related original cooperative note endorsed without recourse in blank or to the order of the trustee, the original security agreement, the proprietary lease or occupancy agreement, the recognition agreement, an executed financing agreement and the relevant stock certificate, related blank stock powers and any other document specified in the related information supplement. The depositor will cause to be filed in the appropriate office an assignment and a financing statement evidencing the trustee's security interest in each cooperative loan.

The applicable information supplement may provide for the depositor's delivery obligations in connection with home improvement contracts, but if it does not, the depositor will as to each home improvement contract, deliver or cause to be delivered to the trustee the original home improvement contract and copies of documents and instruments related to each home improvement contract and, other than in the case of unsecured home improvement contracts, the security interest in the Property securing such home improvement contract. In order to give notice of the right, title and interest of securityholders to the home improvement contracts, the depositor will cause a UCC-1 financing statement to be executed by the depositor or the seller identifying the trustee as the secured party and identifying all home improvement contracts as collateral. In general, it is expected that the

home improvement contracts will not be stamped or otherwise marked to reflect their assignment to the trustee. Therefore, if, through negligence, fraud or otherwise, a subsequent purchaser were able to take physical possession of the home improvement contracts without notice of such assignment, the interest of securityholders in the home improvement contracts could be defeated. See “Certain Legal Aspects of the Loans—The Home Improvement Contracts.”

The trustee (or the custodian) will review such loan documents within the time period specified in the related information supplement after receipt thereof, and the trustee will hold such documents in trust for the benefit of the related securityholders. Generally, if the document is found to be missing or defective in any material respect, the trustee (or the custodian) will notify the master servicer and the depositor, and the master servicer will notify the related seller. If the seller cannot cure the omission or defect within the time period specified in the related information supplement after receipt of such notice, the seller will be obligated to either purchase the related loan from the trust fund at the Purchase Price or if so specified in the related information supplement, remove such loan from the trust fund and substitute in its place one or more other loans that meets certain requirements set forth therein. There can be no assurance that a seller will fulfill this purchase or substitution obligation. Although the master servicer may be obligated to enforce such obligation to the extent described above under “Loan Program—Representations by Sellers; Repurchases,” neither the master servicer nor the depositor will be obligated to purchase or replace such loan if the seller defaults on its obligation, unless such breach also constitutes a breach of the representations or warranties of the master servicer or the depositor, as the case may be. The applicable information supplement may provide other remedies, but if it does not, this obligation to cure, purchase or substitute constitutes the sole remedy available to the securityholders or the trustee for omission of, or a material defect in, a constituent document.

The trustee will be authorized to appoint a custodian pursuant to a custodial agreement to maintain possession of and, if applicable, to review the documents relating to the loans as agent of the trustee.

The master servicer will make certain representations and warranties regarding its authority to enter into, and its ability to perform its obligations under, the Agreement. Upon a breach of any such representation of the master servicer which materially and adversely affects the interests of the securityholders in a loan, the master servicer will be obligated either to cure the breach in all material respects or to purchase (at the Purchase Price) or if so specified in the related information supplement, replace the loan. The applicable information supplement may provide other remedies, but if it does not, this obligation to cure, purchase or substitute constitutes the sole remedy available to the securityholders or the trustee for such a breach of representation by the master servicer.

Notwithstanding the foregoing provisions, with respect to a trust fund for which a REMIC election is to be made, no purchase or substitution of a loan will be made if such purchase or substitution would result in a prohibited transaction tax under the Code.

Payments on Loans; Deposits to Security Account

The master servicer will establish and maintain or cause to be established and maintained with respect to the related trust fund a separate account or accounts for the collection of payments on the related Trust Fund Assets in the trust fund (the “Security Account”). The applicable information supplement may provide for other requirements for the Security Account, but if it does not, the Security Account must be either (i) maintained with a depository institution the debt obligations of which (or in the case of a depository institution that is the principal subsidiary of a holding company, the obligations of which) are rated in one of the two highest rating categories by the Rating Agency or Rating Agencies that rated one or more classes of the related series of securities, (ii) an account or accounts the deposits in which are fully insured by either the Bank Insurance Fund (the “BIF”) of the FDIC or the Savings Association Insurance Fund (as successor to the Federal Savings and Loan Insurance Corporation (“SAIF”)), (iii) an account or accounts the deposits in which are insured by the BIF or SAIF (to the limits established by the FDIC), and the uninsured deposits in which are otherwise secured such that, as evidenced by an opinion of counsel, the securityholders have a claim with respect to the funds in the security account or a perfected first priority security interest against any collateral securing such funds that is superior to the claims of any other depositors or general creditors of the depository institution with which the Security Account is maintained, or (iv) an account or accounts otherwise acceptable to each Rating Agency. The collateral eligible to secure amounts in the Security Account is limited to Permitted Investments. A Security Account may be maintained as an interest bearing account or the funds held therein may be invested pending each succeeding distribution date in Permitted Investments. To the extent provided in the related information

supplement, the master servicer or its designee will be entitled to receive any such interest or other income earned on funds in the Security Account as additional compensation and will be obligated to deposit in the Security Account the amount of any loss immediately as realized. The Security Account may be maintained with the master servicer or with a depository institution that is an affiliate of the master servicer, provided it meets the standards set forth above.

The master servicer will deposit or cause to be deposited in the Security Account for each trust fund, to the extent applicable and unless otherwise specified in the Agreement, the following payments and collections received or advances made by or on behalf of it subsequent to the cut-off date (other than payments due on or before the cut-off date and exclusive of any amounts representing Retained Interest):

- all payments on account of principal, including Principal Prepayments and, if specified in the related information supplement, any applicable prepayment penalties, on the loans;
- all payments on account of interest on the loans, net of applicable servicing compensation;
- all proceeds (net of unreimbursed payments of property taxes, insurance premiums and similar items (“Insured Expenses”) incurred, and unreimbursed advances made, by the master servicer, if any) of the hazard insurance policies and any Primary Mortgage Insurance Policies, to the extent such proceeds are not applied to the restoration of the property or released to the Mortgagor in accordance with the master servicer’s normal servicing procedures (collectively, “Insurance Proceeds”) and all other cash amounts (net of unreimbursed expenses incurred in connection with liquidation or foreclosure (“Liquidation Expenses”) and unreimbursed advances made, by the master servicer, if any) received and retained in connection with the liquidation of defaulted loans, by foreclosure or otherwise (“Liquidation Proceeds”), together with any net proceeds received on a monthly basis with respect to any properties acquired on behalf of the securityholders by foreclosure or deed in lieu of foreclosure;
- all proceeds of any loan or property in respect thereof purchased by the master servicer, the depositor or any seller as described under “Loan Program—Representations by Sellers; Repurchases” or “—Assignment of Trust Fund Assets” above and all proceeds of any loan repurchased as described under “—Termination; Optional Termination” below;
- all payments required to be deposited in the Security Account with respect to any deductible clause in any blanket insurance policy described under “—Hazard Insurance” below;
- any amount required to be deposited by the master servicer in connection with losses realized on investments for the benefit of the master servicer of funds held in the Security Account and, to the extent specified in the related information supplement, any payments required to be made by the master servicer in connection with prepayment interest shortfalls; and
- all other amounts required to be deposited in the Security Account pursuant to the Agreement.

The master servicer (or the depositor, as applicable) may from time to time direct the institution that maintains the Security Account to withdraw funds from the Security Account for the following purposes:

- to pay to the master servicer the servicing fees described in the related information supplement, the master servicing fees (subject to reduction) and, as additional servicing compensation, earnings on or investment income with respect to funds in the amounts in the Security Account credited thereto;
- to reimburse the master servicer for advances, such right of reimbursement with respect to any loan being limited to amounts received that represent late recoveries of payments of principal and/or interest on such loan (or Insurance Proceeds or Liquidation Proceeds with respect thereto) with respect to which such advance was made;
- to reimburse the master servicer for any advances previously made which the master servicer has determined to be nonrecoverable;
- to reimburse the master servicer from Insurance Proceeds for expenses incurred by the master servicer and covered by the related insurance policies;
- to reimburse the master servicer for unpaid master servicing fees and unreimbursed out-of-pocket costs and expenses incurred by the master servicer in the performance of its servicing obligations, such right of reimbursement being limited to amounts received representing late recoveries of the payments for which such advances were made;

- to pay to the master servicer, with respect to each loan or property acquired in respect thereof that has been purchased by the master servicer pursuant to the Agreement, all amounts received thereon and not taken into account in determining the principal balance of such repurchased loan;
- to reimburse the master servicer or the depositor for expenses incurred and reimbursable pursuant to the Agreement;
- to withdraw any amount deposited in the Security Account and not required to be deposited therein; and
- to clear and terminate the Security Account upon termination of the Agreement.

In addition, the Agreement will generally provide that, on or prior to the business day immediately preceding each distribution date, the master servicer shall withdraw from the Security Account the amount of Available Funds, to the extent on deposit, for deposit in an account maintained by the trustee for the related series of securities.

Pre-Funding Account

If so provided in the related information supplement, the master servicer will establish and maintain an account (the “Pre-Funding Account”), in the name of the related trustee on behalf of the related securityholders, into which the depositor will deposit cash in an amount specified in the information supplement (the “Pre-Funded Amount”) on the related Closing Date. The Pre-Funding Account will be maintained with the trustee for the related series of securities and is designed solely to hold funds to be applied by such trustee during the period from the closing date to a date not more than a year after such closing date (the “Funding Period”) to pay to the depositor the purchase price for loans purchased during such Funding Period (the “Subsequent Loans”). Monies on deposit in the Pre-Funding Account will not be available to cover losses on or in respect of the related loans. The Pre-Funded Amount will not exceed 25% of the initial aggregate principal amount of the certificates and notes of the related series. The Pre-Funded Amount will be used by the related trustee to purchase Subsequent Loans from the depositor from time to time during the Funding Period. The Funding Period, if any, for a trust fund will begin on the related Closing Date and will end on the date specified in the related information supplement, which in no event will be later than the date that is one year after the related Closing Date. Monies on deposit in the Pre-Funding Account may be invested in Permitted Investments under the circumstances and in the manner described in the related Agreement. Earnings on investment of funds in the Pre-Funding Account will be deposited into the related Security Account or such other trust account as is specified in the related information supplement and losses will be charged against the funds on deposit in the Pre-Funding Account. Any amounts remaining in the Pre-Funding Account at the end of the Funding Period will be distributed to the related securityholders in the manner and priority specified in the related information supplement, as a prepayment of principal of the related securities.

In addition, if so provided in the related information supplement, on the related Closing Date the depositor will deposit in an account (the “Capitalized Interest Account”) cash in such amount as is necessary to cover shortfalls in interest on the related series of securities that may arise as a result of utilization of the Pre-Funding Account as described above. The Capitalized Interest Account shall be maintained with the trustee for the related series of securities and is designed solely to cover the above-mentioned interest shortfalls. Monies on deposit in the Capitalized Interest Account will not be available to cover losses on or in respect of the related loans. To the extent that the entire amount on deposit in the Capitalized Interest Account has not been applied to cover shortfalls in interest on the related series of securities by the end of the Funding Period, any amounts remaining in the Capitalized Interest Account will be paid to the depositor.

Sub-Servicing by Sellers

Each seller of a loan or any other servicing entity may act as the sub-servicer for such loan pursuant to a sub-servicing agreement, which will not contain any terms inconsistent with the related Agreement. While each sub-servicing agreement will be a contract solely between the master servicer and the sub-servicer, the Agreement pursuant to which a series of securities is issued will provide that, if for any reason the master servicer for such series of securities is no longer the master servicer of the related loans, the trustee or any successor master servicer must recognize the sub-servicer’s rights and obligations under such sub-servicing agreement. Notwithstanding any such subservicing arrangement, unless otherwise provided in the related

information supplement, the master servicer will remain liable for its servicing duties and obligations under the Master Servicing Agreement as if the master servicer alone were servicing the loans.

Collection Procedures

The master servicer, directly or through one or more sub-servicers, will make reasonable efforts to collect all payments called for under the loans and will, consistent with each Agreement and any Pool Insurance Policy, Primary Mortgage Insurance Policy, FHA Insurance, VA Guaranty, bankruptcy bond or alternative arrangements, follow such collection procedures as are customary with respect to loans that are comparable to the loans. Consistent with the above, the master servicer may, in its discretion, waive any assumption fee, late payment or other charge in connection with a loan and to the extent not inconsistent with the coverage of such loan by a Pool Insurance Policy, Primary Mortgage Insurance Policy, FHA Insurance, VA Guaranty, bankruptcy bond or alternative arrangements, if applicable, arrange with a borrower a schedule for the liquidation of delinquencies running for no more than 125 days after the applicable due date for each payment. To the extent the master servicer is obligated to make or cause to be made advances, such obligation will remain during any period of such an arrangement.

In any case in which property securing a loan has been, or is about to be, conveyed by the mortgagor or obligor, the master servicer will, to the extent it has knowledge of such conveyance or proposed conveyance, exercise or cause to be exercised its rights to accelerate the maturity of such loan under any due-on-sale clause applicable thereto, but only if the exercise of such rights is permitted by applicable law and will not impair or threaten to impair any recovery under any Primary Mortgage Insurance Policy. If these conditions are not met or if the master servicer reasonably believes it is unable under applicable law to enforce such due-on-sale clause or if such loan is a mortgage loan insured by the FHA or partially guaranteed by the VA, the master servicer will enter into or cause to be entered into an assumption and modification agreement with the person to whom such property has been or is about to be conveyed, pursuant to which such person becomes liable for repayment of the loan and, to the extent permitted by applicable law, the mortgagor remains liable thereon. Any fee collected by or on behalf of the master servicer for entering into an assumption agreement will be retained by or on behalf of the master servicer as additional servicing compensation. See “Certain Legal Aspects of the Loans—Due-on-Sale Clauses”. In connection with any such assumption, the terms of the related loan may not be changed.

With respect to cooperative loans, any prospective purchaser will generally have to obtain the approval of the board of directors of the relevant cooperative before purchasing the shares and acquiring rights under the related proprietary lease or occupancy agreement. See “Certain Legal Aspects of the Loans”. This approval is usually based on the purchaser’s income and net worth and numerous other factors. Although the cooperative’s approval is unlikely to be unreasonably withheld or delayed, the necessity of acquiring such approval could limit the number of potential purchasers for those shares and otherwise limit the trust fund’s ability to sell and realize the value of those shares.

In general a “tenant-stockholder” (as defined in Code Section 216(b)(2) of a corporation that qualifies as a “cooperative housing corporation” within the meaning of Code Section 216(b)(1) is allowed a deduction for amounts paid or accrued within his taxable year to the corporation representing his proportionate share of certain interest expenses and certain real estate taxes allowable as a deduction under Code Section 216(a) to the corporation under Code Sections 163 and 164. In order for a corporation to qualify under Code Section 216(b)(1) for its taxable year in which such items are allowable as a deduction to the corporation, such Section requires, among other things, that at least 80% of the gross income of the corporation be derived from its tenant-stockholders (as defined in Code Section 216(b)(2)). By virtue of this requirement, the status of a corporation for purposes of Code Section 216(b)(1) must be determined on a year-to-year basis. Consequently, there can be no assurance that cooperatives relating to the cooperative loans will qualify under such Section for any particular year. In the event that such a cooperative fails to qualify for one or more years, the value of the collateral securing any related cooperative loans could be significantly impaired because no deduction would be allowable to tenant-stockholders under Code Section 216(a) with respect to those years. In view of the significance of the tax benefits accorded tenant-stockholders of a corporation that qualifies under Code Section 216(b)(1), the likelihood that such a failure would be permitted to continue over a period of years appears remote.

Hazard Insurance

In general, the master servicer will require the mortgagor or obligor on each loan to maintain a hazard insurance policy providing for no less than the coverage of the standard form of fire insurance policy with extended coverage customary for the type of Property in the state in which such Property is located. Such coverage will be in an amount that is at least equal to the lesser of

- the maximum insurable value of the improvements securing such loan or
- the greater of
 - (1) the outstanding principal balance of the loan and
 - (2) an amount such that the proceeds of such policy shall be sufficient to prevent the mortgagor and/or the mortgagee from becoming a co-insurer.

All amounts collected by the master servicer under any hazard policy (except for amounts to be applied to the restoration or repair of the Property or released to the mortgagor or obligor in accordance with the master servicer's normal servicing procedures) will be deposited in the related Security Account. In the event that the master servicer maintains a blanket policy insuring against hazard losses on all the loans comprising part of a trust fund, it will conclusively be deemed to have satisfied its obligation relating to the maintenance of hazard insurance. Such blanket policy may contain a deductible clause, in which case the master servicer will be required to deposit from its own funds into the related Security Account the amounts which would have been deposited therein but for such clause.

In general, the standard form of fire and extended coverage policy covers physical damage to or destruction of the improvements securing a loan by fire, lightning, explosion, smoke, windstorm and hail, riot, strike and civil commotion, subject to the conditions and exclusions particularized in each policy. Although the policies relating to the loans may have been underwritten by different insurers under different state laws in accordance with different applicable forms and therefore may not contain identical terms and conditions, the basic terms thereof are dictated by respective state laws, and most such policies typically do not cover any physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement (including earthquakes, landslides and mud flows), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in certain cases, vandalism and hurricanes. The foregoing list is merely indicative of certain kinds of uninsured risks and is not intended to be all inclusive. If the Property securing a loan is located in a federally designated special flood area at the time of origination, the master servicer will require the mortgagor or obligor to obtain and maintain flood insurance.

The hazard insurance policies covering properties securing the loans typically contain a clause which in effect requires the insured at all time to carry insurance of a specified percentage of a specified percentage (generally 80% to 90%) of the full replacement value of the insured property in order to recover the full amount of any partial loss. If the insured's coverage falls below this specified percentage, then the insurer's liability in the event of partial loss will not exceed the larger of

- the actual cash value (generally defined as replacement cost at the time and place of loss, less physical depreciation) of the improvements damaged or destroyed or
- such proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of such improvements.

Since the amount of hazard insurance the master servicer may cause to be maintained on the improvements securing the loans declines as the principal balances owing thereon decrease, and since improved real estate generally has appreciated in value over time in the past, the effect of this requirement in the event of partial loss may be that hazard insurance proceeds will be insufficient to restore fully the damaged property. If specified in the related information supplement, a special hazard insurance policy will be obtained to insure against certain of the uninsured risks described above. See "Credit Enhancement".

The master servicer will not require that a standard hazard or flood insurance policy be maintained on the cooperative dwelling relating to any cooperative loan. Generally, the cooperative itself is responsible for maintenance of hazard insurance for the property owned by the cooperative and the tenant-stockholders of that cooperative do not maintain individual hazard insurance policies. To the extent, however, that a cooperative and the related borrower on a cooperative loan do not maintain such insurance or do not maintain adequate coverage or any insurance proceeds are not applied to the restoration of damaged property, any damage to such borrower's

cooperative dwelling or such cooperative's building could significantly reduce the value of the collateral securing such cooperative loan to the extent not covered by other credit support.

If the Property securing a defaulted loan is damaged and proceeds, if any, from the related hazard insurance policy are insufficient to restore the damaged Property, the master servicer is not required to expend its own funds to restore the damaged Property unless it determines (i) that such restoration will increase the proceeds to securityholders on liquidation of the loan after reimbursement of the master servicer for its expenses and (ii) that such expenses will be recoverable by it from related Insurance Proceeds or Liquidation Proceeds.

If recovery on a defaulted loan under any related Insurance Policy is not available for the reasons set forth in the preceding paragraph, or if the defaulted loan is not covered by an Insurance Policy, the master servicer will be obligated to follow or cause to be followed such normal practices and procedures as it deems necessary or advisable to realize upon the defaulted loan. If the proceeds of any liquidation of the Property securing the defaulted loan are less than the principal balance of such loan plus interest accrued thereon that is payable to securityholders, the trust fund will realize a loss in the amount of such difference plus the aggregate of expenses incurred by the master servicer in connection with such proceedings and which are reimbursable under the Agreement. In the unlikely event that any such proceedings result in a total recovery which is, after reimbursement to the master servicer of its expenses, in excess of the principal balance of such loan plus interest accrued thereon that is payable to securityholders, the master servicer will be entitled to withdraw or retain from the Security Account amounts representing its normal servicing compensation with respect to such loan and amounts representing the balance of such excess, exclusive of any amount required by law to be forwarded to the related borrower, as additional servicing compensation.

If the master servicer or its designee recovers Insurance Proceeds which, when added to any related Liquidation Proceeds and after deduction of certain expenses reimbursable to the master servicer, exceed the principal balance of such loan plus interest accrued thereon that is payable to securityholders, the master servicer will be entitled to withdraw or retain from the Security Account amounts representing its normal servicing compensation with respect to such loan. In the event that the master servicer has expended its own funds to restore the damaged Property and such funds have not been reimbursed under the related hazard insurance policy, it will be entitled to withdraw from the Security Account out of related Liquidation Proceeds or Insurance Proceeds an amount equal to such expenses incurred by it, in which event the trust fund may realize a loss up to the amount so charged. Since Insurance Proceeds cannot exceed deficiency claims and certain expenses incurred by the master servicer, no such payment or recovery will result in a recovery to the trust fund which exceeds the principal balance of the defaulted loan together with accrued interest thereon. See "Credit Enhancement".

The proceeds from any liquidation of a loan will be applied in the following order of priority: first, to reimburse the master servicer for any unreimbursed expenses incurred by it to restore the related Property and any unreimbursed servicing compensation payable to the master servicer with respect to such loan; second, to reimburse the master servicer for any unreimbursed advances with respect to such loan; third, to accrued and unpaid interest (to the extent no advance has been made for such amount) on such loan; and fourth, as a recovery of principal of such loan.

Realization Upon Defaulted Loans

Primary Mortgage Insurance Policies. If so specified in the related information supplement, the master servicer will maintain or cause to be maintained, as the case may be, in full force and effect, a Primary Mortgage Insurance Policy with regard to each loan for which such coverage is required. Primary Mortgage Insurance Policies reimburse certain losses sustained by reason of defaults in payments by borrowers. The master servicer will not cancel or refuse to renew any such Primary Mortgage Insurance Policy in effect at the time of the initial issuance of a series of securities that is required to be kept in force under the applicable Agreement unless the replacement Primary Mortgage Insurance Policy for such cancelled or nonrenewed policy is maintained with an insurer whose claims-paying ability is sufficient to maintain the current rating of the classes of securities of such series that have been rated.

FHA Insurance; VA Guaranties. Loans designated in the related information supplement as insured by the FHA will be insured by the FHA as authorized under the United States Housing Act of 1937, as amended. In addition to the Title I Program of the FHA, see "Certain Legal Aspects of the Loans—Title I Program", certain

loans will be insured under various FHA programs including the standard FHA 203(b) program to finance the acquisition of one- to four-family housing units and the FHA 245 graduated payment mortgage program. These programs generally limit the principal amount and interest rates of the mortgage loans insured. Loans insured by FHA generally require a minimum down payment of approximately 5% of the original principal amount of the loan. No FHA-insured loans relating to a series may have an interest rate or original principal amount exceeding the applicable FHA limits at the time of origination of such loan.

Loans designated in the related information supplement as guaranteed by the VA will be partially guaranteed by the VA under the Serviceman's Readjustment Act of 1944, as amended (a "VA Guaranty"). The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the spouse of a veteran) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one- to four-family dwelling unit at interest rates permitted by the VA. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guaranty of mortgage loans of up to 30 years' duration. However, no loan guaranteed by the VA will have an original principal amount greater than five times the partial VA guaranty for such loan. The maximum guaranty that may be issued by the VA under a VA guaranteed mortgage loan depends upon the original principal amount of the mortgage loan, as further described in 38 United States Code Section 1803(a), as amended.

Servicing and Other Compensation and Payment of Expenses

The principal servicing compensation to be paid to the master servicer in respect of its master servicing activities for each series of securities will be equal to the percentage per annum described in the related information supplement (which may vary under certain circumstances) of the outstanding principal balance of each loan, and such compensation will be retained by it from collections of interest on such loan in the related trust fund (the "Master Servicing Fee"). As compensation for its servicing duties, a sub-servicer or, if there is no sub-servicer, the master servicer will be entitled to a monthly servicing fee as described in the related information supplement. In addition, generally, the master servicer or sub-servicer will retain all prepayment charges, assumption fees and late payment charges, to the extent collected from borrowers, and any benefit that may accrue as a result of the investment of funds in the applicable Security Account.

The master servicer will pay or cause to be paid certain ongoing expenses associated with each trust fund and incurred by it in connection with its responsibilities under the related Agreement, including, without limitation, payment of any fee or other amount payable in respect of any credit enhancement arrangements, payment of the fees and disbursements of the trustee, any custodian appointed by the trustee, the certificate registrar and any paying agent, and payment of expenses incurred in enforcing the obligations of sub-servicers and sellers. The master servicer will be entitled to reimbursement of expenses incurred in enforcing the obligations of sub-servicers and sellers under certain limited circumstances.

Evidence as to Compliance

Each Agreement will provide that on or before a specified date in each year, a firm of independent public accountants will furnish a statement to the trustee to the effect that, on the basis of the examination by such firm conducted substantially in compliance with the Uniform Single Attestation Program for Mortgage Bankers or the Audit Program for Mortgages serviced for FHLMC, the servicing by or on behalf of the master servicer of mortgage loans or private asset backed securities, or under pooling and servicing agreements substantially similar to each other (including the related Agreement) was conducted in compliance with such agreements except for any significant exceptions or errors in records that, in the opinion of the firm, the Audit Program for Mortgages serviced for FHLMC, or the Uniform Single Attestation Program for Mortgage Bankers, it is required to report. In rendering its statement such firm may rely, as to matters relating to the direct servicing of loans by sub-servicers, upon comparable statements for examinations conducted substantially in compliance with the Uniform Single Attestation Program for Mortgage Bankers or the Audit Program for Mortgages serviced for FHLMC (rendered within one year of such statement) of firms of independent public accountants with respect to the related sub-servicer.

Each Agreement will also provide for delivery to the trustee, on or before a specified date in each year, of an annual statement signed by two officers of the master servicer to the effect that the master servicer has fulfilled its obligations under the Agreement throughout the preceding year.

Copies of the annual accountants' statement and the statement of officers of the master servicer may be obtained by securityholders of the related series without charge upon written request to the master servicer at the address set forth in the related information supplement.

Certain Matters Regarding the Master Servicer and the Depositor

The master servicer under each Pooling and Servicing Agreement or Master Servicing Agreement, as applicable, will be named in the related information supplement. The entity serving as master servicer may have normal business relationships with the depositor or the depositor's affiliates.

Each Agreement will provide that the master servicer may not resign from its obligations and duties under the Agreement except upon a determination that its duties thereunder are no longer permissible under applicable law. The master servicer may, however, be removed from its obligations and duties as set forth in the Agreement. No such resignation will become effective until the trustee or a successor servicer has assumed the master servicer's obligations and duties under the Agreement.

Each Agreement will further provide that neither the master servicer, the depositor nor any director, officer, employee, or agent of the master servicer or the depositor will be under any liability to the related trust fund or securityholders for any action taken or for refraining from the taking of any action in good faith pursuant to the Agreement, or for errors in judgment; provided, however, that neither the master servicer, the depositor nor any such person will be protected against any liability which would otherwise be imposed by reason of wilful misfeasance, bad faith or gross negligence in the performance of duties thereunder or by reason of reckless disregard of obligations and duties thereunder. Each Agreement will further provide that the master servicer, the depositor and any director, officer, employee or agent of the master servicer or the depositor will be entitled to indemnification by the related trust fund and will be held harmless against any loss, liability or expense incurred in connection with any legal action relating to the Agreement or the securities, other than any loss, liability or expense related to any specific loan or loans (except any such loss, liability or expense otherwise reimbursable pursuant to the Agreement) and any loss, liability or expense incurred by reason of willful misfeasance, bad faith or gross negligence in the performance of duties thereunder or by reason of reckless disregard of obligations and duties thereunder. In addition, each Agreement will provide that neither the master servicer nor the depositor will be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its respective responsibilities under the Agreement and which in its opinion may involve it in any expense or liability. The master servicer or the depositor may, however, in its discretion undertake any such action which it may deem necessary or desirable with respect to the Agreement and the rights and duties of the parties thereto and the interests of the securityholders thereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs and liabilities of the trust fund and the master servicer or the depositor, as the case may be, will be entitled to be reimbursed therefor out of funds otherwise distributable to securityholders.

In general, any person into which the master servicer may be merged or consolidated, or any person resulting from any merger or consolidation to which the master servicer is a party, or any person succeeding to the business of the master servicer, will be the successor of the master servicer under each Agreement, provided that

- that person is qualified to sell mortgage loans to, and service mortgage loans on behalf of, Fannie Mae or Freddie Mac and
- the related merger, consolidation or succession does not adversely affect the then current rating or ratings of the class or classes of securities of the related series that have been rated.

Events of Default; Rights Upon Event of Default

Pooling and Servicing Agreement; Master Servicing Agreement. The applicable information supplement may provide for other Events of Default under any Pooling and Servicing Agreement or Master Servicing Agreement, but if it does not, the Events of Default will consist of

- any failure by the master servicer to distribute or cause to be distributed to securityholders of any class any required payment (other than an advance) which continues unremedied for five days after the giving of written notice of such failure to the master servicer by the trustee or the depositor, or to the master

servicer, the depositor and the trustee by the holders of securities of such class evidencing not less than 25% of the total distributions allocated to such class (“percentage interests”);

- any failure by the master servicer to make an advance as required under the Agreement, unless cured as specified therein;
- any failure by the master servicer duly to observe or perform in any material respect any of its other covenants or agreements in the Agreement which continues unremedied for thirty days after the giving of written notice of such failure to the master servicer by the trustee or the depositor, or to the master servicer, the depositor and the trustee by the holders of securities of any class evidencing not less than 25% of the aggregate percentage interests constituting such class; and
- certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceeding and certain actions by or on behalf of the master servicer indicating its insolvency, reorganization or inability to pay its obligations.

If specified in the related Information Supplement, the Agreement will permit the trustee to sell the Trust Fund Assets and the other assets of the trust fund described under “Credit Enhancement” herein in the event that payments in respect thereto are insufficient to make payments required in the Agreement. The assets of the trust fund will be sold only under the circumstances and in the manner specified in the related information supplement.

The applicable information supplement may provide for steps required to be taken if an Event of Default remains unremedied, but if it does not, so long as an Event of Default under an Agreement remains unremedied, the depositor or the trustee may, and at the direction of holders of securities of any class evidencing not less than 25% of the aggregate percentage interests constituting such class and under such other circumstances as may be specified in such Agreement, the trustee shall terminate all of the rights and obligations of the master servicer under the Agreement relating to such trust fund and in and to the related Trust Fund Assets, whereupon the trustee will succeed to all of the responsibilities, duties and liabilities of the master servicer under the Agreement, including, if specified in the related information supplement, the obligation to make advances, and will be entitled to similar compensation arrangements. In the event that the trustee is unwilling or unable so to act, it may appoint, or petition a court of competent jurisdiction for the appointment of, a mortgage loan servicing institution with a net worth of at least \$10,000,000 to act as successor to the master servicer under the Agreement. Pending that appointment, the trustee is obligated to act in such capacity. The trustee and any such successor may agree upon the servicing compensation to be paid, which in no event may be greater than the compensation payable to the master servicer under the Agreement.

Unless otherwise provided in the related information supplement, no securityholder, solely by virtue of such holder’s status as a securityholder, will have any right under any Agreement to institute any proceeding with respect to such Agreement, unless such holder previously has given to the trustee written notice of default and unless the holders of securities of any class of such series evidencing not less than 25% of the aggregate percentage interests constituting such class have made written request upon the trustee to institute such proceeding in its own name as trustee thereunder and have offered to the trustee reasonable indemnity, and the trustee for 60 days has neglected or refused to institute any such proceeding.

Indenture. The applicable information supplement may provide for other Events of Default, but if it does not, the Events of Default under each Indenture will consist of:

- a default in the payment of any principal of or interest on any note of such series which continues unremedied for five days after the giving of written notice of such default is given as specified in the related information supplement;
- failure to perform in any material respect any other covenant of the depositor or the trust fund in the Indenture which continues for a period of thirty (30) days after notice thereof is given in accordance with the procedures described in the related information supplement;
- certain events of bankruptcy, insolvency, receivership or liquidation of the depositor or the trust fund; or
- any other Event of Default provided with respect to notes of that series including but not limited to certain defaults on the part of the issuer, if any, of a credit enhancement instrument supporting such notes.

If an Event of Default with respect to the notes of any series at the time outstanding occurs and is continuing, either the trustee or the holders of a majority of the then aggregate outstanding amount of the notes of such series may declare the principal amount (or, if the notes of that series have an interest rate of 0%, such portion of the principal amount as may be specified in the terms of that series, as provided in the related information supplement) of all the notes of such series to be due and payable immediately. Such declaration may, under certain circumstances, be rescinded and annulled by the holders of more than 50% of the percentage interests of the notes of such series.

If, following an Event of Default with respect to any series of notes, the notes of such series have been declared to be due and payable, the trustee may, in its discretion, notwithstanding such acceleration, elect to maintain possession of the collateral securing the notes of such series and to continue to apply distributions on such collateral as if there had been no declaration of acceleration if such collateral continues to provide sufficient funds for the payment of principal of and interest on the notes of such series as they would have become due if there had not been such a declaration. In addition, the trustee may not sell or otherwise liquidate the collateral securing the notes of a series following an Event of Default, other than a default in the payment of any principal or interest on any note of such series for five days or more, unless

- the holders of 100% of the percentage interests of the notes of such series consent to such sale,
- the proceeds of such sale or liquidation are sufficient to pay in full the principal of and accrued interest, due and unpaid, on the outstanding notes of such series at the date of such sale or
- the trustee determines that such collateral would not be sufficient on an ongoing basis to make all payments on such notes as such payments would have become due if such notes had not been declared due and payable, and the trustee obtains the consent of the holders of 66⅔% of the percentage interests of the notes of such series.

In the event that the trustee liquidates the collateral in connection with an Event of Default involving a default for five days or more in the payment of principal of or interest on the notes of a series, the Indenture provides that the trustee will have a prior lien on the proceeds of any such liquidation for unpaid fees and expenses. As a result, upon the occurrence of such an Event of Default, the amount available for distribution to the noteholders would be less than would otherwise be the case. However, the trustee may not institute a proceeding for the enforcement of its lien except in connection with a proceeding for the enforcement of the lien of the Indenture for the benefit of the noteholders after the occurrence of such an Event of Default.

In the event the principal of the notes of a series is declared due and payable, as described above, the holders of any such notes issued at a discount from par may be entitled to receive no more than an amount equal to the unpaid principal amount thereof less the amount of such discount which is unamortized.

Subject to the provisions of the Indenture relating to the duties of the trustee, in case an Event of Default shall occur and be continuing with respect to a series of notes, the trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of notes of such series, unless such holders offered to the trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in complying with such request or direction. Subject to such provisions for indemnification and certain limitations contained in the Indenture, the holders of a majority of the then aggregate outstanding amount of the notes of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the notes of such series, and the holders of a majority of the then aggregate outstanding amount of the notes of such series may, in certain cases, waive any default with respect thereto, except a default in the payment of principal or interest or a default in respect of a covenant or provision of the Indenture that cannot be modified without the waiver or consent of all the holders of the outstanding notes of such series affected thereby.

Amendment

The applicable information supplement may specify other amendment provisions, but if it does not, each Agreement may be amended by the depositor, the master servicer and the trustee, without the consent of any of the securityholders,

- (a) to cure any ambiguity;

- (b) to correct any defective provision in the Agreement or to supplement any provision in the Agreement that may be inconsistent with any other provision in it; or
- (c) to make any other revisions with respect to matters or questions arising under the Agreement which are not inconsistent with the provisions in it,

provided that such action will not adversely affect in any material respect the interests of any securityholder. An amendment will be deemed not to adversely affect in any material respect the interests of the securityholders if the person requesting such amendment obtains a letter from each Rating Agency requested to rate the class or classes of securities of such series stating that such amendment will not result in the downgrading or withdrawal of the respective ratings then assigned to such securities.

In addition, to the extent provided in the related Agreement, an Agreement may be amended without the consent of any of the securityholders, to change the manner in which the Security Account is maintained, provided that any such change does not adversely affect the then current rating on the class or classes of securities of such series that have been rated. Moreover, the related Agreement may be amended to modify, eliminate or add to any of its provisions to the extent necessary to maintain the qualification of the related trust fund as a REMIC or to avoid or minimize the risk of imposition of any tax on the REMIC, if a REMIC election is made with respect to the trust fund, or to comply with any other requirements of the Code, if the trustee has received an opinion of counsel to the effect that the action is necessary or helpful to maintain the qualification, avoid or minimize that risk or comply with those requirements, as applicable.

The applicable information supplement may specify other amendment provisions, but if it does not, each Agreement may also be amended by the depositor, the master servicer and the trustee with consent of holders of securities of such series evidencing not less than 66% of the aggregate percentage interests of each class affected thereby for the purpose of adding any provisions to or changing in a manner or eliminating any of the provisions of the Agreement or of modifying in any manner the rights of the holders of the related securities; provided, however, that no such amendment may

- reduce in any manner the amount of or delay the timing of, payments received on loans which are required to be distributed on any security without the consent of the holder of such security, or
- reduce the aforesaid percentage of securities of any class the holders of which are required to consent to any such amendment without the consent of the holders of all securities of such class covered by such Agreement then outstanding.

If a REMIC election is made with respect to a trust fund, the trustee will not be entitled to consent to an amendment to the related Agreement without having first received an opinion of counsel to the effect that such amendment will not cause such trust fund to fail to qualify as a REMIC.

Termination; Optional Termination

Pooling and Servicing Agreement; Trust Agreement. The applicable information supplement may provide for the timing by which the Agreement terminates, but if it does not, the obligations created by each Pooling and Servicing Agreement and Trust Agreement for each series of securities will terminate upon the payment to the related securityholders of all amounts held in the Security Account or by the master servicer and required to be paid to them pursuant to such Agreement following the later of

- (i) the final payment of or other liquidation of the last of the Trust Fund Assets subject thereto or the disposition of all property acquired upon foreclosure of any such Trust Fund Assets remaining in the trust fund and
- (ii) the purchase by the master servicer or, if REMIC treatment has been elected and if specified in the related information supplement, by the holder of the residual interest in the REMIC (see “Federal Income Tax Consequences” below), from the related trust fund of all of the remaining Trust Fund Assets and all property acquired in respect of such Trust Fund Assets.

Any purchase of Trust Fund Assets and property acquired in respect of Trust Fund Assets evidenced by a series of securities will be made at the option of the master servicer, or the party specified in the related information supplement, including the holder of the REMIC residual interest, at a price specified in the related information supplement. The exercise of such right will effect early retirement of the securities of that series, but the right of the master servicer, or the other party or, if applicable, the holder of the REMIC residual interest, to

so purchase is subject to the principal balance of the related Trust Fund Assets being less than the percentage specified in the related information supplement of the aggregate principal balance of the Trust Fund Assets at the cut-off date for the series. The foregoing is subject to the provision that if a REMIC election is made with respect to a trust fund, any repurchase pursuant to clause (ii) above will be made only in connection with a “qualified liquidation” of the REMIC within the meaning of Section 860F(g)(4) of the Code.

Indenture. The Indenture will be discharged with respect to a series of notes (except with respect to certain continuing rights specified in the Indenture) upon the delivery to the trustee for cancellation of all the notes of such series or, with certain limitations, upon deposit with the trustee of funds sufficient for the payment in full of all of the notes of such series.

In addition to such discharge with certain limitations, the Indenture will provide that, if so specified with respect to the notes of any series, the related trust fund will be discharged from any and all obligations in respect of the notes of such series (except for certain obligations relating to temporary notes and exchange of notes, to register the transfer of or exchange notes of such series, to replace stolen, lost or mutilated notes of such series, to maintain paying agencies and to hold monies for payment in trust) upon the deposit with the trustee, in trust, of money and/or direct obligations of or obligations guaranteed by the United States of America which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of and each installment of interest on the notes of such series on the last scheduled distribution date for such notes and any installment of interest on such notes in accordance with the terms of the Indenture and the notes of such series. In the event of any such defeasance and discharge of notes of such series, holders of notes of such series would be able to look only to such money and/or direct obligations for payment of principal and interest, if any, on their notes until maturity.

The Trustee

The trustee under each Agreement will be named in the applicable information supplement. The commercial bank or trust company serving as trustee may have normal banking relationships with the depositor, the master servicer and any of their respective affiliates.

Certain Legal Aspects of the Loans

The following discussion contains summaries, which are general in nature, of certain legal matters relating to the loans. Because such legal aspects are governed primarily by applicable state law (which laws may differ substantially), the descriptions do not, except as expressly provided below, reflect the laws of any particular state, nor encompass the laws of all states in which the security for the loans is situated. The descriptions are qualified in their entirety by reference to the applicable federal laws and the appropriate laws of the states in which loans may be originated.

General

The loans for a series may be secured by deeds of trust, mortgages, security deeds or deeds to secure debt, depending upon the prevailing practice in the state in which the property subject to the loan is located. Deeds of trust are used almost exclusively in California instead of mortgages. A mortgage creates a lien upon the real property encumbered by the mortgage, which lien is generally not prior to the lien for real estate taxes and assessments. Priority between mortgages depends on their terms and generally on the order of recording with a state or county office. There are two parties to a mortgage, the mortgagor, who is the borrower and owner of the mortgaged property, and the mortgagee, who is the lender. Under the mortgage instrument, the mortgagor delivers to the mortgagee a note or bond and the mortgage. Although a deed of trust is similar to a mortgage, a deed of trust formally has three parties, the borrower-property owner called the trustor (similar to a mortgagor), a lender (similar to a mortgagee) called the beneficiary, and a third-party grantee called the trustee. Under a deed of trust, the borrower grants the property, irrevocably until the debt is paid, in trust, generally with a power of sale, to the trustee to secure payment of the obligation. A security deed and a deed to secure debt are special types of deeds which indicate on their face that they are granted to secure an underlying debt. By executing a security deed or deed to secure debt, the grantor conveys title to, as opposed to merely creating a lien upon, the subject property to the grantee until such time as the underlying debt is repaid. The trustee’s authority under a deed of trust, the mortgagee’s authority under a mortgage and the grantee’s authority under a security deed or

deed to secure debt are governed by law and, with respect to some deeds of trust, the directions of the beneficiary.

Cooperatives. Certain of the loans may be cooperative loans. The cooperative owns all the real property that comprises the project, including the land, separate dwelling units and all common areas. The cooperative is directly responsible for project management and, in most cases, payment of real estate taxes and hazard and liability insurance. If there is a blanket mortgage on the cooperative and/or underlying land, as is generally the case, the cooperative, as project mortgagor, is also responsible for meeting these mortgage obligations. A blanket mortgage is ordinarily incurred by the cooperative in connection with the construction or purchase of the cooperative's apartment building. The interest of the occupant under proprietary leases or occupancy agreements to which that cooperative is a party are generally subordinate to the interest of the holder of the blanket mortgage in that building. If the cooperative is unable to meet the payment obligations arising under its blanket mortgage, the mortgagee holding the blanket mortgage could foreclose on that mortgage and terminate all subordinate proprietary leases and occupancy agreements. In addition, the blanket mortgage on a cooperative may provide financing in the form of a mortgage that does not fully amortize with a significant portion of principal being due in one lump sum at final maturity. The inability of the cooperative to refinance this mortgage and its consequent inability to make such final payment could lead to foreclosure by the mortgagee providing the financing. A foreclosure in either event by the holder of the blanket mortgage could eliminate or significantly diminish the value of any collateral held by the lender who financed the purchase by an individual tenant-stockholder of cooperative shares or, in the case of a trust fund including cooperative loans, the collateral securing the cooperative loans.

The cooperative is owned by tenant-stockholders who, through ownership of stock, shares or membership certificates in the corporation, receive proprietary leases or occupancy agreements which confer exclusive rights to occupy specific units. Generally, a tenant-stockholder of a cooperative must make a monthly payment to the cooperative representing such tenant-stockholder's pro rata share of the cooperative's payments for its blanket mortgage, real property taxes, maintenance expenses and other capital or ordinary expenses. An ownership interest in a cooperative and accompanying rights is financed through a cooperative share loan evidenced by a promissory note and secured by a security interest in the occupancy agreement or proprietary lease and in the related cooperative shares. The lender takes possession of the share certificate and a counterpart of the proprietary lease or occupancy agreement, and a financing statement covering the proprietary lease or occupancy agreement and the cooperative shares is filed in the appropriate state and local offices to perfect the lender's interest in its collateral. Subject to the limitations discussed below, upon default of the tenant-stockholder, the lender may sue for judgment on the promissory note, dispose of the collateral at a public or private sale or otherwise proceed against the collateral or tenant-stockholder as an individual as provided in the security agreement covering the assignment of the proprietary lease or occupancy agreement and the pledge of cooperative shares.

Foreclosure

Deed of Trust. Foreclosure of a deed of trust is generally accomplished by a non-judicial sale under a specific provision in the deed of trust which authorizes the trustee to sell the property at public auction upon any default by the borrower under the terms of the note or deed of trust. In certain states, such foreclosure also may be accomplished by judicial action in the manner provided for foreclosure of mortgages. In addition to any notice requirements contained in a deed of trust, in some states (such as California), the trustee must record a notice of default and send a copy to the borrower-trustor, to any person who has recorded a request for a copy of any notice of default and notice of sale, to any successor in interest to the borrower-trustor, to the beneficiary of any junior deed of trust and to certain other persons. In some states (including California), the borrower-trustor has the right to reinstate the loan at any time following default until shortly before the trustee's sale. In general, the borrower, or any other person having a junior encumbrance on the real estate, may, during a statutorily prescribed reinstatement period, cure a monetary default by paying the entire amount in arrears plus other designated costs and expenses incurred in enforcing the obligation. Generally, state law controls the amount of foreclosure expenses and costs, including attorney's fees, which may be recovered by a lender. After the reinstatement period has expired without the default having been cured, the borrower or junior lienholder no longer has the right to reinstate the loan and must pay the loan in full to prevent the scheduled foreclosure sale. If the deed of trust is not reinstated within any applicable cure period, a notice of sale must be posted in a public

place and, in most states (including California), published for a specific period of time in one or more newspapers. In addition, some state laws require that a copy of the notice of sale be posted on the property and sent to all parties having an interest of record in the real property. In California, the entire process from recording a notice of default to a non-judicial sale usually takes four to five months.

Mortgages. Foreclosure of a mortgage is generally accomplished by judicial action. The action is initiated by the service of legal pleadings upon all parties having an interest in the real property. Delays in completion of the foreclosure may occasionally result from difficulties in locating necessary parties. Judicial foreclosure proceedings are often not contested by any of the parties. When the mortgagee's right to foreclosure is contested, the legal proceedings necessary to resolve the issue can be time consuming. After the completion of a judicial foreclosure proceeding, the court generally issues a judgment of foreclosure and appoints a referee or other court officer to conduct the sale of the property. In some states, mortgages may also be foreclosed by advertisement, pursuant to a power of sale provided in the mortgage.

Although foreclosure sales are typically public sales, frequently no third party purchaser bids in excess of the lender's lien because of the difficulty of determining the exact status of title to the property, the possible deterioration of the property during the foreclosure proceedings and a requirement that the purchaser pay for the property in cash or by cashier's check. Thus the foreclosing lender often purchases the property from the trustee or referee for an amount equal to the principal amount outstanding under the loan, accrued and unpaid interest and the expenses of foreclosure in which event the mortgagor's debt will be extinguished or the lender may purchase for a lesser amount in order to preserve its right against a borrower to seek a deficiency judgment in states where such judgment is available. Thereafter, subject to the right of the borrower in some states to remain in possession during the redemption period, the lender will assume the burden of ownership, including obtaining hazard insurance and making such repairs at its own expense as are necessary to render the property suitable for sale. The lender will commonly obtain the services of a real estate broker and pay the broker's commission in connection with the sale of the property. Depending upon market conditions, the ultimate proceeds of the sale of the property may not equal the lender's investment in the property. Any loss may be reduced by the receipt of any mortgage guaranty insurance proceeds.

Courts have imposed general equitable principles upon foreclosure, which are generally designed to mitigate the legal consequences to the borrower of the borrower's defaults under the loan documents. Some courts have been faced with the issue of whether federal or state constitutional provisions reflecting due process concerns for fair notice require that borrowers under deeds of trust receive notice longer than that prescribed by statute. For the most part, these cases have upheld the notice provisions as being reasonable or have found that the sale by a trustee under a deed of trust does not involve sufficient state action to afford constitutional protection to the borrower.

When the beneficiary under a junior mortgage or deed of trust cures the default and reinstates or redeems by paying the full amount of the senior mortgage or deed of trust, the amount paid by the beneficiary so to cure or redeem becomes a part of the indebtedness secured by the junior mortgage or deed of trust. See "Junior Mortgages; Rights of Senior Mortgagees" below.

Cooperative Loans. The cooperative shares owned by the tenant-stockholder and pledged to the lender are, in almost all cases, subject to restrictions on transfer as set forth in the cooperative's certificate of incorporation and bylaws, as well as the proprietary lease or occupancy agreement, and may be cancelled by the cooperative for failure by the tenant-stockholder to pay rent or other obligations or charges owed by such tenant-stockholder, including mechanics' liens against the cooperative apartment building incurred by such tenant-stockholder. The proprietary lease or occupancy agreement generally permits the cooperative to terminate such lease or agreement in the event an obligor fails to make payments or defaults in the performance of covenants required thereunder. Typically, the lender and the cooperative enter into a recognition agreement which establishes the rights and obligations of both parties in the event of a default by the tenant-stockholder on its obligations under the proprietary lease or occupancy agreement. A default by the tenant-stockholder under the proprietary lease or occupancy agreement will usually constitute a default under the security agreement between the lender and the tenant-stockholder.

The recognition agreement generally provides that, in the event that the tenant-stockholder has defaulted under the proprietary lease or occupancy agreement, the cooperative will take no action to terminate such lease or agreement until the lender has been provided with an opportunity to cure the default. The recognition agreement typically provides that if the proprietary lease or occupancy agreement is terminated, the cooperative

will recognize the lender's lien against proceeds from the sale of the cooperative apartment, subject, however, to the cooperative's right to sums due under such proprietary lease or occupancy agreement. The total amount owed to the cooperative by the tenant-stockholder, which the lender generally cannot restrict and does not monitor, could reduce the value of the collateral below the outstanding principal balance of the cooperative loan and accrued and unpaid interest thereon.

Recognition agreements also provide that in the event of a foreclosure on a cooperative loan, the lender must obtain the approval or consent of the cooperative as required by the proprietary lease before transferring the cooperative shares or assigning the proprietary lease. Generally, the lender is not limited in any rights it may have to dispossess the tenant-stockholders.

In some states, foreclosure on the cooperative shares is accomplished by a sale in accordance with the provisions of Article 9 of the Uniform Commercial Code (the "UCC") and the security agreement relating to those shares. Article 9 of the UCC requires that a sale be conducted in a "commercially reasonable" manner. Whether a foreclosure sale has been conducted in a "commercially reasonable" manner will depend on the facts in each case. In determining commercial reasonableness, a court will look to the notice given the debtor and the method, manner, time, place and terms of the foreclosure. Generally, a sale conducted according to the usual practice of banks selling similar collateral will be considered reasonably conducted.

Article 9 of the UCC provides that the proceeds of the sale will be applied first to pay the costs and expenses of the sale and then to satisfy the indebtedness secured by the lender's security interest. The recognition agreement, however, generally provides that the lender's right to reimbursement is subject to the right of the cooperative to receive sums due under the proprietary lease or occupancy agreement. If there are proceeds remaining, the lender must account to the tenant-stockholder for the surplus. Conversely, if a portion of the indebtedness remains unpaid, the tenant-stockholder is generally responsible for the deficiency. See "Anti-Deficiency Legislation and Other Limitations on Lenders" below.

In the case of foreclosure on a building which was converted from a rental building to a building owned by a cooperative under a non-eviction plan, some states require that a purchaser at a foreclosure sale take the property subject to rent control and rent stabilization laws which apply to certain tenants who elected to remain in the building but who did not purchase shares in the cooperative when the building was so converted.

Environmental Risks

Real property pledged as security to a lender may be subject to unforeseen environmental risks. Under the laws of certain states, contamination of a property may give rise to a lien on the property to assure the payment of the costs of clean-up. In several states such a lien has priority over the lien of an existing mortgage against such property. In addition, under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the EPA may impose a lien on property where EPA has incurred clean-up costs. However, a CERCLA lien is subordinate to pre-existing, perfected security interests.

Under the laws of some states, and under CERCLA, it is conceivable that a secured lender may be held liable as an "owner" or "operator" for the costs of addressing releases or threatened releases of hazardous substances at a Property, even though the environmental damage or threat was caused by a prior or current owner or operator. CERCLA imposes liability for such costs on any and all "responsible parties," including owners or operators. However, CERCLA excludes from the definition of "owner or operator" a secured creditor who holds indicia of ownership primarily to protect its security interest (the "secured creditor exclusion") but without "participating in the management" of the Property. Thus, if a lender's activities begin to encroach on the actual management of a contaminated facility or property, the lender may incur liability as an "owner or operator" under CERCLA. Similarly, if a lender forecloses and takes title to a contaminated facility or property, the lender may incur CERCLA liability in various circumstances, including, but not limited to, when it holds the facility or property as an investment (including leasing the facility or property to third party), or fails to market the property in a timely fashion.

Whether actions taken by a lender would constitute participation in the management of a mortgaged property, or the business of a borrower, so as to render the secured creditor exemption unavailable to a lender has been a matter of judicial interpretation of the statutory language, and court decisions have been inconsistent. In 1990, the Court of Appeals for the Eleventh Circuit suggested that the mere capacity of the lender to

influence a borrower's decisions regarding disposal of hazardous substances was sufficient participation in the management of the borrower's business to deny the protection of the secured creditor exemption to the lender.

This ambiguity appears to have been resolved by the enactment of the Asset Conservation, Lender Liability and Deposit Insurance Protection Act of 1996, which was signed into law by President Clinton on September 30, 1996. This legislation provides that in order to be deemed to have participated in the management of a mortgaged property, a lender must actually participate in the operational affairs of the property or the borrower. The legislation also provides that participation in the management of the property does not include "merely having the capacity to influence, or unexercised right to control" operations. Rather, a lender will lose the protection of the secured creditor exemption only if it exercises decision-making control over the borrower's environmental compliance and hazardous substance handling and disposal practices, or assumes day-to-day management of all operational functions of the mortgaged property.

If a lender is or becomes liable, it can bring an action for contribution against any other "responsible parties," including a previous owner or operator, who created the environmental hazard, but those persons or entities may be bankrupt or otherwise judgment proof. The costs associated with environmental cleanup may be substantial. It is conceivable that such costs arising from the circumstances set forth above would result in a loss to certificateholders.

CERCLA does not apply to petroleum products, and the secured creditor exclusion does not govern liability for cleanup costs under federal laws other than CERCLA, in particular Subtitle I of the federal Resource Conservation and Recovery Act ("RCRA"), which regulates underground petroleum storage tanks (except heating oil tanks). The EPA has adopted a lender liability rule for underground storage tanks under Subtitle I of RCRA. Under that rule, a holder of a security interest in an underground storage tank or real property containing an underground storage tank is not considered an operator of the underground storage tank as long as petroleum is not added to, stored in or dispensed from the tank. Moreover, under the Asset Conservation Act, the protections accorded to lenders under CERCLA are also accorded to holders of security interests in underground petroleum storage tanks. It should be noted, however, that liability for cleanup of petroleum contamination may be governed by state law, which may not provide for any specific protection for secured creditors.

In general, at the time the loans were originated no environmental assessment, or a very limited environmental assessment, of the Properties was conducted.

Rights of Redemption

In some states, after sale pursuant to a deed of trust or foreclosure of a mortgage, the borrower and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. In certain other states (including California), this right of redemption applies only to sales following judicial foreclosure, and not to sales pursuant to a non-judicial power of sale. In most states where the right of redemption is available, statutory redemption may occur upon payment of the foreclosure purchase price, accrued interest and taxes. In other states, redemption may be authorized if the former borrower pays only a portion of the sums due. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The exercise of a right of redemption would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run. In some states, there is no right to redeem property after a trustee's sale under a deed of trust.

Anti-Deficiency Legislation and Other Limitations on Lenders

Certain states have imposed statutory and judicial restrictions that limit the remedies of a beneficiary under a deed of trust or a mortgagee under a mortgage. In some states, including California, statutes and case law limit the right of the beneficiary or mortgagee to obtain a deficiency judgment against borrowers financing the purchase of their residence or following sale under a deed of trust or certain other foreclosure proceedings. A deficiency judgment is a personal judgment against the borrower equal in most cases to the difference between the amount due to the lender and the fair market value of the real property at the time of the foreclosure sale. In certain states, including California, if a lender simultaneously originates a loan secured by a senior lien on a particular property and a loan secured by a junior lien on the same property, such a lender as the holder of the

junior lien may be precluded from obtaining a deficiency judgment with respect to the excess of the aggregate amount owed under both such loans over the proceeds of any sale under a deed of trust or other foreclosure proceedings. As a result of these prohibitions, it is anticipated that in most instances the master servicer will utilize the non-judicial foreclosure remedy and will not seek deficiency judgments against defaulting borrowers.

Some state statutes require the beneficiary or mortgagee to exhaust the security afforded under a deed of trust or mortgage by foreclosure in an attempt to satisfy the full debt before bringing a personal action against the borrower. In certain other states, the lender has the option of bringing a personal action against the borrower on the debt without first exhausting such security; however, in some of these states, the lender, following judgment on such personal action, may be deemed to have elected a remedy and may be precluded from exercising remedies with respect to the security. Consequently, the practical effect of the election requirement, when applicable, is that lenders will usually proceed first against the security rather than bringing a personal action against the borrower. In some states, exceptions to the anti-deficiency statutes are provided for in certain instances where the value of the lender's security has been impaired by acts or omissions of the borrower, for example, in the event of waste of the property. Finally, other statutory provisions limit any deficiency judgment against the former borrower following a foreclosure sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary or a mortgagee from obtaining a large deficiency judgment against the former borrower as a result of low or no bids at the foreclosure sale.

Generally, Article 9 of the UCC governs foreclosure on cooperative shares and the related proprietary lease or occupancy agreement. Some courts have interpreted section 9-504 of the UCC to prohibit a deficiency award unless the creditor establishes that the sale of the collateral (which, in the case of a cooperative loan, would be the shares of the cooperative and the related proprietary lease or occupancy agreement) was conducted in a commercially reasonable manner.

In addition to anti-deficiency and related legislation, numerous other federal and state statutory provisions, including the federal bankruptcy laws, and state laws affording relief to debtors, may interfere with or affect the ability of the secured mortgage lender to realize upon its security. For example, in a proceeding under the federal Bankruptcy Code, a lender may not foreclose on a mortgaged property without the permission of the bankruptcy court. The rehabilitation plan proposed by the debtor may provide, if the mortgaged property is not the debtor's principal residence and the court determines that the value of the mortgaged property is less than the principal balance of the mortgage loan, for the reduction of the secured indebtedness to the value of the mortgaged property as of the date of the commencement of the bankruptcy, rendering the lender a general unsecured creditor for the difference, and also may reduce the monthly payments due under such mortgage loan, change the rate of interest and alter the mortgage loan repayment schedule. The effect of any such proceedings under the federal Bankruptcy Code, including but not limited to any automatic stay, could result in delays in receiving payments on the loans underlying a series of securities and possible reductions in the aggregate amount of such payments.

The federal tax laws provide priority to certain tax liens over the lien of a mortgage or secured party.

Due-on-Sale Clauses

Generally, each conventional loan will contain a due-on-sale clause which will generally provide that if the mortgagor or obligor sells, transfers or conveys the Property, the loan or contract may be accelerated by the mortgagee or secured party. Court decisions and legislative actions have placed substantial restriction on the right of lenders to enforce such clauses in many states. For instance, the California Supreme Court in August 1978 held that due-on-sale clauses were generally unenforceable. However, the Garn-St Germain Depository Institutions Act of 1982 (the "Garn-St Germain Act"), subject to certain exceptions, preempts state constitutional, statutory and case law prohibiting the enforcement of due-on-sale clauses. As a result, due-on-sale clauses have become generally enforceable except in those states whose legislatures exercised their authority to regulate the enforceability of such clauses with respect to mortgage loans that were (i) originated or assumed during the "window period" under the Garn-St Germain Act which ended in all cases not later than October 15, 1982, and (ii) originated by lenders other than national banks, federal savings institutions and federal credit unions. FHLMC has taken the position in its published mortgage servicing standards that, out of a total of eleven "window period states," five states (Arizona, Michigan, Minnesota, New Mexico and Utah) have enacted statutes extending, on various terms and for varying periods, the prohibition on enforcement of due-on-

sale clauses with respect to certain categories of window period loans. Also, the Garn-St Germain Act does “encourage” lenders to permit assumption of loans at the original rate of interest or at some other rate less than the average of the original rate and the market rate.

As to loans secured by an owner-occupied residence, the Garn-St Germain Act sets forth nine specific instances in which a mortgagee covered by the Act may not exercise its rights under a due-on-sale clause, notwithstanding the fact that a transfer of the property may have occurred. The inability to enforce a due-on-sale clause may result in transfer of the related Property to an uncreditworthy person, which could increase the likelihood of default or may result in a mortgage bearing an interest rate below the current market rate being assumed by a new home buyer, which may affect the average life of the loans and the number of loans which may extend to maturity.

In addition, under federal bankruptcy law, due-on-sale clauses may not be enforceable in bankruptcy proceedings and may, under certain circumstances, be eliminated in any modified mortgage resulting from such bankruptcy proceeding.

Enforceability of Prepayment and Late Payment Fees

Forms of notes, mortgages and deeds of trust used by lenders may contain provisions obligating the borrower to pay a late charge if payments are not timely made, and in some circumstances may provide for prepayment fees or penalties if the obligation is paid prior to maturity. In certain states, there are or may be specific limitations upon the late charges which a lender may collect from a borrower for delinquent payments. Certain states also limit the amounts that a lender may collect from a borrower as an additional charge if the loan is prepaid. Under certain state laws, prepayment charges may not be imposed after a certain period of time following the origination of mortgage loans with respect to prepayments on loans secured by liens encumbering owner-occupied residential properties. Since many of the Properties will be owner-occupied, it is anticipated that prepayment charges may not be imposed with respect to many of the loans. The absence of such a restraint on prepayment, particularly with respect to fixed rate loans having higher Loan Rates, may increase the likelihood of refinancing or other early retirement of such loans or contracts. Late charges and prepayment fees are typically retained by servicers as additional servicing compensation.

Applicability of Usury Laws

Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980, enacted in March 1980 (“Title V”) provides that state usury limitations shall not apply to certain types of residential first mortgage loans originated by certain lenders after March 31, 1980. The Office of Thrift Supervision, as successor to the Federal Home Loan Bank Board, is authorized to issue rules and regulations and to publish interpretations governing implementation of Title V. The statute authorized the states to reimpose interest rate limits by adopting, before April 1, 1983, a law or constitutional provision which expressly rejects an application of the federal law. Fifteen states adopted such a law prior to the April 1, 1983 deadline. In addition, even where Title V is not so rejected, any state is authorized by the law to adopt a provision limiting discount points or other charges on mortgage loans covered by Title V. Certain states have taken action to reimpose interest rate limits and/or to limit discount points or other charges.

Home Improvement Contracts

General. The home improvement contracts, other than those home improvement contracts that are unsecured or secured by mortgages on real estate (such home improvement contracts are hereinafter referred to in this section as “contracts”) generally are “chattel paper” or constitute “purchase money security interests” each as defined in the UCC. Pursuant to the UCC, the sale of chattel paper is treated in a manner similar to perfection of a security interest in chattel paper. Under the related Agreement, the depositor will transfer physical possession of the contracts to the trustee or a designated custodian or may retain possession of the contracts as custodian for the trustee. In addition, the depositor will make an appropriate filing of a UCC-1 financing statement in the appropriate states to, among other things, give notice of the trust fund’s ownership of the contracts. In general, the contracts will not be stamped or otherwise marked to reflect their assignment from the depositor to the trustee. Therefore, if through negligence, fraud or otherwise, a subsequent purchaser were

able to take physical possession of the contracts without notice of such assignment, the trust fund's interest in the contracts could be defeated.

Security Interests in Home Improvements. The contracts that are secured by the home improvements financed thereby grant to the originator of such contracts a purchase money security interest in such home improvements to secure all or part of the purchase price of such home improvements and related services. A financing statement generally is not required to be filed to perfect a purchase money security interest in consumer goods. Such purchase money security interests are assignable. In general, a purchase money security interest grants to the holder a security interest that has priority over a conflicting security interest in the same collateral and the proceeds of such collateral. However, to the extent that the collateral subject to a purchase money security interest becomes a fixture, in order for the related purchase money security interest to take priority over a conflicting interest in the fixture, the holder's interest in such home improvement must generally be perfected by a timely fixture filing. In general, a security interest does not exist under the UCC in ordinary building material incorporated into an improvement on land. Home improvement contracts that finance lumber, bricks, other types of ordinary building material or other goods that are deemed to lose such characterization upon incorporation of such materials into the related property, will not be secured by a purchase money security interest in the home improvement being financed.

Enforcement of Security Interest in Home Improvements. So long as the home improvement has not become subject to the real estate law, a creditor can repossess a home improvement securing a contract by voluntary surrender, by "self-help" repossession that is "peaceful" (*i.e.*, without breach of the peace) or, in the absence of voluntary surrender and the ability to repossess without breach of the peace, by judicial process. The holder of a contract must give the debtor a number of days' notice, which varies from 10 to 30 days depending on the state, prior to commencement of any repossession. The UCC and consumer protection laws in most states place restrictions on repossession sales, including requiring prior notice to the debtor and commercial reasonableness in effecting such a sale. The law in most states also requires that the debtor be given notice of any sale prior to resale of the unit that the debtor may redeem at or before such resale.

Under the laws applicable in most states, a creditor is entitled to obtain a deficiency judgment from a debtor for any deficiency on repossession and resale of the property securing the debtor's loan. However, some states impose prohibitions or limitations on deficiency judgments, and in many cases the defaulting borrower would have no assets with which to pay a judgment.

Certain other statutory provisions, including federal and state bankruptcy and insolvency laws and general equitable principles, may limit or delay the ability of a lender to repossess and resell collateral or enforce a deficiency judgment.

Consumer Protection Laws. The so-called holder in due course rule of the Federal Trade Commission is intended to defeat the ability of the transferor of a consumer credit contract which is the seller of goods which gave rise to the transaction (and certain related lenders and assignees) to transfer such contract free of notice of claims by the debtor thereunder. The effect of this rule is to subject the assignee of such a contract to all claims and defenses which the debtor could assert against the seller of goods. Liability under this rule is limited to amounts paid under a contract; however, the obligor also may be able to assert the rule to set off remaining amounts due as a defense against a claim brought by the trustee against such obligor. Numerous other federal and state consumer protection laws impose requirements applicable to the origination and lending pursuant to the contracts, including the Truth in Lending Act, the Federal Trade Commission Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act and the Uniform Consumer Credit Code. In the case of some of these laws, the failure to comply with their provisions may affect the enforceability of the related contract.

Applicability of Usury Laws. Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980, as amended ("Title V"), provides that, subject to the following conditions, state usury limitations shall not apply to any contract which is secured by a first lien on certain kinds of consumer goods. The contracts would be covered if they satisfy certain conditions governing, among other things, the terms of any prepayments, late charges and deferral fees and requiring a 30-day notice period prior to instituting any action leading to repossession of the related unit.

Title V authorized any state to reimpose limitations on interest rates and finance charges by adopting before April 1, 1983 a law or constitutional provision which expressly rejects application of the federal law. Fifteen

states adopted such a law prior to the April 1, 1983 deadline. In addition, even where Title V was not so rejected, any state is authorized by the law to adopt a provision limiting discount points or other charges on loans covered by Title V.

Installment Contracts

The loans may also consist of installment contracts. Under an installment contract the seller (hereinafter referred to in this section as the “lender”) retains legal title to the property and enters into an agreement with the purchaser hereinafter referred to in this section as the “borrower”) for the payment of the purchase price, plus interest, over the term of such contract. Only after full performance by the borrower of the contract is the lender obligated to convey title to the property to the purchaser. As with mortgage or deed of trust financing, during the effective period of the installment contract, the borrower is generally responsible for maintaining the property in good condition and for paying real estate taxes, assessments and hazard insurance premiums associated with the property.

The method of enforcing the rights of the lender under an installment contract varies on a state-by-state basis depending upon the extent to which state courts are willing, or able pursuant to state statute, to enforce the contract strictly according to its terms. The terms of installment contracts generally provide that upon a default by the borrower, the borrower loses his or her right to occupy the property, the entire indebtedness is accelerated, and the buyer’s equitable interest in the property is forfeited. The lender in such a situation does not have to foreclose in order to obtain title to the property, although in some cases a quiet title action is in order if the borrower has filed the installment contract in local land records and an ejectment action may be necessary to recover possession. In a few states, particularly in cases of borrower default during the early years of an installment contract, the courts will permit ejectment of the buyer and a forfeiture of his or her interest in the property. However, most state legislatures have enacted provisions by analogy to mortgage law protecting borrowers under installment contracts from the harsh consequences of forfeiture. Under such statutes, a judicial or nonjudicial foreclosure may be required, the lender may be required to give notice of default and the borrower may be granted some grace period during which the installment contract may be reinstated upon full payment of the default amount and the borrower may have a post-foreclosure statutory redemption right. In other states, courts in equity may permit a borrower with significant investment in the property under an installment contract for the sale of real estate to share in the proceeds of sale of the property after the indebtedness is repaid or may otherwise refuse to enforce the forfeiture clause. Nevertheless, generally speaking, the lender’s procedures for obtaining possession and clear title under an installment contract in a given state are simpler and less time-consuming and costly than are the procedures for foreclosing and obtaining clear title to a property subject to one or more liens.

Soldiers’ and Sailors’ Civil Relief Act

Generally, under the terms of the Soldiers’ and Sailors’ Civil Relief Act of 1940, as amended (the “Relief Act”), a borrower who enters military service after the origination of such borrower’s loan (including a borrower who is a member of the National Guard or is in reserve status at the time of the origination of the loan and is later called to active duty) may not be charged interest above an annual rate of 6% during the period of such borrower’s active duty status, unless a court orders otherwise upon application of the lender. It is possible that such interest rate limitation could have an effect, for an indeterminate period of time, on the ability of the master servicer to collect full amounts of interest on certain of the loans. Unless otherwise provided in the related information supplement, any shortfall in interest collections resulting from the application of the Relief Act could result in losses to securityholders. The Relief Act also imposes limitations which would impair the ability of the master servicer to foreclose on an affected loan during the borrower’s period of active duty status. Moreover, the Relief Act permits the extension of a loan’s maturity and the re-adjustment of its payment schedule beyond the completion of military service. Thus, in the event that such a loan goes into default, there may be delays and losses occasioned by the inability to realize upon the Property in a timely fashion.

Junior Mortgages and Rights of Senior Mortgagees

To the extent that the loans comprising the trust fund for a series are secured by mortgages which are junior to other mortgages held by other lenders or institutional investors, the rights of the trust fund (and therefore the

securityholders), as mortgagee under any such junior mortgage, are subordinate to those of any mortgagee under any senior mortgage. The senior mortgagee has the right to receive hazard insurance and condemnation proceeds and to cause the property securing the loan to be sold upon default of the mortgagor, thereby extinguishing the junior mortgagee's lien unless the junior mortgagee asserts its subordinate interest in the property in foreclosure litigation and, possibly, satisfies the defaulted senior mortgage. A junior mortgagee may satisfy a defaulted senior loan in full and, in some states, may cure a default and bring the senior loan current, in either event adding the amounts expended to the balance due on the junior loan. In most states, absent a provision in the mortgage or deed of trust, no notice of default is required to be given to a junior mortgagee.

The standard form of the mortgage used by most institutional lenders confers on the mortgagee the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the mortgage, in such order as the mortgagee may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the mortgagee or beneficiary under senior mortgages will have the prior right to collect any insurance proceeds payable under a hazard insurance policy and any award of damages in connection with the condemnation and to apply the same to the indebtedness secured by the senior mortgages. Proceeds in excess of the amount of senior mortgage indebtedness, in most cases, may be applied to the indebtedness of a junior mortgage.

Another provision sometimes found in the form of the mortgage or deed of trust used by institutional lenders obligates the mortgagor to pay before delinquency all taxes and assessments on the property and, when due, all encumbrances, charges and liens on the property which appear prior to the mortgage or deed of trust, to provide and maintain fire insurance on the property, to maintain and repair the property and not to commit or permit any waste thereof, and to appear in and defend any action or proceeding purporting to affect the property or the rights of the mortgagee under the mortgage. Upon a failure of the mortgagor to perform any of these obligations, the mortgagee is given the right under certain mortgages to perform the obligation itself, at its election, with the mortgagor agreeing to reimburse the mortgagee for any sums expended by the mortgagee on behalf of the mortgagor. All sums so expended by the mortgagee become part of the indebtedness secured by the mortgage.

The form of credit line trust deed or mortgage generally used by most institutional lenders which make revolving credit line loans typically contains a "future advance" clause, which provides, in essence, that additional amounts advanced to or on behalf of the borrower by the beneficiary or lender are to be secured by the deed of trust or mortgage. Any amounts so advanced after the cut-off date with respect to any Mortgage will not be included in the trust fund. The priority of the lien securing any advance made under the clause may depend in most states on whether the deed of trust or mortgage is called and recorded as a credit line deed of trust or mortgage. If the beneficiary or lender advances additional amounts, the advance is entitled to receive the same priority as amounts initially advanced under the trust deed or mortgage, notwithstanding the fact that there may be junior trust deeds or mortgages and other liens which intervene between the date of recording of the trust deed or mortgage and the date of the future advance, and notwithstanding that the beneficiary or lender had actual knowledge of such intervening junior trust deeds or mortgages and other liens at the time of the advance. In most states, the trust deed or mortgage lien securing mortgage loans of the type which includes home equity credit lines applies retroactively to the date of the original recording of the trust deed or mortgage, provided that the total amount of advances under the home equity credit line does not exceed the maximum specified principal amount of the recorded trust deed or mortgage, except as to advances made after receipt by the lender of a written notice of lien from a judgment lien creditor of the trustor.

The Title I Program

General. Certain of the loans contained in a trust fund may be loans insured under the FHA Title I Credit Insurance program created pursuant to Sections 1 and 2(a) of the National Housing Act of 1934 (the "Title I Program"). Under the Title I Program, the FHA is authorized and empowered to insure qualified lending institutions against losses on eligible loans. The Title I Program operates as a coinsurance program in which the FHA insures up to 90% of certain losses incurred on an individual insured loan, including the unpaid principal balance of the loan, but only to the extent of the insurance coverage available in the lender's FHA insurance coverage reserve account. The owner of the loan bears the uninsured loss on each loan.

The types of loans which are eligible for insurance by the FHA under the Title I Program include property improvement loans ("Property Improvement Loans" or "Title I Loans"). A Property Improvement Loan or Title I Loan means a loan made to finance actions or items that substantially protect or improve the basic livability or utility of a property and includes single family improvement loans.

There are two basic methods of lending or originating such loans which include a "direct loan" or a "dealer loan". With respect to a direct loan, the borrower makes application directly to a lender without any assistance from a dealer, which application may be filled out by the borrower or by a person acting at the direction of the borrower who does not have a financial interest in the loan transaction, and the lender may disburse the loan proceeds solely to the borrower or jointly to the borrower and other parties to the transaction. With respect to a dealer loan, the dealer, who has a direct or indirect financial interest in the loan transaction, assists the borrower in preparing the loan application or otherwise assists the borrower in obtaining the loan from lender and the lender may distribute proceeds solely to the dealer or the borrower or jointly to the borrower and the dealer or other parties. With respect to a dealer Title I Loan, a dealer may include a seller, a contractor or supplier of goods or services.

Loans insured under the Title I Program are required to have fixed interest rates and, generally, provide for equal installment payments due weekly, biweekly, semi-monthly or monthly, except that a loan may be payable quarterly or semi-annually in order to correspond with the borrower's irregular flow of income. The first or last payments (or both) may vary in amount but may not exceed 150% of the regular installment payment, and the first scheduled payment may be due no later than two months from the date of the loan. The note must contain a provision permitting full or partial prepayment of the loan. The interest rate may be established by the lender and must be fixed for the term of the loan and recited in the note. Interest on an insured loan must accrue from the date of the loan and be calculated on a simple interest basis. The lender must assure that the note and all other documents evidencing the loan are in compliance with applicable federal, state and local laws.

Each insured lender is required to use prudent lending standards in underwriting individual loans and to satisfy the applicable loan underwriting requirements under the Title I Program prior to its approval of the loan and disbursement of loan proceeds. Generally, the lender must exercise prudence and diligence to determine whether the borrower and any co-maker is solvent and an acceptable credit risk, with a reasonable ability to make payments on the loan obligation. The lender's credit application and review must determine whether the borrower's income will be adequate to meet the periodic payments required by the loan, as well as the borrower's other housing and recurring expenses, which determination must be made in accordance with the expense-to-income ratios published by the Secretary of HUD.

Under the Title I Program, the FHA does not review or approve for qualification for insurance the individual loans insured thereunder at the time of approval by the lending institution (as is typically the case with other federal loan programs). If, after a loan has been made and reported for insurance under the Title I Program, the lender discovers any material misstatement of fact or that the loan proceeds have been misused by the borrower, dealer or any other party, it shall promptly report this to the FHA. In such case, provided that the validity of any lien on the property has not been impaired, the insurance of the loan under the Title I Program will not be affected unless such material misstatements of fact or misuse of loan proceeds was caused by (or was knowingly sanctioned by) the lender or its employees.

Requirements for Title I Loans. The maximum principal amount for Title I Loans must not exceed the actual cost of the project plus any applicable fees and charges allowed under the Title I Program; provided that such maximum amount does not exceed \$25,000 (or the current applicable amount) for a single family property improvement loan. Generally, the term of a Title I Loan may not be less than six months nor greater than 20 years and 32 days. A borrower may obtain multiple Title I Loans with respect to multiple properties, and a borrower may obtain more than one Title I Loan with respect to a single property, in each case as long as the total outstanding balance of all Title I Loans in the same property does not exceed the maximum loan amount for the type of Title I Loan thereon having the highest permissible loan amount.

Borrower eligibility for a Title I Loan requires that the borrower have at least a one-half interest in either fee simple title to the real property, a lease thereof for a term expiring at least six months after the final maturity of the Title I Loan or a recorded land installment contract for the purchase of the real property, and that the borrower have equity in the property being improved at least equal to the amount of the Title I Loan if such loan amount exceeds \$15,000. Any Title I Loan in excess of \$7,500 must be secured by a recorded lien on the

improved property which is evidenced by a mortgage or deed of trust executed by the borrower and all other owners in fee simple.

The proceeds from a Title I Loan may be used only to finance property improvements which substantially protect or improve the basic livability or utility of the property as disclosed in the loan application. The Secretary of HUD has published a list of items and activities which cannot be financed with proceeds from any Title I Loan and from time to time the Secretary of HUD may amend such list of items and activities. With respect to any dealer Title I Loan, before the lender may disburse funds, the lender must have in its possession a completion certificate on a HUD approved form, signed by the borrower and the dealer. With respect to any direct Title I Loan, the borrower is required to submit to the lender, promptly upon completion of the improvements but not later than six months after disbursement of the loan proceeds with one six month extension if necessary, a completion certificate, signed by the borrower. The lender or its agent is required to conduct an on-site inspection on any Title I Loan where the principal obligation is \$7,500 or more, and on any direct Title I Loan where the borrower fails to submit a completion certificate.

FHA Insurance Coverage. Under the Title I Program the FHA establishes an insurance coverage reserve account for each lender which has been granted a Title I insurance contract. The amount of insurance coverage in this account is 10% of the amount disbursed, advanced or expended by the lender in originating or purchasing eligible loans registered with FHA for Title I insurance, with certain adjustments. The balance in the insurance coverage reserve account is the maximum amount of insurance claims the FHA is required to pay. Loans to be insured under the Title I Program will be registered for insurance by the FHA and the insurance coverage attributable to such loans will be included in the insurance coverage reserve account for the originating or purchasing lender following the receipt and acknowledgment by the FHA of a loan report on the prescribed form pursuant to the Title I regulations. The FHA charges a fee of 0.50% per annum of the net proceeds (the original balance) of any eligible loan so reported and acknowledged for insurance by the originating lender. The FHA bills the lender for the insurance premium on each insured loan annually, on approximately the anniversary date of the loan's origination. If an insured loan is prepaid during the year, FHA will not refund the insurance premium, but will abate any insurance charges falling due after such prepayment.

Under the Title I Program the FHA will reduce the insurance coverage available in the lender's FHA insurance coverage reserve account with respect to loans insured under the lender's contract of insurance by (i) the amount of the FHA insurance claims approved for payment relating to such insured loans and (ii) the amount of insurance coverage attributable to insured loans sold by the lender. The balance of the lender's FHA insurance coverage reserve account will be further adjusted as required under Title I or by the FHA, and the insurance coverage therein may be earmarked with respect to each or any eligible loans insured thereunder, if a determination is made by the Secretary of HUD that it is in its interest to do so. Originations and acquisitions of new eligible loans will continue to increase a lender's insurance coverage reserve account balance by 10% of the amount disbursed, advanced or expended in originating or acquiring such eligible loans registered with the FHA for insurance under the Title I Program. The Secretary of HUD may transfer insurance coverage between insurance coverage reserve accounts with earmarking with respect to a particular insured loan or group of insured loans when a determination is made that it is in the Secretary's interest to do so.

The lender may transfer (except as collateral in a bona fide loan transaction) insured loans and loans reported for insurance only to another qualified lender under a valid Title I contract of insurance. Unless an insured loan is transferred with recourse or with a guaranty or repurchase agreement, the FHA, upon receipt of written notification of the transfer of such loan in accordance with the Title I regulations, will transfer from the transferor's insurance coverage reserve account to the transferee's insurance coverage reserve account an amount, if available, equal to 10% of the actual purchase price or the net unpaid principal balance of such loan (whichever is less). However, under the Title I Program not more than \$5,000 in insurance coverage shall be transferred to or from a lender's insurance coverage reserve account during any October 1 to September 30 period without the prior approval of the Secretary of HUD.

Claims Procedures Under Title I. Under the Title I Program the lender may accelerate an insured loan following a default on such loan only after the lender or its agent has contacted the borrower in a face-to-face meeting or by telephone to discuss the reasons for the default and to seek its cure. If the borrower does not cure the default or agree to a modification agreement or repayment plan, the lender will notify the borrower in writing that, unless within 30 days the default is cured or the borrower enters into a modification agreement or repayment plan, the loan will be accelerated and that, if the default persists, the lender will report the default to

an appropriate credit agency. The lender may rescind the acceleration of maturity after full payment is due and reinstate the loan only if the borrower brings the loan current, executes a modification agreement or agrees to an acceptable repayment plan.

Following acceleration of maturity upon a secured Title I Loan, the lender may either (a) proceed against the property under any security instrument, or (b) make a claim under the lender's contract of insurance. If the lender chooses to proceed against the property under a security instrument (or if it accepts a voluntary conveyance or surrender of the property), the lender may file an insurance claim only with the prior approval of the Secretary of HUD.

When a lender files an insurance claim with the FHA under the Title I Program, the FHA reviews the claim, the complete loan file and documentation of the lender's efforts to obtain recourse against any dealer who has agreed thereto, certification of compliance with applicable state and local laws in carrying out any foreclosure or repossession, and evidence that the lender has properly filed proofs of claims, where the borrower is bankrupt or deceased. Generally, a claim for reimbursement for loss on any Title I Loan must be filed with the FHA no later than nine months after the date of default of such loan. Concurrently with filing the insurance claim, the lender shall assign to the United States of America the lender's entire interest in the loan note (or a judgment in lieu of the note), in any security held and in any claim filed in any legal proceedings. If, at the time the note is assigned to the United States, the Secretary has reason to believe that the note is not valid or enforceable against the borrower, the FHA may deny the claim and reassign the note to the lender. If either such defect is discovered after the FHA has paid a claim, the FHA may require the lender to repurchase the paid claim and to accept a reassignment of the loan note. If the lender subsequently obtains a valid and enforceable judgment against the borrower, the lender may resubmit a new insurance claim with an assignment of the judgment. The FHA may contest any insurance claim and make a demand for repurchase of the loan at any time up to two years from the date the claim was certified for payment and may do so thereafter in the event of fraud or misrepresentation on the part of the lender.

Under the Title I Program the amount of an FHA insurance claim payment, when made, is equal to the Claimable Amount, up to the amount of insurance coverage in the lender's insurance coverage reserve account. For the purposes hereof, the "Claimable Amount" means an amount equal to 90% of the sum of: (a) the unpaid loan obligation (net unpaid principal and the uncollected interest earned to the date of default) with adjustments thereto if the lender has proceeded against property securing such loan; (b) the interest on the unpaid amount of the loan obligation from the date of default to the date of the claim's initial submission for payment plus 15 calendar days (but not to exceed 9 months from the date of default), calculated at the rate of 7% per annum; (c) the uncollected court costs; (d) the attorney's fees not to exceed \$500; and (e) the expenses for recording the assignment of the security to the United States.

Consumer Protection Laws

Numerous federal and state consumer protection laws impose substantive requirements upon mortgage lenders in connection with the origination, servicing and enforcement of loans secured by Single Family Properties. These laws include the federal Truth-in-Lending Act and Regulation Z promulgated thereunder, Real Estate Settlement Procedures Act and Regulation B promulgated thereunder, Equal Credit Opportunity Act, Fair Credit Billing Act, Fair Credit Reporting Act and related statutes and regulations. In particular, Regulation Z, requires certain disclosures to the borrowers regarding the terms of the loans; the Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit; the Fair Credit Reporting Act regulates the use and reporting of information related to the borrower's credit experience. Certain provisions of these laws impose specific statutory liabilities upon lenders who fail to comply therewith. In addition, violations of such laws may limit the ability of the sellers to collect all or part of the principal of or interest on the loans and could subject the sellers and in some cases their assignees to damages and administrative enforcement.

Material Federal Income Tax Consequences

General

The following is a summary of the anticipated material federal income tax consequences of the purchase, ownership, and disposition of the securities and is based on advice of Brown & Wood LLP, special counsel to the depositor. The summary is based upon the provisions of the Code, the regulations promulgated thereunder, including, where applicable, proposed regulations, and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The statutory provisions, regulations, and interpretations on which this interpretation is based are subject to change, and such a change could apply retroactively.

The summary does not purport to deal with all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor with certain types of investors subject to special treatment under the federal income tax laws. This summary focuses primarily upon investors who will hold securities as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code, but much of the discussion is applicable to other investors as well. Prospective Investors are advised to consult their own tax advisers concerning the federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the securities.

The federal income tax consequences to Holders will vary depending on whether

- the securities of a series are classified as indebtedness;
- an election is made to treat the trust fund relating to a particular series of securities as a real estate mortgage investment conduit (“REMIC”) under the Internal Revenue Code of 1986, as amended (the “Code”);
- the securities represent an ownership interest in some or all of the assets included in the trust fund for a series; or
- an election is made to treat the trust fund relating to a particular series of certificates as a partnership.

The prospectus supplement for each series of securities will specify how the securities will be treated for federal income tax purposes and will discuss whether a REMIC election, if any, will be made with respect to such series.

Taxation of Debt Securities

Interest and Acquisition Discount. Securities representing regular interests in a REMIC (“Regular Interest Securities”) are generally taxable to holders in the same manner as evidences of indebtedness issued by the REMIC. Stated interest on the Regular Interest securities will be taxable as ordinary income and taken into account using the accrual method of accounting, regardless of the Holder’s normal accounting method. Interest (other than original issue discount) on securities (other than Regular Interest securities) that are characterized as indebtedness for federal income tax purposes will be includible in income by holders thereof in accordance with their usual methods of accounting. Securities characterized as debt for federal income tax purposes and Regular Interest securities will be referred to hereinafter collectively as “Debt securities.”

Debt securities that are Compound Interest securities will, and certain of the other Debt securities may, be issued with “original issue discount” (“OID”). The following discussion is based in part on the rules governing OID which are set forth in Sections 1271-1275 of the Code and the Treasury regulations issued thereunder on February 2, 1994, as amended on June 11, 1996, (the “OID Regulations”). A Holder should be aware, however, that the OID Regulations do not adequately address certain issues relevant to prepayable securities, such as the Debt securities.

In general, OID, if any, will equal the difference between the stated redemption price at maturity of a Debt security and its issue price. A holder of a Debt security must include such OID in gross income as ordinary interest income as it accrues under a method taking into account an economic accrual of the discount. In general, OID must be included in income in advance of the receipt of the cash representing that income. The amount of OID on a Debt security will be considered to be zero if it is less than a de minimis amount determined under the Code.

The issue price of a Debt security is the first price at which a substantial amount of Debt securities of that class are sold to the public (excluding bond houses, brokers, underwriters or wholesalers). If less than a substantial amount of a particular class of Debt securities is sold for cash on or prior to the related Closing Date, the issue price for such class will be treated as the fair market value of such class on such Closing Date. The issue price of a Debt security also includes the amount paid by an initial Debt security holder for accrued interest that relates to a period prior to the issue date of the Debt security. The stated redemption price at maturity of a Debt security includes the original principal amount of the Debt security, but generally will not include distributions of interest if such distributions constitute “qualified stated interest.”

Under the OID Regulations, qualified stated interest generally means interest payable at a single fixed rate or qualified variable rate (as described below) provided that such interest payments are unconditionally payable at intervals of one year or less during the entire term of the Debt security. The OID Regulations state that interest payments are unconditionally payable only if a late payment or nonpayment is expected to be penalized or reasonable remedies exist to compel payment. Certain Debt securities may provide for default remedies in the event of late payment or nonpayment of interest. The interest on such Debt securities will be unconditionally payable and constitute qualified stated interest, not OID. However, absent clarification of the OID Regulations, where Debt securities do not provide for default remedies, the interest payments will be included in the Debt security’s stated redemption price at maturity and taxed as OID. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Distributions of interest on Debt securities with respect to which deferred interest will accrue, will not constitute qualified stated interest payments, in which case the stated redemption price at maturity of such Debt securities includes all distributions of interest as well as principal thereon. Where the interval between the issue date and the first distribution date on a Debt security is either longer or shorter than the interval between subsequent distribution dates, all or part of the interest foregone, in the case of the longer interval, and all of the additional interest, in the case of the shorter interval, will be included in the stated redemption price at maturity and tested under the de minimis rule described below. In the case of a Debt security with a long first period which has non-de minimis OID, all stated interest in excess of interest payable at the effective interest rate for the long first period will be included in the stated redemption price at maturity and the Debt security will generally have OID. Holders of Debt securities should consult their own tax advisors to determine the issue price and stated redemption price at maturity of a Debt security.

Under the de minimis rule, OID on a Debt security will be considered to be zero if such OID is less than 0.25% of the stated redemption price at maturity of the Debt security multiplied by the weighted average maturity of the Debt security. For this purpose, the weighted average maturity of the Debt security is computed as the sum of the amounts determined by multiplying the number of full years (i.e., rounding down partial years) from the issue date until each distribution in reduction of stated redemption price at maturity is scheduled to be made by a fraction, the numerator of which is the amount of each distribution included in the stated redemption price at maturity of the Debt security and the denominator of which is the stated redemption price at maturity of the Debt security. Holders generally must report de minimis OID pro rata as principal payments are received, and such income will be capital gain if the Debt security is held as a capital asset. However, accrual method holders may elect to accrue all de minimis OID as well as market discount under a constant interest method.

Debt securities may provide for interest based on a qualified variable rate. Under the OID Regulations, interest is treated as payable at a qualified variable rate and not as contingent interest if, generally,

- such interest is unconditionally payable at least annually,
- the issue price of the debt instrument does not exceed the total noncontingent principal payments and
- interest is based on a “qualified floating rate,” an “objective rate,” or a combination of “qualified floating rates” that do not operate in a manner that significantly accelerates or defers interest payments on such Debt security.

In the case of Compound Interest securities, certain Interest Weighted securities (as defined herein), and certain of the other Debt securities, none of the payments under the instrument will be considered qualified stated interest, and thus the aggregate amount of all payments will be included in the stated redemption price.

The Internal Revenue Services (the “IRS”) issued final regulations in June 1996 (the “Contingent Regulations”) governing the calculation of OID on instruments having contingent interest payments. The Contingent Regulations specifically do not apply for purposes of calculating OID on debt instruments subject to

Code Section 1272(a)(6), such as the Debt security. Additionally, the OID Regulations do not contain provisions specifically interpreting Code Section 1272(a)(6). Until the Treasury issues guidance to the contrary, the trustee intends to base its computation on Code Section 1272(a)(6) and the OID Regulations as described in this information circular. However, because no regulatory guidance currently exists under Code Section 1272(a)(6), there can be no assurance that such methodology represents the correct manner of calculating OID.

The holder of a Debt security issued with OID must include in gross income, for all days during its taxable year on which it holds such Debt security, the sum of the “daily portions” of such original issue discount. The amount of OID includible in income by a holder will be computed by allocating to each day during a taxable year a pro rata portion of the original issue discount that accrued during the relevant accrual period. In the case of a Debt security that is not a Regular Interest security and the principal payments on which are not subject to acceleration resulting from prepayments on the loans, the amount of OID includible in income of a Holder for an accrual period (generally the period over which interest accrues on the debt instrument) will equal the product of the yield to maturity of the Debt security and the adjusted issue price of the Debt security, reduced by any payments of qualified stated interest. The adjusted issue price is the sum of its issue price plus prior accruals of OID, reduced by the total payments made with respect to such Debt security in all prior periods, other than qualified stated interest payments.

The amount of OID to be included in income by a holder of a debt instrument, such as certain Classes of the Debt securities, that is subject to acceleration due to prepayments on other debt obligations securing such instruments (a “Pay-Through Security”), is computed by taking into account the anticipated rate of prepayments assumed in pricing the debt instrument (the “Prepayment Assumption”). The amount of OID that will accrue during an accrual period on a Pay-Through security is the excess (if any) of the sum of (a) the present value of all payments remaining to be made on the Pay-Through security as of the close of the accrual period and (b) the payments during the accrual period of amounts included in the stated redemption price of the Pay-Through security, over the adjusted issue price of the Pay-Through security at the beginning of the accrual period. The present value of the remaining payments is to be determined on the basis of three factors: (i) the original yield to maturity of the Pay-Through security (determined on the basis of compounding at the end of each accrual period and properly adjusted for the length of the accrual period), (ii) events which have occurred before the end of the accrual period and (iii) the assumption that the remaining payments will be made in accordance with the original Prepayment Assumption. The effect of this method is to increase the portions of OID required to be included in income by a Holder to take into account prepayments with respect to the loans at a rate that exceeds the Prepayment Assumption, and to decrease (but not below zero for any period) the portions of original issue discount required to be included in income by a Holder of a Pay-Through security to take into account prepayments with respect to the loans at a rate that is slower than the Prepayment Assumption. Although original issue discount will be reported to Holders of Pay-Through securities based on the Prepayment Assumption, no representation is made to Holders that loans will be prepaid at that rate or at any other rate.

The depositor may adjust the accrual of OID on a Class of Regular Interest securities (or other regular interests in a REMIC) in a manner that it believes to be appropriate, to take account of realized losses on the loans, although the OID Regulations do not provide for such adjustments. If the IRS were to require that OID be accrued without such adjustments, the rate of accrual of OID for a Class of Regular Interest securities could increase.

Certain classes of Regular Interest securities may represent more than one class of REMIC regular interests. Unless otherwise provided in the related information supplement, the trustee intends, based on the OID Regulations, to calculate OID on such securities as if, solely for the purposes of computing OID, the separate regular interests were a single debt instrument.

A subsequent holder of a Debt security will also be required to include OID in gross income, but such a holder who purchases such Debt security for an amount that exceeds its adjusted issue price will be entitled (as will an initial holder who pays more than a Debt security’s issue price) to offset such OID by comparable economic accruals of portions of such excess.

Effects of Defaults and Delinquencies. Holders will be required to report income with respect to the related securities under an accrual method without giving effect to delays and reductions in distributions attributable to a default or delinquency on the loans, except possibly to the extent that it can be established that such amounts are uncollectible. As a result, the amount of income (including OID) reported by a holder of such a security in any period could significantly exceed the amount of cash distributed to such holder in that period.

The holder will eventually be allowed a loss (or will be allowed to report a lesser amount of income) to the extent that the aggregate amount of distributions on the securities is deducted as a result of a loan default. However, the timing and character of such losses or reductions in income are uncertain and, accordingly, holders of securities should consult their own tax advisors on this point.

Interest Weighted Securities. It is not clear how income should be accrued with respect to Regular Interest securities or Stripped securities (as defined under “—Tax Status as a Grantor Trust; General” herein) the payments on which consist solely or primarily of a specified portion of the interest payments on qualified mortgages held by the REMIC or on loans underlying Pass-Through securities (“Interest Weighted Securities”). The Issuer intends to take the position that all of the income derived from an Interest Weighted Security should be treated as OID and that the amount and rate of accrual of such OID should be calculated by treating the Interest Weighted Security as a Compound Interest Security. However, in the case of Interest Weighted securities that are entitled to some payments of principal and that are Regular Interest securities the Internal Revenue Service could assert that income derived from an Interest Weighted security should be calculated as if the security were a security purchased at a premium equal to the excess of the price paid by such holder for such security over its stated principal amount, if any. Under this approach, a holder would be entitled to amortize such premium only if it has in effect an election under Section 171 of the Code with respect to all taxable debt instruments held by such holder, as described below. Alternatively, the Internal Revenue Service could assert that an Interest Weighted security should be taxable under the rules governing bonds issued with contingent payments. Such treatment may be more likely in the case of Interest Weighted securities that are Stripped securities as described below. See “—Tax Status as a Grantor Trust—Discount or Premium on Pass-Through Securities.”

Variable Rate Debt Securities. In the case of Debt securities bearing interest at a rate that varies directly, according to a fixed formula, with an objective index, it appears that (i) the yield to maturity of such Debt securities and (ii) in the case of Pay-Through securities, the present value of all payments remaining to be made on such Debt securities, should be calculated as if the interest index remained at its value as of the issue date of such securities. Because the proper method of adjusting accruals of OID on a variable rate Debt security is uncertain, holders of variable rate Debt securities should consult their own tax advisers regarding the appropriate treatment of such securities for federal income tax purposes.

Market Discount. A purchaser of a security may be subject to the market discount rules of Sections 1276-1278 of the Code. A Holder that acquires a Debt security with more than a prescribed de minimis amount of “market discount” (generally, the excess of the principal amount of the Debt security over the purchaser’s purchase price) will be required to include accrued market discount in income as ordinary income in each month, but limited to an amount not exceeding the principal payments on the Debt security received in that month and, if the securities are sold, the gain realized. Such market discount would accrue in a manner to be provided in Treasury regulations but, until such regulations are issued, such market discount would in general accrue either (i) on the basis of a constant yield (in the case of a Pay-Through security, taking into account a prepayment assumption) or (ii) in the ratio of (a) in the case of securities (or in the case of a Pass-Through security (as defined herein), as set forth below, the loans underlying such security) not originally issued with original issue discount, stated interest payable in the relevant period to total stated interest remaining to be paid at the beginning of the period or (b) in the case of securities (or, in the case of a Pass-Through security, as described below, the loans underlying such security) originally issued at a discount, OID in the relevant period to total OID remaining to be paid.

Section 1277 of the Code provides that, regardless of the origination date of the Debt security (or, in the case of a Pass-Through security, the loans), the excess of interest paid or accrued to purchase or carry a security (or, in the case of a Pass-Through security, as described below, the underlying loans) with market discount over interest received on such security is allowed as a current deduction only to the extent such excess is greater than the market discount that accrued during the taxable year in which such interest expense was incurred. In general, the deferred portion of any interest expense will be deductible when such market discount is included in income, including upon the sale, disposition, or repayment of the security (or in the case of a Pass-Through security, an underlying loan). A holder may elect to include market discount in income currently as it accrues, on all market discount obligations acquired by such holder during the taxable year such election is made and thereafter, in which case the interest deferral rule will not apply.

Premium. A holder who purchases a Debt security (other than an Interest Weighted security to the extent described above) at a cost greater than its stated redemption price at maturity, generally will be considered to have purchased the security at a premium, which it may elect to amortize as an offset to interest income on such security (and not as a separate deduction item) on a constant yield method. Although no regulations addressing the computation of premium accrual on securities similar to the securities have been issued, the legislative history of the 1986 Act indicates that premium is to be accrued in the same manner as market discount. Accordingly, it appears that the accrual of premium on a Class of Pay-Through securities will be calculated using the prepayment assumption used in pricing such Class. If a holder makes an election to amortize premium on a Debt security, such election will apply to all taxable debt instruments (including all REMIC regular interests and all pass-through certificates representing ownership interests in a trust holding debt obligations) held by the holder at the beginning of the taxable year in which the election is made, and to all taxable debt instruments acquired thereafter by such holder, and will be irrevocable without the consent of the IRS. Purchasers who pay a premium for the securities should consult their tax advisers regarding the election to amortize premium and the method to be employed.

On June 27, 1996 the IRS issued proposed regulations (the “Amortizable Bond Premium Regulations”) dealing with amortizable bond premium. These regulations specifically do not apply to prepayable debt instruments subject to Code Section 1272(a)(6) such as the securities. Absent further guidance from the IRS, the trustee intends to account for amortizable bond premium in the manner described above. Prospective purchasers of the securities should consult their tax advisors regarding the possible application of the Amortizable Bond Premium Regulations.

Election to Treat All Interest as Original Issue Discount. The OID Regulations permit a holder of a Debt security to elect to accrue all interest, discount (including de minimis market or original issue discount) and premium in income as interest, based on a constant yield method for Debt securities acquired on or after April 4, 1994. If such an election were to be made with respect to a Debt security with market discount, the holder of the Debt security would be deemed to have made an election to include in income currently market discount with respect to all other debt instruments having market discount that such holder of the Debt security acquires during the year of the election or thereafter. Similarly, a holder of a Debt security that makes this election for a Debt security that is acquired at a premium will be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that such holder owns or acquires. The election to accrue interest, discount and premium on a constant yield method with respect to a Debt security is irrevocable.

Taxation of the REMIC and its Holders

General. In the opinion of Brown & Wood LLP, special counsel to the depositor, if a REMIC election is made with respect to a Series of Securities, then the arrangement by which the securities of that Series are issued will be treated as a REMIC as long as all of the provisions of the applicable Agreement are complied with and the statutory and regulatory requirements are satisfied. Securities will be designated as “Regular Interests” or “Residual Interests” in a REMIC, as specified in the related information supplement.

Except to the extent specified otherwise in an information supplement, if a REMIC election is made with respect to a Series of securities, (i) securities held by a domestic building and loan association will constitute “a regular or a residual interest in a REMIC” within the meaning of Code Section 7701(a)(19)(C)(xi) (assuming that at least 95% of the REMIC’s assets consist of cash, government securities, “loans secured by an interest in real property,” and other types of assets described in Code Section 7701(a)(19)(C)); and (ii) securities held by a real estate investment trust will constitute “real estate assets” within the meaning of Code Section 856(c)(5)(B), and income with respect to the securities will be considered “interest on obligations secured by mortgages on real property or on interests in real property” within the meaning of Code Section 856(c)(3)(B) (assuming, for both purposes, that at least 95% of the REMIC’s assets are qualifying assets). If less than 95% of the REMIC’s assets consist of assets described in (i) or (ii) above, then a security will qualify for the tax treatment described in (i), (ii) or (iii) in the proportion that such REMIC assets are qualifying assets.

The Small Business Job Protection Act of 1996, as part of the repeal of the bad debt reserve method for thrift institutions, repealed the application of Code Section 593(d) to any taxable year beginning after December 31, 1995.

REMIC Expenses; Single Class REMICs

As a general rule, all of the expenses of a REMIC will be taken into account by holders of the Residual Interest securities. In the case of a “single class REMIC,” however, the expenses will be allocated, under Treasury regulations, among the holders of the Regular Interest securities and the holders of the Residual Interest securities (as defined herein) on a daily basis in proportion to the relative amounts of income accruing to each Holder on that day. In the case of a holder of a Regular Interest security who is an individual or a “pass-through interest holder” (including certain pass-through entities but not including real estate investment trusts), such expenses will be deductible only to the extent that such expenses, plus other “miscellaneous itemized deductions” of the Holder, exceed 2% of such Holder’s adjusted gross income. In addition, for taxable years beginning after December 31, 1990, the amount of itemized deductions otherwise allowable for the taxable year for an individual whose adjusted gross income exceeds the applicable amount (which amount will be adjusted for inflation for taxable years beginning after 1990) will be reduced by the lesser of

- 3% of the excess of adjusted gross income over the applicable amount, or
- 80% of the amount of itemized deductions otherwise allowable for such taxable year.

The reduction or disallowance of this deduction may have a significant impact on the yield of the Regular Interest security to such a Holder. In general terms, a single class REMIC is one that either

- would qualify, under existing Treasury regulations, as a grantor trust if it were not a REMIC (treating all interests as ownership interests, even if they would be classified as debt for federal income tax purposes) or
- is similar to such a trust and which is structured with the principal purpose of avoiding the single class REMIC rules.

The applicable information supplement may provide for the allocation of REMIC expenses, but if it does not, the expenses of the REMIC will be allocated to holders of the related residual interest securities.

Taxation of the REMIC

General. Although a REMIC is a separate entity for federal income tax purposes, a REMIC is not generally subject to entity-level tax. Rather, the taxable income or net loss of a REMIC is taken into account by the holders of residual interests. As described above, the regular interests are generally taxable as debt of the REMIC.

Calculation of REMIC Income. The taxable income or net loss of a REMIC is determined under an accrual method of accounting and in the same manner as in the case of an individual, with certain adjustments. In general, the taxable income or net loss will be the difference between

- the gross income produced by the REMIC’s assets, including stated interest and any original issue discount or market discount on loans and other assets, and
- deductions, including stated interest and original issue discount accrued on Regular Interest securities, amortization of any premium with respect to loans, and servicing fees and other expenses of the REMIC.

A holder of a Residual Interest security that is an individual or a “pass-through interest holder” (including certain pass-through entities, but not including real estate investment trusts) will be unable to deduct servicing fees payable on the loans or other administrative expenses of the REMIC for a given taxable year, to the extent that such expenses, when aggregated with such holder’s other miscellaneous itemized deductions for that year, do not exceed two percent of such holder’s adjusted gross income.

For purposes of computing its taxable income or net loss, the REMIC should have an initial aggregate tax basis in its assets equal to the aggregate fair market value of the regular interests and the residual interests on the Startup Day (generally, the day that the interests are issued). That aggregate basis will be allocated among the assets of the REMIC in proportion to their respective fair market values.

The OID provisions of the Code apply to loans of individuals originated on or after March 2, 1984, and the market discount provisions apply to loans originated after July 18, 1984. Subject to possible application of the *de minimis* rules, the method of accrual by the REMIC of OID income on such loans will be equivalent to the method under which holders of Pay-Through securities accrue original issue discount (*i.e.*, under the constant yield method taking into account the Prepayment Assumption). The REMIC will deduct OID on the Regular

Interest securities in the same manner that the holders of the Regular Interest securities include such discount in income, but without regard to the *de minimis* rules. See “Taxation of Debt Securities” above. However, a REMIC that acquires loans at a market discount must include such market discount in income currently, as it accrues, on a constant interest basis.

To the extent that the REMIC’s basis allocable to loans that it holds exceeds their principal amounts, the resulting premium, if attributable to mortgages originated after September 27, 1985, will be amortized over the life of the loans (taking into account the Prepayment Assumption) on a constant yield method. Although the law is somewhat unclear regarding recovery of premium attributable to loans originated on or before such date, it is possible that such premium may be recovered in proportion to payments of loan principal.

Prohibited Transactions and Contributions Tax. The REMIC will be subject to a 100% tax on any net income derived from a “prohibited transaction.” For this purpose, net income will be calculated without taking into account any losses from prohibited transactions or any deductions attributable to any prohibited transaction that resulted in a loss. In general, prohibited transactions include:

- subject to limited exceptions, the sale or other disposition of any qualified mortgage transferred to the REMIC;
- subject to a limited exception, the sale or other disposition of a cash flow investment;
- the receipt of any income from assets not permitted to be held by the REMIC pursuant to the Code; or
- the receipt of any fees or other compensation for services rendered by the REMIC.

It is anticipated that a REMIC will not engage in any prohibited transactions in which it would recognize a material amount of net income. In addition, subject to a number of exceptions, a tax is imposed at the rate of 100% on amounts contributed to a REMIC after the close of the three-month period beginning on the Startup Day. The holders of Residual Interest securities will generally be responsible for the payment of any such taxes imposed on the REMIC. To the extent not paid by such holders or otherwise, however, such taxes will be paid out of the trust fund and will be allocated pro rata to all outstanding classes of securities of such REMIC.

Taxation of Holders of Residual Interest Securities

The holder of a security representing a residual interest (a “Residual Interest Security”) will take into account the “daily portion” of the taxable income or net loss of the REMIC for each day during the taxable year on which such holder held the Residual Interest security. The daily portion is determined by allocating to each day in any calendar quarter its ratable portion of the taxable income or net loss of the REMIC for such quarter, and by allocating that amount among the holders (on such day) of the Residual Interest securities in proportion to their respective holdings on such day.

The holder of a Residual Interest security must report its proportionate share of the taxable income of the REMIC whether or not it receives cash distributions from the REMIC attributable to such income or loss. The reporting of taxable income without corresponding distributions could occur, for example, in certain REMIC issues in which the loans held by the REMIC were issued or acquired at a discount, since mortgage prepayments cause recognition of discount income, while the corresponding portion of the prepayment could be used in whole or in part to make principal payments on REMIC Regular Interests issued without any discount or at an insubstantial discount (if this occurs, it is likely that cash distributions will exceed taxable income in later years). Taxable income may also be greater in earlier years of certain REMIC issues as a result of the fact that interest expense deductions, as a percentage of outstanding principal on REMIC Regular Interest securities, will typically increase over time as lower yielding securities are paid, whereas interest income with respect to loans will generally remain constant over time as a percentage of loan principal.

In any event, because the holder of a residual interest is taxed on the net income of the REMIC, the taxable income derived from a Residual Interest security in a given taxable year will not be equal to the taxable income associated with investment in a corporate bond or stripped instrument having similar cash flow characteristics and pretax yield. Therefore, the after-tax yield on the Residual Interest security may be less than that of such a bond or instrument.

Limitation on Losses. The amount of the REMIC’s net loss that a holder may take into account currently is limited to the holder’s adjusted basis at the end of the calendar quarter in which such loss arises. A holder’s basis in a Residual Interest security will initially equal such holder’s purchase price, and will subsequently be

increased by the amount of the REMIC's taxable income allocated to the holder, and decreased (but not below zero) by the amount of distributions made and the amount of the REMIC's net loss allocated to the holder. Any disallowed loss may be carried forward indefinitely, but may be used only to offset income of the REMIC generated by the same REMIC. The ability of holders of Residual Interest securities to deduct net losses may be subject to additional limitations under the Code, as to which such holders should consult their tax advisers.

Distributions. Distributions on a Residual Interest security (whether at their scheduled times or as a result of prepayments) will generally not result in any additional taxable income or loss to a holder of a Residual Interest security. If the amount of such payment exceeds a holder's adjusted basis in the Residual Interest security, however, the holder will recognize gain (treated as gain from the sale of the Residual Interest security) to the extent of such excess.

Sale or Exchange. A holder of a Residual Interest security will recognize gain or loss on the sale or exchange of a Residual Interest security equal to the difference, if any, between the amount realized and such holder's adjusted basis in the Residual Interest security at the time of such sale or exchange. Except to the extent provided in regulations, which have not yet been issued, any loss upon disposition of a Residual Interest security will be disallowed if the selling holder acquires any residual interest in a REMIC or similar mortgage pool within six months before or after such disposition.

Excess Inclusions. The portion of the REMIC taxable income of a holder of a Residual Interest security consisting of "excess inclusion" income may not be offset by other deductions or losses, including net operating losses, on such holder's federal income tax return. Further, if the holder of a Residual Interest security is an organization subject to the tax on unrelated business income imposed by Code Section 511, such holder's excess inclusion income will be treated as unrelated business taxable income of such holder. In addition, under Treasury regulations yet to be issued, if a real estate investment trust, a regulated investment company, a common trust fund, or certain cooperatives were to own a Residual Interest security, a portion of dividends (or other distributions) paid by the real estate investment trust (or other entity) would be treated as excess inclusion income. If a Residual security is owned by a foreign person excess inclusion income is subject to tax at a rate of 30% which may not be reduced by treaty, is not eligible for treatment as "portfolio interest" and is subject to certain additional limitations. See "Tax Treatment of Foreign Investors." The Small Business Job Protection Act of 1996 has eliminated the special rule permitting Section 593 institutions ("thrift institutions") to use net operating losses and other allowable deductions to offset their excess inclusion income from REMIC residual certificates that have "significant value" within the meaning of the REMIC Regulations, effective for taxable years beginning after December 31, 1995, except with respect to residual certificates continuously held by a thrift institution since November 1, 1995.

In addition, the Small Business Job Protection Act of 1996 provides three rules for determining the effect on excess inclusions on the alternative minimum taxable income of a residual holder. First, alternative minimum taxable income for such residual holder is determined without regard to the special rule that taxable income cannot be less than excess inclusions. Second, a residual holder's alternative minimum taxable income for a tax year cannot be less than excess inclusions for the year. Third, the amount of any alternative minimum tax net operating loss deductions must be computed without regard to any excess inclusions. These rules are effective for tax years beginning after December 31, 1986, unless a residual holder elects to have such rules apply only to tax years beginning after August 20, 1996.

The excess inclusion portion of a REMIC's income is generally equal to the excess, if any, of REMIC taxable income for the quarterly period allocable to a Residual Interest security, over the daily accruals for such quarterly period of (i) 120% of the long term applicable federal rate on the Startup Day multiplied by (ii) the adjusted issue price of such Residual Interest security at the beginning of such quarterly period. The adjusted issue price of a Residual Interest at the beginning of each calendar quarter will equal its issue price (calculated in a manner analogous to the determination of the issue price of a Regular Interest), increased by the aggregate of the daily accruals for prior calendar quarters, and decreased (but not below zero) by the amount of loss allocated to a holder and the amount of distributions made on the Residual Interest security before the beginning of the quarter. The long-term federal rate, which is announced monthly by the Treasury Department, is an interest rate that is based on the average market yield of outstanding marketable obligations of the United States government having remaining maturities in excess of nine years.

Under the REMIC Regulations, in certain circumstances, transfers of Residual securities may be disregarded. See “—Restrictions on Ownership and Transfer of Residual Interest Securities” and “—Tax Treatment of Foreign Investors” below.

Restrictions on Ownership and Transfer of Residual Interest Securities. As a condition to qualification as a REMIC, reasonable arrangements must be made to prevent the ownership of a REMIC residual interest by any “Disqualified Organization.” Disqualified Organizations include the United States, any State or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of any of the foregoing, a rural electric or telephone cooperative described in Section 1381(a)(2)(C) of the Code, or any entity exempt from the tax imposed by Sections 1-1399 of the Code, if such entity is not subject to tax on its unrelated business income. Accordingly, the applicable Pooling and Servicing Agreement will prohibit Disqualified Organizations from owning a Residual Interest security. In addition, no transfer of a Residual Interest security will be permitted unless the proposed transferee shall have furnished to the trustee an affidavit representing and warranting that it is neither a Disqualified Organization nor an agent or nominee acting on behalf of a Disqualified Organization.

If a Residual Interest security is transferred to a Disqualified Organization after March 31, 1988 (in violation of the restrictions set forth above), a substantial tax can be imposed on the transferor of such Residual Interest security at the time of the transfer. In addition, if a Disqualified Organization holds an interest in a pass-through entity after March 31, 1988 (including, among others, a partnership, trust, real estate investment trust, regulated investment company, or any person holding as nominee), that owns a Residual Interest security, the pass-through entity will be required to pay an annual tax on its allocable share of the excess inclusion income of the REMIC. The Taxpayer Relief Act of 1997 adds provisions to the Code that will apply to an “electing large partnership”. If an electing large partnership holds a Residual Interest security, all interests in the electing large partnership are treated as held by disqualified organizations for purposes of the tax imposed upon a pass-through entity under section 860E(e) of the Code. An exception to this tax, otherwise available to a pass-through entity that is furnished certain affidavits by record holders of interests in the entity and that does not know such affidavits are false, is not available to an electing large partnership.

Under the REMIC Regulations, if a Residual Interest security is a “noneconomic residual interest,” as described below, a transfer of a Residual Interest security to a United States person will be disregarded for all Federal tax purposes unless no significant purpose of the transfer was to impede the assessment or collection of tax. A Residual Interest security is a “noneconomic residual interest” unless, at the time of the transfer

The REMIC Regulations presume that the transferor of a REMIC residual interest did not have impeding the assessment or collection of tax as a significant purpose of the transfer if it: (i) conducts a reasonable investigation of the transferee’s financial condition and concludes that the transferee has historically paid its debts as they come due and finds no significant evidence indicating that the transferee will not continue to pay its debts as they come due in the future, and (ii) receives a representation from the transferee that the transferee understands the tax obligations associated with holding a residual interest and intends to pay those taxes as they come due.

- the present value of the expected future distributions on the Residual Interest security at least equals the product of the present value of the anticipated excess inclusions and the highest rate of tax for the year in which the transfer occurs, and
- the transferor reasonably expects that the transferee will receive distributions from the REMIC at or after the time at which the taxes accrue on the anticipated excess inclusions in an amount sufficient to satisfy the accrued taxes.

Proposed Treasury regulations issued on February 4, 2000 (the “New Proposed Regulations”) would modify the safe harbor under which transfers of noneconomic residual interests are treated as not disregarded for federal income tax purposes. Under the New Proposed Regulations, a transfer of a noneconomic residual interest will not qualify under this safe harbor unless the present value of the anticipated tax liabilities associated with holding the residual interest does not exceed the sum of the present value of the sum of (i) any consideration given to the transferee to acquire the interest, (ii) future distributions on the interest, and (iii) any anticipated tax savings associated with holding the interest as the REMIC generates losses. For purposes of this calculation, the present value generally is calculated using a discount rate equal to applicable federal rate. The New Proposed Regulations have a proposed effective date of February 4, 2000.

If a transfer of a Residual Interest is disregarded, the transferor would be liable for any Federal income tax imposed upon taxable income derived by the transferee from the REMIC. The REMIC Regulations provide no guidance as to how to determine if a significant purpose of a transfer is to impede the assessment or collection of tax. A similar type of limitation exists with respect to certain transfers of residual interests by foreign persons to United States persons. See “—Tax Treatment of Foreign Investors.”

Mark to Market Rules. Prospective purchasers of a REMIC Residual Interest security should be aware that a REMIC Residual Interest security acquired after January 3, 1995 cannot be marked-to-market.

In addition, President Clinton’s Fiscal Year 2001 Budget Proposal contains a provision under which a REMIC would be secondarily liable for the tax liability of its residual interest. The proposal states that it would be effective for REMICs created after the date of enactment. It is unknown whether this provision will be included in any bill introduced to Congress this year or if introduced whether it will be enacted. Prospective investors in REMIC residual interests should consult their tax advisors regarding the New Proposed Regulations and the Fiscal Year 2001 Budget Proposals.

Administrative Matters

The REMIC’s books must be maintained on a calendar year basis and the REMIC must file an annual federal income tax return. The REMIC will also be subject to the procedural and administrative rules of the Code applicable to partnerships, including the determination of any adjustments to, among other things, items of REMIC income, gain, loss, deduction, or credit, by the IRS in a unified administrative proceeding.

Tax Status as a Grantor Trust

General. As specified in the related information supplement if a REMIC or partnership election is not made, in the opinion of Brown & Wood LLP, special counsel to the depositor, the trust fund relating to a series of securities will be classified for federal income tax purposes as a grantor trust under Subpart E, Part I of Subchapter J of the Code and not as an association taxable as a corporation (the securities of such series, “Pass-Through Securities”). In some series there will be no separation of the principal and interest payments on the loans. In such circumstances, a Holder will be considered to have purchased a pro rata undivided interest in each of the loans. In other cases (“Stripped Securities”), sale of the securities will produce a separation in the ownership of all or a portion of the principal payments from all or a portion of the interest payments on the loans.

Each Holder must report on its federal income tax return its share of the gross income derived from the loans (not reduced by the amount payable as fees to the trustee and the servicer and similar fees (collectively, the “Servicing Fee”)), at the same time and in the same manner as such items would have been reported under the Holder’s tax accounting method had it held its interest in the loans directly, received directly its share of the amounts received with respect to the loans, and paid directly its share of the Servicing Fees. In the case of Pass-Through securities other than Stripped securities, such income will consist of a pro rata share of all of the income derived from all of the loans and, in the case of Stripped securities, such income will consist of a pro rata share of the income derived from each stripped bond or stripped coupon in which the Holder owns an interest. The holder of a security will generally be entitled to deduct such Servicing Fees under Section 162 or Section 212 of the Code to the extent that such Servicing Fees represent “reasonable” compensation for the services rendered by the trustee and the servicer (or third parties that are compensated for the performance of services). In the case of a noncorporate holder, however, Servicing Fees (to the extent not otherwise disallowed, e.g., because they exceed reasonable compensation) will be deductible in computing such holder’s regular tax liability only to the extent that such fees, when added to other miscellaneous itemized deductions, exceed 2% of adjusted gross income and may not be deductible to any extent in computing such holder’s alternative minimum tax liability. In addition, for taxable years beginning after December 31, 1990, the amount of itemized deductions otherwise allowable for the taxable year for an individual whose adjusted gross income exceeds the applicable amount (which amount will be adjusted for inflation in taxable years beginning after 1990) will be reduced by the lesser of (i) 3% of the excess of adjusted gross income over the applicable amount or (ii) 80% of the amount of itemized deductions otherwise allowable for such taxable year.

Discount or Premium on Pass-Through Securities. The holder’s purchase price of a Pass-Through security is to be allocated among the loans in proportion to their fair market values, determined as of the time of

purchase of the securities. In the typical case, the trustee (to the extent necessary to fulfill its reporting obligations) will treat each loan as having a fair market value proportional to the share of the aggregate principal balances of all of the loans that it represents, since the securities, generally, will have a relatively uniform interest rate and other common characteristics. To the extent that the portion of the purchase price of a Pass-Through security allocated to a loan (other than to a right to receive any accrued interest thereon and any undistributed principal payments) is less than or greater than the portion of the principal balance of the loan allocable to the security, the interest in the loan allocable to the Pass-Through security will be deemed to have been acquired at a discount or premium, respectively.

The treatment of any discount will depend on whether the discount represents OID or market discount. In the case of a loan with OID in excess of a prescribed de minimis amount or a Stripped security, a holder of a security will be required to report as interest income in each taxable year its share of the amount of OID that accrues during that year in the manner described above. OID with respect to a loan could arise, for example, by virtue of the financing of points by the originator of the loan, or by virtue of the charging of points by the originator of the loan in an amount greater than a statutory de minimis exception, in circumstances under which the points are not currently deductible pursuant to applicable Code provisions. Any market discount or premium on a loan will be includible in income, generally in the manner described above, except that in the case of Pass-Through securities, market discount is calculated with respect to the loans underlying the certificate, rather than with respect to the security. A Holder that acquires an interest in a loan originated after July 18, 1984 with more than a de minimis amount of market discount (generally, the excess of the principal amount of the loan over the purchaser's allocable purchase price) will be required to include accrued market discount in income in the manner set forth above. See “—Taxation of Debt Securities; Market Discount” and “—Premium” above.

In the case of market discount on a Pass-Through security attributable to loans originated on or before July 18, 1984, the holder generally will be required to allocate the portion of such discount that is allocable to a loan among the principal payments on the loan and to include the discount allocable to each principal payment in ordinary income at the time such principal payment is made. Such treatment would generally result in discount being included in income at a slower rate than discount would be required to be included in income using the method described in the preceding paragraph.

Stripped securities. A Stripped security may represent a right to receive only a portion of the interest payments on the loans, a right to receive only principal payments on the loans, or a right to receive certain payments of both interest and principal. Certain Stripped securities (“Ratio Strip Securities”) may represent a right to receive differing percentages of both the interest and principal on each loan. Pursuant to Section 1286 of the Code, the separation of ownership of the right to receive some or all of the interest payments on an obligation from ownership of the right to receive some or all of the principal payments results in the creation of “stripped bonds” with respect to principal payments and “stripped coupons” with respect to interest payments. Section 1286 of the Code applies the OID rules to stripped bonds and stripped coupons. For purposes of computing original issue discount, a stripped bond or a stripped coupon is treated as a debt instrument issued on the date that such stripped interest is purchased with an issue price equal to its purchase price or, if more than one stripped interest is purchased, the ratable share of the purchase price allocable to such stripped interest.

Servicing fees in excess of reasonable servicing fees (“excess servicing”) will be treated under the stripped bond rules. If the excess servicing fee is less than 100 basis points (i.e., 1% interest on the loan principal balance) or the securities are initially sold with a de minimis discount (assuming no prepayment assumption is required), any non-de minimis discount arising from a subsequent transfer of the securities should be treated as market discount. The IRS appears to require that reasonable servicing fees be calculated on a loan by loan basis, which could result in some loans being treated as having more than 100 basis points of interest stripped off.

The Code. OID Regulations and judicial decisions provide no direct guidance as to how the interest and original issue discount rules are to apply to Stripped securities and other Pass-Through securities. Under the method described above for Pay-Through securities (the “Cash Flow Bond Method”), a prepayment assumption is used and periodic recalculations are made which take into account with respect to each accrual period the effect of prepayments during such period. However, the 1986 Act does not, absent Treasury regulations, appear specifically to cover instruments such as the Stripped securities which technically represent ownership interests in the underlying loans, rather than being debt instruments “secured by” those loans. For tax years beginning after August 5, 1997 the Taxpayer Relief Act of 1997 may allow use of the Cash Flow Bond Method with respect to Stripped securities and other Pass-Through securities because it provides that such method applies to

any pool of debt instruments the yield on which may be affected by prepayments. Nevertheless, it is believed that the Cash Flow Bond Method is a reasonable method of reporting income for such Securities, and it is expected that OID will be reported on that basis; provided that the applicable information supplement may provide for the reporting of OID on an alternative basis. In applying the calculation to Pass-Through securities, the trustee will treat all payments to be received by a holder with respect to the underlying loans as payments on a single installment obligation. The IRS could, however, assert that original issue discount must be calculated separately for each loan underlying a security.

Under certain circumstances, if the loans prepay at a rate faster than the Prepayment Assumption, the use of the Cash Flow Bond Method may accelerate a Holder's recognition of income. If, however, the loans prepay at a rate slower than the Prepayment Assumption, in some circumstances the use of this method may decelerate a Holder's recognition of income.

In the case of a Stripped security that is an Interest Weighted security, the trustee intends, absent contrary authority, to report income to security holders as OID, in the manner described above for Interest Weighted securities.

Possible Alternative Characterizations. The characterizations of the Stripped securities described above are not the only possible interpretations of the applicable Code provisions. Among other possibilities, the IRS could contend that

- in certain series, each non-Interest Weighted security is composed of an unstripped undivided ownership interest in loans and an installment obligation consisting of stripped principal payments;
- the non-Interest Weighted securities are subject to the contingent payment provisions of the Contingent Regulations; or
- each Interest Weighted Stripped security is composed of an unstripped undivided ownership interest in loans and an installment obligation consisting of stripped interest payments.

Given the variety of alternatives for treatment of the Stripped securities and the different federal income tax consequences that result from each alternative, potential purchasers are urged to consult their own tax advisers regarding the proper treatment of the securities for federal income tax purposes.

Character as Qualifying Loans. In the case of Stripped securities, there is no specific legal authority existing regarding whether the character of the securities, for federal income tax purposes, will be the same as the loans. The IRS could take the position that the loans' character is not carried over to the securities in such circumstances. Pass-Through securities will be, and, although the matter is not free from doubt, Stripped securities should be considered to represent "real estate assets" within the meaning of Section 856(c)(5)(B) of the Code and "loans secured by an interest in real property" within the meaning of Section 7701(a)(19)(C)(v) of the Code; and interest income attributable to the securities should be considered to represent "interest on obligations secured by mortgages on real property or on interests in real property" within the meaning of Section 856(c)(3)(B) of the Code. Reserves or funds underlying the securities may cause a proportionate reduction in the above-described qualifying status categories of securities.

Sale or Exchange

Subject to the discussion below with respect to trust funds as to which a partnership election is made, a Holder's tax basis in its security is the price such holder pays for a security, plus amounts of original issue or market discount included in income and reduced by any payments received (other than qualified stated interest payments) and any amortized premium. Gain or loss recognized on a sale, exchange, or redemption of a security, measured by the difference between the amount realized and the security's basis as so adjusted, will generally be capital gain or loss, assuming that the security is held as a capital asset. In the case of a security held by a bank, thrift, or similar institution described in Section 582 of the Code, however, gain or loss realized on the sale or exchange of a Regular Interest security will be taxable as ordinary income or loss. In addition, gain from the disposition of a regular interest security that might otherwise be capital gain will be treated as ordinary income to the extent of the excess, if any, of (i) the amount that would have been includible in the holder's income if the yield on such Regular Interest security had equaled 110% of the applicable federal rate as of the beginning of such holder's holding period, over the amount of ordinary income actually recognized by the holder with respect to such Regular Interest security. In general, the maximum tax rate on ordinary income for

individual taxpayers is 39.6% and the maximum tax rate on long-term capital gains for such taxpayers is 20%. The maximum tax rate on both ordinary income and long-term capital gains of corporate taxpayers is 35%.

Miscellaneous Tax Aspects

Backup Withholding. Subject to the discussion below with respect to trust funds as to which a partnership election is made, a Holder, other than a holder of a REMIC Residual security, may, under certain circumstances, be subject to “backup withholding” at a rate of 31% with respect to distributions or the proceeds of a sale of certificates to or through brokers that represent interest or original issue discount on the securities. This withholding generally applies if the holder of a security

- fails to furnish the trustee with its taxpayer identification number (“TIN”);
- furnishes the trustee an incorrect TIN;
- fails to report properly interest, dividends or other “reportable payments” as defined in the Code; or
- under certain circumstances, fails to provide the trustee or such holder’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that the holder is not subject to backup withholding.

Backup withholding will not apply, however, with respect to certain payments made to Holders, including payments to certain exempt recipients (such as exempt organizations) and to certain Nonresidents (as defined below). Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The trustee will report to the Holders and to the servicer for each calendar year the amount of any “reportable payments” during such year and the amount of tax withheld, if any, with respect to payments on the securities.

Tax Treatment of Foreign Investors

Subject to the discussion below with respect to trust funds as to which a partnership election is made, under the Code, unless interest (including OID) paid on a security (other than a Residual Interest security) is considered to be “effectively connected” with a trade or business conducted in the United States by a nonresident alien individual, foreign partnership or foreign corporation (“Nonresidents”), such interest will normally qualify as portfolio interest (except where the recipient is a holder, directly or by attribution, of 10% or more of the capital or profits interest in the issuer, or the recipient is a controlled foreign corporation to which the issuer is a related person) and will be exempt from federal income tax. Upon receipt of appropriate ownership statements, the issuer normally will be relieved of obligations to withhold tax from such interest payments. These provisions supersede the generally applicable provisions of United States law that would otherwise require the issuer to withhold at a 30% rate (unless such rate were reduced or eliminated by an applicable tax treaty) on, among other things, interest and other fixed or determinable, annual or periodic income paid to Nonresidents. Holders of Pass-Through securities and Stripped securities, including Ratio Strip securities, however, may be subject to withholding to the extent that the loans were originated on or before July 18, 1984.

Interest and OID of Holders who are foreign persons are not subject to withholding if they are effectively connected with a United States business conducted by the Holder. They will, however, generally be subject to the regular United States income tax.

Payments to holders of Residual Interest securities who are foreign persons will generally be treated as interest for purposes of the 30% (or lower treaty rate) United States withholding tax. Holders should assume that such income does not qualify for exemption from United States withholding tax as “portfolio interest.” It is clear that, to the extent that a payment represents a portion of REMIC taxable income that constitutes excess inclusion income, a holder of a Residual Interest security will not be entitled to an exemption from or reduction of the 30% (or lower treaty rate) withholding tax rule. If the payments are subject to United States withholding tax, they generally will be taken into account for withholding tax purposes only when paid or distributed (or when the Residual Interest security is disposed of). The Treasury has statutory authority, however, to promulgate regulations which would require such amounts to be taken into account at an earlier time in order to prevent the avoidance of tax. Such regulations could, for example, require withholding prior to the distribution of cash in the

case of Residual Interest securities that do not have significant value. Under the REMIC Regulations, if a Residual Interest security has tax avoidance potential, a transfer of a Residual Interest security to a Nonresident will be disregarded for all federal tax purposes. A Residual Interest security has tax avoidance potential unless, at the time of the transfer the transferor reasonably expects that the REMIC will distribute to the transferee residual interest holder amounts that will equal at least 30% of each excess inclusion, and that such amounts will be distributed at or after the time at which the excess inclusions accrue and not later than the calendar year following the calendar year of accrual. If a Nonresident transfers a Residual Interest security to a United States person, and if the transfer has the effect of allowing the transferor to avoid tax on accrued excess inclusions, then the transfer is disregarded and the transferor continues to be treated as the owner of the Residual Interest Security for purposes of the withholding tax provisions of the Code. See “—Excess Inclusions.”

Tax Characterization of the Trust Fund as a Partnership

Brown & Wood LLP, special counsel to the depositor, will deliver its opinion that a trust fund for which a partnership election is made will not be an association (or publicly traded partnership) taxable as a corporation for federal income tax purposes. This opinion will be based on the assumption that the terms of the Trust Agreement and related documents will be complied with, and on counsel’s conclusions that the nature of the income of the trust fund will exempt it from the rule that certain publicly traded partnerships are taxable as corporations or the issuance of the securities has been structured as a private placement under an IRS safe harbor, so that the trust fund will not be characterized as a publicly traded partnership taxable as a corporation.

If the trust fund were taxable as a corporation for federal income tax purposes, the trust fund would be subject to corporate income tax on its taxable income. The trust fund’s taxable income would include all its income, possibly reduced by its interest expense on the notes. Any such corporate income tax could materially reduce cash available to make payments on the notes and distributions on the certificates, and certificateholders could be liable for any such tax that is unpaid by the trust fund.

Tax Consequences to Holders of the Notes

Treatment of the notes as Indebtedness. The trust fund will agree, and the noteholders will agree by their purchase of notes, to treat the notes as debt for federal income tax purposes. Special counsel to the depositor will, except as otherwise provided in the related information supplement, advise the depositor that the notes will be classified as debt for federal income tax purposes. The discussion below assumes this characterization of the notes is correct.

OID, Indexed securities, etc. The discussion below assumes that all payments on the notes are denominated in U.S. dollars, and that the notes are not Indexed securities or Strip notes. Moreover, the discussion assumes that the interest formula for the notes meets the requirements for “qualified stated interest” under the OID regulations, and that any OID on the notes (*i.e.*, any excess of the principal amount of the notes over their issue price) does not exceed a *de minimis* amount (*i.e.*, 0.25% of their principal amount multiplied by the number of full years included in their term), all within the meaning of the OID regulations. If these conditions are not satisfied with respect to any given series of notes, additional tax considerations with respect to such notes will be disclosed in the applicable prospectus supplement.

Interest Income on the Notes. Based on the above assumptions, except as discussed in the following paragraph, the notes will not be considered issued with OID. The stated interest thereon will be taxable to a noteholder as ordinary interest income when received or accrued in accordance with such noteholder’s method of tax accounting. Under the OID regulations, a holder of a note issued with a *de minimis* amount of OID must include such OID in income, on a pro rata basis, as principal payments are made on the note. It is believed that any prepayment premium paid as a result of a mandatory redemption will be taxable as contingent interest when it becomes fixed and unconditionally payable. A purchaser who buys a note for more or less than its principal amount will generally be subject, respectively, to the premium amortization or market discount rules of the Code.

A holder of a note that has a fixed maturity date of not more than one year from the issue date of such note (a “Short-Term Note”) may be subject to special rules. An accrual basis holder of a Short-Term note (and certain cash method holders, including regulated investment companies, as set forth in Section 1281 of the Code) generally would be required to report interest income as interest accrues on a straight-line basis over the

term of each interest period. Other cash basis holders of a Short-Term note would, in general, be required to report interest income as interest is paid (or, if earlier, upon the taxable disposition of the Short-Term note). However, a cash basis holder of a Short-Term note reporting interest income as it is paid may be required to defer a portion of any interest expense otherwise deductible on indebtedness incurred to purchase or carry the Short-Term note until the taxable disposition of the Short-Term note. A cash basis taxpayer may elect under Section 1281 of the Code to accrue interest income on all nongovernment debt obligations with a term of one year or less, in which case the taxpayer would include interest on the Short-Term note in income as it accrues, but would not be subject to the interest expense deferral rule referred to in the preceding sentence. Certain special rules apply if a Short-Term note is purchased for more or less than its principal amount.

Sale or Other Disposition. If a noteholder sells a note, the holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale and the holder's adjusted tax basis in the note. The adjusted tax basis of a note to a particular noteholder will equal the holder's cost for the note, increased by any market discount, acquisition discount, OID and gain previously included by such noteholder in income with respect to the note and decreased by the amount of bond premium (if any) previously amortized and by the amount of principal payments previously received by such noteholder with respect to such note. Any such gain or loss will be capital gain or loss if the note was held as a capital asset, except for gain representing accrued interest and accrued market discount not previously included in income. Capital losses generally may be used only to offset capital gains.

Foreign Holders. Interest payments made (or accrued) to a noteholder who is a nonresident alien, foreign corporation or other non-United States person (a "foreign person") generally will be considered "portfolio interest", and generally will not be subject to United States federal income tax and withholding tax, if the interest is not effectively connected with the conduct of a trade or business within the United States by the foreign person and the foreign person

- is not actually or constructively a "10 percent shareholder" of the trust fund or the seller (including a holder of 10% of the outstanding certificates) or a "controlled foreign corporation" with respect to which the trust fund or the seller is a "related person" within the meaning of the Code and
- provides the Owner trustee or other person who is otherwise required to withhold U.S. tax with respect to the notes with an appropriate statement (on Form W-8 or a similar form), signed under penalties of perjury, certifying that the beneficial owner of the note is a foreign person and providing the foreign person's name and address.

If a note is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide the relevant signed statement to the withholding agent; in that case, however, the signed statement must be accompanied by a Form W-8 or substitute form provided by the foreign person that owns the note. If such interest is not portfolio interest, then it will be subject to United States federal income and withholding tax at a rate of 30 percent, unless reduced or eliminated pursuant to an applicable tax treaty.

Any capital gain realized on the sale, redemption, retirement or other taxable disposition of a note by a foreign person will be exempt from United States federal income and withholding tax, provided that such gain is not effectively connected with the conduct of a trade or business in the United States by the foreign person and in the case of an individual foreign person, the foreign person is not present in the United States for 183 days or more in the taxable year.

Backup Withholding. Each holder of a note (other than an exempt holder such as a corporation, tax-exempt organization, qualified pension and profit-sharing trust, individual retirement account or nonresident alien who provides certification as to status as a nonresident) will be required to provide, under penalties of perjury, a certificate containing the holder's name, address, correct federal taxpayer identification number and a statement that the holder is not subject to backup withholding. Should a nonexempt noteholder fail to provide the required certification, the trust fund will be required to withhold 31 percent of the amount otherwise payable to the holder, and remit the withheld amount to the IRS as a credit against the holder's federal income tax liability.

Possible Alternative Treatments of the Notes. If, contrary to the opinion of special counsel to the Company, the IRS successfully asserted that one or more of the notes did not represent debt for federal income tax purposes, the notes might be treated as equity interests in the trust fund. If so treated, the trust fund might be taxable as a corporation with the adverse consequences described above (and the taxable corporation would not

be able to reduce its taxable income by deductions for interest expense on notes recharacterized as equity). Alternatively, and most likely in the view of special counsel to the depositor, the trust fund might be treated as a publicly traded partnership that would not be taxable as a corporation because it would meet certain qualifying income tests. Nonetheless, treatment of the notes as equity interests in such a publicly traded partnership could have adverse tax consequences to certain holders. For example, income to certain tax-exempt entities (including pension funds) would be “unrelated business taxable income”, income to foreign holders generally would be subject to U.S. tax and U.S. tax return filing and withholding requirements, and individual holders might be subject to certain limitations on their ability to deduct their share of the trust fund’s expenses.

Tax Consequences to Holders of the Certificates

Treatment of the Trust Fund as a Partnership. The trust fund and the master servicer will agree, and the certificateholders will agree by their purchase of certificates, to treat the trust fund as a partnership for purposes of federal and state income tax, franchise tax and any other tax measured in whole or in part by income, with the assets of the partnership being the assets held by the trust fund, the partners of the partnership being the certificateholders, and the notes being debt of the partnership. However, the proper characterization of the arrangement involving the trust fund, the certificates, the notes, the trust fund and the Servicer is not clear because there is no authority on transactions closely comparable to that contemplated herein.

A variety of alternative characterizations are possible. For example, because the certificates have certain features characteristic of debt, the certificates might be considered debt of the trust fund. Any such characterization would not result in materially adverse tax consequences to certificateholders as compared to the consequences from treatment of the certificates as equity in a partnership, described below. The following discussion assumes that the certificates represent equity interests in a partnership.

Indexed Securities, etc. The following discussion assumes that all payments on the certificates are denominated in U.S. dollars, none of the certificates are Indexed securities or Strip certificates, and that a series of securities includes a single class of certificates. If these conditions are not satisfied with respect to any given series of certificates, additional tax considerations with respect to such certificates will be disclosed in the applicable prospectus supplement.

Partnership Taxation. As a partnership, the trust fund will not be subject to federal income tax. Rather, each certificateholder will be required to separately take into account such holder’s allocated share of income, gains, losses, deductions and credits of the trust fund. The trust fund’s income will consist primarily of interest and finance charges earned on the loans (including appropriate adjustments for market discount, OID and bond premium) and any gain upon collection or disposition of loans. The trust fund’s deductions will consist primarily of interest accruing with respect to the notes, servicing and other fees, and losses or deductions upon collection or disposition of loans.

The tax items of a partnership are allocable to the partners in accordance with the Code, Treasury regulations and the partnership agreement (here, the Trust Agreement and related documents). The Trust Agreement will provide, in general, that the certificateholders will be allocated taxable income of the trust fund for each month equal to the sum of (i) the interest that accrues on the certificates in accordance with their terms for such month, including interest accruing at the Pass-Through Rate for such month and interest on amounts previously due on the certificates but not yet distributed; (ii) any trust fund income attributable to discount on the Loans that corresponds to any excess of the principal amount of the certificates over their initial issue price (iii) prepayment premium payable to the certificateholders for such month; and (iv) any other amounts of income payable to the certificateholders for such month. Such allocation will be reduced by any amortization by the trust fund of premium on loans that corresponds to any excess of the issue price of certificates over their principal amount. All remaining taxable income of the trust fund will be allocated to the Company. Based on the economic arrangement of the parties, this approach for allocating trust fund income should be permissible under applicable Treasury regulations, although no assurance can be given that the IRS would not require a greater amount of income to be allocated to certificateholders. Moreover, even under the foregoing method of allocation, certificateholders may be allocated income equal to the entire Pass-Through Rate plus the other items described above even though the trust fund might not have sufficient cash to make current cash distributions of such amount. Thus, cash basis holders will in effect be required to report income from the certificates on the accrual basis and certificateholders may become liable for taxes on trust fund income even if they have not received cash from the trust fund to pay such taxes. In addition, because tax allocations and tax reporting will be done on a

uniform basis for all certificateholders but certificateholders may be purchasing certificates at different times and at different prices, certificateholders may be required to report on their tax returns taxable income that is greater or less than the amount reported to them by the trust fund.

All of the taxable income allocated to a certificateholder that is a pension, profit sharing or employee benefit plan or other tax-exempt entity (including an individual retirement account) will constitute “unrelated business taxable income” generally taxable to such a holder under the Code.

An individual taxpayer’s share of expenses of the trust fund (including fees to the Servicer but not interest expense) would be miscellaneous itemized deductions. Such deductions might be disallowed to the individual in whole or in part and might result in such holder being taxed on an amount of income that exceeds the amount of cash actually distributed to such holder over the life of the trust fund.

The trust fund intends to make all tax calculations relating to income and allocations to certificateholders on an aggregate basis. If the IRS were to require that such calculations be made separately for each loan, the trust fund might be required to incur additional expense but it is believed that there would not be a material adverse effect on certificateholders.

Discount and Premium. It is believed that the loans were not issued with OID, and, therefore, the trust fund should not have OID income. However, the purchase price paid by the trust fund for the loans may be greater or less than the remaining principal balance of the loans at the time of purchase. If so, the loan will have been acquired at a premium or discount, as the case may be. (As indicated above, the trust fund will make this calculation on an aggregate basis, but might be required to recompute it on a loan by loan basis.)

If the trust fund acquires the loans at a market discount or premium, the trust fund will elect to include any such discount in income currently as it accrues over the life of the loans or to offset any such premium against interest income on the loans. As indicated above, a portion of such market discount income or premium deduction may be allocated to certificateholders.

Section 708 Termination. Pursuant to final regulations issued on May 9, 1997 under Code Section 708, a sale or exchange of 50% or more of the capital and profits in a partnership would cause a deemed contribution of assets of the partnership (the “old partnership”) to a new partnership (the “new partnership”) in exchange for interests in the new partnership. Such interests would be deemed distributed to the partners of the old partnership in liquidation thereof, which would not constitute a sale or exchange. Accordingly under these new regulations, if the trust fund were characterized as a partnership and a sale of certificates terminated the partnership under Code Section 708, the purchaser’s basis in its ownership interest would not change.

Disposition of Certificates. Generally, capital gain or loss will be recognized on a sale of certificates in an amount equal to the difference between the amount realized and the seller’s tax basis in the certificates sold. A certificateholder’s tax basis in a certificate will generally equal the holder’s cost increased by the holder’s share of trust fund income (includible in income) and decreased by any distributions received with respect to such certificate. In addition, both the tax basis in the certificates and the amount realized on a sale of a certificate would include the holder’s share of the notes and other liabilities of the trust fund. A holder acquiring certificates at different prices may be required to maintain a single aggregate adjusted tax basis in such certificates, and, upon sale or other disposition of some of the certificates, allocate a portion of such aggregate tax basis to the certificates sold (rather than maintaining a separate tax basis in each certificate for purposes of computing gain or loss on a sale of that certificate).

Any gain on the sale of a certificate attributable to the holder’s share of unrecognized accrued market discount on the loans would generally be treated as ordinary income to the holder and would give rise to special tax reporting requirements. The trust fund does not expect to have any other assets that would give rise to such special reporting requirements. Thus, to avoid those special reporting requirements, the trust fund will elect to include market discount in income as it accrues.

If a certificateholder is required to recognize an aggregate amount of income (not including income attributable to disallowed itemized deductions described above) over the life of the certificates that exceeds the aggregate cash distributions with respect thereto, such excess will generally give rise to a capital loss upon the retirement of the certificates.

Allocations Between Transferors and Transferees. In general, the trust fund’s taxable income and losses will be determined monthly and the tax items for a particular calendar month will be apportioned among the

certificateholders in proportion to the principal amount of certificates owned by them as of the close of the last day of such month. As a result, a holder purchasing certificates may be allocated tax items (which will affect its tax liability and tax basis) attributable to periods before the actual transaction.

The use of such a monthly convention may not be permitted by existing regulations. If a monthly convention is not allowed (or only applies to transfers of less than all of the partner's interest), taxable income or losses of the trust fund might be reallocated among the certificateholders. The trust fund's method of allocation between transferors and transferees may be revised to conform to a method permitted by future regulations.

Section 754 Election. In the event that a certificateholder sells its certificates at a profit (loss), the purchasing certificateholder will have a higher (lower) basis in the certificates than the selling certificateholder had. The tax basis of the trust fund's assets will not be adjusted to reflect that higher (or lower) basis unless the trust fund were to file an election under Section 754 of the Code. In order to avoid the administrative complexities that would be involved in keeping accurate accounting records, as well as potentially onerous information reporting requirements, the trust fund will not make such election. As a result, certificateholders might be allocated a greater or lesser amount of trust fund income than would be appropriate based on their own purchase price for certificates.

Administrative Matters. The Owner trustee is required to keep or have kept complete and accurate books of the trust fund. Such books will be maintained for financial reporting and tax purposes on an accrual basis and the fiscal year of the trust fund will be the calendar year. The trustee will file a partnership information return (IRS Form 1065) with the IRS for each taxable year of the trust fund and will report each certificateholder's allocable share of items of trust fund income and expense to holders and the IRS on Schedule K-1. The trust fund will provide the Schedule K-1 information to nominees that fail to provide the trust fund with the information statement described below and such nominees will be required to forward such information to the beneficial owners of the certificates. Generally, holders must file tax returns that are consistent with the information return filed by the trust fund or be subject to penalties unless the holder notifies the IRS of all such inconsistencies.

Under Section 6031 of the Code, any person that holds certificates as a nominee at any time during a calendar year is required to furnish the trust fund with a statement containing certain information on the nominee, the beneficial owners and the certificates so held. Such information includes (i) the name, address and taxpayer identification number of the nominee and (ii) as to each beneficial owner (x) the name, address and identification number of such person, (y) whether such person is a United States person, a tax-exempt entity or a foreign government, an international organization, or any wholly owned agency or instrumentality of either of the foregoing, and (z) certain information on certificates that were held, bought or sold on behalf of such person throughout the year. In addition, brokers and financial institutions that hold certificates through a nominee are required to furnish directly to the trust fund information as to themselves and their ownership of certificates. A clearing agency registered under Section 17A of the Securities Exchange Act of 1934, as amended is not required to furnish any such information statement to the trust fund. The information referred to above for any calendar year must be furnished to the trust fund on or before the following January 31. Nominees, brokers and financial institutions that fail to provide the trust fund with the information described above may be subject to penalties.

The depositor will be designated as the tax matters partner in the related Trust Agreement and, as such, will be responsible for representing the certificateholders in any dispute with the IRS. The Code provides for administrative examination of a partnership as if the partnership were a separate and distinct taxpayer. Generally, the statute of limitations for partnership items does not expire before three years after the date on which the partnership information return is filed. Any adverse determination following an audit of the return of the trust fund by the appropriate taxing authorities could result in an adjustment of the returns of the certificateholders, and, under certain circumstances, a certificateholder may be precluded from separately litigating a proposed adjustment to the items of the trust fund. An adjustment could also result in an audit of a certificateholder's returns and adjustments of items not related to the income and losses of the trust fund.

Tax Consequences to Foreign Certificateholders. It is not clear whether the trust fund would be considered to be engaged in a trade or business in the United States for purposes of federal withholding taxes with respect to non-U.S. Persons because there is no clear authority dealing with that issue under facts substantially similar to those described herein. Although it is not expected that the trust fund would be engaged in a trade or business in the United States for such purposes, the trust fund will withhold as if it were so engaged

in order to protect the trust fund from possible adverse consequences of a failure to withhold. The trust fund expects to withhold on the portion of its taxable income, as calculated for this purpose which may exceed the distributions to certificateholders, that is allocable to foreign certificateholders pursuant to Section 1446 of the Code, as if such income were effectively connected to a U.S. trade or business, at a rate of 35% for foreign holders that are taxable as corporations and 39.6% for all other foreign holders. Subsequent adoption of Treasury regulations or the issuance of other administrative pronouncements may require the trust fund to change its withholding procedures. In determining a holder's withholding status, the trust fund may rely on IRS Form W-8, IRS Form W-9 or the holder's certification of nonforeign status signed under penalties of perjury.

The term "U.S. Person" means a citizen or resident of the United States, a corporation, partnership or other entity treated as a corporation or partnership for federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), or an estate whose income is subject to U.S. federal income tax regardless of its source of income, or a trust if a court within the United States is able to exercise primary supervision of the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in regulations, certain trusts in existence on August 20, 1996 and treated as United States persons prior to such date that elect to continue to be so treated also shall be considered U.S. Persons.

Each foreign holder might be required to file a U.S. individual or corporate income tax return (including, in the case of a corporation, the branch profits tax) on its share of the trust fund's income. Each foreign holder must obtain a taxpayer identification number from the IRS and submit that number to the trust fund on Form W-8 in order to assure appropriate crediting of the taxes withheld. A foreign holder generally would be entitled to file with the IRS a claim for refund with respect to taxes withheld by the trust fund taking the position that no taxes were due because the trust fund was not engaged in a U.S. trade or business. However, interest payments made (or accrued) to a certificateholder who is a foreign person generally will be considered guaranteed payments to the extent such payments are determined without regard to the income of the trust fund. If these interest payments are properly characterized as guaranteed payments, then the interest will not be considered "portfolio interest." As a result, certificateholders will be subject to United States federal income tax and withholding tax at a rate of 30 percent, unless reduced or eliminated pursuant to an applicable treaty. In such case, a foreign holder would only be entitled to claim a refund for that portion of the taxes in excess of the taxes that should be withheld with respect to the guaranteed payments.

Backup Withholding. Distributions made on the certificates and proceeds from the sale of the certificates will be subject to a "backup" withholding tax of 31% if, in general, the certificateholder fails to comply with certain identification procedures, unless the holder is an exempt recipient under applicable provisions of the Code.

New Withholding Regulations

Final regulations dealing with withholding tax on income paid to foreign persons, backup withholding and related matters (the "New Withholding Regulations") were issued by the Treasury Department on October 6, 1997. The New Withholding Regulations generally attempt to unify certification requirements and modify reliance standards. In particular, the New Withholding Regulations replace the current IRS Form W-8, Form 4224 and Form 1001 with various revised IRS Forms W-8 and provide that the current Form W-8, Form 4224 and Form 1001 will be invalid after December 31, 2000. Therefore, the holder of Notes will be required to file the appropriate revised Form W-8 before December 31, 2000. The New Withholding Regulations generally will be effective for payments made after December 31, 2000, subject to certain transition rules. Prospective investors are strongly urged to consult their own tax advisors with respect to the New Withholding Regulations.

State Tax Considerations

In addition to the federal income tax consequences described in "Federal Income Tax Consequences," potential investors should consider the state and local income tax consequences of the acquisition, ownership, and disposition of the securities. State and local income tax law may differ substantially from the corresponding

federal law, and this discussion does not purport to describe any aspect of the income tax laws of any state or locality. Therefore, potential investors should consult their own tax advisors with respect to the various state and local tax consequences of an investment in the securities.

Method of Distribution

Securities are being offered hereby in series from time to time (each series evidencing or relating to a separate trust fund) by placement directly by the depositor with Fannie Mae.

An information supplement will be prepared for each series which will describe the method of offering being used for that series.

This information circular, together with the related information supplement, may be used by Countrywide Securities Corporation, an affiliate of CWABS, Inc. and Countrywide Home Loans, Inc., in connection with offers and sales related to market making transactions in the securities in which Countrywide Securities Corporation acts as principal. Countrywide Securities Corporation may also act as agent in such transactions. Sales in such transactions will be made at prices related to prevailing prices at the time of sale.

Underwriters and agents may be entitled under agreements entered into with the depositor to indemnification by the depositor against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution with respect to payments which such underwriters or agents may be required to make in respect thereof.

If a series is offered other than through underwriters, the information supplement relating thereto will contain information regarding the nature of such offering and any agreements to be entered into between the depositor and purchasers of securities of such series.

Legal Matters

The validity of the securities of each series, including certain federal income tax consequences with respect thereto, will be passed upon for the depositor by Brown & Wood LLP, One World Trade Center, New York, New York 10048.

Financial Information

A new trust fund will be formed with respect to each series of securities and no trust fund will engage in any business activities or have any assets or obligations prior to the issuance of the related series of securities. Accordingly, no financial statements with respect to any trust fund will be included in information circular prospectus or in the related information supplement.

Index to Defined Terms

| <u>Term</u> | <u>Page</u> | <u>Term</u> | <u>Page</u> |
|--|-------------|---|-------------|
| Accretion Directed | 29 | Nonresidents | 78 |
| Accrual | 30 | Notional Amount Securities | 29 |
| Agreement | 16 | OID | 66 |
| Amortizable Bond Premium Regulations ... | 70 | OID Regulations | 66 |
| APR | 20 | OTS | 33 |
| Available Funds | 26 | PACs | 29 |
| BIF | 42 | Partial Accrual | 30 |
| Capitalized Interest Account | 44 | Pass-Through Rate | 16 |
| Cash Flow Bond Method | 76 | Pass-Through Securities | 75 |
| CERCLA | 56 | Pay-Through Security | 68 |
| Claimable Amount | 65 | Percentage Interests | 50 |
| Class Security Balance | 26 | Permitted Investments | 36 |
| Code | 25, 66 | Planned Principal Class | 29 |
| COFI Securities | 32 | Pool Insurance Policy | 37 |
| Collateral Value | 20 | Pool Insurer | 37 |
| Combined Loan-to-Value Ratio | 20 | Pooling and Servicing Agreement | 24 |
| Component Securities | 29 | Pre-Funded Amount | 44 |
| Contingent Regulations | 67 | Pre-Funding Account | 44 |
| cooperative loans | 17 | Prepayment Assumption | 68 |
| cooperatives | 17 | Primary Mortgage Insurance Policy | 18 |
| Cut-off Date Principal Balance | 24 | Prime Rate | 33 |
| Debt Securities | 66 | Principal Only | 30 |
| Detailed Description | 17 | Principal Prepayments | 27 |
| Eleventh District | 32 | Properties | 18 |
| ERISA | 25 | Property Improvement Loans | 63 |
| Excess Servicing | 76 | Purchase Price | 23 |
| FHA | 17 | Ratio Strip Securities | 76 |
| FHLBSF | 32 | RCRA | 57 |
| Fixed Rate | 30 | Record Date | 25 |
| Floating Rate | 30 | Refinance Loan | 20 |
| foreign person | 80 | Regular Interest Securities | 66 |
| Funding Period | 44 | Relief Act | 61 |
| Garn-St Germain Act | 58 | REMIC | 66 |
| Indenture | 24 | Residual Interest Security | 72 |
| Insurance Proceeds | 43 | Retained Interest | 24 |
| Insured Expenses | 43 | SAIF | 42 |
| Interest Only | 30 | Scheduled Principal Class | 29 |
| Interest Weighted Securities | 69 | Secured Creditor Exclusion | 56 |
| Inverse Floating Rate | 30 | Security Account | 42 |
| IRS | 67 | Security Register | 25 |
| L/C Bank | 35 | Sellers | 16 |
| L/C Percentage | 35 | Senior Securities | 34 |
| Liquidation Expenses | 43 | Sequential Pay | 29 |
| Liquidation Proceeds | 43 | Servicing Fee | 75 |
| Loan Rate | 17 | Short-Term Note | 79 |
| Loan-to-Value Ratio | 20 | Single Family Properties | 18 |
| Lockout periods | 18 | Strip | 29 |
| Master Servicing Agreement | 16 | Stripped Securities | 75 |
| Master Servicing Fee | 48 | Subsequent Loans | 44 |
| Moody's | 36 | Support Class | 30 |
| Mortgage | 41 | TACs | 30 |
| mortgaged properties | 18 | Targeted Principal Class | 30 |
| National Cost of Funds Index | 33 | Thrift Institutions | 73 |
| New Withholding Regulations | 84 | TIN | 78 |

| <u>Term</u> | <u>Page</u> |
|-------------------------|-------------|
| Title I Loans | 63 |
| Title I Program | 62 |
| Title V | 59, 60 |
| Trust Agreement | 16, 24 |
| Trust Fund Assets | 16 |

| <u>Term</u> | <u>Page</u> |
|---------------------|-------------|
| UCC | 56 |
| U.S. Person | 84 |
| VA | 17 |
| VA Guaranty | 48 |
| Variable Rate | 30 |

No one is authorized to give information or to make representations in connection with this offering other than those contained in this prospectus and the other disclosure documents. You must not rely on any unauthorized information or representation. This prospectus and the other disclosure documents do not constitute an offer or solicitation with regard to the certificates if it is illegal to make such an offer or solicitation to you under state law. By delivering this prospectus and the other disclosure documents at any time, no one implies that the information contained in these documents is correct after their dates.

The Securities and Exchange Commission has not approved or disapproved the certificates or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Table of Contents | 2 |
| Additional Information | 3 |
| Reference Sheet | 4 |
| Risk Factors | 6 |
| Description of the Certificates | 8 |
| The Trust Agreement | 12 |
| Certain Federal Income Tax Consequences | 14 |
| Legal Investment Considerations | 16 |
| Legal Opinion | 16 |
| ERISA Considerations | 17 |
| Plan of Distribution | 17 |
| Legal Matters | 17 |
| Index of Defined Terms | 18 |

Information Supplement

| | |
|--|------|
| Summary | S-3 |
| Risk Factors | S-10 |
| The Master Servicer | S-17 |
| The Home Equity Loan Program | S-17 |
| Description of the Mortgage Loans | S-20 |
| Maturity and Prepayment Considerations | S-36 |
| Pool Factor and Trading Information | S-38 |
| Description of the Certificates | S-38 |
| Description of the Purchase Agreement | S-61 |
| Use of Proceeds | S-62 |
| Material Federal Income Tax Consequences | S-62 |
| State Taxes | S-65 |
| Method of Distribution | S-65 |
| Legal Matters | S-65 |
| Experts | S-65 |
| Index of Defined Terms | S-66 |

Information Circular

| | |
|--|----|
| Important Notice About Information in This Information Circular and Each Accompanying Information Supplement | 3 |
| Risk Factors | 4 |
| The Trust Fund | 16 |
| Use of Proceeds | 21 |
| The Depositor | 21 |
| Loan Program | 21 |
| Description of the Securities | 24 |
| Credit Enhancement | 34 |
| Yield and Prepayment Considerations | 39 |
| The Agreements | 41 |
| Certain Legal Aspects of the Loans | 53 |
| Material Federal Income Tax Consequences | 66 |
| State Tax Considerations | 84 |
| Method of Distribution | 85 |
| Legal Matters | 85 |
| Financial Information | 85 |
| Index to Defined Terms | 86 |

\$225,000,000
(Approximate)



FannieMae®

**Guaranteed Grantor Trust
Pass-Through Certificates**

Fannie Mae Grantor Trust 2000-T1

PROSPECTUS



COUNTRYWIDE SECURITIES CORPORATION
A Countrywide Capital Markets Company

February 18, 2000