

\$605,800,000 (Approximate)



FannieMae®

**Guaranteed Grantor Trust Pass-Through Certificates  
Fannie Mae Grantor Trust 2002-T10**

Consider carefully the risk factors starting on page 6 of this prospectus, on page S-7 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 paid in that month on the underlying security.

We may pay principal in amounts which vary from time to time.

**The Fannie Mae Guaranty**

We will guarantee that the payments of monthly interest and principal described above are paid to investors on time. In addition, we guarantee that any outstanding principal balance of the certificates will be paid on the distribution date occurring in June 2032.

**The Trust and Its Assets**

The trust will own the underlying security described in this prospectus. The underlying security will represent the senior ownership interest in a group of conventional mortgage loans made to borrowers with blemished credit histories. These loans, which are included in an underlying trust, will bear fixed and adjustable interest rates and will be secured by first liens on one- to four-family residential properties. In the attached Information Supplement they are referred to as "loan group 1."

Class	Original Class Balance <sup>(1)</sup>	Principal Type	Interest Rate	Interest Type	CUSIP Number	Final Distribution Date
A1 . . . . .	\$605,800,000	PT	(2)	FLT/AFC	31392DUM2	June 2032

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

(2) The certificates will bear interest at the variable rate for the underlying security as described further in the attached Information Supplement.

Countrywide Securities Corporation will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be June 28, 2002.

**COUNTRYWIDE SECURITIES CORPORATION**

**JPMORGAN**

June 19, 2002

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
<b>ADDITIONAL INFORMATION</b> .....	3	<i>Principal Distribution Amount</i> .....	12
<b>REFERENCE SHEET</b> .....	4	CLASS DEFINITIONS AND ABBREVIATIONS .....	13
<b>RISK FACTORS</b> .....	6	YIELD, MODELING ASSUMPTIONS, DECREMENT	
<b>DESCRIPTION OF THE CERTIFICATES</b> .....	9	TABLE, WEIGHTED AVERAGE LIFE .....	13
GENERAL .....	9	<b>THE TRUST AGREEMENT</b> .....	13
<i>Structure</i> .....	9	REPORTS TO CERTIFICATEHOLDERS .....	13
<i>Fannie Mae Guaranty</i> .....	9	CERTAIN MATTERS REGARDING FANNIE MAE .....	13
<i>Characteristics of Certificates</i> .....	9	EVENTS OF DEFAULT .....	14
<i>Authorized Denominations</i> .....	10	RIGHTS UPON EVENT OF DEFAULT .....	14
<i>Distribution Date</i> .....	10	AMENDMENT .....	14
<i>Record Date</i> .....	10	TERMINATION .....	15
<i>Class Factor</i> .....	10	<b>CERTAIN FEDERAL INCOME TAX</b>	
<i>Underlying Loan Clean-up Call; Termination of</i>		<b>CONSEQUENCES</b> .....	15
<i>the Underlying Trust</i> .....	10	TAXATION OF BENEFICIAL OWNERS OF	
<i>Option to Repurchase Delinquent Loans</i> .....	10	CERTIFICATES .....	15
<i>Voting the Underlying Security</i> .....	10	TAXATION OF THE UNDERLYING SECURITY .....	16
THE UNDERLYING SECURITY .....	10	INFORMATION REPORTING AND BACKUP	
FINAL DATA STATEMENT .....	11	WITHHOLDING .....	16
BOOK-ENTRY PROCEDURES .....	11	FOREIGN INVESTORS .....	17
<i>General</i> .....	11	<b>LEGAL INVESTMENT CONSIDERATIONS</b> ...	17
<i>Method of Distribution</i> .....	11	<b>LEGAL OPINION</b> .....	18
<i>Holding Through International Clearing Systems</i> ..	11	<b>ERISA CONSIDERATIONS</b> .....	18
<i>Euroclear and Clearstream</i> .....	12	<b>PLAN OF DISTRIBUTION</b> .....	18
PAYMENTS OF INTEREST .....	12	<b>LEGAL MATTERS</b> .....	19
<i>Category of Class</i> .....	12	<b>INDEX OF DEFINED TERMS</b> .....	20
<i>Interest Distribution Amount</i> .....	12	<b>INFORMATION SUPPLEMENT</b>	
PAYMENTS OF PRINCIPAL .....	12	<b>INFORMATION CIRCULAR</b>	
<i>Category of Class</i> .....	12		

## 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 June 19, 2002 relating to the underlying security (the “Information Supplement”), which is attached to, and forms a part of, this prospectus;
- the Information Circular dated December 14, 2001 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 April 1, 2002 and its supplements (the “Information Statement”).

You can obtain copies of this prospectus and 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 corporate Web site at *www.fanniemae.com* and on our business-to-business Web site at *www.efanniemae.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) 669-6094).

## 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 single underlying security, the CWABS, Inc., Asset Backed Certificates, Series 2002-2, Class 1-A-1. Certain general characteristics of this underlying security are described in the Information Circular with more specific information being provided in the Information Supplement.
- The underlying security will represent an ownership interest in a group of conventional mortgage loans made to borrowers with blemished credit histories. These loans, which are included in an underlying trust, will bear fixed and adjustable interest rates and will be secured by first liens on one- to four-family residential properties. They are further discussed in the attached Information Supplement where they are referred to as “loan group 1.”
- 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 Mortgage Loans Backing the Underlying Security

For information about the nature of the mortgage loans backing the underlying security, see the section of the Information Supplement entitled “The Mortgage Pool.”

### 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 June 28, 2002.

### Distribution Dates

Beginning in July 2002, we will make payments on the certificates on the 25th day of each calendar month, or on the next business day if the 25th 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 paid in that month on the underlying security.

**Guaranty Payments**

We guarantee that interest and principal on the certificates will be paid as provided above. In addition, we guarantee the payment of any principal balance of the A1 Class that remains outstanding on the distribution date occurring in June 2032.

## 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-7 of the Information Supplement and on page      of the Information Circular.

### Suitability

*The certificates may not be a suitable investment.* The certificates are not a suitable investment for every investor. Before investing, you should carefully consider the following.

- You should have sufficient knowledge and experience to evaluate the merits and risks of the certificates and the information contained in this prospectus, the Information Supplement and the other disclosure documents.
- 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

*A variety of factors can affect your yield.* 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 adjustable-rate underlying loans;
- the price you paid for the certificates;
- how quickly or slowly borrowers repay or prepay the underlying loans;
- the extent to which amounts on deposit in the prefunding account (described in the Information Supplement) are paid as principal of the underlying security and passed through to holders of the certificates on or before the September 2002 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;
- if and when the parties identified in the Information Supplement exercise their limited right to terminate the underlying trust by purchasing all of the loans remaining in that trust; and
- the actual characteristics of the underlying loans.

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

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

Even if the underlying loans are prepaid at a rate that on average is consistent with your expectations, variations over time in the prepayment 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 prepayments on the underlying loans during any period is faster or slower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the impact of the earlier prepayment rate on your yield.

Certain assumptions concerning the underlying mortgage loans were used in preparing the tabular information set forth in the Information Supplement. If the actual loan characteristics differ even slightly from those assumptions, the weighted average life and yield of the underlying security, and therefore the certificates, could be affected.

**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 certificates are subject to basis risk.* The interest rate on the underlying security adjusts monthly based on one-month LIBOR. The interest rates on the underlying adjustable-rate mortgage loans, which in some cases are fixed for the first two or three years, generally adjust less frequently than the rate on the underlying security and on the basis of a different index. The interest rates on the underlying fixed-rate mortgage loans do not adjust at all. As a result, the underlying security, and therefore the certificates, are subject to basis risk, which may reduce their yield.

*Unpredictable timing of last payment may affect your yield.* The actual final payment on the certificates may occur earlier, and could occur much earlier, than the distribution date occurring in June 2032. 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

*The rate of principal payments on the certificates depends on numerous factors and cannot be predicted.* The rate of principal payments on the certificates generally will depend on the rate of principal payments on the underlying loans in loan group 1. Principal payments will occur as a result of scheduled amortization or prepayments. The rate of principal payments is likely to vary considerably from time to time as a result of the liquidation of foreclosed mortgage loans.

It is highly unlikely that the underlying loans will prepay:

- at any constant prepayment rate until maturity, or
- at the same rate.

The underlying mortgage loans provide that the lender can require repayment in full if the borrower sells the property that secures the loan. In this way, property sales by borrowers can affect the rate of prepayment. In addition, if borrowers are able to refinance their loans by obtaining new loans secured by the same properties, any refinancing will affect the rate of prepayment. Furthermore, Countrywide Home Loans, Inc. has made representations and warranties with respect to the mortgage loans and may have to repurchase the related loans if they fail to conform to those representations and warranties. Any such repurchases also will affect the rate of prepayment.

Once the balances of all of the underlying mortgage loans held in the underlying trust, together with any related foreclosed real estate, are reduced to 10% or less of the sum of their balances as of the issue date plus the original aggregate amount deposited in the prefunding account described in the Information Supplement, the holder of the Class X Certificate issued by the underlying trust may purchase all the remaining mortgage loans. If the holder of the Class X Certificate does not exercise this clean-up call, the master servicer identified in the Information Supplement may purchase all the remaining mortgage loans once their balances, together with any related foreclosed real estate, are reduced to 5% or less of the sum described above. If the underlying mortgage loans are purchased in this way, it would have



the same effect as a prepayment in full of the mortgage loans. For a further description of the termination risks, you should read the Information Supplement.

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 general creditworthiness of the borrowers, and
- general economic conditions.

Because so many factors affect the rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the mortgage loans backing the underlying security.

*Overcollateralization can accelerate principal payments.* Due to the overcollateralization feature of the underlying trust, the rate of principal payments on the underlying security, and therefore on the certificates, may be somewhat faster from time to time than the rates of principal payments on the underlying mortgage loans. Beginning on the first distribution date, a portion of the excess interest generated by the underlying mortgage loans will be applied to pay principal on the underlying security until the required level of overcollateralization is reached.

*Distribution of unspent funds in the prefunding account will have the same effect on the certificates as borrower prepayments of loans.* As described in the Information Supplement, funds on deposit in the prefunding account held in the trust will be used to purchase additional loans for loan group 1 on or before September 20, 2002. Any funds remaining in the loan group 1 pre-fund account after that date will be paid on the following distribution date as principal on the underlying security and, as a result, will be paid as principal on the certificates.

## **Reinvestment Risk**

*You may have to reinvest principal payments at a rate of return lower than that on the certificates.* Generally, a borrower may prepay

a mortgage loan at any time. As a result, we cannot predict the amount of principal payments on the certificates. The certificates may not be an appropriate investment for you if you require a specific amount of principal on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the certificates at a rate of return that is as high as your rate of return on the certificates. You may have to reinvest those funds at a much lower rate of return. You should consider this risk in light of other investments that may be available to you.

## **Market and Liquidity Considerations**

*It may be difficult to resell your certificates and any resale may occur on adverse terms.* 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 market. 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;
- 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

*Any failure of Fannie Mae to perform its guaranty obligations will adversely affect investors. If we were unable to perform our guaranty obligations, certificateholders would receive only payments made on the underlying*

security. If that happened, delinquencies and defaults or other shortfalls on the underlying mortgage loans in loan group 1 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) and is not complete. 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 that term in the applicable Disclosure Document or in the Trust Agreement.

### General

*Structure.* We, the Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States, under the authority contained in Section 304(d) of the Federal National Mortgage Association Charter Act (12 U.S.C. §1716 *et seq.*), will create the Fannie Mae Grantor Trust specified on the cover page of this prospectus (the “Trust”) pursuant to a trust agreement (the “Trust Agreement”) dated as of June 1, 2002 (the “Issue Date”). 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 CWABS, Inc., Asset Backed Certificates, Series 2002-2, Class 1-A-1 (the “Underlying Security”) as further described in the Information Supplement. The Underlying Security will evidence the senior ownership interest in a group of conventional mortgage loans made to borrowers with blemished credit histories (the “Group 1 Loans”) that are included in an underlying trust (the “Underlying Trust”). The Group 1 Loans will bear fixed and adjustable rates of interest and will be secured by first lien deeds of trust or mortgages on one- to four-family (“single-family”) residential properties, all as more fully described in the Information Supplement.

*Fannie Mae Guaranty.* We guarantee that on each Distribution Date we will pay to Certificateholders:

- the amount of interest paid on that date on the Underlying Security, and
- the amount of principal paid on that date on the Underlying Security.

In addition, we guarantee the payment of any principal balance that remains outstanding on the Distribution Date occurring in June 2032.

If we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts actually paid on the Group 1 Loans. If that happened, delinquencies and defaults on the Group 1 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 July 2002, we will make payments of principal and interest on the Certificates on the 25th day of each month or, if the 25th is not a business day (as defined in the Information Supplement), on the first business day after the 25th. We refer to each such date as a “Distribution Date.”

*Record Date.* On each Distribution Date, we will make each monthly payment to Certificate-holders who were Holders of record on the business day preceding that Distribution Date.

*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.

*Underlying Loan Clean-up Call; Termination of the Underlying Trust.* The holder of the Class X Certificate (as defined in the Information Supplement) issued by the Underlying Trust may purchase all the assets of the Underlying Trust when the principal balances of the Group 1 Loans, together with all other mortgage loans in the Underlying Trust and any related foreclosed property, have been reduced to 10% or less of the sum of their balances as of the Issue Date and the aggregate amount in the prefunding accounts (as described in the Information Supplement) as of the Issue Date. If the holder of the Class X Certificate does not exercise its clean-up call, Countrywide Home Loans Servicing LP, as master servicer, may do so when all the assets of the Underlying Trust have been reduced to 5% or less of the sum specified in the preceding sentence.

If the Group 1 Loans are purchased in this way, it will have the same effect on the Certificates as a prepayment in full of the Group 1 Loans.

*Option to Repurchase Delinquent Loans.* The master servicer has the option to repurchase Group 1 Loans that are 150 days or more delinquent. After the principal balance of the Class B-1 Certificates issued by the Underlying Trust have been reduced to zero, we have the option to purchase any Group 1 Loans that are 90 days or more delinquent.

*Voting the Underlying Security.* The holders of the Underlying Security may have to vote on issues arising under the documents governing the Underlying Trust. If so, the Trustee will vote the Underlying Security as instructed by Holders of the Certificates. The Trustee must receive instructions from Holders of 51% of the Certificates. In the absence of such instructions, the Trustee will vote in a manner consistent, in its sole judgment, with the best interests of Certificateholders.

## **The Underlying Security**

The Underlying Security represents the senior ownership interest in the Group 1 Loans.

The Underlying Security represents an entitlement to a portion of the interest and principal due on the Group 1 Loans, 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.

## Final Data Statement

Within 15 days after the Settlement Date, we will prepare a Final Data Statement containing a detailed description of the Group 1 Loans actually included in the Underlying Trust on the Settlement Date. The Final Data Statement will be available on our corporate Web site at [www.fanniemae.com](http://www.fanniemae.com) and our business-to-business Web site at [www.efanniemae.com](http://www.efanniemae.com).

## 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. Initially, we will act as Paying Agent for the Certificates. In addition, State Street Bank and Trust Company will perform certain administrative functions with respect to the Certificates.

A “beneficial owner” or an “investor” is anyone who acquires a beneficial ownership interest in the Certificates. As an investor, you will not receive a physical certificate. Instead, your interest will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (a “financial intermediary”) that maintains the account for you. In turn, the record ownership of the intermediary 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. Neither the Trustee nor the Depository will recognize an investor as a Certificateholder. Therefore, you must rely on these various arrangements to transfer your beneficial interest in the Certificates and comply with the procedures of your financial intermediary and of Depository Participants. In general, ownership of Certificates will be subject to the prevailing rules, regulations and procedures governing the Depository and Depository Participants.

*Method of Distribution.* We will direct payments on the Certificates to the Depository in immediately available funds. The Depository will credit the payments to the accounts of the Depository Participants entitled to them, in accordance with the Depository’s normal procedures. These procedures currently provide for payments made in same-day funds to be settled through the New York clearing house. Each Depository Participant and each financial intermediary will direct the payments to the investors in the Certificates that it represents. Accordingly, investors may experience a delay in receiving payments.

*Holding Through International Clearing Systems.* Beneficial interests in the Certificates may be held through organizations participating in the international clearing systems described below. Electronic securities and payment transfer, processing, depository and custodial arrangements among these systems and DTC, either directly or indirectly through custodians and depositories, may enable beneficial interests in the Certificates to be issued, held and transferred among these systems as described below. Special procedures among these systems allow clearance and settlement of beneficial interests in certain securities traded across borders in the secondary market. Cross-market transfers of beneficial interests in the Certificates may be cleared and settled using these procedures. However, we can give no assurance that cross-market transfers of beneficial interests in the Certificates will be possible.

Each relevant system has its own separate operating procedures and arrangements with participants and accountholders that govern the relationship between them and such system and to which we are not and will not be a party. The clearing systems may impose fees in respect of the maintenance and operation of the accounts in which beneficial interests in the Certificates are maintained.

If beneficial interests in the Certificates are cleared and settled through more than one clearing system, time zone differences may result in the securities account of an investor in one system being

credited during the settlement processing day immediately following the settlement date of the other system and the cash account being credited for value on the settlement date but only being available as of the day following that settlement date.

Although clearing systems have procedures to facilitate transfers of beneficial interests in securities among their respective participants and accountholders, we understand that they are under no obligation to perform or continue to perform those procedures, which may be modified or discontinued at any time. We will have no responsibility for the performance by any system, or their respective direct or indirect participants or accountholders, of their respective obligations under the results and procedures governing their operations.

*Euroclear and Clearstream.* The Euroclear System (“Euroclear”) was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear is operated by Euroclear Bank S.A./N.V., and all Euroclear securities clearance and cash accounts are with Euroclear Bank. Securities clearance and cash accounts are governed by procedures of Euroclear and applicable Belgian law. Clearstream Banking, *société anonyme* (“Clearstream”), is incorporated under the laws of Luxembourg as a professional depository and is subject to regulation by the Luxembourg Monetary Institute. A participant’s overall contractual relations with Clearstream are governed by the general terms and conditions, related operating rules and procedures and applicable Luxembourg law.

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

## 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>
Floating Rate	A1
Available Funds	A1

\* 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 on 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	A1

\* 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, if any, paid on the Underlying Security on 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>
<b>INTEREST TYPES</b>		
AFC	Available Funds	Receives as interest all or a portion of the scheduled interest payments made on the related mortgage loans. However, this amount may be insufficient on any Distribution Date to cover fully the accrued and unpaid interest on the Certificates of this Class at its specified interest rate.
FLT	Floating Rate	Has an interest rate that resets periodically based upon the designated index and that generally varies directly with changes in the index.
<b>PRINCIPAL TYPE</b>		
PT	Pass-Through	Receives principal payments based on the actual distributions on the Underlying Security.

## Yield, Modeling Assumptions, Decrement Table, Weighted Average Life

See the section of the Information Supplement entitled “Yield, Prepayment and Maturity Considerations” with respect to the Underlying Security (Class 1-A-1).

## 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.

### **Termination**

The Trust Agreement will terminate when the Underlying Security has been paid in full or liquidated, and its proceeds distributed. 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.

For a description of the termination of the Underlying Trust, see “Description of the Certificates—Optional Termination” in the Information Supplement.

## **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**

Our special tax counsel, Arnold & Porter, will deliver its opinion that, assuming compliance with the Trust Agreement, 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, certain limited liability companies and non-publicly offered regulated investment companies, but do not include estates, non-grantor 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 2% 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 nongrantor trust (not including expenses of the Trust) that would not have been incurred if the property were not held in such non-grantor trust or estate are allowable in arriving at adjusted gross income. In addition, section 68 of the Code may provide for certain limitations on itemized deductions otherwise allowable for a beneficial owner who is an individual. 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 holders of the Underlying Security. The Information Supplement states that the holder of the Underlying Security will be deemed to own two assets, a REMIC regular interest and the right to receive payments from the Carryover Reserve Fund. Because a beneficial owner of a Certificate will be required to report its pro rata share of the income accruing 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 there.

The Information Supplement states that, taking into account certain assumptions described therein, the Underlying Security (except for the right to receive payments from the Carryover Reserve Fund) will qualify as a "regular interest" in a "real estate mortgage investment conduit" within the meaning of the Code. Qualification as a REMIC requires initial and ongoing compliance with certain conditions. The remainder of this discussion assumes that all the requirements for qualification as a REMIC have been, and will continue to be, met with respect to the Underlying Trust. If the Underlying Security were to fail to qualify as a regular interest in a REMIC, the Underlying Security might not be accorded the status described under the section of the Information Supplement entitled "Material Federal Income Tax Consequences—Status of the Offered Certificates" and the Underlying Trust might be taxable as a corporation. You should consult your tax advisors regarding the tax consequences to a beneficial owner of a Certificate if the Underlying Security were to fail to qualify as a regular interest in a REMIC.

### **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 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 state thereof or the District of Columbia,
- 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 U.S. 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 residual interest in the Underlying Trust or of the voting stock of Fannie Mae, 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 any applicable rules, guidelines and regulations prior to purchasing the Certificates. You should also review and consider the applicability of the Federal Financial Institutions Examination Council Supervisory Policy Statement on Securities Activities (to the extent adopted by their respective federal regulators), which, among other things, sets forth guidelines for financial institutions investing in certain types of mortgage-related securities, including securities such as the Certificates. In addition, if you are a financial institution, you should consult your regulators concerning the risk-based capital treatment of any Certificate.

Pursuant to the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”), securities that we issue (such as the Certificates) are legal investments for entities created under the laws of the United States or any state whose authorized investments are subject to state regulation to the same extent as obligations issued or guaranteed by the United States or any of its agencies or instrumentalities. Under SMMEA, if a state enacted legislation prior to October 4, 1991 specifically limiting the legal investment authority of any such entities with respect to securities that we issue or guarantee, those securities will constitute legal investments for such entities only to the extent provided in the legislation. Certain states adopted such legislation prior to the October 4, 1991 deadline. **You should consult your 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 section 4975 of 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, Sidley Austin 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

We will acquire the Underlying Security from Countrywide Securities Corporation (the “Dealer”) in exchange for the Certificates. 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**

Sidley Austin Brown & Wood LLP will provide legal representation for Fannie Mae. McKee Nelson LLP will provide legal representation for the Dealer.

## INDEX OF DEFINED TERMS

Certificateholder .....	9
Certificates .....	9
Clearstream .....	12
Code .....	15
Dealer .....	18
Depository .....	11
Depository Participant .....	11
Disclosure Documents .....	3
Distribution Date .....	10
DTC .....	9
ERISA .....	18
Euroclear .....	12
Event of Default .....	14
Group 1 Loans .....	9
Holder .....	9
Information Circular .....	3
Information Statement .....	3
Information Supplement .....	3
IRS .....	17
Non-U.S. Person .....	17
Plans .....	17
REMIC .....	16
SMMEA .....	18
Trust .....	9
Trust Agreement .....	9
Trustee .....	9
Underlying Security .....	9
Underlying Trust .....	9
U.S. Person .....	17

**Information Supplement**  
**(To Information Circular dated December 14, 2001)**

**\$605,800,000**  
(Approximate)

**Asset Backed Certificates, Series 2002-2**  
**Class 1-A-1 Certificates**

**CWABS, Inc.**  
Depositor



**Seller**

**Countrywide Home Loans Servicing LP**  
**Master Servicer**

**Consider carefully the risk factors beginning on page S-7 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 of Mortgage loans that will be secured by first or second deeds of trust or mortgages on one- to four-family residential properties. The pool of mortgage loans will be divided into two loan groups, each comprised of fixed and adjustable rate mortgage loans. The Class 1-A-1 Certificates will represent an interest in loan group 1 only.

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

It is a condition to the issuance of the Class 1-A-1 Certificates that they be guaranteed by Fannie Mae as described in this Information Supplement. The Class 1-A-1 Certificates, including any interest on the Class 1-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 1-A-1 Certificates will be issued on or about June 28, 2002.

June 19, 2002

## Table of Contents

<u>Page</u>	<u>Page</u>
SUMMARY .....	1
Risk Factors .....	7
The Mortgage Pool .....	16
Servicing of the Mortgage Loans .....	29
Pool Factor and Trading Information .....	33
Description of the Certificates .....	34
Yield, Prepayment and Maturity Considerations .....	61
Use of Proceeds .....	74
Material Federal Income Tax Consequences .....	74
Other Taxes .....	76
Legal Matters .....	77
Important Notice About Information in This Information Circular and Accompanying Information Supplement .....	4
Risk Factors .....	5
The Trust Fund .....	16
Use of Proceeds .....	22
The Depositor .....	22
Loan Program .....	22
Description of the Securities .....	25
Credit Enhancement .....	39
Yield and Prepayment Considerations .....	45
The Agreements .....	47
Certain Legal Aspects of the Loans .....	61
Material Federal Income Tax Consequences .....	74
State Tax Considerations .....	96
Method of Distribution .....	102
Legal Matters .....	103
Financial Information .....	103
Rating .....	103
Index to Defined Terms .....	105



## SUMMARY

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

### ***The Certificates***

Asset-Backed Certificates, Series 2002-2, represent undivided beneficial ownership interests in a trust fund. The trust fund consists primarily of a pool of fixed and adjustable rate, credit blemished mortgage loans that are secured by first and second liens on one- to four-family residential properties and certain other property and assets described in this information supplement.

Only the Class 1-A-1 Certificates are being offered hereby.

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

### ***Depositor***

CWABS, Inc., is a Delaware corporation and a limited purpose finance subsidiary of Countrywide Credit Industries, Inc., a Delaware corporation.

*See “The Depositor” in the information circular.*

### ***Seller***

Countrywide Home Loans, Inc.

*See “Servicing of the Mortgage Loans — Countrywide Home Loans” in this information supplement.*

### ***Master Servicer***

Countrywide Home Loans Servicing LP.

*See “Servicing of the Mortgage Loans — The Master Servicer” in this information supplement.*

### ***Fannie Mae Guaranty***

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

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

### ***Trustee***

The Bank of New York, a New York banking corporation.

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

### ***Pooling and Servicing Agreement***

The pooling and servicing agreement among the seller, the master servicer, the depositor, Fannie Mae and the trustee, under which the trust fund will be formed.

### ***Initial Cut-off Date***

For any initial mortgage loan, the later of June 1, 2002 and the origination date of that mortgage loan.

### ***Closing Date***

On or about June 28, 2002.

### ***Funding Period***

On the closing date, an amount equal to not more than approximately \$232,500,000 will be deposited in a pre-funding account. The funding period commences on the closing date and ends on the earlier of (x) the date the amount in the pre-funding account is less than \$25,000 and (y) September 20, 2002. During the funding period:

- approximately 70% of the aggregate amount deposited in the pre-funding account on the closing date is expected to be used to purchase subsequent group 1 mortgage loans, and
- approximately 30% of the aggregate amount deposited in the pre-funding account on the closing date is expected to be used to purchase subsequent group 2 mortgage loans.

Neither the seller nor the depositor will exercise any discretion in the selection of subsequent mortgage loans to be sold to the trust fund. The selection will be made on a first-in first-out basis from loans which comply with the collateral characteristics as described under “*The Mortgage Pool — Pool Characteristics*”.

To the extent needed to make required interest payments on the Class 1-A-1 Certificates, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates on or prior to the October 2002 distribution date, the seller will make interest shortfall payments to the trust fund in order to offset shortfalls in interest amounts attributable to the pre-funding mechanism or because newly originated loans do not have a payment due date in the month of the related distribution date.

Any amounts in the pre-funding account not used during the funding period to purchase subsequent mortgage loans for a loan group will be paid to certificateholders of the related certificate group or the Class M-2 and Class B-1 Certificates, as the case may be, as a prepayment of principal on the distribution date immediately following the end of the funding period.

See “*The Mortgage Pool — Pre-Funding*” in this information supplement.

### ***The Mortgage Loans***

The mortgage loans will be divided into two separate groups. Each such group of mortgage loans is referred to as a “loan group.” Loan group 1 will consist of fixed and adjustable rate mortgage loans with principal balances at origination not in excess of Fannie Mae’s conforming loan limits. Loan group 2 will consist of fixed and adjustable rate mortgage loans with principal balances at origination that may or may not conform to the criteria specified above for the principal balances at origination of the mortgage loans included in loan group 2.

See “*The Mortgage Pool*” in this information supplement.

### ***Description of the Certificates***

#### ***General***

The trust will issue the Class 1-A-1 Certificates, which are offered by this information supplement and the attached information circular. The trust will also

issue the Class 2-A-1, Class A-R, Class 2-M-1, Class M-2, Class B-1, Class N and the Class X Certificates, which are not offered by this information supplement and the attached information circular. Any information contained in this information supplement with respect to certificates other than the Class 1-A-1 Certificates is provided only to permit a better understanding of the Class 1-A-1 Certificates.

Generally, the Class 1-A-1 Certificates will be backed by the cashflows from the group 1 mortgage loans, and the Class 2-A-1 and Class 2-M-1 Certificates will be backed by the cashflows from the group 2 mortgage loans. The Class M-2 and Class B-1 Certificates will be backed by the cashflows from both loan groups.

The original certificate principal balances, pass-through rates and last scheduled distribution dates for the certificates are as follows:

<b>Class</b>	<b>Original Certificate Principal Balance(1)</b>	<b>Pass-Through Rate</b>	<b>Last Scheduled Distribution Date(2)</b>
<b>Offered Certificates</b>			
Class 1-A-1 .....	\$605,800,000	(3)	June 2032
<b>Non Offered Certificates</b>			
Class 2-A-1 .....	\$244,160,000	(3)	May 2032
Class A-R .....	\$ (4)	(5)	July 2002
Class 2-M-1 .....	\$ 16,800,000	(3)	April 2032
Class M-2 .....	\$ 38,595,000	(3)	December 2031
Class B-1 .....	\$ 24,645,000	(3)	June 2031
Class N .....	(6)		June 2032
Class X .....	N/A		June 2032

- (1) The original certificate principal balance of the Class 1-A-1, Class 2-A-1, Class A-R, Class 2-M-1, Class M-2 and Class B-1 Certificates will be subject to a permitted variance in the aggregate of plus or minus 10%, depending on the amount of mortgage loans actually delivered on the closing date and funds deposited in the pre-funding account on the closing date.
- (2) Each date was determined as described under “*Yield, Prepayment and Maturity Considerations*” in this information supplement.
- (3) The pass-through rates for the Class 1-A-1, Class 2-A-1, Class A-R, Class 2-M-1, Class M-2 and Class B-1 Certificates will adjust monthly, will be subject to increase after the optional termination date, and will be subject to an interest rate cap, in each case as described in this information supplement under “*Description of the Certificates — Distributions — Distributions of Interest.*”

- (4) The original certificate principal balance of the Class A-R Certificates is expected to be \$100.
- (5) The Class A-R Certificates will not accrue any interest on the certificate principal balance thereof.
- (6) The Class N Certificates will be a notional amount as set forth in the Pooling and Servicing Agreement.

#### **Record Date**

In the case of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates, the business day immediately preceding a distribution date, or if such classes of certificates are no longer book-entry certificates, the last business day of the month preceding the month of a distribution date. In the case of the Class A-R Certificates, the last business day of the month preceding the month of a distribution date.

#### **Denominations**

\$20,000 and multiples of \$1,000 in excess thereof, except that the Class A-R Certificates will be issued as two certificates in the denominations specified in the pooling and servicing agreement.

#### **Registration of Certificates**

The Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will initially be issued in book-entry form. The Class 1-A-1 Certificates will be transferred to Fannie Mae Grantor Trust 2002-T10 upon issuance and are not expected to be transferred thereafter. Persons acquiring beneficial ownership interests in the Class 1-A-1, Class 2-A-1, Class A-R, Class 2-M-1, Class M-2 and Class B-1 Certificates may elect to hold their beneficial interests through The Depository Trust Company, in the United States, or Clearstream, Luxembourg or the Euroclear System, in Europe. The Class N, Class X and Class A-R Certificates will be issued in fully registered certificated form.

See “Description of Certificates — Book-Entry Certificates”.

#### **Pass-Through Rates**

The pass-through rates for the Class 1-A-1, Class 2-A-1, Class A-R Class 2-M-1, Class M-2 and Class B-1 Certificates are variable rates that may change from distribution date to distribution date. On any distribution date, the pass-through rate per annum for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class

M-2 and Class B-1 Certificates will be equal to the lesser of:

- one-month LIBOR plus the pass-through margin for such class, and
- the net rate cap, calculated as described under “Description of the Certificates — Distributions — Distributions of Interest” in this information supplement.

See “Description of the Certificates — Distributions — Distributions of Interest” and “— Calculation of One-Month LIBOR” in this information supplement.

If on any distribution date, the pass-through rate for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 or Class B-1 Certificates is based on the net rate cap, each holder of the applicable certificates will be entitled to receive the resulting shortfall first, prior to the cap contract termination date, from payments under the interest rate cap contracts described below and second, from remaining excess cashflow (if any) to the extent described herein.

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

#### **Distribution Dates**

The trustee will make distributions on the 25th day of each calendar month. If the 25th day of a month is not a business day, then the trustee will make distributions on the next business day. The first distribution date is scheduled for July 25, 2002.

#### **Interest Payments**

On each distribution date, holders of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be entitled to receive:

- the interest that has accrued on the certificates at the related pass-through rate during the related accrual period, and
- any interest due on a prior distribution date that was not paid.

The “accrual period” for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be the period from and including the preceding distribution date (or from and including the closing date, in the case of the first distribution date)

to and including the day prior to the current distribution date.

The trustee will calculate interest on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates based on a 360-day year and the actual number of days elapsed during the related accrual period.

There are certain circumstances that could reduce the amount of interest paid to you.

*See “Description of the Certificates — Distributions — Distributions of Interest” in this information supplement.*

### **Principal Payments**

On each distribution date, certificateholders will receive a distribution of principal on their certificates if there is cash available on that date for the payment of principal. Monthly principal distributions:

- will generally include principal payments and recoveries on the mortgage loans,
- on the distribution date following the end of the funding period, will include any money remaining in the pre-funding account.

Certificateholders should review the priority of payments described under “Description of the Certificates — Distributions” in this information supplement.

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

### **Credit Enhancement**

Credit enhancements provide limited protection to certain holders of certificates against shortfalls in payments received on the mortgage loans. This transaction employs the following forms of credit enhancement:

#### **Overcollateralization**

When excess interest payments received in respect of the mortgage loans are used to reduce principal owed on the certificates, the sum of the aggregate principal balance of the mortgage loans plus the amount, if any, on deposit in the pre-funding account is expected to become greater than the principal balance of the certificates. If this occurs, the certificates will

be “overcollateralized,” and on any distribution date, the amount of any such overcollateralization will be available to absorb the certificates’ share of losses from liquidated mortgage loans, if such losses are not otherwise covered. The required level of overcollateralization may change over time.

The mortgage loans in the mortgage pool are expected to generate more interest than is needed to pay interest on the certificates because the weighted average interest rate of the mortgage loans is expected to be higher than the weighted average pass-through rate on the certificates, plus the expense fee rate and guaranty fee rate. Any interest payments received in respect of the mortgage loans in the mortgage pool in excess of the amount that is needed to pay interest on the certificates, trust expense fees and the guaranty fee will be used to reduce the total principal balance of the certificates creating overcollateralization until a required level of overcollateralization has been achieved.

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

### **Subordination**

The issuance of senior certificates and subordinate certificates by the trust is designed to increase the likelihood that senior certificateholders will receive regular payments of interest and principal. The Class 1-A-1, Class 2-A-1 and Class A-R Certificates will constitute the “**senior certificates**” and the Class 2-M-1, Class M-2 and Class B-1 Certificates will constitute the “**subordinate certificates**.”

The Class 1-A-1 Certificates will have a payment priority over the Class M-2 and the Class B-1 Certificates. The Class 2-A-1 Certificates will have a payment priority over the Class 2-M-1, the Class M-2 Certificates and the Class B-1 Certificates. The Class M-2 Certificates will have payment priority over the Class B-1 Certificates.

Subordination is designed to provide the holders of certificates having a higher payment priority with protection against most losses realized when the remaining unpaid principal balance on a mortgage loan exceeds the amount of proceeds recovered upon the liquidation of that mortgage loan. In general, this loss protection is accomplished by allocating realized losses among the subordinate certificates, beginning with the subordinate certificates with the lowest payment priority, before realized losses are allocated to the senior certificates.

### ***Fannie Mae Guaranty***

It is a condition to the issuance of the Class 1-A-1 Certificates that they be purchased by Fannie Mae and that Fannie Mae guarantee payments on the Class 1-A-1 Certificates as further described in this information supplement. The Fannie Mae guarantee is not backed by the full faith and credit of the United States.

### ***The Cap Contracts***

The seller has entered into two interest rate cap contracts each of which will be assigned to the trust fund on the closing date. On or prior to each cap contract termination date, amounts paid under such cap contract will be available to cover any net rate carryover on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates resulting from the application of the net rate cap to the applicable pass-through rate. Payments under each cap contract will be made pursuant to the formula described in “*Description of the Certificates — Cap Contracts*.” Any amounts received on a cap contract for a distribution date that are not used to cover net rate carryover are expected to be distributed to the holder of the Class N or X Certificates.

*See “Description of the Certificates — Cap Contracts” in this information supplement.*

### ***Advances***

The master servicer will make cash advances with respect to delinquent payments of principal and interest on the mortgage loans to the extent that the master servicer reasonably believes that such cash advances can be repaid from future payments on the related mortgage loans. These cash advances are only intended to maintain a regular flow of scheduled interest and principal payments on the certificates and are not intended to guarantee or insure against losses.

*See “Servicing of the Mortgage Loans” in this information supplement.*

### ***Optional Termination***

Subject to certain conditions specified in the pooling and servicing agreement, the holder of the Class X Certificates may purchase all of the remaining assets of the trust fund after the aggregate principal balance of the mortgage loans and any foreclosed real estate owned by the trust fund declines to or below 10% of the sum of the aggregate principal balance as of the

initial cut-off date of the mortgage loans delivered to the trust fund on the closing date plus the amount deposited in the pre-funding account on the closing date. If the holder of the Class X Certificates does not purchase the assets of the trust fund on such distribution date, subject to certain conditions specified in the pooling and servicing agreement, the master servicer may purchase all of the remaining assets of the trust fund after the aggregate principal balance of the mortgage loans and any foreclosed real estate owned by the trust fund declines to or below 5% of the sum of the aggregate principal balance as of the initial cut-off date of the mortgage loans delivered to the trust fund on the closing date plus the amount deposited in the pre-funding account on the closing date. Any such purchase by the holder of the Class X Certificates or the master servicer will result in the early retirement of the certificates.

*See “Description of the Certificates — Optional Termination” in this information supplement.*

### ***Material Federal Income Tax Consequences***

For federal income tax purposes, the trust will comprise multiple real estate mortgage investment conduits, organized in a tiered REMIC structure. The Class 1-A-1 Certificates will represent beneficial ownership of REMIC “**regular interests**” in the upper tier REMIC identified in the pooling and servicing agreement.

The Class A-R Certificates will represent the beneficial ownership of the sole class of “**residual interest**” in each REMIC.

The Class 1-A-1 Certificates will also represent the beneficial interest in the right to receive payments from the carryover reserve fund pursuant to the pooling and servicing agreement.

*See “Material Federal Income Tax Consequences” in this information supplement and in the information circular.*

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.

**The Mortgage Loans were Underwritten to the Seller’s Standards for Credit Blemished Mortgage Loans. Mortgage Loans Underwritten to Such Standards Will Experience Higher Rates of Delinquency and Loss than Mortgage Loans Underwritten in a More Traditional Manner .....**

The Seller’s credit blemished mortgage loan underwriting standards are more flexible than the standards generally used by banks for borrowers with non-blemished credit histories with regard to the borrower’s credit standing and repayment ability. Borrowers who qualify generally have impaired credit histories, which may include a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. On a case by case basis, the Seller may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under its applicable underwriting risk category guidelines warrants an underwriting exception. It is expected that a significant number of the mortgage loans will have been originated based on such underwriting exceptions. The loan file review typically conducted by underwriters in connection with securitizations was limited to a statistical sampling of loans expected to be included in the mortgage pool.

With respect to first lien mortgage loans, the underwriting standards do not prohibit a mortgagor from obtaining, at the time of origination of the originator’s first lien mortgage loan, additional financing which is subordinate to that first lien mortgage loan, which subordinate financing would reduce the equity the mortgagor would otherwise have in the related mortgaged property as indicated in the originator’s loan-to-value ratio determination for the originator’s first lien.

As a result of the Seller’s underwriting standards, the mortgage loans in the mortgage pool are likely to experience rates of delinquency, foreclosure and bankruptcy that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Furthermore, changes in the values of the mortgaged properties may have a greater effect on the delinquency, foreclosure, bankruptcy and loss experience of the mortgage loans in the mortgage pool than on mortgage loans originated in a more traditional manner. No assurance can be given that the values of the related mortgage properties have remained or will remain at the levels in effect on the dates of origination of the related mortgage loans.

**The Subordinate Certificates have a Greater Risk of Loss than Senior Certificates and Subordination may not be Sufficient to Protect Senior Certificates from Losses .....**

When certain classes of certificates provide credit enhancement for other classes of certificates this is sometimes referred to as “*subordination*.” The subordination feature is intended to enhance the likelihood that senior certificateholders will receive regular payments of interest and principal. For purposes of this information supplement, “*subordinate classes*” means:



- with respect to the Class 1-A-1 Certificates, the Class M-2 and Class B-1 Certificates,
- with respect to the Class 2-A-1 and Class A-R Certificates, the Class 2-M-1, Class M-2 and Class B-1 Certificates,
- with respect to the Class 2-M-1 Certificates, the Class M-2 and Class B-1 Certificates, and
- with respect to the Class M-2 Certificates, the Class B-1 Certificates.

Credit enhancement in the form of subordination will be provided for the certificates, first, by the right of the holders of the certificates to receive certain payments of principal prior to the subordinate classes and, second, by the allocation of realized losses to the subordinate classes. The Class 2-M-1 Certificates are subordinated to the Class 2-A-1 Certificates only with respect to the rights to receive principal payments on the mortgage loans in loan group 2. In addition, realized losses on the mortgage loans in loan group 2 will be allocated to the Class 2-M-1 Certificates before being allocated to the Class 2-A-1 Certificates.

This type of credit enhancement is provided by using collections on the mortgage loans otherwise payable to the holders of the subordinate classes to pay amounts due on the more senior classes in the related certificate group, in the case of the Class 2-M-1 Certificates, and due on all of the more senior classes, in the case of the Class M-2 and Class B-1 Certificates. Excess cashflow and collections otherwise payable to the subordinate classes comprise the sole source of funds from which such credit enhancement is provided to the senior certificates. Realized losses are generally allocated to the subordinate certificates, beginning with the subordinate certificates with the lowest payment priority, until the principal balance of that subordinate class has been reduced to zero. This means that realized losses on the mortgage loans not absorbed by overcollateralization (if any) will first be allocated to the Class B-1 Certificates until the principal balance of the Class B-1 Certificates has been reduced to zero, then will be allocated to the Class M-2 Certificates, until the principal balance of the Class M-2 Certificates has been reduced to zero. Subsequent realized losses with respect to mortgage loans in a particular loan group are then allocated to the certificates of the related certificate group (and in the case of the group 2 certificates, in the inverse order of priority). Accordingly, if the aggregate principal balance of the subordinate classes were to be reduced to zero, delinquencies and defaults on the mortgage loans in a particular loan group would reduce the amount of funds available for monthly distributions to holders of the remaining certificates in such certificate group.

You should fully consider the risks of investing in a subordinated certificate, including the risk that you may not fully recover your initial investment as a result of realized losses. In addition, investors in senior certificates should consider the risk that the subordination of the subordinated classes may not be sufficient to protect the senior certificates from losses.

*See "Description of the Certificates" in this information supplement.*

**Excess Interest From the Mortgage  
Loans May Not Provide Adequate  
Credit Enhancement .....**

The mortgage loans in the mortgage pool are expected to generate more interest than is needed to pay interest on the certificates because the weighted average interest rate on the mortgage loans is expected to be higher than the weighted average pass-through rate on the certificates plus the expense fee rate and guaranty fee rate. If the mortgage loans generate more interest than is needed to pay interest on the certificates, such “excess interest” will be used to make additional principal payments on the certificates. The use of excess interest to make additional principal payments on certificates will reduce the total principal balance of such certificates below the aggregate principal balance of the mortgage loans, thereby creating “overcollateralization.” Overcollateralization is intended to provide limited protection to certificateholders by absorbing the certificates’ share of losses from liquidated mortgage loans. However, we cannot assure you that enough excess interest will be generated on the mortgage loans in the mortgage pool to establish or maintain the required level of overcollateralization.

The excess interest available on any distribution date will be affected by the actual amount of interest received, collected or recovered in respect of the mortgage loans during the preceding month. Such amount will be influenced by changes in the weighted average of the mortgage rates resulting from prepayments and liquidations of the mortgage loans as well as from adjustments of the mortgage rates on adjustable rate mortgage loans. Because the index used to determine the mortgage rates on the adjustable rate mortgage loans is different from the index used to determine the pass-through rates on the certificates and because the fixed rate loans do not adjust, it is possible that the pass-through rates on the certificates may be higher than the interest rates on the mortgage loans. In that event, it may be necessary to apply all or a portion of the available excess interest to make required payments of interest on the certificates. As a result, excess interest may be unavailable for any other purpose.

If the protection afforded by overcollateralization is insufficient, then the holders of the certificates could experience a loss on their investment.

**Risk Regarding Mortgage Rates .....**

The pass-through rates on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates adjust monthly and are generally based on one-month LIBOR. The mortgage rates on the fixed rate mortgage loans will not adjust and therefore there is an absence of correlation between the mortgage rates on the fixed rate mortgage loans and the pass-through rates on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. The mortgage rates on the adjustable rate mortgage loans generally adjust semi-annually based on six-month LIBOR, which is referred to as a mortgage index. However, it is expected that with respect to not less than approximately 56.20% of the mortgage loans in loan group 1 and approximately 59.20% of the mortgage loans in loan group 2, the related interest rates are initially fixed for a period of two or three years before they begin to adjust. Because the mortgage index may respond to different economic and market factors than one-month LIBOR, there is not necessarily a correlation in movement between the interest rates on those mortgage loans and the pass-through rates of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. For example, it is possible that the interest rates on certain of the adjustable rate mortgage loans may

decline while the pass-through rates on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are stable or rising. In addition, although it is possible that both the mortgage rates and certificate pass-through rates may decline or increase during the same period, mortgage rates may decline or increase more slowly than the certificate pass-through rates because of the difference between interest rate adjustment periods and pass-through rate adjustment periods.

The absence of a correlation between movement in the mortgage rates and the certificate pass-through rates may reduce the interest payable on the certificates because of the imposition of a pass-through rate cap called the “*net rate cap*.” In addition, prepayments of mortgage loans with relatively higher mortgage rates may reduce the net rate cap and consequently reduce the pass-through rate for one or more classes of certificates. It is intended that the amount by which a certificateholder’s interest payment has been reduced by operation of the net rate cap will be paid first, prior to the applicable cap contract termination date, from payments, if any, received under the interest rate cap contracts described in this information supplement, and second, from remaining excess cashflow (if any) as described herein. However, we cannot assure you that such funds will be available, or sufficient, to make any such payments.

**Balloon Loans May Have High Rates of Default .....**

Certain fixed rate mortgage loans expected to be included in the trust fund require the related borrower to make monthly payments of principal that are less than sufficient to amortize such mortgage loans by their maturity. These loans are commonly called “*balloon loans*.” As a result of these lower monthly payments, a borrower generally will be required to pay a large remaining principal balance upon the maturity of such balloon loan. The ability of a borrower to make such a payment may depend on his or her ability to obtain refinancing of the balance due on the mortgage loan. In addition, an increase in prevailing market interest rates over the loan rate on the mortgage loan at origination may reduce the borrower’s ability to obtain refinancing and to pay the principal balance of the mortgage loan at its maturity. It is expected that no more than approximately 6.90% of all mortgage loans to be included in loan group 1 and approximately 6.90% of the mortgage loan to be included in loan group 2 will be balloon loans.

**Cash Flow Considerations and Risks Could Cause Payment Delays and Losses .....**

There could be substantial delays in the liquidation of defaulted mortgage loans and corresponding delays in your receiving your portion of the proceeds of a liquidation. These delays could continue for several years. Furthermore, an action to obtain a deficiency judgment is regulated by statutes and rules, and the amount or availability of a deficiency judgment may be limited by law. In the event of a default by a borrower, these restrictions may impede the ability of the master servicer to foreclose on or to sell the mortgaged property or to obtain a deficiency judgment. In addition, liquidation expenses (such as legal and appraisal fees, real estate taxes and maintenance and preservation expenses) will reduce the amount of security for the mortgage loans and, in turn, reduce the proceeds payable to certificateholders.

In the event that:

- the mortgaged properties fail to provide adequate security for the related mortgage loans,
- overcollateralization (if any) is insufficient to cover such shortfalls,
- the subordination of certain classes are insufficient to cover such shortfalls, and
- with respect to the Class 1-A-1 Certificates, the guarantor fails to make the required payments under the guaranty,

you could lose a portion of the money you paid for the certificates.

**Yield and Reinvestment Could be  
Adversely Affected by**

**Unpredictability of Prepayments.....** No one can accurately predict the level of prepayments that the trust fund will experience. The trust fund's prepayment experience may be affected by many factors, including:

- general economic conditions,
- the level of prevailing interest rates,
- the availability of alternative financing,
- the applicability of prepayment penalties, 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 related mortgage loan.

*See "The Mortgage Pool" and "Yield, Prepayment and Maturity Considerations" 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 mortgage loans that may affect the prepayment experience on the mortgage loans.*

In addition, the weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be affected by any prepayment resulting from the distribution of amounts (if any) on deposit in the pre-funding account after the end of the funding period allocated to the related loan group (as applicable).

The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be sensitive to the rate and timing of principal payments (including prepayments) on the mortgage loans in the related loan group (as applicable), which may fluctuate significantly from time to time.

You should note that:

- generally, if you purchase your certificates at a discount and principal is repaid on the mortgage loans in the related loan group (as applicable) slower than you anticipate, then your yield may be lower than you anticipate,
- your yield will also be sensitive to:
  - (1) the level of one-month LIBOR,
  - (2) the timing of adjustment of the pass-through rate on your certificate as it relates to the interest rates on the mortgage loans in the related loan group (as applicable) and, in the case of the adjustable rate mortgage loans, the timing of adjustment of the interest rates on those mortgage loans, and periodic and lifetime limits on those adjustments,
  - (3) in the case of adjustable rate mortgage loans, the level of the mortgage index and
  - (4) other limitations on the pass-through rate of such certificate as described further in this information supplement,
- you bear the reinvestment risks resulting from a faster or slower rate of principal payments than you expected.

*See “Yield, Prepayment and Maturity Considerations” in this information supplement.*

**Possible Prepayment Due to Inability  
to Acquire Subsequent Mortgage**

**Loans .....** The ability of the trust fund to acquire subsequent mortgage loans for inclusion in the trust fund depends on the ability of the seller to originate or acquire mortgage loans during the funding period that meet the eligibility criteria for subsequent mortgage loans as described herein. The ability of the seller to originate or acquire such loans will be affected by a number of factors including prevailing interest rates, employment levels, the rate of inflation and economic conditions generally.

If the full amount on deposit in the pre-funding account allocated to purchase subsequent mortgage loans for a loan group cannot be used by the end of the funding period for that purpose, such amount remaining on deposit in the pre-funding account will be distributed to the certificateholders of the related certificate group (or the Class M-1 and Class B-1 Certificates) as a prepayment of principal on the distribution date immediately following the end of the funding period. We cannot assure you of the magnitude of any amount on deposit in the pre-funding account at the end of the funding period.

**Certain Rights May Be Affected by  
the Issuance of Two Groups 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 holders of specified percentages of the certificates in both groups. In addition,

under certain circumstances, the guarantor of the Class 1-A-1 Certificates will have such rights as they relate to the Class 1-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.

**Distribution to and Rights of  
Investors Could be Adversely  
Affected by the Bankruptcy or  
Insolvency of Certain Parties .....**

The seller will treat its transfer of the mortgage loans to the depositor as a sale of the mortgage loans. However, if the seller becomes bankrupt, the trustee in bankruptcy of the seller may argue that the mortgage loans were not sold but were only pledged to secure a loan to the seller. If that argument is made, you could experience delays or reduction in payments on the certificates. If that argument is successful, the bankruptcy trustee could elect to sell the mortgage loans and pay down the certificates early. Thus, you could lose the right to future payments of interest, and might suffer reinvestment losses in a lower interest rate environment.

In addition, if the master servicer becomes bankrupt, a bankruptcy trustee or receiver may have the power to prevent the trustee from appointing a successor master servicer. Any related delays in servicing could result in increased delinquencies or losses on the mortgage loans.

**Geographic Concentration of  
Mortgaged Properties in California  
Increases the Risk That Certificate  
Yields Could be Impaired.....**

It is expected that no more than approximately 40.10% of the mortgage loans to be included in loan group 1 and approximately 50.00% of the mortgage loans to be included in loan group 2 will be secured by mortgaged properties that are located in the State of California. 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,
- 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.

**Violations of Consumer Protection  
Laws May Adversely Affect You .....**

Applicable state laws generally regulate interest rates and other charges and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the mortgage loans.

The mortgage loans are also subject to federal laws, including:

- (1) the federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the mortgage loans;
- (2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which 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;
- (3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation; and
- (4) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience.

It is expected that none of the mortgage loans to be included in loan group 1 and approximately 3.32% of the mortgage loans in loan group 2 will be subject to the Home Ownership and Equity Protection Act of 1994. The Home Ownership and Equity Protection Act of 1994 requires additional disclosures, specifies the timing of these disclosures and limits or prohibits inclusion of some provisions in mortgages subject to the Home Ownership and Equity Protection Act 1994. The Home Ownership and Equity Protection Act 1994 also provides that any purchaser or assignee of a mortgage covered by the Home Ownership and Equity Protection Act 1994, including the trust fund, is subject to all of the claims and defenses which the borrower could assert against the original lender.

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 mortgage loans, may entitle the borrower to a refund of amounts previously paid and, in addition, could subject the trust fund, as owner of the mortgage loans, to damages and administrative enforcement.

**Recent Events .....** On September 11, 2001 certain tragic events occurred at the World Trade Center in New York City and at the Pentagon in Arlington, Virginia that have caused significant uncertainty with respect to global markets. The short term and long term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer confidence and market liquidity. No assurance can be given as to the effect of these events on the rate of delinquencies and losses on the mortgage loans and servicing decisions with respect thereto. Any adverse impact on the mortgage loans or servicing as a result of these events may be borne by the holders of the Class 1-A-1 certificates.

In response to the events of September 11, 2001, the United States commenced military operations in Afghanistan on October 7, 2001. The Soldiers' and Sailors Civil Relief Act of 1940 (referred to herein as the



Relief Act) provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their mortgage loan. The Relief Act imposes limitations that would impair the ability of the master servicer to foreclose on an affected loan during the borrower's period of active duty status, and, under some circumstances, during an additional period thereafter. The Relief Act also provides generally that these borrowers may not be charged interest on a mortgage loan in excess of 6% per annum during the period of the borrower's active duty. These shortfalls are not required to be paid by the borrower at any future time and will not be advanced by the master servicer. To the extent these shortfalls reduce the amount of interest paid to the Class 1-A-1 Certificates, they will be covered by the Fannie Mae guaranty as described under "*Description of the Certificates — Fannie Mae Guaranty.*"

## The Mortgage Pool

### General

All of the Mortgage Loans to be included in the Trust Fund will be evidenced by promissory notes (the “**Mortgage Notes**”). The Mortgage Notes will be secured by first and second lien deeds of trust, security deeds or mortgages on one- to four-family residential properties (the “**Mortgaged Properties**”) which are located in at least 48 states and the District of Columbia. Each Mortgage Loan in the Trust will be assigned to one of two mortgage loan groups (“Loan Group 1” and “Loan Group 2,” and each a “Loan Group”), comprised of Mortgage Loans that bear interest at adjustable rates (such adjustable rate Mortgage Loans, the “**Adjustable Rate Mortgage Loans**”), and at fixed rates (such fixed rate Mortgage Loans, the “**Fixed Rate Mortgage Loans**”). “Loan Group 1” will consist of Fixed Rate and Adjustable Rate Mortgage Loans having principal balances at origination not in excess of Fannie Mae’s conforming loan limits. “Loan Group 2” will consist of Fixed Rate and Adjustable Rate Mortgage Loans with principal balances at origination that may or may not conform to the criteria specified above for principal balances at origination of the Mortgage Loans included in Loan Group 1.

Except for balloon loans, the Mortgage Loans to be included in the Trust Fund will provide for the full amortization of the amount financed over a series of monthly payments, and a substantial majority of the Mortgage Loans are expected to provide for payments due as of the first day of each month. The Mortgage Loans to be included in the Trust Fund will have been originated or purchased by the Seller and will have been originated substantially in accordance with the Seller’s underwriting criteria for credit blemished mortgage loans described herein under “— *Underwriting Standards — Credit Blemished Mortgage Loans.*” Credit blemished mortgage loans are generally mortgage loans made to borrowers with prior credit difficulties.

Scheduled monthly payments made by the Mortgagors on the Mortgage Loans (“**Scheduled Payments**”) either earlier or later than the scheduled due dates thereof will not affect the amortization schedule or the relative application of such payments to principal and interest. All of the Mortgage Notes will provide for a fifteen (15) day grace period for monthly payments. A Scheduled Payment with respect to a Mortgage Loan is generally considered “delinquent” if the mortgagor fails to make such Scheduled Payment prior to the due date occurring immediately after the due date on which such Scheduled Payment was originally due.

Any Mortgage Loan may be prepaid in full or in part at any time; however, not less than approximately 80.10% of the Mortgage Loans expected to be included in Loan Group 1 and not less than approximately 80.80% of the Mortgage Loans expected to be included in Loan Group 2 to be included in the Trust Fund are expected to generally provide for the payment by the borrower of a prepayment charge on full prepayments made, in the case of Fixed Rate Mortgage Loans, generally within five years from the date of execution of the related Mortgage Note, and, in the case of Adjustable Rate Mortgage Loans, generally prior to the first Adjustment Date. In general, the related Mortgage Note will provide that a prepayment charge will apply if, during the applicable period, the borrower prepays such Mortgage Loan in full. The amount of the prepayment charge will generally be equal to six months’ advance interest calculated on the basis of the rate in effect at the time of such prepayment on the amount prepaid in excess of 20% of the original balance of such Mortgage Loan. The “**Mortgage Rate**” with respect to a Mortgage Loan is the annual rate of interest borne by the Mortgage Loan pursuant to the terms of the related Mortgage Note, except as provided below with respect to Fixed Rate Credit Comeback Loans.

*Additional Information Regarding the Adjustable Rate Mortgage Loans.* Each of the Adjustable Rate Mortgage Loans will have a Mortgage Rate which is subject to adjustment on the first day of the months specified in the related Mortgage Note (each such date, an “**Adjustment Date**”) to equal the sum, rounded to the nearest 0.125%, of:

- (1) the average of the London interbank offered rates for six-month U.S. dollar deposits in the London market, as set forth in *The Wall Street Journal*, or, if such rate ceases to be published in *The Wall Street Journal* or becomes unavailable for any reason, then based upon a new index selected by the Master Servicer based on comparable information, in each case as most recently announced as of a date generally 45 days prior to such Adjustment Date (the “**Mortgage Index**”), and
- (2) a fixed percentage amount specified in the related Mortgage Note (the “**Gross Margin**”);

provided, however, that the Mortgage Rate for substantially all of the Adjustable Rate Mortgage Loans will not increase or decrease by more than 2.00% on any Adjustment Date (the “**Periodic Rate Cap**”), with the exception of the initial Adjustment Date for certain of the Two-Year Hybrid Mortgage Loans and the Three-Year Hybrid Mortgage Loans, which are subject to a different initial Periodic Rate Cap as set forth in the related Mortgage Note. Substantially all of the Adjustable Rate Mortgage Loans will have been originated with Mortgage Rates less than the sum of the then-current Mortgage Index and the related Gross Margin.

A “**Two-Year Hybrid Mortgage Loan**” and a “**Three-Year Hybrid Mortgage Loan**” have fixed Mortgage Rates for approximately 24 and 36 months, respectively, after origination thereof before such fixed Mortgage Rates become subject to adjustment based on the Mortgage Index described in the immediately preceding paragraph.

It is expected that substantially all of the Adjustable Rate Mortgage Loans will provide that, over the life of each such Mortgage Loan, the Mortgage Rate will in no event be more than the initial Mortgage Rate plus a maximum added margin, generally 7%, as provided in the Mortgage Note (such initial Mortgage Rate plus such maximum added margin, the “**Maximum Mortgage Rate**”).

*Additional Information Regarding the Fixed Rate Mortgage Loans.* The Fixed Rate Mortgage Loans will include “credit comeback loans” that provide borrowers the potential of four Mortgage Rate reductions for good payment history during any one or more of the first four consecutive twelve month periods following the origination date of the loan (“**Fixed Rate Credit Comeback Loans**”). For purposes of payments made on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates, including the calculation of the Net Rate Cap as well as other Mortgage Rate calculations, all Fixed Rate Credit Comeback Loans will be treated as having a Mortgage Rate assuming the borrower qualifies for all such rate reductions prior to being conveyed to the Trust Fund (whether or not the borrower actually qualifies for such rate reductions). As a result, all Fixed Rate Credit Comeback Loans will be treated for all purposes, including calculation of the Net Rate Cap, the Maximum Rate and for all other mortgage rate calculations, as having a Mortgage Rate that is 1.50% lower than the Mortgage Rate at origination. Any interest received in excess of the interest received as a result of the related Mortgage Rate being treated as 1.50% lower than the Mortgage Rate at origination (such excess, expressed as a dollar amount the “**Credit Comeback Excess Amount**”) will be paid to the Seller and will not be available to make any payments on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. It is expected that no more than approximately 2.60% of the Mortgage Loans in Loan Group 1 and no more than approximately 2.30% of the Mortgage Loans in Loan Group 2 will be Fixed Rate Credit Comeback Loans.

*Loan-to-Value Ratio and Combined Loan-to-Value Ratio.* The “**Loan-to-Value Ratio**” of a Mortgage Loan is equal to:

- (1) the principal balance of such Mortgage Loan at the date of origination, divided by
- (2) the Collateral Value of the related Mortgaged Property.

The “**Combined Loan-to-Value Ratio**” of a Mortgage Loan at any given time is the ratio, expressed as a percentage, of:

- (1) the sum of:
  - (a) the original principal balance of the Mortgage Loan and
  - (b) the outstanding principal balance at the date of origination of the Mortgage 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 Mortgage Loan, to
- (2) the Collateral Value of the related Mortgaged Property.

The “**Collateral Value**” of a Mortgaged Property is the lesser of:

- (1) the appraised value based on an appraisal made for the Seller by an independent fee appraiser at the time of the origination of the related Mortgage Loan, and
- (2) the sales price of such Mortgaged Property at such time of origination.

With respect to a Mortgage Loan the proceeds of which were used to refinance an existing mortgage loan, the Collateral Value is the appraised value of the Mortgaged Property based upon the appraisal obtained at the time of refinancing.

**Stated Principal Balance.** “**Stated Principal Balance**” means, for any Mortgage Loan and (1) the related Initial Cut-off Date or Subsequent Cut-off Date (as defined below), as applicable (the “**Cut-off Date**”), the unpaid principal balance of the Mortgage Loan as of such date, as specified in its amortization schedule at the time (before any adjustment to the amortization schedule for any moratorium or similar waiver or grace period), after giving effect to any partial prepayments and Liquidation Proceeds received prior to such date and to the payment of principal due on such date and irrespective of any delinquency in payment by the related mortgagor or (2) any Distribution Date, the Stated Principal Balance of the Mortgage Loan as of its Cut-off Date, minus the sum of (i) the principal portion of scheduled payments due with respect to the Mortgage Loan on or prior to the end of the most recent Due Period that were received by the Master Servicer on or prior to the most recent Determination Date or were advanced by the Master Servicer on or prior to the most recent Master Servicer Advance Date, (ii) principal prepayments with respect to the Mortgage Loan received on or prior to the end of the most recent prepayment period (the period from the 16th day of the month prior to a Distribution Date (or, in the case of the first Distribution Date, from the Cut-off Date) to and including the 15th day of the month in which such Distribution Date occurs (“**Prepayment Period**”)) and (iii) Liquidation Proceeds received by the Master Servicer prior to the end of the most recent Due Period to the extent applied as recoveries of principal with respect to the Mortgage Loan. When used with respect to the Mortgage Pool or a Loan Group, Stated Principal Balance means the aggregate Stated Principal Balances of all Mortgage Loans in the Mortgage Pool or Loan Group, respectively.

## Pool Characteristics

The following information sets forth certain characteristics of the Mortgage Loans expected to be included in the final Mortgage Pool (the “**Pool Characteristics**”). This information as well as other information in this information supplement describing the Mortgage Loans and the final Mortgage Pool are approximate percentages based on the Stated Principal Balances of the Mortgage Loans expected to be included in the final Mortgage Pool as of the relevant Cut-off Date, with the characteristics for any Initial Mortgage Loan taken as of the Initial Cut-off Date and the characteristics for any Subsequent Mortgage Loan (as defined below) taken as of the Subsequent Cut-off Date.

### Loan Group 1

Aggregate Principal Balance.....	no less than \$585,000,000 - no more than \$715,000,000
Average Principal Balance.....	no less than \$117,350 - no more than \$143,420
Percentage of Adjustable Rate Mortgage Loans .....	no less than 56.00% - no more than 69.00%
Percentage of Fixed Rate Mortgage Loans .....	no less than 34.00% - no more than 41.00%
Weighted Average Mortgage Rate.....	no less than 7.70%*
Range of Mortgage Rates.....	no less than 5.30% - no more than 13.00%*
Weighted Average Gross Margin of Adjustable Rate Mortgage Loans .....	no less than 5.80%
Range of Gross Margins of Adjustable Rate Mortgage Loans.....	no less than 2.50% - no more than 8.50%
Weighted Average Maximum Mortgage Rate of the Adjustable Rate Mortgage Loans .....	no less than 13.70%

\* Fixed Rate Credit Comeback Loans are included in these figures at their Mortgage Rates at origination. For all purposes of payments on the Certificates, the Mortgage Rates on all Fixed Rate Credit Comeback Loans will be treated as 1.50% lower than the respective Mortgage Rates at origination. See “— General — Additional Information Regarding the Fixed Rate Mortgage Loans” above.

Weighted Average Minimum Mortgage Rate of the Adjustable Rate Mortgage Loans .....	no less than 7.70%
Fixed Rate Credit Comeback Loans.....	no more than 2.00%
First Liens .....	no less than 100.00%
Second Liens .....	none
Balloon Loans .....	no more than 6.90%
Weighted Average Credit Bureau Score .....	no less than 580
Weighted Average Loan-to-Value Ratio of First Liens .....	no more than 81.60%
Weighted Average Combined Loan-to-Value Ratio of Second Liens.....	not applicable
Weighted Average Scheduled Remaining Term to Maturity .....	no less than 339 - no more than 360
Range of Scheduled Remaining Term to Maturity....	no less than 51 - no more than 360
Percentage of Two-Year Hybrid Loans .....	no less than 40% - no more than 45%
Percentage of Three-Year Hybrid Loans .....	no less than 17% - no more than 22%
State Distribution of Mortgaged Properties:	
California .....	no more than 40.10%
Florida .....	no more than 10.80%
Michigan .....	no more than 9.10%
Ohio .....	no more than 7.00%
Massachusetts .....	no more than 6.60%
Any Other State.....	no more than 5.50%
Mortgaged Property Type:	
Single Family Detached Dwelling .....	no less than 74.50%
Planned Unit Developments.....	no more than 12.30%
Manufactured Housing (treated as real property).....	no more than 0.00%
Low Rise Condominiums.....	no more than 10.00%
Two- to Four-Family Dwellings .....	no more than 9.80%
High Rise Condominiums .....	no more than 0.40%
Occupancy Types:	
Primary Residence .....	no less than 91.90%
Investment Property .....	no more than 7.00%
Second Home .....	no more than 1.10%
Loan Purpose:	
Refinance-Cash Out .....	no more than 78.80%
Documentation Type:	
Full Documentation.....	no less than 76.90%
Stated Documentation .....	no more than 15.60%
Reduced Documentation .....	no more than 7.50%
Credit Grade Category:	
A .....	no less than 46.90%
A-.....	no more than 25.10%
B .....	no more than 20.50%
C .....	no more than 11.50%
C-.....	no more than 4.10%
D .....	no more than 1.00%

**Loan Group 2**

Aggregate Principal Balance .....	no less than \$252,000,000 - no more than \$308,000,000
Average Principal Balance .....	no less than \$142,910 - no more than \$174,670
Percentage of Adjustable Rate Mortgage Loans .....	no less than 59.00% - no more than 73.00%
Percentage of Fixed Rate Mortgage Loans .....	no less than 31.00% - no more than 37.00%
Weighted Average Mortgage Rate .....	no less than 7.70%*
Range of Mortgage Rates .....	no less than 5.30% - no more than 18.60%*
Weighted Average Gross Margin of Adjustable Rate Mortgage Loans .....	no less than 6.20%
Range of Gross Margins of Adjustable Rate Mortgage Loans .....	no less than 2.10% - no more than 13.70%
Weighted Average Maximum Mortgage Rate of the Adjustable Rate Mortgage Loans .....	no less than 13.50%
Weighted Average Minimum Mortgage Rate of the Adjustable Rate Mortgage Loans .....	no less than 7.50%
Fixed Rate Credit Comeback Loans .....	no more than 2.00%
First Liens .....	no less than 92.10%
Second Liens .....	no more than 6.25%
Balloon Loans .....	no more than 6.90%
Weighted Average Credit Bureau Score .....	no less than 580
Weighted Average Loan-to-Value Ratio of First Liens .....	no more than 84.60%
Weighted Average Combined Loan-to-Value Ratio of Second Liens .....	no more than 97.01%
Weighted Average Scheduled Remaining Term to Maturity .....	no less than 337 - no more than 360
Range of Scheduled Remaining Term to Maturity .....	no less than 103 - no more than 360
Percentage of Two-Year Hybrid Loans .....	no less than 47% - no more than 52%
Percentage of Three-Year Hybrid Loans .....	no less than 14% - no more than 19%
State Distribution of Mortgaged Properties:	
California .....	no more than 50.00%
Michigan .....	no more than 9.30%
Florida .....	no more than 7.30%
New York .....	no more than 6.50%
Massachusetts .....	no more than 5.70%
Any Other State .....	no more than 4.50%
Mortgaged Property Type:	
Single Family Detached Dwelling .....	no less than 73.60%
Planned Unit Developments .....	no more than 18.40%
Manufactured Housing (treated as real property) .....	no more than 1.66%
Low Rise Condominiums .....	no more than 6.10%
Two- to Four-Family Dwellings .....	no more than 3.00%
High Rise Condominiums .....	no more than 1.40%

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\* Fixed Rate Credit Comeback Loans are included in these figures at their Mortgage Rates at origination. For all purposes of payments on the Certificates, the Mortgage Rates on all Fixed Rate Credit Comeback Loans will be treated as 1.50% lower than the respective Mortgage Rates at origination. See “— General — Additional Information Regarding the Fixed Rate Mortgage Loans” above.

Occupancy Types:

Primary Residence .....	no less than 93.80%
Investment Property .....	no more than 2.20%
Second Home .....	no more than 4.00%

Loan Purpose:

Refinance-Cash Out .....	no more than 69.60%
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Documentation Type:

Full Documentation .....	no less than 73.40%
Stated Documentation .....	no more than 20.30%
Reduced Documentation .....	no more than 6.30%

Credit Grade Category:

A .....	no less than 56.10%
A- .....	no more than 25.10%
B .....	no more than 13.00%
C .....	no more than 6.40%
C- .....	no more than 2.80%
D .....	no more than 0.70%

A detailed description of the pool of credit blemished mortgage loans (the “**Initial Mortgage Loans**”) to be actually included in the Mortgage Pool at the Closing Date (such pool, the “**Initial Mortgage Pool**”) will be made available to Fannie Mae within fifteen days after delivery of the Class 1-A-1 Certificates (such detailed description, the “**Detailed Description**”). The Detailed Description will specify the aggregate of the Stated Principal Balances of the Initial Mortgage Loans included in the Initial Mortgage Pool as of the later of (x) June 1, 2002 and (y) the date of origination of each such Initial Mortgage Loan (such date, the “**Initial Cut-off Date**,” and such aggregate of such Stated Principal Balances, the “**Initial Cut-off Date Pool Principal Balance**”) and will also include, among other things, the following information regarding such Initial Mortgage Loans:

- (1) the Mortgage Rates borne by the Initial Mortgage Loans as of the Initial Cut-off Date,
- (2) the lien priorities of the Initial Mortgage Loans,
- (3) the Loan-to-Value Ratios or Combined Loan-to-Value Ratios, as applicable, of the Initial Mortgage Loans,
- (4) the remaining months to stated maturity of the Initial Mortgage Loans as of the Initial Cut-off Date,
- (5) the type of properties securing the Initial Mortgage Loans,
- (6) the geographical distribution of such Initial Mortgage Loans by state,
- (7) the occupancy types of the Initial Mortgage Loans, and
- (8) the loan purposes of the Initial Mortgage Loans.

**Assignment of the Mortgage Loans**

Pursuant to the pooling and servicing agreement dated as of June 1, 2002 (the “**Pooling and Servicing Agreement**”), among the Depositor, the Master Servicer, the Seller, Fannie Mae and The Bank of New York, as trustee (the “**Trustee**”) the Depositor on the Closing Date will sell, transfer, assign, set over and otherwise convey without recourse to the Trustee in trust for the benefit of the Certificateholders all right, title and interest of the Depositor in and to each Initial Mortgage Loan and all right, title and interest in and to all other assets included in

the Trust Fund, including all principal and interest received on or with respect to the Initial Mortgage Loans after the Initial Cut-off Date, exclusive of any scheduled principal due on or prior to the Initial Cut-off Date and any interest accruing prior to the Initial Cut-off Date, and the Pre-Funded Amount (as defined herein) deposited in the Pre-Funding Account (as defined herein) on the Closing Date.

In connection with such transfer and assignment of the Mortgage Loans, the Depositor will deliver the following documents to the Trustee (collectively constituting the “*Trustee’s Mortgage File*”) with respect to each Initial Mortgage Loan and Subsequent Mortgage Loan (as defined below) (collectively, the “*Mortgage Loans*”):

- (1) the original Mortgage Note, endorsed by the Seller or the originator of the Mortgage Loan, without recourse in the following form: “Pay to the order of \_\_\_\_\_ without recourse” with all intervening endorsements that show a complete chain of endorsement from the originator to the Seller,
- (2) the original recorded Mortgage,
- (3) a duly executed assignment of the Mortgage to “Asset-Backed Certificates, Series 2002-2, CWABS, Inc., by The Bank of New York, a New York banking corporation, as trustee under the Pooling and Servicing Agreement dated as of June 1, 2002, without recourse,” in recordable form, as described in the Pooling and Servicing Agreement,
- (4) the original recorded assignment or assignments of the Mortgage together with all interim recorded assignments of such Mortgage,
- (5) the original or copies of each assumption, modification, written assurance or substitution agreement, if any, and
- (6) the original or duplicate original lender’s title policy and all riders thereto or, in the event such original title policy has not been received from the insurer, such original or duplicate original lender’s title policy and all riders thereto will be delivered within one year of the Closing Date.

Notwithstanding the foregoing, in lieu of providing the documents described in clauses (3) and (4) above, the Depositor may at its discretion provide evidence that the related Mortgage is held through the MERS® System. In addition, the Mortgages for some or all of the Mortgage Loans in the Trust Fund that are not already held through 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 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 the Mortgage Loan.

Pursuant to the Pooling and Servicing Agreement, the Depositor will be required to deliver (or cause delivery of) the Trustee’s Mortgage Files:

- (A) not later than the Closing Date, with respect to at least 50% of the Initial Mortgage Loans,
- (B) not later than twenty days after the Closing Date, with respect to at least an additional 40% of the Initial Mortgage Loans, and not later than twenty days after the relevant Subsequent Transfer Date (as defined below) with respect to at least 90% of the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date, and
- (C) not later than thirty days after the Closing Date, with respect to the remaining 10% of the Initial Mortgage Loans, and not later than thirty days after the relevant Subsequent Transfer Date with



respect to the remaining 10% of the Subsequent Mortgage Loans conveyed on the related Subsequent Transfer Date.

Assignments of the Mortgage Loans to the Trustee (or its nominee) will be recorded in the appropriate public office for real property records, except in states (such as California) as to which an opinion of counsel is delivered to the effect that such recording is not required to protect the Trustee's interests in the Mortgage Loan against the claim of any subsequent transferee or any successor to or creditor of the Depositor or the Seller. As to any Mortgage Loan, the recording requirement exception described in the preceding sentence is applicable only so long as the related Trustee Mortgage File is maintained in the possession of the Trustee in one of the states to which such exception applies. In the event any such assignment is delivered to the Trustee in blank and the related Trustee Mortgage File is released by the Trustee pursuant to applicable provisions of the Pooling and Servicing Agreement, the Trustee will complete such assignment as provided in subparagraph (3) above prior to any such release. In the event such recording is required to protect the interest of the Trustee in the Mortgage Loans, the Master Servicer is required to cause each previously unrecorded assignment to be submitted for recording.

The Trustee will review the Initial Mortgage Loan documents on or prior to the Closing Date (or promptly after the Trustee's receipt of any document permitted to be delivered after the Closing Date), and the Subsequent Mortgage Loan documents promptly after the Trustee's receipt thereof after the related Subsequent Transfer Date as described above, and the Trustee will hold such documents in trust for the benefit of the holders of the Certificates. After review of such Mortgage Loan documents, if any document is found to be missing or defective in any material respect, the Trustee or the Trustee is required to notify the Master Servicer and the Seller in writing. If the Seller cannot or does not cure such omission or defect within 90 days of its receipt of notice from the Trustee or the Trustee, the Seller is required to repurchase the related Mortgage Loan from the Trust Fund at a price (the "**Purchase Price**") equal to 100% of the Stated Principal Balance thereof plus accrued and unpaid interest thereon, at a rate equal to the Mortgage Rate, to the first day of the month in which the Purchase Price is to be distributed to holders of the Certificates. Rather than repurchase the Mortgage Loan as provided above, the Seller may remove such Mortgage Loan (a "**Deleted Mortgage Loan**") from the Trust Fund and substitute in its place another Mortgage Loan of like kind (a "**Replacement Mortgage Loan**"); however, such substitution is only permitted within two years after the Closing Date, and may not be made unless an opinion of counsel is provided to the effect that such substitution would not disqualify any REMIC election made by the Trust or result in a prohibited transaction tax under the Code. Any Replacement Mortgage Loan generally will, on the date of substitution, among other characteristics set forth in the Pooling and Servicing Agreement:

(1) have a Stated Principal Balance, after deduction of the principal portion of the scheduled payment due in the month of substitution, not in excess of, and not less than 90% of, the Stated Principal Balance of the Deleted Mortgage Loan (the amount of any shortfall to be forwarded by the Seller to the Master Servicer and deposited by the Master Servicer in the Certificate Account not later than the succeeding Determination Date and held for distribution to the holders of the Certificates on the related Distribution Date),

(2) if the Deleted Mortgage Loan that is being replaced is an Adjustable Rate Mortgage Loan, have a Maximum Mortgage Rate not more than 1% per annum higher or lower than the Maximum Mortgage Rate of the Deleted Mortgage Loan,

(3) if the Deleted Mortgage Loan that is being replaced is an Adjustable Rate Mortgage Loan, have a minimum Mortgage Rate specified in its related Mortgage Note (such rate, the "**Minimum Mortgage Rate**") not more than 1% per annum higher or lower than the Minimum Mortgage Rate of the Deleted Mortgage Loan,

(4) if the Deleted Mortgage Loan that is being replaced is an Adjustable Rate Mortgage Loan, have the same Mortgage Index, Periodic Rate Cap and intervals between Adjustment Dates, as the Deleted Mortgage Loan and a Gross Margin not more than 1% per annum higher or lower than that of the Deleted Mortgage Loan,

(5) have the same or higher credit quality characteristics than that of the Deleted Mortgage Loan,

(6) be accruing interest at a rate not more than 1% per annum higher or lower than that of the Deleted Mortgage Loan,

(7) have a Combined Loan-to-Value Ratio or Loan-to-Value Ratio, as applicable, no higher than that of the Deleted Mortgage Loan,

(8) have a remaining term to maturity not greater than (and not more than one year less than) that of the Deleted Mortgage Loan,

(9) not permit conversion of the Mortgage Rate from a fixed rate to a variable rate or vice versa,

(10) provide for a prepayment charge on terms substantially similar to those of the prepayment charge, if any, of the Deleted Mortgage Loan,

(11) constitute the same occupancy type as the Deleted Mortgage Loan, and

(12) comply with all of the representations and warranties set forth in the Pooling and Servicing Agreement as of the date of substitution.

This cure, repurchase or substitution obligation constitutes the sole remedy available to the Certificateholders, the Trustee or the Depositor for omission of, or a material defect in, a Mortgage Loan document.

### **Pre-Funding**

On the Closing Date the excess of the aggregate Certificate Principal Balance of the Certificates over the Initial Cut-off Date Pool Principal Balance (the “**Pre-Funded Amount**”) (which Pre-Funded Amount is not expected to exceed \$232,500,000) will be deposited in a pre-funding account (the “**Pre-Funding Account**”) established and maintained by the Trustee on behalf of the Certificateholders. Any investment income earned from amounts in the Pre-Funding Account will be paid to the Depositor, and will not be available for payments on the Certificates. Approximately 25.8% of the Pre-Funded Amount will be allocated to purchase Fixed Rate Mortgage Loans to be included in Loan Group 1, approximately 44.1% of the Pre-Funded Amount will be allocated to purchase Adjustable Rate Mortgage Loans to be included in Loan Group 1, approximately 10.5% of the Pre-Funded Amount will be allocated to purchase Fixed Rate Mortgage Loans to be included in Loan Group 2, and approximately 19.6% of the Pre-Funded Amount will be allocated to purchase Adjustable Rate Mortgage Loans to be included in Loan Group 2. During the period from the Closing Date until the earlier of (x) the date the amount in the Pre-Funding Account is less than \$25,000 and (y) September 20, 2002 (the “**Funding Period**”), the Depositor is expected to purchase credit blemished mortgage loans originated or purchased by the Seller after June 1, 2002 (such mortgage loans, the “**Subsequent Mortgage Loans**”) from the Seller and sell such Subsequent Mortgage Loans to the Trust Fund as described below. The purchase price for each Subsequent Mortgage Loan will equal the Stated Principal Balance of such Subsequent Mortgage Loan as of the later of (x) the first day of the month of the related Subsequent Transfer Date and (y) the date of origination of such Subsequent Mortgage Loan (the related “**Subsequent Cut-off Date**”) and will be paid from the Pre-Funding Account. Accordingly, the purchase of Subsequent Mortgage Loans will decrease the amount on deposit in the Pre-Funding Account and increase the Stated Principal Balance of the Mortgage Pool.

Pursuant to the Pooling and Servicing Agreement and a Subsequent Transfer Agreement to be executed by the Seller, the Depositor and the Trustee, the conveyance of Subsequent Loans may be made on any Business Day during the Funding Period (a “**Subsequent Transfer Date**”), subject to the fulfillment of certain conditions in the Pooling and Servicing Agreement, including that:

- the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date satisfy the same representations and warranties in the Pooling and Servicing Agreement applicable to all Mortgage Loans,

- the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date were selected in a manner reasonably believed not to be adverse to the interests of the Certificateholders,
- the Trustee receives an opinion of counsel with respect to the validity of the conveyance of the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date,
- the Trustee receives an opinion of counsel to the effect that the conveyance of the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date will not (i) result in the imposition of the tax on “*prohibited transactions*” on the Trust Fund or contributions after the Startup Date, as defined in Sections 860F(a)(2) and 860G(d) of the Code, respectively, or (ii) cause the Trust Fund to fail to qualify as a REMIC at any time that any Certificates are outstanding,
- the Trustee receives opinions of counsel to the effect that the conveyance of the Subsequent Mortgage Loans conveyed on such Subsequent Transfer Date from the Seller to the Depositor and the simultaneous conveyance of such Subsequent Mortgage Loans from the Depositor to the Trust Fund will be characterized as true sales and not loans secured by such Subsequent Mortgage Loans,
- the conveyance of the Subsequent Mortgage Loans on such Subsequent Transfer Date will not result in a reduction or withdrawal of any ratings assigned to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates,
- no Subsequent Mortgage Loan in Loan Group 1 conveyed on such Subsequent Transfer Date was 30 or more days delinquent, and no Subsequent Mortgage Loan in Loan Group 2 conveyed on such Subsequent Transfer Date was 60 or more days delinquent,
- each Subsequent Mortgage Loan conveyed on such Subsequent Transfer Date that is an Adjustable Rate Mortgage Loan is secured by a first lien on the related Mortgaged Property, and
- the conveyance of the Subsequent Mortgage Loans on such Subsequent Transfer Date causes the characteristics of the Mortgage Loans in each Loan Group, to be within, or closer to, the Pool Characteristics described above, provided that for the purpose of making such calculations, the characteristics for any Initial Mortgage Loan will be taken as of the Initial Cut-off Date and the characteristics for any Subsequent Mortgage Loan will be taken as of the Subsequent Cut-off Date.

Neither the Seller nor the Depositor will exercise any discretion in the selection of Subsequent Mortgage Loans conveyed to the Trust Fund. The selection will be made with respect to loans that satisfy the eligibility criteria described above using a procedure generally as follows. Mortgage loans eligible for purchase will be aggregated by the date on which they were funded. These mortgage loans will be purchased in date order up through the day substantially all of the funds in the Pre-Funding Account allocated for the purchase of Fixed Rate or Adjustable Rate Mortgage Loans to be included in such Loan Group are expended. Mortgage Loans that conform to the criteria specified for Loan Group 1 will be allocated first for inclusion in Loan Group 1 prior to being allocated for inclusion in Loan Group 2. Purchases of loans funded on the same day will be ordered alphabetically by the last name of the primary obligor. Acquisitions may occur in one or more closings after the Closing Date.

## **Underwriting Standards**

*Credit Blemished Mortgage Loans.* The following is a description of the underwriting procedures customarily employed by the Seller with respect to credit blemished mortgage loans. The Seller produces its credit blemished mortgage loans through its Consumer Markets, Full Spectrum Lending, Correspondent Lending and Wholesale Lending Divisions. Prior to the funding of any credit blemished mortgage loan, the Seller underwrites the related mortgage loan in accordance with the underwriting standards established by the Seller. In general, the mortgage loans are underwritten centrally by a specialized group of underwriters who are familiar with the unique characteristics of credit blemished mortgage loans. In general, the Seller does not purchase any credit blemished mortgage loan that it has not itself underwritten.

The Seller's underwriting standards are primarily intended to evaluate the value and adequacy of the mortgaged property as collateral for the proposed mortgage loan and the borrower's credit standing and repayment ability. On a case by case basis, the Seller may determine that, based upon compensating factors, a prospective borrower not strictly qualifying under the underwriting risk category guidelines described below warrants an underwriting exception. Compensating factors may include low loan-to-value ratio, low debt-to-income ratio, stable employment and time in the same residence. It is expected that a significant number of the Mortgage Loans will have been originated based on such underwriting exceptions.

Each prospective borrower completes an application which includes information with respect to the applicant's assets, liabilities, income and employment history, as well as certain other personal information. If the loan-to-value ratio is greater than 70%, the Seller generally verifies the source of funds for the down-payment; the Seller does not verify the source of such funds if the loan-to-value ratio is 70% or less. The Seller requires an independent credit bureau report on the credit history of each applicant in order to evaluate the applicant's prior willingness and/or ability to repay. The report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcy, repossession, suits or judgments.

After obtaining all applicable employment, credit and property information, the Seller uses 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 credit obligations to the borrower's gross monthly income. The maximum monthly debt-to-income ratio varies depending upon a borrower's credit grade and documentation level (as described below) but does not generally exceed 60%. Variations in the monthly debt-to-income ratios limit are permitted based on compensating factors.

The Seller's underwriting standards are applied in accordance with applicable federal and state laws and regulations and require an independent appraisal of the mortgaged property prepared on a Uniform Residential Appraisal Report (Form 1004). Each appraisal includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home and generally is required to have been made not earlier than 180 days prior to the date of origination of the mortgage loan. Every independent appraisal is reviewed by a representative of the Seller before the loan is funded, and an additional field review appraisal is generally performed in connection with loan amounts over \$350,000 or 80% or higher loan-to-value ratios. A field review appraisal is an exterior examination of the premises by the appraiser to determine that the property is in acceptable condition and the appraised value is reasonable. In most cases, properties that are not at least in average condition (including properties requiring major deferred maintenance) are not acceptable as collateral for a credit blemished loans. The maximum loan amount varies depending upon a borrower's credit grade and documentation level but does not generally exceed \$500,000. Variations in maximum loan amount limits are permitted based on compensating factors.

The Seller's underwriting standards permit first mortgage loans with loan-to-value ratios at origination of up to 100% and second mortgage loans with combined loan-to-value ratios at origination of up to 100% depending on the program, type and use of the property, documentation level, creditworthiness of the borrower and debt-to-income ratio.

The Seller requires title insurance on all credit blemished mortgage loans. The Seller also requires that fire and extended coverage casualty insurance be maintained on the mortgaged property in an amount at least equal to the principal balance or the replacement cost of the mortgaged property, whichever is less.

The Seller's credit blemished mortgage loan underwriting standards are more flexible than the standards generally acceptable to the Seller for its non-credit blemished mortgage loans with regard to the borrower's credit standing and repayment ability. While more flexible, the Seller's underwriting guidelines still place primary reliance on a borrower's ability to repay; however the Seller may require lower loan-to-value ratios than for loans underwritten to more traditional standards. Borrowers who qualify generally have payment histories and debt-to-income ratios which would not satisfy more traditional underwriting guidelines and may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. The Seller's credit blemished

mortgage loan underwriting guidelines establish the maximum permitted loan-to-value ratio for each loan type based upon these and other risk factors with more risk factors resulting in lower loan-to-value ratios.

The Seller underwrites or originates credit blemished mortgage loans pursuant to alternative sets of underwriting criteria under its Full Documentation Loan Program (the “**Full Doc Program**”), Simple Documentation Loan Program (the “**Simple Doc Program**”) and Stated Income Loan Program (the “**Stated Income Program**”). Under each of the underwriting programs, the Seller verifies the loan applicant’s sources of income (except under the Stated Income Program), calculates the amount of income from all sources indicated on the loan application, reviews the credit history of the applicant, calculates the debt-to-income ratio to determine the applicant’s ability to repay the loan, and reviews the appraisal of the mortgaged property for compliance with the Seller’s underwriting standards.

The Simple Doc Program is an alternative documentation program whereby income is verified using methods other than those employed under the Full Doc Program. Under the Simple Doc Program, acceptable documentation of income consists of six months’ income verification. In the case of self-employed individuals, acceptable alternative documentation consists of a profit and loss statement supported by a record of bank statements. Maximum loan-to-value ratios and maximum loan amounts are generally lower than those permitted under the Full Doc Program.

Under the Stated Income Program, the borrower’s employment and income sources must be stated on the borrower’s application. The borrower’s income as stated must be reasonable for the related occupation and such determination as to reasonableness is subject to the loan underwriter’s discretion. However, the borrower’s income as stated on the application is not independently verified. Maximum loan-to-value ratios are generally lower than those permitted under the Full Doc Program. Except as otherwise stated above, the same mortgage credit, consumer credit and collateral related underwriting guidelines apply.

Under the Full Doc, Simple Doc, and Stated Income Programs, various risk categories are used to grade the likelihood that the mortgagor will satisfy the repayment conditions of the mortgage loan. These risk categories establish the maximum permitted loan-to-value ratio, debt-to-income ratio and loan amount, given the borrower’s credit history, the occupancy status of the mortgaged property and the type of mortgaged property. In general, higher debt-to-income ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies result in a loan being assigned to a higher credit risk category.

The Seller’s underwriting guidelines for credit blemished mortgage loans utilize credit grade categories to grade the likelihood that the mortgagor will satisfy the repayment conditions of the mortgage loans. In general, a credit grade category is assigned by evaluating a borrower’s consumer credit history, mortgage history, time since bankruptcy, and time since foreclosure or notice of default. The credit grade categories establish guidelines for determining maximum allowable loan-to-value ratios, debt-to-income ratios and loan amounts for a given mortgage loan. A summary of the credit grade categories is set forth below.

*Credit Grade Category: “A”*

**Loan-To-Value Ratio:** Maximum of 100%

**Debt-To-Income Ratio:** Maximum of 50%

**Loan Amount:** Maximum of \$500,000

**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 600, unless no delinquencies of 30 days in the past twelve months, in which case greater than or equal to 580. If no Credit Bureau Risk Score is available, then no more than 4 delinquencies of 30 days in the past 12 months.

**Mortgage History:** No more than 1 delinquency of 30 days during the past 12 months.

**Bankruptcy:** At least 3 years since discharge/dismissal.

**Foreclosure/Notice of Default (NOD):** At least 3 years since foreclosure/NOD released.

*Credit Grade Category: “A—”*

**Loan-To-Value Ratio:** Maximum of 90%

**Debt-To-Income Ratio:** Maximum of 55%

**Loan Amount:** Maximum of \$500,000

**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 570, unless no

delinquencies of 30 days in the past twelve months, in which case greater than or equal to 560. If no Credit Bureau Risk Score is available, then no more than 6 delinquencies of 60 days in the past 12 months.  
**Mortgage History:** No more than 2 delinquencies of 30 days during the past 12 months.  
**Bankruptcy:** At least 2 years since discharge/dismissal.  
**Foreclosure/Notice of Default (NOD):** At least 3 years since foreclosure/NOD released.

*Credit Grade Category: "B"*

**Loan-To-Value Ratio:** Maximum of 85%  
**Debt-To-Income Ratio:** Maximum of 55%  
**Loan Amount:** Maximum of \$350,000  
**Consumer Credit History:** Credit Bureau Risk Score must be greater than or equal to 550, unless no delinquencies of 30 days in the past twelve months, in which case greater than or equal to 540. If no Credit Bureau Risk Score is available, then no more than 10 delinquencies of 30 days, 4 delinquencies of 60 days, and 2 delinquencies of 90 or more days in the past 12 months.  
**Mortgage History:** No more than 4 delinquencies of 30 days during the past 12 months, or no more than 2 delinquencies of 30 days and 1 delinquency of 60 days in the past 12 months.  
**Bankruptcy:** Chapter 13 Bankruptcy must be dismissed at least 2 years prior to funding. Chapter 13 Bankruptcy must be discharged at least 1 year prior to funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 year prior to funding.  
**Foreclosure/Notice of Default (NOD):** At least 2 years since foreclosure/NOD released.

*Credit Grade Category: "C"*

**Loan-To-Value Ratio:** Maximum of 80%  
**Debt-To-Income Ratio:** Maximum of 55%  
**Loan Amount:** Maximum of \$350,000  
**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 8 delinquencies of 60 days, and 4 delinquencies of 90 days or more in the past 12 months.  
**Mortgage History:** No more than 1 delinquency of 90 days during the past 12 months.  
**Bankruptcy:** At least 1 year since discharge/dismissal.  
**Foreclosure/Notice of Default (NOD):** At least 1 year since foreclosure/NOD released.

*Credit Grade Category: "C—"*

**Loan-To-Value Ratio:** Maximum of 70%  
**Debt-To-Income Ratio:** Maximum of 55%  
**Loan Amount:** Maximum of \$300,000  
**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 12 delinquencies of 60 days, and 8 delinquencies of 90 days or more in the past 12 months.  
**Mortgage History:** No more than 2 delinquencies of 90 days during the past 12 months.  
**Bankruptcy:** Chapter 13 Bankruptcy must be discharged/dismissed, or paid-off through escrow at funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 day prior to funding.  
**Foreclosure/Notice of Default (NOD):** None at time of funding.

*Credit Grade Category: "D"*

**Loan-To-Value Ratio:** Maximum of 65%  
**Debt-To-Income Ratio:** Maximum of 55%  
**Loan Amount:** Maximum of \$250,000  
**Consumer Credit History:** The preferred minimum Credit Bureau Risk Score is 500. If no Credit Bureau Risk Score is available, then no more than 12 delinquencies of 60 days, and 8 delinquencies of 90 days or more in the past 12 months.  
**Mortgage History:** Notice of default is acceptable at funding.  
**Bankruptcy:** Chapter 13 Bankruptcy must be discharged/dismissed, or paid-off through escrow at funding. Chapter 7 Bankruptcy must be discharged/dismissed at least 1 day prior to funding.  
**Foreclosure/Notice of Default (NOD):** Notice of default is acceptable at time of funding.

The loan-to-value ratios, debt-to-income ratios, and loan amounts stated above are maximum levels for a given credit grade category. There are additional restrictions on loan-to-value ratios, debt-to-income ratios, and loan amounts depending on, but not limited to, the occupancy status of the mortgaged property, the type of mortgaged property, and the documentation program.

The “**Credit Bureau Risk Score**” is a statistical credit score obtained by the Seller in connection with the loan application to help assess a borrower’s credit-worthiness. Credit Bureau Risk Scores are generated by models developed by a third party and are made available to mortgage lenders through three national credit bureaus. The models were derived by analyzing data on consumers in order to establish patterns which are believed to be indicative of the borrower’s probability of default. The Credit Bureau Risk Scores are based on a borrower’s historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of client history, types of credit, and bankruptcy experience. Credit Bureau Risk Scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a Credit Bureau Risk Score purports only to be a measurement of the relative degree of risk a borrower represents to a lender, i.e., that a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score. In addition, it should be noted that Credit Bureau Risk Scores were developed to indicate a level of default probability over a two-year period which does not correspond to the life of a mortgage loan. Furthermore, Credit Bureau Risk Scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general. Therefore, a Credit Bureau Risk Score does not take into consideration the effect of mortgage loan characteristics on the probability of repayment by the borrower. The Credit Bureau Risk Scores set forth above were obtained either at the time of origination of the Mortgage Loan or more recently. The Credit Bureau Risk Score is used as an aid to, not a substitute for, the underwriter’s judgment.

In determining a Credit Bureau Risk Score for a particular borrower, the Seller attempts to obtain Credit Bureau Risk Scores from each of the three national credit bureaus that produce such scores. Although different scores may be available from each of the three national credit bureaus for a particular borrower, the Seller will use only one score in its determination of whether to underwrite a mortgage loan, based on the following methodology: if scores are available from each of the three national credit bureaus, the Seller will disregard the highest and lowest scores, and use the remaining score; and if scores are available from only two of the three national credit bureau, the Seller will use the lower of the two scores. If only one score is available, the Seller will follow its No Credit Score guidelines. In the case of a mortgage loan with more than one applicant, the Seller will use the Credit Bureau Risk Score of the applicant contributing the highest percentage of the total qualifying income.

## **Servicing of the Mortgage Loans**

### **General**

Countrywide Home Loans Servicing LP (“**Countrywide Servicing**” or the “**Master Servicer**”) will act as Master Servicer and will service the Mortgage Loans in accordance with the terms set forth in the Pooling and Servicing Agreement. The Master Servicer may perform any of its obligations under the Pooling and Servicing Agreement 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.

### **The Master Servicer**

The principal executive offices of Countrywide Servicing are located at 7105 Corporate Drive, Plano, Texas 75024. Countrywide Servicing is a Texas limited partnership directly owned by Countrywide GP, Inc. and Countrywide LP, Inc., each a Nevada corporation and a direct wholly owned subsidiary of Countrywide Home Loans, Inc., a New York corporation (“**Countrywide Home Loans**” or the “**Seller**”). Countrywide GP, Inc. owns a 0.1% interest in Countrywide Servicing and is the general partner. Countrywide LP, Inc. owns a 99.9% interest in Countrywide Servicing and is a limited partner.

Countrywide Home Loans established Countrywide Servicing in February 2000 to service mortgage loans originated by Countrywide Home Loans that would otherwise have been serviced by Countrywide Home Loans. In

January and February, 2001, Countrywide Home Loans transferred to Countrywide Servicing all of its rights and obligations relating to mortgage loans serviced on behalf of Freddie Mac and Fannie Mae, respectively. In October 2001, Countrywide Home Loans transferred to Countrywide Servicing all of its rights and obligations to the bulk of its non-agency loan servicing portfolio (other than the servicing of home equity lines of credit), including with respect to those mortgage loans (other than home equity lines of credit) formerly serviced by Countrywide Home Loans and securitized by CWABS, Inc. While Countrywide Home Loans expects to continue to directly service a portion of its loan portfolio, it is expected that the servicing rights for most newly originated Countrywide Home Loans mortgage loans will be transferred to Countrywide Servicing upon sale or securitization of the related mortgage loans. Countrywide Servicing is engaged in the business of servicing mortgage loans and will not originate or acquire loans, an activity that will continue to be performed by Countrywide Home Loans. In addition to acquiring mortgage servicing rights from Countrywide Home Loans, it is expected that Countrywide Servicing will service mortgage loans for non-Countrywide Home Loans affiliated parties as well as subservice mortgage loans on behalf of other master servicers.

In connection with the establishment of Countrywide Servicing, certain employees of Countrywide Home Loans became employees of Countrywide Servicing. Countrywide Servicing has engaged Countrywide Home Loans as a subservicer to perform certain loan servicing activities on its behalf.

Countrywide Servicing is an approved mortgage loan servicer for Fannie Mae, Freddie Mac, Ginnie Mae, HUD and VA and is licensed to service mortgage loans in each state where a license is required. Its loan servicing activities are guaranteed by Countrywide Credit and/or Countrywide Home Loans when required by the owner of the mortgage loans. As of March 31, 2002, Countrywide Servicing had a net worth of approximately \$5.4 billion.

### **Countrywide Home Loans**

Countrywide Home Loans is a direct wholly owned subsidiary of Countrywide Credit Industries, Inc., a Delaware corporation ("***Countrywide Credit***"). The principal executive offices of Countrywide Home Loans are located at 4500 Park Granada, Calabasas, California 91302. Countrywide Home Loans is engaged primarily in the mortgage banking business, and as such, originates, purchases, sells and services mortgage loans. Countrywide Home Loans originates mortgage loans through a retail branch system and through mortgage loan brokers and correspondents nationwide. Mortgage loans originated by Countrywide Home Loans are principally first-lien, fixed or adjustable rate mortgage loans secured by single-family residences. Except as otherwise indicated, reference in the remainder of this information supplement to "***Countrywide Home Loans***" should be read to include Countrywide Home Loans and its consolidated subsidiaries, including Countrywide Servicing.

Countrywide Home Loans services substantially all of the mortgage loans it originates or acquires. In addition, Countrywide Home Loans has purchased in bulk the rights to service mortgage loans originated by other lenders. Countrywide Home Loans has in the past and may in the future sell to other mortgage bankers a portion of its portfolio of loan servicing rights. As of March 31, 2002, Countrywide Home Loans provided servicing for mortgage loans with an aggregate principal balance of approximately \$353.52 billion, substantially all of which are being serviced for unaffiliated persons. As of March 31, 2002, Countrywide Home Loans provided servicing for approximately \$22.56 billion in credit blemished mortgage loans.

### **Loan Servicing**

The Master Servicer has established standard policies for the servicing and collection of mortgages. Servicing includes, but is not limited to:

- (a) collecting, aggregating and remitting mortgage loan payments;
- (b) accounting for principal and interest;
- (c) holding escrow (impound) funds for payment of taxes and insurance;
- (d) making inspections as required of the mortgaged properties;



- (e) preparation of tax related information in connection with the mortgage loans;
- (f) supervision of delinquent mortgage loans;
- (g) loss mitigation efforts;
- (h) foreclosure proceedings and, if applicable, the disposition of mortgaged properties; and
- (i) generally administering the mortgage loans, for which it receives servicing fees.

Billing statements with respect to mortgage loans are mailed monthly by the Master Servicer. The statement details all debits and credits and specifies the payment due. Notice of changes in the applicable loan rate are provided by the Master Servicer to the mortgagor with such statements.

### **Collection Procedures**

*Credit Blemished Mortgage Loans.* When a mortgagor fails to make a payment on a credit blemished mortgage loan, the Master Servicer attempts to cause the deficiency to be cured by corresponding with the mortgagor. In most cases, deficiencies are cured promptly. Pursuant to the Master Servicer's servicing procedures for credit blemished loans, the Master Servicer generally mails to the mortgagor a notice of intent to foreclose after the loan becomes 31 days past due (two payments due but not received) and, generally within 59 days thereafter, if the loan remains delinquent, institutes appropriate legal action to foreclose on the mortgaged property. 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 mortgaged property is located. During the foreclosure proceeding, the Master Servicer determines the amount of the foreclosure bid and whether to liquidate the mortgage loan.

If foreclosed, the mortgaged property is sold at a public or private sale and may be purchased by Countrywide Home Loans. After foreclosure, the Master Servicer may liquidate the mortgaged property and charge-off the loan balance which was not recovered through liquidation proceeds.

Servicing and charge-off policies and collection practices with respect to credit blemished mortgage loans may change over time in accordance with, among other things, the Master Servicer's business judgment, changes in the servicing portfolio and applicable laws and regulations.

### **Foreclosure and Delinquency Experience**

*Credit Blemished Mortgage Loans.* The following table summarizes the delinquency and foreclosure experience, respectively, on the dates indicated, of credit blemished mortgage loans originated and serviced by Countrywide Home Loans. A credit blemished mortgage loan is characterized as delinquent if the borrower has not paid the monthly payment due within one month of the related due date. 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 delinquency or foreclosure experience presented in the table below will be indicative of such experience on such Mortgage Loans. The sum of the columns below may not equal the total indicated due to rounding.

For 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;
- the “**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; and
- the “**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.

<b>Delinquency and Foreclosure Experience</b>				
	<b>As of December 31, 1999</b>		<b>As of December 31, 2000</b>	
	<b>Principal Balance</b>	<b>Percentage</b>	<b>Principal Balance</b>	<b>Percentage</b>
Total Portfolio	\$5,536,317,231.27	100.00%	\$7,867,335,642.62	100.00%
Delinquency Percentage				
30-59 Days	\$ 341,598,592.95	6.17%	\$ 617,079,497.93	7.84%
60-89 Days	106,503,734.27	1.92%	209,082,975.61	2.66%
90+ Days	48,628,549.50	0.88%	87,295,342.66	1.11%
Sub-Total	\$ 496,730,876.72	8.97%	\$ 913,457,816.20	11.61%
Foreclosure Rate	\$ 90,023,803.50	1.63%	\$ 231,465,019.95	2.94%
Bankruptcy Rate	\$ 47,660,244.96	0.86%	\$ 109,183,964.35	1.39%

<b>Delinquency and Foreclosure Experience</b>				
	<b>As of December 31, 2001</b>		<b>As of March 31, 2002</b>	
	<b>Principal Balance</b>	<b>Percentage</b>	<b>Principal Balance</b>	<b>Percentage</b>
Total Portfolio	\$9,081,242,926.99	100.00%	\$9,429,571,007.11	100.00%
Delinquency Percentage				
30-59 Days	\$ 806,843,594.55	8.88%	720,167,168.14	7.64%
60-89 Days	255,443,513.99	2.81%	207,229,920.00	2.20%
90+ Days	103,605,791.49	1.14%	85,572,173.39	0.91%
Sub-Total	\$1,165,892,900.03	12.84%	\$1,012,969,261.53	10.74%
Foreclosure Rate	\$ 356,652,093.38	3.93%	\$ 340,827,927.66	3.61%
Bankruptcy Rate	\$ 232,679,880.26	2.56%	\$ 249,541,208.32	2.65%

Historically, a variety of factors, including the appreciation of real estate values, have limited the loss and delinquency experience on credit blemished mortgage loans. There can be no assurance that factors beyond the control of Countrywide Home Loans, such as national or local economic conditions or a downturn in the real estate markets of its lending areas, will not result in increased rates of delinquencies and foreclosure losses in the future.

#### **Servicing Compensation and Payment of Expenses**

The Master Servicer will be paid a monthly fee from interest collected with respect to each Mortgage Loan (as well as from any liquidation proceeds from a Liquidated Mortgage Loan that are applied to accrued and unpaid interest) equal to one-twelfth of the Stated Principal Balance thereof multiplied by the Servicing Fee Rate (such product, the “**Servicing Fee**”). The “**Servicing Fee Rate**” for each Mortgage Loan will equal 0.50% per annum. The amount of the monthly Servicing Fee is subject to adjustment with respect to Mortgage Loans that are prepaid in full, as described herein under “— *Adjustment to Servicing Fee in Connection with Certain Prepaid Mortgage Loans.*” The Master Servicer is also entitled to receive, as additional servicing compensation, amounts in respect of interest paid on Principal Prepayments received from the 2nd day through the 15th day of a month, other than the month of the Cut-off Date (“**Prepayment Interest Excess**”), all late payment fees, assumption fees and other similar charges (excluding prepayment premiums) and all reinvestment income earned on amounts on deposit in the

Certificate Account and Distribution Account. The Master Servicer is obligated to pay certain ongoing expenses associated with the Mortgage Loans and incurred by the Trustee in connection with its respective responsibilities under the Pooling and Servicing Agreement.

### **Adjustment to Servicing Fee in Connection With Certain Prepaid Mortgage Loans**

When a borrower prepays all or a portion of a Mortgage Loan between scheduled monthly payment dates (“**Due Dates**”), the borrower pays interest on the amount prepaid only to the date of prepayment. Principal Prepayments which are received from the 2nd day through the 15th day of a month are included in the related distribution on the 25th day of the same month, and accordingly no shortfall in interest otherwise distributable to holders of the Certificates results. Conversely, Principal Prepayments received from the 16th day of a month to the first day of the following month are not distributed until the 25th day of such following month, and accordingly an interest shortfall (a “**Prepayment Interest Shortfall**”) would result. In order to mitigate the effect of any such shortfall in interest distributions to holders of the Certificates on any Distribution Date, one-half of the amount of the Servicing Fee otherwise payable to the Master Servicer for such month will, to the extent of such shortfall, be deposited by the Master Servicer in the Certificate Account for distribution to holders of the Certificates entitled thereto on such Distribution Date. Any such deposit by the Master Servicer (the “**Compensating Interest**”) will be reflected in the distributions to holders of the Certificates entitled thereto made on the Distribution Date on which the Principal Prepayments received would be distributed.

### **Advances**

Subject to the following limitations, on the Business Day prior to each Distribution Date, the Master Servicer will be required to advance its own funds, or funds in the Certificate Account that are not required to be distributed on such Distribution Date, in an amount equal to the aggregate of payments of principal and interest (or interest only on the Mortgage Loans that are simple interest mortgage loans) on the Mortgage Loans (with the Mortgage Rate adjusted to a rate equal to the Mortgage Rate minus the Servicing Fee Rate (as so adjusted, the “**Net Mortgage Rate**”)) that were due on the related Due Date and delinquent on the related Determination Date, together with an amount equivalent to interest (adjusted to the Net Mortgage Rate) deemed due on each Mortgage Loan as to which the related Mortgaged Property has been acquired by the Master Servicer through foreclosure or deed-in-lieu of foreclosure in connection with a defaulted Mortgage Loan (“**REO Property**”), such latter amount to be calculated after taking into account any rental income from such Mortgaged Property (any such advance, an “**Advance**” and the date of any such Advance, as described herein, a “**Master Servicer Advance Date**”).

Advances are intended to maintain a regular flow of scheduled interest and principal payments on the Certificates rather than to guarantee or insure against losses. The Master Servicer is obligated to make Advances to the extent that such Advances are, in its judgment, reasonably recoverable from future payments and collections or insurance payments or proceeds of liquidation of the related Mortgage Loan. If the Master Servicer determines on any Determination Date to make an Advance, such Advance will be included with the distribution to holders of the Certificates on the related Distribution Date. Any failure by the Master Servicer to make an Advance as required under the Pooling and Servicing Agreement will constitute an event of default thereunder, in which case the Trustee, as successor master servicer, or such other entity as may be appointed as successor master servicer, will be obligated to make any such Advance in accordance with the terms of the Pooling and Servicing Agreement.

### **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 the Class 1-A-1 Certificates as of each Distribution Date (after giving effect to any distribution of principal to Certificates on such Distribution Date) as a proportion of the original Certificate Principal Balance. On the Closing Date, the Pool Factor for the Class 1-A-1 Certificates will be 1.0000000. *See “Description of the Certificates—Distributions on the Certificates” herein.* Thereafter, the Pool Factor for the Class 1-A-1 Certificates will decline to reflect reductions in the related Certificate Principal Balance resulting from distributions of principal.

Pursuant to the pooling and servicing agreement, monthly reports concerning the Pool Factor and various other items of information for the Class 1-A-1 Certificates will be made available to the Certificateholders. In

addition, within 60 days after the end of each calendar year, beginning with the 2002 calendar year, information for tax reporting purposes will be provided to Fannie Mae upon request. See “*Description of the Certificates*” and “*Reports to Certificateholders*” herein.

## **Description of the Certificates**

### **General**

The Class 1-A-1 Certificates will be issued pursuant to the Pooling and Servicing Agreement. Set forth below are summaries of the material terms and provisions pursuant to which the Class 1-A-1 Certificates will be issued. The following summaries are subject to, and are qualified in their entirety by reference to, the provisions of the Pooling and Servicing Agreement. When particular provisions or terms used in the Pooling and Servicing Agreement are referred to, the actual provisions (including definitions of terms) are incorporated by reference.

The CWABS, Inc., Asset-Backed Certificates, Series 2002-2 (the “**Certificates**”) will consist of:

- Class 1-A-1, Class 2-A-1 and Class A-R Certificates (collectively the “**Senior Certificates**”),
- Class 2-M-1 Certificates,
- Class M-2 Certificates,
- Class B-1 Certificates (together with the Class 2-M-1 and Class M-2 and Class B-1 Certificates, the “**Subordinate Certificates**”),
- Class N Certificates, and
- Class X Certificates.

The Class 2-A-1, the Class 2-M-1 and the Class A-R Certificates are collectively referred to as the “**Group 2 Certificates**.” The Class M-2 and the Class B-1 Certificates are collectively referred to as the “**Cross Collateral Subordinated Certificates**.” As used herein, the “**Certificate Principal Balance**” for any class of Certificates (other than the Class N and Class X Certificates) is the aggregate outstanding principal balance of all Certificates of such class. Generally distributions of principal and interest on the Class 1-A-1 Certificates will be based on amounts available for distribution in respect of the Group 1 Mortgage Loans, and distributions of principal and interest on the Group 2 Certificates will be based on amounts available for distribution in respect of the Group 2 Mortgage Loans. Distributions of principal and interest on the Cross Collateral Subordinated Certificates (and the Class N and Class X Certificates, to the extent provided in the pooling and servicing agreement) will be based on amounts available for distribution in respect of both the Group 1 Mortgage Loans and the Group 2 Mortgage Loans.

The Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be issued in book-entry form as described below. The Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be issued in minimum dollar denominations of \$20,000 and integral multiples of \$1,000 in excess thereof, except that the Class A-R Certificates will be issued as two certificates in the denominations specified in the Pooling and Servicing Agreement.

### **Book-Entry Certificates**

The Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be book-entry Certificates (the “**Book-Entry Certificates**”). The Class A-R Certificates will be issued as two certificates in fully registered certificated form. Persons acquiring beneficial ownership interests in the Book-Entry Certificates (“**Certificate Owners**”) may elect to hold their Book-Entry Certificates through the Depository Trust Company (“**DTC**”) in the United States, or Clearstream, Luxembourg (as defined herein) or the Euroclear System (“**Euroclear**”), in Europe, if they are participants of such systems, or indirectly through organizations which are participants in such systems. The Book-Entry Certificates will be issued in one or more certificates which equal the

aggregate principal balance of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates and will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream Banking's and Euroclear's names on the books of their respective depositaries which in turn will hold such positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank will act as depositary for Clearstream, Luxembourg and Chase will act as depositary for Euroclear (in such capacities, individually the "**Relevant Depositary**" and collectively the "**European Depositaries**"). Investors may hold such beneficial interests in the Book-Entry Certificates in minimum denominations representing Certificate Principal Balances of \$20,000 and integral multiples of \$1,000 in excess thereof. Except as described below, no person acquiring a Book-Entry Certificate (each, a "**beneficial owner**") will be entitled to receive a physical certificate representing such Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 or Class B-1 Certificate (a "**Definitive Certificate**"). Unless and until Definitive Certificates are issued, it is anticipated that the only Certificateholder of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be Cede & Co., as nominee of DTC. Certificate Owners will not be Certificateholders as that term is used in the Pooling and Servicing Agreement. Certificate Owners are only permitted to exercise their rights indirectly through the participating organizations that utilize the services of DTC, including securities brokers and dealers, banks and trust companies and clearing corporations and certain other organizations ("**Participants**") and DTC.

The beneficial owner's ownership of a Book-Entry Certificate will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary (each, a "**Financial Intermediary**") that maintains the beneficial owner's account for such purpose. In turn, the Financial Intermediary's ownership of such Book-Entry Certificate will be recorded on the records of DTC (or of a participating firm that acts as agent for the Financial Intermediary, whose interest will in turn be recorded on the records of DTC, if the beneficial owner's Financial Intermediary is not a DTC participant and on the records of Clearstream, Luxembourg or Euroclear, as appropriate).

Certificate Owners will receive all distributions of principal of, and interest on, the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates from the Trustee through DTC and DTC participants. While the Class 1-A-1 Certificates are outstanding (except under the circumstances described below), under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC is required to make book-entry transfers among Participants on whose behalf it acts with respect to the Class 1-A-1 Certificates and is required to receive and transmit distributions of principal of, and interest on, the Class 1-A-1 Certificates. Participants and organizations which have indirect access to the DTC system, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("**Indirect Participants**"), with whom Certificate Owners have accounts with respect to Class 1-A-1 Certificates are similarly required to make book-entry transfers and receive and transmit such distributions on behalf of their respective Certificate Owners. Accordingly, although Certificate Owners will not possess certificates, the Rules provide a mechanism by which Certificate Owners will receive distributions and will be able to transfer their interest.

Certificate Owners will not receive or be entitled to receive certificates representing their respective interests in the Class 1-A-1 Certificates, except under the limited circumstances described below. Unless and until Definitive Certificates are issued, Certificate Owners who are not Participants may transfer ownership of Class 1-A-1 Certificates only through Participants and Indirect Participants by instructing such Participants and Indirect Participants to transfer Book-Entry Certificates, by book-entry transfer, through DTC for the account of the purchasers of such Book-Entry Certificates, which account is maintained with their respective Participants. Under the Rules and in accordance with DTC's normal procedures, transfers of ownership of Book-Entry Certificates will be executed through DTC and the accounts of the respective Participants at DTC will be debited and credited. Similarly, the Participants and Indirect Participants will make debits or credits, as the case may be, on their records on behalf of the selling and purchasing Certificate Owners.

Because of time zone differences, credits of securities received in Clearstream, Luxembourg or Euroclear as a result of a transaction with a Participant will be made during, subsequent securities settlement processing and dated the business day following, the DTC settlement date. Such credits or any transactions in such securities, settled during such processing will be reported to the relevant Euroclear or Clearstream, Luxembourg Participants on such business day. Cash received in Clearstream, Luxembourg or Euroclear, as a result of sales of securities by or

through a Clearstream, Luxembourg Participant or Euroclear Participant to a DTC Participant, will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in DTC. For information with respect to tax documentation procedures, relating to the Class 1-A-1 Certificates, see *“Material Federal Income Tax Consequences — Tax Treatment of Foreign Investors” in the Information Circular.*

Transfers between Participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg Participants and Euroclear Participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the Relevant Depository; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterpart in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the Relevant Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream, Luxembourg Participants and Euroclear Participants may not deliver instructions directly to the European Depositories.

DTC, which is a New York-chartered limited purpose trust company, performs services for its participants, some of which (and/or their representatives) own DTC. In accordance with its normal procedures, DTC is expected to record the positions held by each DTC participant in the Book-Entry Certificates, whether held for its own account or as a nominee for another person. In general, beneficial ownership of Book-Entry Certificates will be subject to the rules, regulations and procedures governing DTC and DTC participants as in effect from time to time.

Clearstream Banking, société anonyme, 67 Bd Grande-Duchesse Charlotte, L-2967 Luxembourg (*“Clearstream, Luxembourg”*), was incorporated in 1970 as *“Clearstream, Luxembourg S.A.”* a company with limited liability under Luxembourg law (a société anonyme). Clearstream, Luxembourg S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank’s parent company, Clearstream, Luxembourg International, société anonyme (*“CI”*) merged its clearing, settlement and custody business with that of Deutsche Borse Clearing AG (*“DBC”*). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in CB) to a new Luxembourg company, New Clearstream, Luxembourg International, société anonyme (*“New CI”*), which is 50% owned by CI and 50% owned by DBC’s parent company Deutsche Borse AG. The shareholders of these two entities are banks, securities dealers and financial institutions. Clearstream, Luxembourg International currently has 92 shareholders, including U.S. financial institutions or their subsidiaries. No single entity may own more than 5 percent of Clearstream, Luxembourg International’s stock.

Further to the merger, the Board of Directors of New Clearstream, Luxembourg International decided to rename the companies in the group in order to give them a cohesive brand name. The new brand name that was chosen is *“Clearstream”*. With effect from January 14, 2000 New CI has been renamed *“Clearstream International, société anonyme.”* On January 18, 2000, Cedelbank was renamed *“Clearstream Banking, société anonyme”* and Clearstream, Luxembourg Global Services was renamed *“Clearstream Services, société anonyme.”*

On January 17, 2000 DBC was renamed *“Clearstream Banking AG.”* This means that there are now two entities in the corporate group headed by Clearstream International which share the name *“Clearstream Banking,”* the entity previously named *“Cedelbank”* and the entity previously named *“Deutsche Borse Clearing AG.”*

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, “**CSSF**,” which supervises Luxembourg banks. Clearstream, Luxembourg’s customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg’s U.S. customers are limited to securities brokers and dealers, and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear Bank S.A./N.V. as the Operator of the Euroclear System (the “**Euroclear Operator**”) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear was created in 1968 to hold securities for participants of Euroclear (“**Euroclear Participants**”) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in any of 32 currencies, including United States dollars. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above. Euroclear is operated by the Brussels, Belgium office of the Euroclear Operator, under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation (the “**Cooperative**”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator has a banking license from the Belgian Banking and Finance Commission. This license authorizes the Euroclear Operator to carry out banking activities on a global basis.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law (collectively, the “**Terms and Conditions**”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions on the Book-Entry Certificates will be made on each Distribution Date by the Trustee to DTC. DTC will be responsible for crediting the amount of such payments to the accounts of the applicable DTC participants in accordance with DTC’s normal procedures. Each DTC participant will be responsible for disbursing such payments to the beneficial owners of the Book-Entry Certificates that it represents and to each Financial Intermediary for which it acts as agent. Each such Financial Intermediary will be responsible for disbursing funds to the beneficial owners of the Book-Entry Certificates that it represents.

Under a book-entry format, beneficial owners of the Book-Entry Certificates may experience some delay in their receipt of payments, since such payments will be forwarded by the Trustee to Cede & Co. Distributions with respect to Class 1-A-1 Certificates held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream, Luxembourg Participants or Euroclear Participants in accordance with the relevant system’s rules and procedures, to the extent received by the Relevant Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See “*Material Federal Income Tax Consequences — Tax Treatment of Foreign Investors*” and “*Miscellaneous Tax Aspects — Backup Withholding*” in the Information Circular. Because DTC can only act on behalf of Financial Intermediaries, the ability of a beneficial owner to pledge Book-Entry Certificates to persons or entities that do not participate in the

depository system, or otherwise take actions in respect of such Book-Entry Certificates, may be limited due to the lack of physical certificates for such Book-Entry Certificates. In addition, issuance of the Book-Entry Certificates in book-entry form may reduce the liquidity of such Certificates in the secondary market since certain potential investors may be unwilling to purchase certificates for which they cannot obtain physical certificates.

Monthly and annual reports on the Trust Fund provided by the Master Servicer to Cede & Co., as nominee of DTC, may be made available to beneficial owners upon request, in accordance with the rules, regulations and procedures creating and affecting DTC or the Relevant Depository, and to the Financial Intermediaries to whose DTC accounts the Book-Entry Certificates of such beneficial owners are credited.

DTC has advised the Depositor and the Trustee that, unless and until Definitive Certificates are issued, DTC will take any action permitted to be taken by the holders of the Book-Entry Certificates under the Pooling and Servicing Agreement only at the direction of one or more Financial Intermediaries to whose DTC accounts the Book-Entry Certificates are credited, to the extent that such actions are taken on behalf of Financial Intermediaries whose holdings include such Book-Entry Certificates. Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder of a Book-Entry Certificate under the Pooling and Servicing Agreement on behalf of a Clearstream, Luxembourg Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to the ability of the Relevant Depository to effect such actions on its behalf through DTC. DTC may take actions, at the direction of the related Participants, with respect to some Book-Entry Certificates which conflict with actions taken with respect to other Book-Entry Certificates.

Definitive Certificates will be issued to beneficial owners of the Book-Entry Certificates, or their nominees, rather than to DTC, only if (a) DTC or the Depositor advises the Trustee in writing that DTC is no longer willing, qualified or able to discharge properly its responsibilities as nominee and depository with respect to the Book-Entry Certificates and the Depositor or the Trustee is unable to locate a qualified successor, (b) the Depositor at its sole option, elects to terminate a book-entry system through DTC or (c) after the occurrence of an Event of Default (as defined herein), beneficial owners having not less than 51% of the Voting Rights (as defined herein) evidenced by the Class 1-A-1 Certificates advise the Trustee and DTC through the Financial Intermediaries and the DTC participants in writing that the continuation of a book-entry system through DTC (or a successor thereto) is no longer in the best interests of beneficial owners of such class.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Trustee will be required to notify all beneficial owners of the occurrence of such event and the availability through DTC of Definitive Certificates. Upon surrender by DTC of the global certificate or certificates representing the Book-Entry Certificates and instructions for re-registration, the Trustee will issue Definitive Certificates, and thereafter the Trustee will recognize the holders of such Definitive Certificates as holders of the related Class 1-A-1 Certificates under the Pooling and Servicing Agreement.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Certificates among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

### **Deposits to the Certificate Account**

The Master Servicer will establish and initially maintain a certificate account (the “**Certificate Account**”) for the benefit of the Trustee on behalf of the Certificateholders. On a daily basis within two Business Days after receipt, the Master Servicer will deposit or cause to be deposited into the Certificate Account the following payments and collections received or made or to be applied by it on or subsequent to the relevant Cut-off Date, including all principal and interest received with respect to the Mortgage Loans after the relevant Cut-off Date (exclusive of any scheduled principal due on or prior to such Cut-off Date and any interest accruing prior to such Cut-off Date):

- (1) all payments on account of principal, including Principal Prepayments, on the Mortgage Loans,



(2) all payments on account of interest (other than interest accruing on the Mortgage Loans prior to the related Cut-off Date) on the Mortgage Loans, net of the related Servicing Fees on the Mortgage Loans,

(3) all proceeds of any 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), other than proceeds that represent reimbursement of the Master Servicer's costs and expenses incurred in connection with presenting claims under the related insurance policies ("**Insurance Proceeds**"), all other net proceeds received in connection with the partial or complete liquidation of Mortgage Loans (whether through trustee's sale, foreclosure sale or otherwise) or in connection with any condemnation or partial release of a Mortgaged Property, together with the net proceeds received with respect to any Mortgaged Properties acquired by the Master Servicer by foreclosure or deed in lieu of foreclosure in connection with defaulted Mortgage Loans (other than the amount of such net proceeds representing any profit realized by the Master Servicer in connection with the disposition of any such properties) (together with Insurance Proceeds, "**Liquidation Proceeds**"),

(4) all payments made by the Master Servicer in respect of Prepayment Interest Shortfalls,

(5) any amount required to be deposited by the Master Servicer in connection with any losses on investment of funds in the Certificate Account,

(6) any amounts required to be deposited by the Master Servicer with respect to any deductible clause in any blanket hazard insurance policy maintained by the Master Servicer in lieu of requiring each mortgagor to maintain a primary hazard insurance policy,

(7) all amounts required to be deposited in connection with shortfalls in the principal amount of Replacement Mortgage Loans, and

(8) all Advances.

#### **Withdrawals from the Certificate Account**

The Master Servicer may from time to time withdraw funds from the Certificate Account prior to the related Distribution Account Deposit Date for the following purposes:

(1) to pay to the Master Servicer the Servicing Fees on the Mortgage Loans to the extent not previously paid to or withheld by the Master Servicer (subject to reduction as described above under "*Servicing of the Mortgage Loans — Adjustment to Servicing Fee in Connection with Prepaid Mortgage Loans*") and, as additional servicing compensation, assumption fees, late payment charges, net earnings on or investment income with respect to funds in or credited to the Certificate Account and the amount of Prepayment Interest Excess for the related Prepayment Period,

(2) to reimburse the Master Servicer for Advances, such right of reimbursement with respect to any Mortgage Loan pursuant to this clause (2) being limited to amounts received that represent late recoveries of payments of principal and/or interest on the related Mortgage Loan (or Insurance Proceeds or Liquidation Proceeds with respect thereto) with respect to which such Advance was made,

(3) to reimburse the Master Servicer for any Advances previously made that the Master Servicer has determined to be nonrecoverable,

(4) to reimburse the Master Servicer from Insurance Proceeds for expenses incurred by the Master Servicer and covered by the related insurance policies,

(5) to pay the Master Servicer any unpaid Servicing Fees and to reimburse it for any unreimbursed ordinary and necessary out-of-pocket costs and expenses incurred by the Master Servicer in

the performance of its master servicing obligations, such right of reimbursement pursuant to this clause (5) being limited to amounts received representing late recoveries of the payments of such costs and expenses (or Liquidation Proceeds, purchase proceeds or repurchase proceeds with respect thereto),

(6) to pay to the Seller or the Master Servicer, as applicable, with respect to each Mortgage Loan or Mortgaged Property acquired in respect thereof that has been purchased by the Seller or the Master Servicer from the Trust Fund pursuant to the Pooling and Servicing Agreement, all amounts received thereon and not taken into account in determining the related Stated Principal Balance of such repurchased Mortgage Loan,

(7) to reimburse the Seller, the Master Servicer or the Depositor for fees and expenses incurred and reimbursable pursuant to the Pooling and Servicing Agreement,

(8) to pay Credit Comeback Excess Amounts to the Seller,

(9) to withdraw any amount deposited in the Certificate Account and not required to be deposited therein, and

(10) to clear and terminate the Certificate Account upon termination of the Pooling and Servicing Agreement.

In addition, not later than 1:00 p.m. Pacific Time on the Business Day immediately preceding each Distribution Date (the “**Distribution Account Deposit Date**”), the Master Servicer will withdraw from the Certificate Account and remit to the Trustee the amount of the Interest Remittance Amount and the Principal Remittance Amount to the extent on deposit in the Certificate Account, and the Trustee will deposit such amount in the Distribution Account, as described below.

The “**Interest Remittance Amount**” with respect to each Loan Group is equal to:

(a) the sum, without duplication, of:

(1) all scheduled interest collected during the related Due Period (other than Credit Comeback Excess Amounts (if any)), less the related Servicing Fees,

(2) all Advances relating to interest,

(3) all Compensating Interest,

(4) Liquidation Proceeds (to the extent such Liquidation Proceeds relate to interest),  
and

(5) any Seller Shortfall Interest Requirement,

(b) less, all non-recoverable Advances relating to interest and certain expenses reimbursed during the related Due Period,

in each case with respect to the Mortgage Loans in such Loan Group.

A “**Seller Shortfall Interest Requirement**” for any Loan Group with respect to any Master Servicer Advance Date in July, August, September or October 2002, is the product of: (1) the excess of the aggregate Stated Principal Balance of the Mortgage Loans in such Loan Group (including the Subsequent Mortgage Loans, if any, as of the applicable date) plus the Pre-Funded Amount on deposit in the Pre-Funding Account at the beginning of the related Due Period allocable to such Loan Group, over the aggregate Stated Principal Balance of the Mortgage Loans in such Loan Group (including the Subsequent Mortgage Loans, if any, as of the applicable date) that have a scheduled payment of interest due in the related Due Period, and (2) a fraction, the numerator of which is the

weighted average Adjusted Net Mortgage Rates of the Mortgage Loans in such Loan Group (including the Subsequent Mortgage Loans, if any, as of the applicable date) (weighted on the basis of the Stated Principal Balances thereof) as of the beginning of the Due Period for the related Distribution Date and the denominator of which is 12.

The “**Principal Remittance Amount**” with respect to each Loan Group is equal to:

- (a) the sum, without duplication, of:
  - (1) the scheduled principal collected during the related Due Period or advanced on or before the related Master Servicer Advance Date,
  - (2) prepayments collected in the related Prepayment Period,
  - (3) the Stated Principal Balance of each Mortgage Loan that was repurchased by the Seller or the Master Servicer,
  - (4) the amount, if any, by which the aggregate unpaid principal balance of any Replacement Mortgage Loans is less than the aggregate unpaid principal balance of any Deleted Mortgage Loans delivered by the Seller in connection with a substitution of a Mortgage Loan, and
  - (5) all Liquidation Proceeds collected during the related Due Period (to the extent such Liquidation Proceeds related to principal),
- (b) less, all non-recoverable Advances relating to principal and certain expenses reimbursed during the related Due Period,

in each case with respect to the Mortgage Loans in such Loan Group.

A “**Due Period**” with respect to any Distribution Date is the period beginning on the second day of the calendar month preceding the calendar month in which such Distribution Date occurs and ending on the Due Date in the month in which such Distribution Date occurs.

### **Deposits to the Distribution Account**

The Trustee will establish and maintain a distribution account (the “**Distribution Account**”) on behalf of the Certificateholders. The Trustee will, promptly upon receipt, deposit in the Distribution Account and retain therein:

- (1) the aggregate amount remitted by the Master Servicer to the Trustee,
- (2) any amount required to be deposited by the Master Servicer in connection with any losses on investment of funds in the Distribution Account,
- (3) the amount, if any, remaining in the Pre-Funding Account at the end of the Funding Period, and
- (4) the amount, if any, of payments received under the Cap Contracts.

### **Withdrawals from the Distribution Account**

The Trustee will withdraw funds from the Distribution Account for distribution to the Certificateholders as described below under “— *Distributions*” and may from time to time make withdrawals from the Distribution Account:

- (1) to pay the trustee fee (the “**Trustee Fee**”) to the Trustee,
- (2) to pay to the Master Servicer, as additional servicing compensation, earnings on or investment income with respect to funds in or credited to the Distribution Account,
- (3) to withdraw any amount deposited in the Distribution Account and not required to be deposited therein, and
- (4) to clear and terminate the Distribution Account upon the termination of the Pooling and Servicing Agreement.

## Distributions

*General.* Distributions on the Certificates will be made by the Trustee on each Distribution Date to the persons in whose names such certificates are registered at the close of business on the Record Date. The “**Record Date**” is:

- the business day immediately preceding such Distribution Date in the case of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates unless such Certificates are no longer book-entry certificates, in which case the Record Date will be the last business day of the month preceding the month of such Distribution Date and
- the last business day of the month preceding the month of such Distribution Date in the case of the Class A-R Certificates.

A “**Distribution Date**” is the 25th day of each month, or if such day is not a Business Day, on the first Business Day thereafter, commencing in July 2002.

A “**Business Day**” is any day other than:

- A Saturday or Sunday or
- A day on which banking institutions in the state of New York or California are required or authorized by law to be closed.

Distributions will be made by check mailed to the address of the person entitled thereto as it appears on the Certificate Register or, in the case of any Certificateholder that holds 100% of a class of Certificates or who holds a class of Certificates with an aggregate initial Certificate Principal Balance of \$1,000,000 or more and that has so notified the Trustee in writing in accordance with the Pooling and Servicing Agreement, by wire transfer in immediately available funds to the account of such Certificateholder at a bank or other depository institution having appropriate wire transfer facilities; provided, however, that the final distribution in retirement of the Certificates will be made only upon presentation and surrender of such Certificates at the Corporate Trust Office of the Trustee. On each Distribution Date, a holder of a Certificate will receive such holder’s Percentage Interest of the amounts required to be distributed with respect to the applicable class of Certificates. The “**Percentage Interest**” evidenced by a Certificate will equal the percentage derived by dividing the denomination of such Certificate by the aggregate denominations of all Certificates of the applicable class.

*Distributions of Interest.* On each Distribution Date, the interest distributable with respect to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates is the interest which has accrued thereon at the then applicable related Pass-Through Rate during the applicable Accrual Period. For any Distribution Date, the “**Accrual Period**” for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates is the period from and including the preceding Distribution Date (or from the Closing Date in the case of the first Distribution Date) to and including the day prior to the current Distribution Date.

All calculations of interest on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be made on the basis of a 360-day year and the actual number of days elapsed in the applicable Accrual Period.

On each Distribution Date, the Interest Funds for such Distribution Date are required to be distributed in the following order of priority, until such Interest Funds have been fully distributed (except that amounts received in respect of the Cap Contracts will be distributed as described in the paragraph following paragraph (5) below):

- (1) concurrently to:
  - (a) from the Interest Funds for Loan Group 1 (and if a Loan Group 1 Deficiency Amount exists, an amount from Interest Funds from Loan Group 2 (after the distribution of Interest Funds from Loan Group 2 as provided in clause (b) below) equal to the Interest Funds from Loan Group 2 times a fraction the numerator of which is such Loan Group 1 Deficiency Amount and the denominator of which is the aggregate Stated Principal Balances of the Group 2 Mortgage Loans for such Distribution Date), first to the Guarantor the amount of the Guaranty Fee and the Guarantor Reimbursement Amount, and second, to the Class 1-A-1 Certificates, the Current Interest and any Interest Carry Forward Amount for such class, and
  - (b) from the Interest Funds for Loan Group 2 (and if a Loan Group 2 Deficiency Amount exists, an amount from Interest Funds from Loan Group 1 (after the distribution of Interest Funds from Loan Group 1 as provided in clause (a) above) equal to the Interest Funds from Loan Group 1 times a fraction the numerator of which is such Loan Group 2 Deficiency Amount and the denominator of which is the aggregate Stated Principal Balances of the Group 1 Mortgage Loans for such Distribution Date), to the Class 2-A-1 Certificates, the Current Interest and any Interest Carry Forward Amount for each such class;
- (2) from the Interest Funds for Loan Group 2 (and if a Loan Group 2 Deficiency Amount exists, an amount from Interest Funds from Loan Group 1 (after the distribution of Interest Funds from Loan Group 1 as provided in clause (1) above) equal to the Interest Funds from Loan Group 1 times a fraction the numerator of which is such Loan Group 2 Deficiency Amount and the denominator of which is the aggregate Stated Principal Balances of the Group 1 Mortgage Loans for such Distribution Date), to the Class 2-M-1 Certificates, the Current Interest for such class,
- (3) from the Interest Funds for both Loan Groups, to the Class M-2 Certificates, the Current Interest for such class,
- (4) from the Interest Funds for both Loan Groups, to the Class B-1 Certificates, the Current Interest for such class, and
- (5) any remainder as part of the Excess Cashflow as described under “Overcollateralization Provisions” below.

On each Distribution Date on or prior to each Cap Contract Termination Date, amounts received by the Trustee in respect of the related Cap Contract for such Distribution Date will be withdrawn from the Distribution Account and distributed (i) in the case of any such amounts received on the First Cap Contract (and any such amounts received on the Second Cap Contract after application pursuant to clause (ii) below) to the Class 1-A-1 Certificates to the extent needed to pay any Net Rate Carryover as described below, (ii) in the case of any such amounts received on the Second Cap Contract (and any such amounts received on the First Cap Contract after application pursuant to clause (i) above), sequentially to the Class 2-A-1 and Class 2-M-1 Certificates to the extent needed to pay any Net Rate Carryover as described below, and (iii) from any such amounts received on both Cap Contracts (after application pursuant to clauses (i) and (ii) above), sequentially to the Class M-2 and Class B-1 Certificates to the extent needed to pay any Net Rate Carryover as described below. Any amounts remaining thereafter will be distributed to the holders of the Class N or Class X Certificates, as described in the Pooling and Servicing Agreement, unless such Cap Contract is subject to early termination, in which case early termination payments received on such Cap Contract will be held by the Trustee until the applicable Cap Contract Termination

Date and deposited in the Carryover Reserve Fund as necessary to cover any Net Rate Carryover on the Certificates entitled thereto. See “— *Carryover Reserve Fund*” below.

The “**Interest Funds**” are equal to (1) the Interest Remittance Amount, plus (2) amounts (if any) received by the Trustee under each Cap Contract, less (3) the Trustee Fee.

“**Current Interest**” with respect to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates and each Distribution Date, is the interest accrued at the applicable Pass-Through Rate for the applicable Accrual Period on the Certificate Principal Balance of such class, plus any amount previously distributed with respect to interest for such class that is recovered as a voidable preference by a trustee in bankruptcy.

“**Interest Carry Forward Amount**,” with respect to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates and each Distribution Date, is the excess of:

- (a) Current Interest for such class with respect to prior Distribution Dates over
- (b) the amount actually distributed to such class with respect to interest on such prior Distribution Dates.

The “**Pass-Through Rate**” per annum for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates will be equal to the lesser of:

- (1) One-Month LIBOR (calculated as described below under “— *Calculation of One-Month LIBOR*”) plus the Pass-Through Margin for such class, and
- (2) the Net Rate Cap.

The “**Adjusted Net Mortgage Rate**” with respect to each Mortgage Loan is equal to the Mortgage Rate less the Expense Fee Rate.

The “**Expense Fee Rate**” with respect to each Mortgage Loan is equal to the sum of (i) the Servicing Fee Rate, and (ii) the trustee fee rate as provided in the Pooling and Servicing Agreement. As of the Initial Cut-off Date, the weighted average Expense Fee Rate is expected to equal approximately 0.509%.

The “**Net Rate Cap**” is equal to (i) with respect to the Class 1-A-1 Certificates, (a) for any Distribution Date on which the Stated Principal Balance of the Mortgage Loans in Loan Group 1 is equal to or greater than the Certificate Principal Balance of the Class 1-A-1 Certificates immediately prior to such Distribution Date, the weighted average Adjusted Net Mortgage Rate on the Mortgage Loans in Loan Group 1 less the Adjusted Guaranty Fee Rate or (b) for any Distribution Date on which the Certificate Principal Balance of the Class 1-A-1 Certificates is greater than the Stated Principal Balance of the Mortgage Loans in Loan Group 1 immediately prior to such Distribution Date, the weighted average of (x) the weighted average of the Adjusted Net Mortgage Rate on the Mortgage Loans in Loan Group 1 less the Adjusted Guaranty Fee Rate (weighted on the basis of the Stated Principal Balance of the Group 1 Mortgage Loans) and (y) the weighted average of the Adjusted Net Mortgage Rate on the Mortgage Loans in Loan Group 2 (weighted on the basis of the Loan Group 1 Deficiency Amount), (ii) with respect to the Class 2-A-1 and 2-M-1 Certificates, (a) for any Distribution Date on which the Stated Principal Balance of the Mortgage Loans in Loan Group 2 is equal to or greater than the Certificate Principal Balance of the Class 2-A-1 and Class 2-M-1 Certificates, the weighted average Adjusted Net Mortgage Rate of the Mortgage Loans in Loan Group 2 or (b) for any Distribution Date on which the Certificate Principal Balance of the Class 2-A-1 and Class 2-M-1 Certificates is greater than the Stated Principal Balance of the Mortgage Loans in Loan Group 2, the weighted average of (x) the weighted average of the Adjusted Net Mortgage Rate on the Mortgage Loans in Loan Group 2 (weighted on the basis of the Stated Principal Balance of the Group 2 Mortgage Loans) and (y) the weighted average of the Adjusted Net Mortgage Rate on the Mortgage Loans in Loan Group 1 (weighted on the basis of the Loan Group 2 Deficiency Amount) and (iii) with respect to the Class M-2 and Class B-1 Certificates, the weighted average Adjusted Net Mortgage Rate of the Mortgage Loans in Loan Group 1 less the Adjusted Guaranty Fee Rate (weighted by an amount equal to the positive difference (if any) of the Stated Principal of the Mortgage Loans in

Loan Group 1 over the outstanding Certificate Balance of the Class 1-A-1 Certificates) and the Adjusted Mortgage Rate of the Mortgage Loans in Loan Group 2 (weighted by an amount equal to the positive difference (if any) of the Stated Principal of the Mortgage Loans in Loan Group 2 over the outstanding Certificate Balance of the Class 2-A-1 and Class 2-M-1 Certificates), in the case of each of (i), (ii) and (iii), adjusted to an effective rate reflecting the calculation of interest on the basis of the actual number of days elapsed during the related interest accrual period and a 360-day year.

The “**Loan Group 1 Deficiency Amount**” is the excess, if any, of the Certificate Principal Balance of the Class 1-A-1 Certificates over the Stated Principal Balance of the Mortgage Loans in Loan Group 1.

The “**Loan Group 2 Deficiency Amount**” is the excess, if any, of the Certificate Principal Balance of the Class 2-A-1 and Class 2-M-1 Certificates over the Stated Principal Balance of the Mortgage Loans in Loan Group 2.

The “**Pass-Through Margin**” for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates is as follows:

	(1)	(2)
Class 1-A-1 .....	0.120%	0.240%
Class 2-A-1 .....	0.260%	0.520%
Class 2-M-1 .....	0.600%	0.900%
Class M-2 .....	1.150%	1.725%
Class B-1 .....	1.800%	2.700%

(1) On or prior to the Optional Termination Date.

(2) After the Optional Termination Date.

The “**Net Rate Carryover**” for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates on any Distribution Date on which the Pass-Through Rate for such class is based upon the Net Rate Cap is the excess of:

(1) the amount of interest that such class would have been entitled to receive on such Distribution Date had the Pass-Through Rate for that class not been calculated based on the applicable Net Rate Cap, up to but not exceeding the Maximum Rate, over

(2) the amount of interest such class accrued on such Distribution Date based on the Net Rate Cap,

plus the unpaid portion of any such excess from prior Distribution Dates (and interest accrued thereon at the then applicable Pass-Through Rate, without giving effect to the Net Rate Cap, up to but not exceeding the Maximum Rate).

The “**Maximum Rate**” for any Distribution Date is equal to the sum of (a) weighted average Adjusted Maximum Mortgage Rate of the Mortgage Loans times a fraction (not less than one), the numerator of which is the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date and the denominator of which is the aggregate Certificate Principal Balances of the Class 1-A-1, Class 2-A-1, Class A-R, Class 2-M-1, Class M-2 and Class B-1 Certificates on such Distribution Date (prior to giving effect to distributions on such Distribution Date), and (b) a fraction, expressed as a percentage, the numerator of which is the product of the aggregate amount received in respect of both Cap Contracts for such Distribution Date times twelve, and the denominator of which is the aggregate Certificate Principal Balances of the Class 1-A-1, Class 2-A-1, Class A-R, Class 2-M-1, Class M-2 and Class B-1 Certificates on such Distribution Date (prior to giving effect to distributions on such Distribution Date), adjusted, in the case of the rate calculated by each of clause (a) and (b), to an effective rate reflecting the calculation of interest on the basis of the actual number of days elapsed during the related interest accrual period and a 360-day year.

The “**Adjusted Maximum Mortgage Rate**” with respect to (a) each Adjustable Rate Mortgage Loan, is the Maximum Mortgage Rate less the Expense Fee Rate and (b) each Fixed Rate Mortgage Loan, is the Mortgage Rate less the Expense Fee Rate.

The “**Adjusted Guaranty Fee Rate**” for any Distribution Date a per annum rate equal to the Guaranty Fee Rate multiplied by a fraction the numerator of which is the Certificate Principal Balance of the Class 1-A-1 Certificates (prior to giving effect to distributions on such Distribution Date) and the denominator of which is the Stated Principal Balances of the Mortgage Loans in Loan Group 1.

*Distributions of Principal.* On each Distribution Date, the Principal Distribution Amount for such Distribution Date with respect to each Loan Group is required to be distributed as follows until such Principal Distribution Amount has been fully distributed:

(1) For each Distribution Date prior to the Stepdown Date or on which a Trigger Event is in effect:

(A) concurrently to (i) from the Principal Distribution Amount for Loan Group 1 to the Guarantor the amount of the unpaid Guaranty Fee and the Guarantor Reimbursement Amount, then from any remaining Principal Distribution Amount for Loan Group 1 to the Class 1-A-1 Certificates until the Certificate Principal Balance thereof is reduced to zero and (ii) the Principal Distribution Amount for Loan Group 2 sequentially to the Class A-R Certificates and the Class 2-A-1 Certificates in that order, until the Certificate Principal Balance thereof is reduced to zero; provided, however that (i) after the Certificate Principal Balance of the Class 1-A-1 Certificates has been reduced to zero, the Principal Distribution Amount from both Loan Groups will be applied to the Class 2-A-1 Certificates until the Certificate Principal Balance thereof is reduced to zero and (ii) after the Certificate Principal Balances of the Group 2 Certificates and the Class B-1 Certificates have been reduced to zero, the Principal Distribution Amount from both Loan Groups will be applied to the Class 1-A-1 Certificates until the Certificate Principal Balance thereof is reduced to zero,

(B) the remaining Principal Distribution Amount for both Loan Groups, to the Class 2-M-1 Certificates, until the Certificate Principal Balance thereof is reduced to zero,

(C) the remaining Principal Distribution Amount for both Loan Groups, to the Class M-2 Certificates, until the Certificate Principal Balance thereof is reduced to zero,

(D) the remaining Principal Distribution Amount for both Loan Groups, to the Class B-1 Certificates, until the Certificate Principal Balance thereof is reduced to zero, and

(E) any remainder as part of the Excess Cashflow to be allocated as described under “—Overcollateralization Provisions” below.

(2) For each Distribution Date on or after the Stepdown Date and so long as a Trigger Event is not in effect:

(A) concurrently to (i) from the Principal Distribution Amount for Loan Group 1 to the Guarantor the amount of the unpaid Guaranty Fee and the Guarantor Reimbursement Amount, then from any remaining Principal Distribution Amount for Loan Group 1 to the Class 1-A-1 Certificates in an amount equal to the Class 1-A-1 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero and (ii) from the Principal Distribution Amount for Loan Group 2, to the Class 2-A-1 Certificates in an amount equal to the Class 2-A-1 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero, provided, however that (i) after the Certificate Principal Balance of the Class 1-A-1 Certificates has been reduced to zero, the Principal Distribution Amount from both Loan Groups will be applied to the Class 2-A-1 Certificates in an amount equal to sum of the Class 2-A-1 Principal



Distribution Amount and any undistributed Class 1-A-1 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero and (ii) after the Certificate Principal Balances of the Group 2 Certificates and the Class B-1 Certificates have been reduced to zero, the Principal Distribution Amount from both Loan Groups will be applied to the Class 1-A-1 Certificates in an amount equal to sum of (x) the Class 1-A-1 Principal Distribution Amount, (y) any undistributed Class 2-A-1 Principal Distribution Amount and (z) any undistributed Class 2-M-1 Principal Distribution Amount, until the Certificate Principal Balance thereof is reduced to zero,

(B) from the remaining Principal Distribution Amount for Loan Group 2, to the Class 2-M-1 Certificates, in an amount equal to the Class 2-M-1 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero, provided, however that after the Certificate Principal Balance of the Class 2-A-1 Certificates has been reduced to zero, the Principal Distribution Amount from both Loan Groups will be applied to the Class 2-M-1 Certificates in an amount equal to the sum of (x) the Class 2-M-1 Principal Distribution Amount, (y) any undistributed Class 1-A-1 Principal Distribution Amount and (z) any undistributed Class 2-A-1 Principal Distribution Amount, until the Certificate Principal Balance thereof is reduced to zero,

(C) to the Class M-2 Certificates, the Class M-2 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero,

(D) to the Class B-1 Certificates, the Class B-1 Principal Distribution Amount until the Certificate Principal Balance thereof is reduced to zero, and

(E) any remainder as part of the Excess Cashflow to be allocated as described under “—Overcollateralization Provisions” below.

**“Principal Distribution Amount”** with respect to each Distribution Date and a Loan Group is the sum of:

- (1) the Extra Principal Distribution Amount for such Loan Group such Distribution Date,
- (2) the Principal Remittance Amount for such Loan Group for such Distribution Date, and
- (3) for the Distribution Date immediately following the end of the Pre-Funding Period, any amounts remaining in the Pre-Funding Account allocated to such Loan Group after the end of the Funding Period (net of any investment income therefrom).

**“Basic Principal Distribution Amount”** with respect to each Distribution Date and a Loan Group is the sum of:

- (1) the Principal Remittance Amount for such Loan Group for such Distribution Date, and
- (2) for the Distribution Date immediately following the end of the Pre-Funding Period, any amounts remaining in the Pre-Funding Account allocated to such Loan Group after the end of the Funding Period (net of any investment income therefrom).

**“Class 1-A-1 Principal Distribution Amount”** for any Distribution Date, will equal the product of (x) a fraction, the numerator of which is the Principal Remittance Amount for such Distribution Date attributable to the Mortgage Loans in Loan Group 1 and the denominator of which is the Principal Remittance Amount for such Distribution Date attributable to all Mortgage Loans and (y) the excess of:

- (1) the sum of:
  - (a) the Certificate Principal Balances of the Class 1-A-1 and Class 2-A-1 Certificates immediately prior to such Distribution Date, and

(b) the Certificate Principal Balance of the Class 2-M-1 Certificates immediately prior to such Distribution Date, over

(2) 84.90% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date.

**“Class 2-A-1 Principal Distribution Amount”** for any Distribution Date, will equal the product of (x) a fraction, the numerator of which is the Principal Remittance Amount for such Distribution Date attributable to the Mortgage Loans in Loan Group 2 and the denominator of which is the Principal Remittance Amount for such Distribution Date attributable to all Mortgage Loans and (y) the excess of:

(1) the sum of:

(a) the Certificate Principal Balance of the Class 1-A-1 Certificates immediately prior to such Distribution Date times a fraction the numerator of which is the Certificate Principal Balance of the Class 2-A-1 Certificates and the denominator of which is the Certificate Principal Balance of the Group 2 Certificates, and

(b) the Certificate Principal Balance of the and Class 2-A-1 Certificates immediately prior to such Distribution Date, over

(2) 72.90% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date.

**“Class 2-M-1 Principal Distribution Amount”** for any Distribution Date, will equal the product of (x) a fraction, the numerator of which is the Principal Remittance Amount for such Distribution Date attributable to the Mortgage Loans in Loan Group 2 and the denominator of which is the Principal Remittance Amount for such Distribution Date attributable to all Mortgage Loans and (y) the excess of:

(1) the sum of:

(a) the Certificate Principal Balance of the Class 1-A-1 and Class 2-A-1 Certificates immediately prior to such Distribution Date, and

(b) the Certificate Principal Balance of the Class 2-M-1 Certificates immediately prior to such Distribution Date, over

(2) 84.90% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date,

less the Class 2-A-1 Principal Distribution Amount.

**“Class M-2 Principal Distribution Amount”** is the excess of:

(1) of the sum of:

(a) the Certificate Principal Balance of the Class 1-A-1 and Class 2-A-1 Certificates (after taking into account distributions of the Class 1-A-1 and Class 2-A-1 Principal Distribution Amounts for such Distribution Date),

(b) the Certificate Principal Balance of the Class 2-M-1 Certificates (after taking into account distribution of the Class 2-M-1 Principal Distribution Amount for such Distribution Date) and

(c) the Certificate Principal Balance of the Class M-2 Certificates immediately prior to such Distribution Date over

(2) 93.20% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date.

**“Class B-1 Principal Distribution Amount”** is the excess of:

(1) the sum of:

(a) the Certificate Principal Balance of the Class 1-A-1 and Class 2-A-1 Certificates (after taking into account distributions of the Class 1-A-1 and Class 2-A-1 Principal Distribution Amounts for such Distribution Date),

(b) the Certificate Principal Balance of the Class 2-M-1 Certificates (after taking into account distribution of the Class 2-M-1 Principal Distribution Amount for such Distribution Date),

(c) the Certificate Principal Balance of the Class M-2 Certificates (after taking into account distributions of the Class M-2 Principal Distribution Amount for such Distribution Date) and

(d) the Certificate Principal Balance of the Class B-1 Certificates immediately prior to such Distribution Date over

(2) 98.50% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date.

**“Extra Principal Distribution Amount”** with respect to any Distribution Date and Loan Group, is the lesser of (1) the Overcollateralization Deficiency Amount for such Distribution Date and Loan Group multiplied by a fraction, the numerator of which is the Principal Remittance Amount for such Loan Group and the denominator of which is the Principal Remittance Amount for both Loan Groups, and (2) the Loan Group Excess Cashflow Allocation Amount for such Distribution Date available for payment thereof in the priority set forth in this information supplement.

**“Loan Group Excess Cashflow Allocation Amount”** with respect to any Distribution Date and Loan Group, is the product of Excess Cashflow for such Distribution Date multiplied by a fraction, the numerator of which is the Principal Remittance Amount for such Loan Group for such Distribution Date and the denominator is the sum of the Principal Remittance Amount for both Loan Groups.

**“Overcollateralization Deficiency Amount”** with respect to any Distribution Date equals the amount, if any, by which the Overcollateralization Target Amount exceeds the Overcollateralized Amount on such Distribution Date (after giving effect to distributions in respect of the Basic Principal Distribution Amount on such Distribution Date).

**“Overcollateralization Target Amount”** means (a) on the Closing Date and each date prior to the Stepdown Date, an amount equal to 0.75% of the sum of the Initial Cut-off Date Principal Balance of the Initial Mortgage Loans plus the amount deposited in the Pre-Funding Account on the Closing Date, and (b) on and after the Stepdown Date, an amount equal to 1.50% of the Stated Principal Balances of the Mortgage Loans in the Mortgage Pool for the current Distribution Date, subject to a minimum amount equal to the OC Floor; provided, however, that, if on any Distribution Date, a Trigger Event has occurred, the Overcollateralization Target Amount will be the Overcollateralization Target Amount on the Closing Date.

**“Overcollateralized Amount”** for any Distribution Date is the amount, if any, by which (x) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period exceeds (y) the sum of

the aggregate Class Certificate Balances of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates as of such Distribution Date (after giving effect to distributions in respect of the Basic Principal Distribution Amount on such Distribution Date).

“**OC Floor**” for any Distribution Date is an amount equal to 0.50% of the sum of the Initial Cut-off Date Principal Balance of the Initial Mortgage Loans plus the amount deposited in the Pre-Funding Account on the Closing Date.

“**Unpaid Realized Loss Amount**” means for any class of Certificates (other than the Class A-R, Class N and Class X Certificates), the portion of the aggregate Applied Realized Loss Amount previously allocated to that class remaining unpaid from prior Distribution Dates.

“**Stepdown Date**” is the later to occur of:

- (1) the Distribution Date in July 2005 or
- (2) the first Distribution Date on which the Certificate Principal Balance of the Class 1-A-1, Class 2-A-1 and Class 2-M-1 Certificates (after calculating anticipated distributions on such Distribution Date) is less than or equal to 84.90% of the aggregate Stated Principal Balances of the Mortgage Loans for such Distribution Date.

A “**Trigger Event**” with respect to a Distribution Date after the Stepdown Date consists of either a Delinquency Trigger Event with respect to that Distribution Date or a Cumulative Loss Trigger Event with respect to that Distribution Date.

A “**Delinquency Trigger Event**” with respect to a Distribution Date after the Stepdown Date exists if the product of:

- (1) 2.32 times and
- (2) the quotient (expressed as a percentage) of:
  - (a) the numerator of which is the aggregate Stated Principal Balance for such Distribution Date of Mortgage Loans that were 60 or more days delinquent as of the close of business on the last day of the calendar month preceding such Distribution Date (including Mortgage Loans in foreclosure and REO Properties) and
  - (b) the denominator of which is the aggregate Stated Principal Balance of the Mortgage Loans for such Distribution Date

equals or exceeds the Required Percentage.

The “**Required Percentage**” with respect to a Distribution Date after the Stepdown Date is equal to a fraction (expressed as a percentage):

- (1) the numerator of which is the excess of:
  - (a) the aggregate Stated Principal Balance of the Mortgage Loans for the preceding Distribution Date over
  - (b) (i) before the Certificate Principal Balances of the Class 1-A-1 and Class 2-A-1 Certificates have been reduced to zero, the sum of (x) the product of the Certificate Principal Balance of the Class 1-A-1 Certificates times a fraction the numerator of which is the Certificate Principal Balance of the Class 2-A-1 Certificates and the denominator of which is the sum of Certificate Principal Balances of the Class 2-A-1 and Class 2-M-1 Certificates and (y) the

Certificate Principal Balance of the Class 2-A-1 Certificates, or (ii) after such time, the Certificate Principal Balance of the most senior class of Certificates outstanding as of the preceding Master Servicer Advance Date and

(2) the denominator of which is the aggregate Stated Principal Balance of the Mortgage Loans for the preceding Distribution Date.

A “**Cumulative Loss Trigger Event**” with respect to a Distribution Date after the Stepdown Date exists if the aggregate amount of Trigger Event Realized Losses on the Mortgage Loans from (and including) the Cut-off Date for each Mortgage Loan to (and including) the last day of the related Due Period exceeds the applicable percentage, for such Distribution Date, of the Cut-off Date Principal Balance of the Mortgage Loans, as set forth below:

<u>Distribution Date</u>	<u>Percentage</u>
July 2005 — June 2006 .....	2.50%
July 2006 — June 2007 .....	3.75%
July 2007 — June 2008 .....	5.00%
July 2008 and thereafter .....	5.75%

A “**Trigger Event Realized Loss**” with respect to any Distribution Date after the Stepdown Date is the excess of the Stated Principal Balance of a defaulted Mortgage Loan over the Liquidation Proceeds allocated to principal that have been received with respect to that Mortgage Loan on or at any time prior to the last day of the related Due Period.

*Residual Certificates.* The Class X and Class A-R Certificates will remain outstanding for so long as the trust fund will exist, whether or not they are receiving current distributions of principal or interest. In addition to distributions of interest and principal as described above, on each Distribution Date, the holders of the Class X, Class N and Class A-R Certificates, as provided in the pooling and servicing agreement, will be entitled to receive any Available Funds remaining after payment of interest and principal on the senior certificates and interest and principal on the subordinated certificates, as described above. It is not anticipated that there will be any significant amounts remaining for that distribution.

## Overcollateralization Provisions

The weighted average Adjusted Net Mortgage Rate for the Mortgage Loans is generally expected to be higher than the weighted average of the Pass-Through Rates on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. As a result, interest collections on the Mortgage Loans are expected to be generated in excess of the amount of interest payable to the holders of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates and the related fees and expenses payable by the trust fund. The Excess Cashflow, if any, will be applied on such Distribution Date as a payment of principal on the class or classes of Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates then entitled to receive distributions in respect of principal, but only to the limited extent hereafter described. The “**Excess Cashflow**” with respect to any Distribution Date is the sum of (i) the amount remaining after the distribution of interest to Certificateholders as set forth in clause (4) in “Distributions—Distributions of Interest” for such Distribution Date and (ii) the amount remaining after the distribution of principal to Certificateholders as set forth in clause (1)(D) in “Distributions—Distributions of Principal” for such Distribution Date.

With respect to any Distribution Date, any Excess Cashflow will be paid to the classes of certificates as follows:

1. from Excess Cashflow for Loan Group 1, to the Guarantor any remaining Guarantor Reimbursement Amount;
2. from Excess Cashflow from both Loan Groups, to the holders of the class or classes of Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates then

entitled to receive distributions in respect of principal, in an amount equal to the Extra Principal Distribution Amount, payable to such holders as part of the Principal Distribution Amount as described under “—Distributions—Distributions of Principal” above; provided however, until the Certificate Principal Balance of the Group 2 Certificates and the Class B-1 Certificates has been reduced to zero, distributions of any Extra Principal Distribution Amount in respect of the Class 1-A-1 Certificates will be limited such that the aggregate of the amounts of principal of and interest distributed to the Class 1-A-1 Certificates on such Distribution Date (including but not limited to any such Extra Principal Distribution Amount) will not exceed the aggregate of all Interest Funds and the Principal Remittance Amount for Loan Group 1 for such Distribution Date;

3. from any remaining Excess Cashflow (a) in the case of Excess Cashflow received from Loan Group 1 (and any such amounts received from Loan Group 2 after application pursuant to clause (b) below) to the Class 1-A-1 Certificates to the extent needed to pay any Net Rate Carryover for such class, (b) in the case of Excess Cashflow received from Loan Group 2 (and any such amounts received from Loan Group 1 after application pursuant to clause (a) above) sequentially to the Class 2-A-1 and Class 2-M-1 Certificates to the extent needed to pay any Net Rate Carryover for each such class, and (iii) from any such amounts received from both Loan Groups (after application pursuant to clauses (a) and (b) above) sequentially to the Class M-2 and Class B-1 Certificates to the extent needed to pay any Net Rate Carryover for each such class;
4. from any remaining Excess Cashflow from Loan Group 2, to the holders of the Class 2-A-1 Certificates, in an amount equal to the Unpaid Realized Loss Amounts for such class;
5. from any remaining Excess Cashflow from Loan Group 2, to the holders of the Class 2-M-1 Certificates, in an amount equal to any Interest Carry Forward Amount for such class;
6. from any remaining Excess Cashflow from Loan Group 2, to the holders of the Class 2-M-1 Certificates, in an amount equal to the Unpaid Realized Loss Amounts for the Class 2-M-1 Certificates;
7. from any remaining Excess Cashflow from both Loan Groups, to the holders of the Class M-2 Certificates, in an amount equal to any Interest Carry Forward Amount for such class;
8. from any remaining Excess Cashflow from both Loan Groups, to the holders of the Class M-2 Certificates, in an amount equal to the Unpaid Realized Loss Amounts for the Class M-2 Certificates;
9. from any remaining Excess Cashflow from both Loan Groups, to the holders of the Class B-1 Certificates, in an amount equal to any Interest Carry Forward Amount for such class;
10. from any remaining Excess Cashflow from both Loan Groups, to the holders of the Class B-1 Certificates, in an amount equal to the Unpaid Realized Loss Amounts for the Class B Certificates; and
11. from any remaining Excess Cashflow from both Loan Groups, to fund distributions to the holders of the Class N, Class X and Class A-R Certificates, in each case in the amounts specified in the pooling and servicing agreement.

## **Fannie Mae Guaranty**

On each Distribution Date, Fannie Mae (the “**Guarantor**”) will be entitled to receive the Guaranty Fee payable primarily from interest collections on the Group 1 Mortgage Loans with respect to such Distribution Date. The Guarantor, in consideration of the payment of the Guaranty Fee, will guarantee (the “**Guaranty**”) the timely payment of interest due on the Class 1-A-1 Certificates, subject to the limitations described below, and the ultimate payment of principal on the Class 1-A-1 Certificates. On each applicable Distribution Date, a draw will be made on the Guaranty equal to the sum of the Guaranteed Interest Distribution Amount, if any, and the Guaranteed Principal Distribution Amount, if any. The Guaranty will not cover any basis risk shortfalls with respect to the Class 1-A-1 Certificates, although it will cover (i) Compensating Interest to the extent required to be paid by the Master Servicer and payable in respect of the Class 1-A-1 Certificates (“**Unpaid Compensating Interest**”), and (ii) the amount of the reduction in interest paid on the Class 1-A-1 Certificates attributable to the reduction in collections of Interest Funds caused by the application of the Soldiers’ and Sailors Civil Relief Act of 1940 (the “**Relief Act**”) (such amount of the reduction in Current Interest payable on the Class 1-A-1 Certificates, the “**Relief Act Reduction**”).

In addition to the Guaranty Fee, the Guarantor will be entitled to the Guarantor Reimbursement Amount relating to all Guaranteed Interest Distribution Amounts and Guaranteed Principal Distribution Amounts paid by it. The Guaranty Fee and Guarantor Reimbursement Amounts will be paid prior to any other distributions from Interest Funds and the Principal Distribution Amount for Loan Group 1.

The “**Guaranty Fee**” for any Distribution Date and with respect to the Class 1-A-1 Certificates, is the fee payable to the Guarantor in respect of its services as guarantor that accrues at the applicable Guaranty Fee Rate for the Class 1-A-1 Certificates on a balance equal to the aggregate Certificate Principal Balance of the Class 1-A-1 Certificates immediately prior to such Distribution Date.

The “**Guaranty Fee Rate**” is a rate per annum specified in a side letter of the Guarantor addressed to the Trustee, the Depositor, the Seller and the Master Servicer.

The “**Guaranteed Interest Distribution Amount**” for any Distribution Date and the Class 1-A-1 Certificates is the amount, if any, after giving effect to the distributions of the Guarantor Reimbursement Amount to the Guarantor, by which the (i) sum of (x) the Current Interest and Interest Carry Forward Amount payable on the Guaranteed Certificates for such Distribution Date and (y) any Unpaid Compensating Interest and Relief Act Reduction for such Distribution Date, exceeds (ii) the amount of interest actually paid to the holders of the Class 1-A-1 Certificates on such Distribution Date (prior to giving effect to any Guarantor Payment on such Distribution Date).

The “**Guaranteed Principal Distribution Amount**” with respect to any Distribution Date is the amount, if any, by which (i) the aggregate Certificate Principal Balance of the Class 1-A-1 Certificates (after giving effect to the application of payments of principal on the Class 1-A-1 Certificates but prior to giving effect to any Guarantor Payment on such Distribution Date) exceeds (ii) the aggregate Stated Principal Balance of the Group 1 Mortgage Loans for such Distribution Date.

The “**Guarantor Interest Reimbursement Amount**” with respect to any Distribution Date is the sum of (i) any accrued but unpaid Guaranty Fees, including the Guaranty Fee due on such Distribution Date, and (ii) the sum of all amounts paid by the Guarantor in respect of Guaranteed Interest Distribution Amounts on all prior Distribution Dates to the extent not previously reimbursed.

A “**Guarantor Payment**” is any payment made by the Guarantor in respect of a Guaranteed Interest Distribution Amount or a Guaranteed Principal Distribution Amount.

The “**Guarantor Principal Reimbursement Amount**” with respect to any Distribution Date is the sum of all amounts paid by the Guarantor in respect of Guaranteed Principal Distribution Amounts on all prior Distribution Dates to the extent not previously reimbursed.

The “**Guarantor Reimbursement Amount**” with respect to any Distribution Date is the sum of the Guarantor Interest Reimbursement Amount and the Guarantor Principal Reimbursement Amount.

## The Cap Contracts

The Seller has entered into two interest rate cap transactions with BNP Paribas, (the “**Cap Contract Counterparty**”), each as evidenced by an amended confirmation and agreement between the Seller and the Cap Contract Counterparty (respectively, the “**First Cap Contract**,” and the “**Second Cap Contract**,” and each, a “Cap Contract”). Pursuant to each Cap Contract the terms of an ISDA Master Agreement was incorporated into the Confirmation of the Cap Contract, as if it had been executed by the Seller and the Cap Contract Counterparty on the date that each Cap Contract was executed. Each Cap Contract is subject to certain ISDA definitions. On the Closing Date, the Seller will assign to the Trustee, on behalf of the Trust Fund, the Seller’s rights under each Cap Contract. On or prior to each Cap Contract Termination Date (as defined below), amounts (if any) received by the Trustee for the benefit of the Trust Fund in respect of the related Cap Contract will be used to pay Net Rate Carryover on the Certificates (other than the Class N, Class X and Class A-R Certificates) as described herein. On any Distribution Date, any amounts that are received on each Cap Contract that are not used to pay Net Rate Carryover on the Certificates are expected to be distributed to the holder of the Class N or X Certificates, unless that Cap Contract is subject to early termination as described below.

With respect to any Distribution Date on or prior to the First Cap Contract Termination Date, the amount payable by the Cap Contract Counterparty under the First Cap Contract will equal the product of (i) the excess (if any) of (x) One-Month LIBOR (as determined by the Cap Counterparty) over (y) 7.70%, (ii) an amount equal to the First Cap Contract Notional Balance and (iii) the actual number of days in the related Accrual Period, divided by 360. With respect to any Distribution Date on or prior to the Second Cap Contract Termination Date, the amount payable by the Cap Contract Counterparty under the Second Cap Contract will equal the product of (i) the excess (if any) of (x) One-Month LIBOR (as determined by the Cap Counterparty) over (y) 7.80%, (ii) an amount equal to the Second Cap Contract Notional Balance and (iii) the actual number of days in the related Accrual Period divided by 360.

The “**First Cap Contract Notional Balances**” under the First Cap Contract and the “**Second Cap Contract Notional Balances**” under the Second Cap Contract are as described in the following table:

<u>Month of Payment Date</u>	<u>First Cap Contract Notional Balances (\$)</u>	<u>Second Cap Contract Notional Balances (\$)</u>
July 2002.....	240,000,000.00	98,000,000.00
August 2002.....	238,407,293.35	97,574,524.82
September 2002 .....	236,440,717.54	96,997,245.83
October 2002.....	234,102,225.08	96,267,951.76
November 2002.....	231,395,469.90	95,387,105.56
December 2002 .....	228,402,402.14	94,355,871.62
January 2003 .....	225,127,481.34	93,182,374.47
February 2003 .....	221,576,722.48	91,868,990.63
March 2003 .....	217,757,559.43	90,419,078.90
April 2003 .....	213,986,320.86	88,857,677.65
May 2003 .....	210,278,531.90	87,315,919.11
June 2003 .....	206,633,398.42	85,800,180.25
July 2003.....	203,049,875.64	84,310,027.61
August 2003 .....	199,526,936.06	84,845,035.01
September 2003 .....	196,063,569.20	81,404,783.32
October 2003.....	192,658,781.33	79,988,860.33
November 2003.....	189,311,595.14	78,596,680.67
December 2003 .....	186,021,049.52	77,228,385.66
January 2004 .....	182,786,199.27	75,883,043.23
February 2004 .....	179,606,114.88	74,560,447.79
March 2004.....	176,479,882.13	73,260,220.14



April 2004 .....	173,406,602.09	71,981,984.34
May 2004 .....	170,385,390.61	70,725,382.64
June 2004 .....	167,415,378.23	69,490,045.35
July 2004.....	164,495,709.89	40,965,372.46
August 2004.....	96,975,326.81	40,249,056.01
September 2004 .....	95,282,433.40	39,544,872.03
October 2004.....	93,618,257.73	38,852,618.09
November 2004.....	91,982,319.94	38,172,095.10
December 2004 .....	90,374,148.13	37,503,107.29
January 2005 .....	88,793,278.18	36,845,462.09
February 2005 .....	87,239,253.70	35,198,970.18
March 2005 .....	85,711,625.84	35,563,445.33
April 2005 .....	84,209,953.24	34,938,704.39
May 2005 .....	82,733,801.78	34,324,567.29
June 2005 .....	81,282,744.62	33,720,856.90

The First Cap Contract is scheduled to remain in effect until the Distribution Date in June 2005 (the “**First Cap Contract Termination Date**”). The Second Cap Contract is scheduled to remain in effect until the Distribution Date in June 2005 (the “**Second Cap Contract Termination Date**”). Each Cap Contract will be subject to early termination only in limited circumstances. Such circumstances include certain insolvency or bankruptcy events in relation to the Cap Contract Counterparty or the Trust, the failure by the Cap Contract Counterparty (after a grace period of three Local Business Days, as defined in such Cap Contract, after notice of such failure is received by the Cap Contract Counterparty) to make a payment due under such Cap Contract, the failure by the Cap Contract Counterparty or the Trustee (after a cure period of 30 days after notice of such failure is received) to perform any other agreement made by it under such Cap Contract and such Cap Contract becoming illegal or subject to certain kinds of taxation.

If any Cap Contract is terminated, future distributions of Net Rate Carryover on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates could be subject to increased risk and severity of limitation. However, if any such termination occurs, the Cap Contract Counterparty will owe a termination payment to the Trustee with respect to such Cap Contract, payable in a lump sum, which if collected by the Trustee will mitigate the adverse effect of the change.

None of the Certificates represent an obligation of the Cap Contract Counterparty. Holders of the Certificates are not parties to or beneficiaries under any Cap Contract and will not have any right to proceed directly against the Cap Contract Counterparty in respect of its obligations under any Cap Contract.

The Guaranty will not cover any payments due under the Cap Contracts.

### **Calculation of One-Month LIBOR**

On the second LIBOR Business Day (as defined below) preceding the commencement of each Accrual Period for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates (each such date, an “**Interest Determination Date**”), the Trustee will determine the London interbank offered rate for one-month United States dollar deposits (“**One-Month LIBOR**”) for such Accrual Period on the basis of such rate as it appears on Telerate Screen Page 3750, as of 11:00 a.m. (London time) on such Interest Determination Date. 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 reasonably selected by the Trustee), One-Month LIBOR for the applicable Accrual Period will be the Reference Bank Rate as defined herein. If no such quotations can be obtained and no Reference Bank Rate is available, One-Month LIBOR will be the One-Month LIBOR applicable to the preceding Accrual Period. The “**Reference Bank Rate**” with respect to any Accrual Period, means the arithmetic mean (rounded upwards, if necessary, to the nearest whole multiple of 0.03125%) of the offered rates for United States dollar deposits for one month that are quoted by the Reference Banks as of 11:00 a.m., New York City time, on the related Interest Determination Date to prime banks in the London interbank market for a period of one month in amounts approximately equal to the aggregate Certificate Principal Balance of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates for such Accrual Period, provided that at least two such Reference Banks provide such rate. If fewer than two offered rates appear, the Reference Bank Rate will be the arithmetic mean (rounded upwards, if necessary, to the nearest whole multiple of 0.03125%) of the rates quoted by one or more major banks in New York City, selected by the Trustee, as of 11:00 a.m., New York City time, on such date for loans in U.S. dollars to leading European banks for a period of one month in amounts approximately equal to the Certificate Principal Balance of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates for such Accrual Period. As used in this section, “**LIBOR Business Day**” means a day on which banks are open for dealing in foreign currency and exchange in London and New York City; and “**Reference Banks**” means leading banks selected by the Trustee and engaged in transactions in Eurodollar deposits in the international Eurocurrency market:

- (1) with an established place of business in London,
- (2) which have been designated as such by the Trustee and
- (3) which are not controlling, controlled by, or under common control with, the Depositor, the Seller or any successor Master Servicer.

The establishment of One-Month LIBOR on each Interest Determination Date by the Trustee and the Trustee's calculation of the rate of interest applicable to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates for the related Accrual Period will (in the absence of manifest error) be final and binding.

### **Carryover Reserve Fund**

The Pooling and Servicing Agreement establishes an account (the "***Carryover Reserve Fund***"), which is held in trust by the Trustee on behalf of the holders of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. On the Closing Date, the Seller will deposit \$10,000 in the Carryover Reserve Fund. The Carryover Reserve Fund will not be an asset of any REMIC.

As described above, on each Distribution Date, the Trustee will deposit in the Carryover Reserve Fund amounts received in respect of the Cap Contracts to the extent needed to pay any Net Rate Carryover. Following such deposits, on each Distribution Date, amounts in the Carryover Reserve Fund will be distributed to each class of Certificates as described herein to pay any Net Rate Carryover on such Certificates.

On each Distribution Date, following all other deposits to, and distributions from, the Carryover Reserve Fund, the Trustee will deposit (the "***Secondary Carryover Reserve Fund Deposit***") funds in the Carryover Reserve Fund in an amount that will equal the excess, if any, of (i) \$10,000 over (ii) the amount of funds on deposit in the Carryover Reserve Fund.

### **Applied Realized Loss Amounts**

If on any Distribution Date, after giving effect to the distributions described above, the aggregate Certificate Principal Balances of the Certificates exceed the sum of (x) the Stated Principal Balances of the Mortgage Loans and (y) the amount on deposit in the Pre-Funded Account (if any), the Certificate Principal Balance of the Class B-1 Certificates will first be reduced until the Certificate Principal Balance of the Class B-1 Certificates have been reduced to zero, after which, the Certificate Principal Balance of the Class M-2 Certificates will be reduced until the Certificate Principal Balance of the Class M-2 Certificates has been reduced to zero. If on any Distribution Date after the Certificate Principal Balances of both the Class B-1 and the Class M-2 Certificates have been reduced to zero, after giving effect to the distributions described above, the aggregate Certificate Principal Balance of the Class 1-A-1 Certificates exceed the sum of (x) the Stated Principal Balances of the Group 1 Mortgage Loans and (y) the amount on deposit in the Pre-Funded Account (if any) allocated to purchase Subsequent Mortgage Loans to be included in Loan Group 1, the Certificate Principal Balance of the Class 1-A-1 Certificates will be reduced by an amount equal to such excess until the Certificate Principal Balance of the Class 1-A-1 Certificates have been reduced to zero. However, in the case of the Class 1-A-1 Certificates, the Guarantor will make payments to the Class 1-A-1 Certificates in an amount equal to such reduction, as described under "*-Fannie Mae Guaranty.*" If on any Distribution Date after the Certificate Principal Balances of both the Class B-1 and the Class M-2 Certificates has been reduced to zero, after giving effect to the distributions described above, the aggregate Certificate Principal Balances of the Group 2 Certificates exceed the sum of (x) the Stated Principal Balances of the Group 2 Mortgage Loans and (y) the amount on deposit in the Pre-Funded Account (if any) allocated to purchase Subsequent Mortgage Loans to be included in Loan Group 2, the Certificate Principal Balance of the Class 2-M-1 Certificates will first be reduced by an amount equal to such excess until the Certificate Principal Balance of the Class 2-M-1 Certificates has been reduced to zero, after which, the Certificate Principal Balance of the Class 2-A-1 Certificates will be reduced until the Certificate Principal Balance of the Class 2-A-1 Certificates have been reduced to zero. Any such reduction is an "***Applied Realized Loss Amount.***"

Until Unpaid Realized Loss Amounts are paid as described under "*-Overcollateralization Provisions*" above, any class of Certificates the Certificate Principal Balance of which has been reduced through the application of Applied Realized Loss Amounts as described above will accrue for the related class of Certificates on the Certificate Principal Balance as so reduced.

### **Reports to Certificateholders**

On each Distribution Date, the Trustee will forward to each Certificateholder, the Master Servicer and the Depositor a statement generally setting forth, among other information:

- (1) the amount of the related distribution to holders of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates allocable to principal, separately identifying:
  - (a) the aggregate amount of any Principal Prepayments included therein, and
  - (b) the aggregate of all scheduled payments of principal included therein,
- (2) the amount of such distribution to holders of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates allocable to interest,
- (3) the Interest Carry Forward Amounts for each of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates (if any),
- (4) the Certificate Principal Balance of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates after giving effect to the distribution of principal on such Distribution Date,
- (5) the Pool Stated Principal Balance for the following Distribution Date,
- (6) the amount of the Servicing Fees paid to or retained by the Master Servicer for the related Due Period,
- (7) the amount received by the Trust Fund on the Cap Contracts for such Distribution Date,
- (8) the Pass-Through Rate for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates for such Distribution Date,
- (9) the amount of Advances included in the distribution on such Distribution Date,
- (10) the number and aggregate principal amounts of Mortgage Loans in each Loan Group:
  - (a) delinquent (exclusive of related Mortgage Loans in foreclosure):
    - 30 to 59 days,
    - 60 to 89 days and
    - 90 or more days, and
  - (b) in foreclosure and delinquent:
    - 30 to 59 days,
    - 60 to 89 days and
    - 90 or more days,

in each case as of the close of business on the last day of the calendar month preceding such Distribution Date,

- (11) with respect to any Mortgage Loan in each Loan Group that became an REO Property during the preceding calendar month, the loan number and Stated Principal Balance for such Distribution Date of such Mortgage Loan and the date of acquisition thereof,
- (12) whether a Trigger Event exists,
- (13) the total number and principal balance of any REO Properties in each Loan Group as of the close of business on the Determination Date preceding such Distribution Date,

(14) any Net Rate Carryover paid and all remaining Net Rate Carryover remaining on each class of the Certificates on such Distribution Date,

(15) the amount of Realized Losses applied to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates for such Distribution Date,

(16) all payments made by the Master Servicer in respect of Prepayment Interest Shortfalls for such Distribution Date,

(17) the amounts paid by the Guarantor under the Guaranty for such Distribution Date, and

(18) all amounts paid to the Guarantor in respect of the Guarantor Reimbursement Amount for such Distribution Date.

In addition, within 60 days after the end of each calendar year, the Trustee will prepare and deliver to each Certificateholder of record during the previous calendar year a statement containing information necessary to enable Certificateholders to prepare their tax returns. Such statements will not have been examined and reported upon by an independent public accountant.

### **Amendment**

The Pooling and Servicing Agreement may be amended by the Depositor, the Master Servicer, the Seller, Fannie Mae and the Trustee, without the consent of Certificateholders, for any of the purposes set forth under “*The Agreements — Amendment*” in the *Information Circular*. In addition, the Pooling and Servicing Agreement may be amended by the Depositor, the Master Servicer, the Seller, Fannie Mae and the Trustee and the holders of a majority in interest of each class of Certificates affected thereby 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, however, that no such amendment may:

(1) reduce in any manner the amount of, or delay the timing of, payments required to be distributed on any Certificate without the consent of the holder of such Certificate,

(2) adversely affect in any material respect the interests of the holders of any class of Certificates in a manner other than as described in clause (1) above, without the consent of the holders of Certificates of such class evidencing, as to such class, Percentage Interests aggregating 66%,

(3) reduce the aforesaid percentage of aggregate outstanding principal amounts of Certificates of each class, the holders of which are required to consent to any such amendment, without the consent of the holders of all Certificates of such class, or

(4) adversely affect in any material respects the interests of the guarantor of the Class 1-A-1 Certificates without its consent.

### **Optional Termination**

The holder of the Class X Certificates will have the right, subject to certain conditions specified in the Pooling and Servicing Agreement, to purchase all remaining Mortgage Loans and REO Properties in the Trust Fund and thereby effect early retirement of all the Certificates, on the first distribution date following the date on which the Stated Principal Balance of the Mortgage Loans and REO Properties in the Trust Fund at the time of repurchase is less than or equal to 10% of the sum of (i) the Initial Cut-off Date Pool Principal Balance and (ii) the Pre-Funded Amount (the “**Optional Termination Date**”). In the event that such option is not exercised by the holder of the Class X Certificates on the Optional Termination Date, the Master Servicer will have the right, subject to certain conditions specified in the Pooling and Servicing Agreement, purchase all remaining Mortgage Loans and REO Properties in the Trust Fund and thereby effect early retirement of all the Certificates, subject to the Stated Principal Balance of the Mortgage Loans and REO Properties in the Trust Fund at the time of repurchase being less than or equal to 5% of the sum of (i) the Initial Cut-off Date Pool Principal Balance and (ii) the Pre-Funded Amount. In the

event either such option is exercised by the holder of the Class X Certificates or the Master Servicer, the repurchase will be made at a price equal to the sum of:

- (1) 100% of the Stated Principal Balance of each Mortgage Loan in the Trust Fund (other than in respect of REO Property) plus accrued interest thereon at the applicable Mortgage Rate, net of the Servicing Fee,
- (2) the appraised value of any REO Property (up to the Stated Principal Balance of the related Mortgage Loan) in the Trust Fund, and
- (3) any unreimbursed out-of-pocket costs and expenses and the principal portion of Advances, in each case previously incurred by the Master Servicer in the performance of its servicing obligations.

Proceeds from such repurchase will be distributed to the Certificateholders in the priority described above. The proceeds from any such distribution may not be sufficient to distribute the full amount to which each class of Certificates is entitled if the purchase price is based in part on the appraised value of any REO Property and such appraised value is less than the Stated Principal Balance of the related Mortgage Loan. Any repurchase of the Mortgage Loans and REO Properties will result in an early retirement of the Certificates.

### **Optional Purchase of Defaulted Loans**

As to any Mortgage Loan which is delinquent in payment by 150 days or more, the Master Servicer may, at its option but subject to certain conditions specified in the Pooling and Servicing Agreement, purchase such Mortgage Loan at a price equal to 100% of the Stated Principal Balance thereof plus accrued interest thereon at the applicable Mortgage Rate from the date through which interest was last paid by the related mortgagor or advanced to the first day of the month in which such amount is to be distributed to Certificateholders.

### **Optional Purchase of Defaulted Loans by the Guarantor After Retirement of the Class B-1 Certificates**

After the Certificate Principal Balance of the Class B-1 Certificates has been reduced to zero, the Guarantor may, at its option but subject to certain conditions specified in the Pooling and Servicing Agreement, purchase any Mortgage Loan in Loan Group 1 which is delinquent in payment by 90 days or more, at a price equal to 100% of the Stated Principal Balance thereof plus accrued interest thereon at the applicable Mortgage Rate, from the date through which interest was last paid by the related mortgagor or advanced to the first day of the month in which such amount is to be distributed to Certificateholders. In addition, the Guarantor may direct the Master Servicer to appoint a special servicer for the Group 1 Loans after the Certificate Principal Balance of the Class B-1 Certificates has been reduced to zero.

### **Events of Default**

Events of Default will consist of:

- (1) any failure by the Master Servicer to deposit in the Certificate Account or the Distribution Account the required amounts or remit to the Trustee any payment (including an Advance required to be made under the terms of the Pooling and Servicing Agreement) which continues unremedied for five Business Days after written notice of such failure shall have been given to the Master Servicer by the Trustee or the Depositor, or to the Master Servicer and the Trustee by the holders of Certificates evidencing not less than 25% of the Voting Rights evidenced by the Certificates,
- (2) any failure by the Master Servicer to observe or perform in any material respect any other of its covenants or agreements, or any breach of a representation or warranty made by the Master Servicer, in the Pooling and Servicing Agreement, which in each case, materially and adversely affects the interests of the Certificateholders and continues unremedied for 60 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 and the Trustee by the holders of Certificates evidencing not less than 25% of the Voting Rights evidenced by the Certificates, or

(3) insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings, and certain actions by or on behalf of the Master Servicer indicating its insolvency or inability to pay its obligations.

As of any date of determination:

- holders of the Class N Certificates, Class X and Class A-R Certificates will each be allocated 1% of all Voting Rights (for a total of 3% of the voting rights), and
- holders of the other classes of Certificates will be allocated the remaining Voting Rights in proportion to their respective outstanding Certificate Principal Balances.

Voting Rights will be allocated among the Certificates of each such class in accordance with their respective Percentage Interests. However, on any date on which any Class 1-A-1 Certificates are outstanding or any amounts are owed to the Guarantor under the Pooling Agreement, the Guarantor will have all voting rights of the Class 1-A-1 Certificates.

### **Rights Upon Event of Default**

So long as an Event of Default under the Pooling and Servicing Agreement remains unremedied, the Trustee shall, but only upon (i) the receipt of instructions from the holders of Certificates having not less than 25% of the Voting Rights evidenced by the Certificates or (ii) the direction of the Guarantor, terminate all of the rights and obligations of the Master Servicer under the Pooling and Servicing Agreement and in and to the Mortgage Loans, whereupon the Trustee will succeed to all of the responsibilities and duties of the Master Servicer under the Pooling and Servicing Agreement, including the obligation to make Advances. No assurance can be given that termination of the rights and obligations of the Master Servicer under the Pooling and Servicing Agreement would not adversely affect the servicing of the Mortgage Loans, including the delinquency experience of the Mortgage Loans.

No Certificateholder, solely by virtue of such holder's status as a Certificateholder, will have any right under the Pooling and Servicing Agreement to institute any proceeding with respect thereto, unless such holder previously has given to the Trustee written notice of the continuation of an Event of Default and unless the holders of Certificates having not less than 25% of the Voting Rights evidenced by the Certificates have made a written request to 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**

The Bank of New York will be the Trustee under the Pooling and Servicing Agreement. The Depositor and Countrywide Home Loans may maintain other banking relationships in the ordinary course of business with the Trustee. The Class 1-A-1 Certificates may be surrendered at the Corporate Trust Office of the Trustee located at 101 Barclay Street, New York, New York 10286. Attention: Corporate Trust MBS Administration or at such other addresses as the Trustee may designate from time to time.

### **Yield, Prepayment and Maturity Considerations**

#### **General**

The weighted average life of, and the yield to maturity on, the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates generally will be directly related to the rate of payment of principal (including prepayments) of the Mortgage Loans in the related Loan Group. The actual rate of principal prepayments on pools of mortgage loans is influenced by a variety of economic, tax, geographic, demographic, social, legal and other factors and has fluctuated considerably in recent years. In addition, the rate of principal prepayments may differ among pools of mortgage loans at any time because of specific factors relating to the mortgage loans in the particular pool, including, among other things, the age of the mortgage loans, the geographic locations of the properties securing the loans, the extent of the mortgagor's equity in such properties, and changes in the mortgagors' housing needs, job transfers and employment status. Furthermore, as described under "*The Mortgage Pool* —

*Assignment of the Mortgage Loans*” with respect to up to 50% of the Initial Mortgage Loans and up to 90% of the Subsequent Mortgage Loans (the “*Delay Delivery Mortgage Loans*”), the Depositor may deliver the related Trustee Mortgage Files after the Closing Date or Subsequent Transfer Date, as applicable. Should the Seller fail to deliver all or a portion of any such Trustee Mortgage Files to the Depositor or other designee of the Depositor or, at the Depositor’s direction, to the Trustee within the time periods described under “*The Mortgage Pool — Assignment of the Mortgage Loans*” the Seller will be required to use its best efforts to deliver a Substitute Mortgage Loan for the related Delay Delivery Mortgage Loan or repurchase the related Delay Delivery Mortgage Loan. Any repurchases pursuant to this provision would also have the effect of accelerating the rate of prepayments on the Mortgage Loans. In addition, no less than approximately 80.10% of the Mortgage Loans in Loan Group 1 and no less than 80.80% of the Mortgage Loans in Loan Group 2 are expected to require the payment of a penalty in connection with certain prepayments, generally no later than the first five years in the case of Fixed Rate Mortgage Loans or two or three years in the case of Adjustable Rate Mortgage Loans, in each case following origination of the related Mortgage Loan. These penalties, if enforced by the Master Servicer, may affect the rate of prepayments on the Mortgage Loans.

The timing of changes in the rate of prepayments may significantly affect the actual yield to investors who purchase the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates at prices other than par, even if the average rate of principal prepayments is consistent with the expectations of investors. In general, the earlier the payment of principal of the Mortgage Loans the greater the effect on an investor’s yield to maturity. As a result, the effect on an investor’s yield of principal prepayments occurring at a rate higher (or lower) than the rate anticipated by the investor during the period immediately following the issuance of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates may not be offset by a subsequent like reduction (or increase) in the rate of principal prepayments. Investors must make their own decisions as to the appropriate prepayment assumptions to be used in deciding whether to purchase any of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. The Depositor does not make any representations or warranties as to the rate of prepayment or the factors to be considered in connection with such determinations.

#### **Prepayments and Yields for Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates**

The extent to which the yield to maturity of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates may vary from the anticipated yield will depend upon the degree to which it is purchased at a discount or premium and, correspondingly, the degree to which the timing of payments thereon is sensitive to prepayments, liquidations and purchases of the Mortgage Loans in the related Loan Group. In particular, in the case of a Class 2-A-1, Class 2-M-1, Class M-2 or Class B-1 Certificate purchased at a discount, an investor should consider the risk that a slower than anticipated rate of principal payments, liquidations and purchases of the Mortgage Loans could result in an actual yield to such investor that is lower than the anticipated yield and, in the case of a Class 2-A-1, Class 2-M-1, Class M-2 or Class B-1 Certificate purchased at a premium, the risk that a faster than anticipated rate of principal payments, liquidations and purchases of such Mortgage Loans could result in an actual yield to such investor that is lower than the anticipated yield.

In general with respect to fixed rate mortgage loans, if prevailing interest rates fall significantly below the interest rates on such mortgage loans, such mortgage loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on such mortgage loans. Conversely, if prevailing interest rates rise appreciably above the interest rates on fixed rate mortgage loans, such mortgage loans are likely to experience a lower prepayment rate than if prevailing rates remain at or below the interest rates on such mortgage loans. In the event that Fixed Rate Mortgage Loans with higher Mortgage Rates prepay at rates higher than other Fixed Rate Mortgage Loans, the Net Rate Cap may be lower than otherwise would be the case. As a result, the interest payable on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates on a Distribution Date could be reduced because of the imposition of the Net Rate Cap. No assurance can be given as to the level of prepayment that the Fixed Rate Mortgage Loans will experience.

As is the case with fixed rate mortgage loans, adjustable rate mortgage loans may be subject to a greater rate of principal prepayments in a declining interest rate environment. For example, if prevailing interest rates fall significantly, adjustable rate mortgage loans could be subject to higher prepayment rates than if prevailing interest rates remain constant because the availability of fixed rate mortgage loans at lower interest rates may encourage mortgagors to refinance their adjustable rate mortgage loans to a lower fixed interest rate. Prepayments on the Two-Year Hybrid and Three-Year Hybrid Mortgage Loans may differ as they approach their respective initial Adjustment



Dates. No assurance can be given as to the level of prepayment that the Adjustable Rate Mortgage Loans will experience.

Although the Mortgage Rates on the Adjustable Rate Mortgage Loans are subject to adjustment, such Mortgage Rates adjust less frequently than the Pass-Through Rates on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates and adjust by reference to the Mortgage Index. Changes in One-Month LIBOR may not correlate with changes in the Mortgage Index and also may not correlate with prevailing interest rates. It is possible that an increased level of One-Month LIBOR could occur simultaneously with a lower level of prevailing interest rates which would be expected to result in faster prepayments, thereby reducing the weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates. The Mortgage Rate applicable to all or substantially all of the Adjustable Rate Mortgage Loans and any Adjustment Date will be based on the Mortgage Index value most recently announced generally as of a date 45 days prior to such Adjustment Date. Thus, if the Mortgage Index value with respect to an Adjustable Rate Mortgage Loan rises, the lag in time before the corresponding Mortgage Rate increases will, all other things being equal, slow the upward adjustment of the Net Rate Cap. In addition, it is expected that a substantial portion of the Adjustable Rate Mortgage Loans will have Mortgage Rates which will not adjust for a substantial period of time after origination. *See "The Mortgage Pool" herein.*

The Cap Contracts will be assigned to the Trust Fund and may provide a degree of protection against any Net Rate Carryover. However, payments under the First Cap Contract and the Second Cap Contract are based on their respective Cap Contract Notional Balances and the Second Cap Contract Notional Balances and not on the actual Stated Principal Balances of the Fixed Rate Mortgage Loans. Therefore, the Cap Contracts may not provide sufficient funds to cover such Net Rate Carryover.

Although amounts received on the Cap Contracts will be available to pay Net Rate Carryover on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates on or prior to their respective Cap Contract Termination Dates, there is no assurance that funds will be available or sufficient to pay such amounts. The ratings assigned to the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates do not address the likelihood of the payment of Net Rate Carryover.

#### **Last Scheduled Distribution Date**

The "***Last Scheduled Distribution Date***" for

(A) the Class A-R Certificates is the Distribution Date on which the Certificate Principal Balance thereof would be reduced to zero assuming, among other things, that:

- no prepayments are received on the Mortgage Loans, and
- scheduled monthly payments of principal of and interest on each of such Mortgage Loans are timely received,

(B) the Class 1-A-1 Certificates is the Distribution Date in June 2032,

(C) the Class 2-A-1 Certificates is the Distribution Date in May 2032,

(D) the Class 2-M-1 Certificates is the Distribution Date in April 2032,

(E) the Class M-2 Certificates is the Distribution Date in December 2031, and

(F) the Class B-1 Certificates is the Distribution Date in June 2031.

The actual final Distribution Date with respect to each class of Certificates could occur significantly earlier than its Last Scheduled Distribution Date because:

(1) prepayments are likely to occur which will be applied to the payment of the Certificate Principal Balances thereof, and

(2) the Master Servicer may, subject to certain limitations specified in the Pooling and Servicing Agreement, purchase all the Mortgage Loans in the Trust Fund when outstanding Stated Principal Balances thereof have declined to 10% or less of the sum of (i) the Initial Cut-off Date Pool Principal Balance and (ii) the Pre-Funded Amount.

Prepayments on mortgage loans are commonly measured relative to a prepayment model or standard. The prepayment models used in this Information Supplement ("**Prepayment Models**") are based on an assumed rate of prepayment each month of the then unpaid principal balance of a pool of mortgage loans similar to the Mortgage Loans in each Loan Group. For the Fixed Rate Mortgage Loans, the Prepayment Model used in this Information Supplement (the "**Prepayment Vector**" or "**PV**") is a prepayment assumption which represents an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans for the life of such mortgage loans in each Loan Group. For example, a 23% Prepayment Vector assumes prepayment rates of 2.3% per annum of the then outstanding principal balance of the Fixed Rate Mortgage Loans in the first month of the life of such Mortgage Loans and an additional 2.3% per annum (i.e., 1/10 of the final per annum rate) in each month thereafter up to and including the tenth month. Beginning in the eleventh month and in each month thereafter during the life of such Fixed Rate Mortgage Loans, a 23% Prepayment Vector assumes a constant prepayment rate of 23% per annum. The other percentages of the Prepayment Vector identified herein assume that the Fixed Rate Mortgage Loans will prepay at rates which start and increase in a similar manner (i.e., 1/10 of the final per annum rate) until they reach such respective percentages of constant rates of prepayment per annum. For the Adjustable Rate Mortgage Loans, the Prepayment Model used in this Information Supplement ("**Constant Prepayment Rate**" or "**CPR**") is a prepayment assumption which represents a constant assumed rate of prepayment each month relative of the then outstanding principal balance of a pool of mortgage loans for the life of such mortgage loans. 30% CPR assumes a constant prepayment rate of 30% per annum. As used in the tables, 100% Prepayment Model means 23% PV and 30% CPR.

There is no assurance, however, that prepayments on the Mortgage Loans will conform to any level of the Prepayment Model, and no representation is made that the Mortgage Loans will prepay at the prepayment rates shown or any other prepayment rate. The rate of principal payments on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of interest rates. Other factors affecting prepayment of mortgage loans include changes in obligors' housing needs, job transfers and unemployment. In the case of mortgage loans in general, if prevailing interest rates fall significantly below the interest rates on such mortgage loans, the mortgage loans are likely to be subject to higher prepayment rates than if prevailing interest rates remain at or above the rates borne by such mortgage loans. Conversely, if prevailing interest rates rise above the interest on such mortgage loans, the rate of prepayment would be expected to decrease.

The following tables have been prepared on the basis of the following assumptions (collectively, the "**Modeling Assumptions**"):

- (1) the Mortgage Loans prepay at the indicated percentage of the related Prepayment Model,
- (2) distributions on the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are received, in cash, on the 25th day of each month, commencing in July 2002, in accordance with the payment priorities defined herein,
- (3) no defaults or delinquencies in, or modifications, waivers or amendments respecting, the payment by the Mortgagors of principal and interest on the Mortgage Loans occur,
- (4) Scheduled Payments are assumed to be received on the first day of each month commencing in July 2002, and prepayments represent payment in full of individual Mortgage Loans and are assumed to be received on the last day of each month, commencing in June 2002, and include 30 days' interest thereon,
- (5) the level of six-month LIBOR remains constant at 1.98% per annum, and the level of One-Month LIBOR remains constant at 1.84% per annum.
- (6) the Pass-Through Margins for the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates remain constant at the rates applicable prior to the Optional Termination Date and

the Pass-Through Margins for the Certificates are adjusted accordingly on any Distribution Date following the Optional Termination Date,

(7) the Closing Date for the Certificates is June 28, 2002,

(8) the Mortgage Rate for each Adjustable Rate Mortgage Loan is adjusted on its next Adjustment Date (and on subsequent Adjustment Dates, if necessary) to equal the sum of

(a) the assumed level of the applicable Mortgage Index, and

(b) the respective Gross Margin (such sum being subject to the applicable periodic adjustment caps and floors and the applicable lifetime adjustment caps and floors),

(9) except as indicated with respect to the weighted average lives, no optional termination is exercised on the Optional Termination Date,

(10) all of the Pre-Funded Amount is used to purchase Subsequent Mortgage Loans for inclusion in the related Loan Group on the Closing Date,

(11) the scheduled amortization for all Mortgage Loans is based upon their gross interest rates and no interest rate reductions occur on the Fixed Rate Credit Comeback Loans, and

(12) each Loan Group consists of Mortgage Loans having the approximate characteristics described below.

#### Loan Group 1 Fixed Rate Mortgage Loans

Principal Balance(\$)	Gross Mortgage Rate (%) (1)	Adjusted Net Mortgage Rate (%) (2)	Remaining Amortization Term (months)	Remaining Term to Maturity (months)	Age (months)	Credit Comeback Feature	Amortization Method
38,002.16	8.100000	7.591000	58	58	2	no	Level Pay
298,466.74	8.620225	8.111225	117	117	2	no	Level Pay
24,645,166.57	8.759278	8.250278	178	178	2	no	Level Pay
160,355.29	8.750000	6.741000	180	180	0	yes	Level Pay
9,272,747.65	8.681383	8.172383	233	233	6	no	Level Pay
399,789.54	8.331246	7.822246	298	298	2	no	Level Pay
9,722,799.54	9.271485	7.262485	359	359	1	yes	Level Pay
160,110,701.30	8.461307	7.952307	358	358	2	no	Level Pay
35,351,971.21	9.254736	8.745736	354	174	6	no	Balloon

(1) In the above table, the Gross Mortgage Rate percentages that include Fixed Rate Credit Comeback Loans have been calculated without subtracting any Credit Comeback Excess Amounts.

(2) In the above table, the Adjusted Net Mortgage Rate percentages that include Fixed Rate Credit Comeback Loans reflect the subtraction of all Credit Comeback Excess Amounts.

#### Loan Group 2 Fixed Rate Mortgage Loans

Principal Balance(\$)	Gross Mortgage Rate (%) (1)	Adjusted Net Mortgage Rate (%) (2)	Remaining Amortization Term (months)	Remaining Term to Maturity (months)	Age (months)	Credit Comeback Feature	Amortization Method
179,481.35	8.274032	7.765032	117	117	3	no	Level Pay
4,630,835.17	8.944081	8.435081	178	178	2	no	Level Pay
99,220.86	10.362405	8.353405	179	179	1	yes	Level Pay
1,943,078.11	7.740914	7.231914	238	238	2	no	Level Pay
3,755,329.71	9.219772	7.210772	360	360	0	yes	Level Pay
67,612,587.08	8.082233	7.573233	359	359	1	no	Level Pay
3,684,298.41	8.442330	7.933330	355	175	5	no	Balloon
253,627.73	14.385064	13.876064	120	120	0	no	Level Pay

9,431,862.13	12.943954	12.434954	179	179	1	no	Level Pay
899,311.72	11.393996	10.884996	238	238	2	no	Level Pay
76,552.91	11.984216	11.475216	349	349	9	no	Level Pay
5,433,814.82	12.073588	11.564588	358	177	2	no	Balloon

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- (1) In the above table, the Gross Mortgage Rate percentages that include Fixed Rate Credit Comeback Loans have been calculated without subtracting any Credit Comeback Excess Amounts.
- (2) In the above table, the Adjusted Net Mortgage Rate percentages that include Fixed Rate Credit Comeback Loans reflect the subtraction of all Credit Comeback Excess Amounts.

### Loan Group 1 Adjustable Rate Mortgage Loans

Principal Balance (\$)	Gross Mortgage Rate (%)	Adjusted Net Mortgage Rate (%)	Remaining Amortization Term (months)	Remaining Term to Maturity (months)	Age (months)	Amortization Method	Initial Periodic Cap (%)	Subsequent Periodic Cap (%)	Gross Margin (%)	Life Cap (%)	Life Floor (%)	Months to Next Rate Adjustment	Reset Frequency (months)	Index
688,426.31	8.355403	7.846403	333	333	27	Level	1.711140	1.150075	5.344802	15.074870	8.355403	4	6	6 Month LIBOR
278,201,471.16	8.541453	8.032453	359	359	1	Level	2.138752	1.293882	6.447260	15.231046	8.536531	23	6	6 Month LIBOR
131,110,102.53	8.427005	7.918005	359	359	1	Level	1.766415	1.419784	6.607258	15.315826	8.414877	35	6	6 Month LIBOR

### Loan Group 2 Adjustable Rate Mortgage Loans

Principal Balance (\$)	Gross Mortgage Rate (%)	Adjusted Net Mortgage Rate (%)	Remaining Amortization Term (months)	Remaining Term to Maturity (months)	Age (months)	Amortization Method	Initial Periodic Cap (%)	Subsequent Periodic Cap (%)	Gross Margin (%)	Life Cap (%)	Life Floor (%)	Months to Next Rate Adjustment	Reset Frequency (months)	Index
662,782.04	10.425910	9.916910	347	347	13	Level	1.098877	1.098877	5.642338	17.425910	10.425910	6	6	6 Month LIBOR
137,792,820.47	8.306049	7.797049	359	359	1	Level	2.337092	1.239159	6.821785	14.867195	8.283938	23	6	6 Month LIBOR
43,544,397.49	8.317047	7.808047	359	359	1	Level	1.907957	1.371481	6.842676	15.093631	8.317080	35	6	6 Month LIBOR

**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

<b>Distribution Date</b>	<b>Class 1-A-1</b>				
	<b>0%</b>	<b>80%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003.....	98	76	71	57	43
June 25, 2004.....	97	57	49	30	16
June 25, 2005.....	96	43	33	15	3
June 25, 2006.....	95	33	25	12	3
June 25, 2007.....	94	26	18	7	2
June 25, 2008.....	92	20	13	4	1
June 25, 2009.....	91	15	10	2	0
June 25, 2010.....	89	12	7	1	0
June 25, 2011.....	87	9	5	1	0
June 25, 2012.....	85	7	4	0	0
June 25, 2013.....	83	5	3	0	0
June 25, 2014.....	80	4	2	0	0
June 25, 2015.....	78	3	1	0	0
June 25, 2016.....	75	2	1	0	0
June 25, 2017.....	67	1	0	0	0
June 25, 2018.....	64	1	0	0	0
June 25, 2019.....	61	1	0	0	0
June 25, 2020.....	58	0	0	0	0
June 25, 2021.....	55	0	0	0	0
June 25, 2022.....	51	0	0	0	0
June 25, 2023.....	47	0	0	0	0
June 25, 2024.....	43	0	0	0	0
June 25, 2025.....	39	0	0	0	0
June 25, 2026.....	35	0	0	0	0
June 25, 2027.....	30	0	0	0	0
June 25, 2028.....	25	0	0	0	0
June 25, 2029.....	19	0	0	0	0
June 25, 2030.....	13	0	0	0	0
June 25, 2031.....	6	0	0	0	0
June 25, 2032.....	0	0	0	0	0
Weighted Average Life (in years)(1).....	19.06	3.69	2.92	1.80	1.16
Weighted Average Life (in years)(1)(2).....	19.00	3.39	2.67	1.64	1.09

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.

**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

<b>Distribution Date</b>	<b>Class 2-A-1</b>				
	<b>0%</b>	<b>80%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003.....	98	75	69	55	40
June 25, 2004.....	97	55	46	26	10
June 25, 2005.....	96	39	29	9	0
June 25, 2006.....	94	31	23	9	0
June 25, 2007.....	93	24	17	6	0
June 25, 2008.....	92	18	12	4	0
June 25, 2009.....	90	14	9	2	0
June 25, 2010.....	88	11	6	1	0
June 25, 2011.....	86	8	5	1	0
June 25, 2012.....	84	6	3	0	0
June 25, 2013.....	81	5	2	0	0
June 25, 2014.....	79	4	2	0	0
June 25, 2015.....	76	3	1	0	0
June 25, 2016.....	73	2	1	0	0
June 25, 2017.....	66	2	0	0	0
June 25, 2018.....	63	1	0	0	0
June 25, 2019.....	60	1	0	0	0
June 25, 2020.....	57	0	0	0	0
June 25, 2021.....	53	0	0	0	0
June 25, 2022.....	49	0	0	0	0
June 25, 2023.....	45	0	0	0	0
June 25, 2024.....	40	0	0	0	0
June 25, 2025.....	37	0	0	0	0
June 25, 2026.....	33	0	0	0	0
June 25, 2027.....	28	0	0	0	0
June 25, 2028.....	23	0	0	0	0
June 25, 2029.....	18	0	0	0	0
June 25, 2030.....	13	0	0	0	0
June 25, 2031.....	6	0	0	0	0
June 25, 2032.....	0	0	0	0	0
Weighted Average Life (in years)(1).....	18.70	3.51	2.77	1.64	0.97
Weighted Average Life (in years)(1)(2).....	18.64	3.23	2.53	1.48	0.97

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.

**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

Distribution Date	Class A-R				
	0%	80%	100%	150%	200%
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003 .....	0	0	0	0	0
June 25, 2004 .....	0	0	0	0	0
June 25, 2005 .....	0	0	0	0	0
June 25, 2006 .....	0	0	0	0	0
June 25, 2007 .....	0	0	0	0	0
June 25, 2008 .....	0	0	0	0	0
June 25, 2009 .....	0	0	0	0	0
June 25, 2010 .....	0	0	0	0	0
June 25, 2011 .....	0	0	0	0	0
June 25, 2012 .....	0	0	0	0	0
June 25, 2013 .....	0	0	0	0	0
June 25, 2014 .....	0	0	0	0	0
June 25, 2015 .....	0	0	0	0	0
June 25, 2016 .....	0	0	0	0	0
June 25, 2017 .....	0	0	0	0	0
June 25, 2018 .....	0	0	0	0	0
June 25, 2019 .....	0	0	0	0	0
June 25, 2020 .....	0	0	0	0	0
June 25, 2021 .....	0	0	0	0	0
June 25, 2022 .....	0	0	0	0	0
June 25, 2023 .....	0	0	0	0	0
June 25, 2024 .....	0	0	0	0	0
June 25, 2025 .....	0	0	0	0	0
June 25, 2026 .....	0	0	0	0	0
June 25, 2027 .....	0	0	0	0	0
June 25, 2028 .....	0	0	0	0	0
June 25, 2029 .....	0	0	0	0	0
June 25, 2030 .....	0	0	0	0	0
June 25, 2031 .....	0	0	0	0	0
June 25, 2032 .....	0	0	0	0	0
Weighted Average Life (in years)(1) .....	0.07	0.07	0.07	0.07	0.07
Weighted Average Life (in years)(1)(2) .....	0.07	0.07	0.07	0.07	0.07

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.



**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

<b>Distribution Date</b>	<b>Class 2-M-1</b>				
	<b>0%</b>	<b>80%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003.....	100	100	100	100	100
June 25, 2004.....	100	100	100	100	100
June 25, 2005.....	100	100	100	100	50
June 25, 2006.....	100	73	55	51	50
June 25, 2007.....	100	57	40	15	34
June 25, 2008.....	100	44	29	9	13
June 25, 2009.....	100	34	21	4	3
June 25, 2010.....	100	26	15	0	0
June 25, 2011.....	100	20	11	0	0
June 25, 2012.....	100	15	8	0	0
June 25, 2013.....	100	12	5	0	0
June 25, 2014.....	100	9	1	0	0
June 25, 2015.....	100	7	0	0	0
June 25, 2016.....	100	4	0	0	0
June 25, 2017.....	100	0	0	0	0
June 25, 2018.....	100	0	0	0	0
June 25, 2019.....	100	0	0	0	0
June 25, 2020.....	100	0	0	0	0
June 25, 2021.....	100	0	0	0	0
June 25, 2022.....	100	0	0	0	0
June 25, 2023.....	100	0	0	0	0
June 25, 2024.....	97	0	0	0	0
June 25, 2025.....	88	0	0	0	0
June 25, 2026.....	78	0	0	0	0
June 25, 2027.....	68	0	0	0	0
June 25, 2028.....	56	0	0	0	0
June 25, 2029.....	44	0	0	0	0
June 25, 2030.....	30	0	0	0	0
June 25, 2031.....	15	0	0	0	0
June 25, 2032.....	0	0	0	0	0
Weighted Average Life (in years)(1).....	26.29	6.50	5.32	4.36	4.22
Weighted Average Life (in years)(1)(2).....	26.16	5.94	4.85	4.06	2.97

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.

**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

<b>Distribution Date</b>	<b>Class M-2</b>				
	<b>0%</b>	<b>80%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003 .....	100	100	100	100	100
June 25, 2004 .....	100	100	100	100	100
June 25, 2005 .....	100	100	100	100	100
June 25, 2006 .....	100	73	55	25	39
June 25, 2007 .....	100	57	40	15	0
June 25, 2008 .....	100	44	29	5	0
June 25, 2009 .....	100	34	21	0	0
June 25, 2010 .....	100	26	15	0	0
June 25, 2011 .....	100	20	8	0	0
June 25, 2012 .....	100	16	2	0	0
June 25, 2013 .....	100	10	0	0	0
June 25, 2014 .....	100	5	0	0	0
June 25, 2015 .....	100	1	0	0	0
June 25, 2016 .....	100	0	0	0	0
June 25, 2017 .....	100	0	0	0	0
June 25, 2018 .....	100	0	0	0	0
June 25, 2019 .....	100	0	0	0	0
June 25, 2020 .....	100	0	0	0	0
June 25, 2021 .....	100	0	0	0	0
June 25, 2022 .....	100	0	0	0	0
June 25, 2023 .....	100	0	0	0	0
June 25, 2024 .....	95	0	0	0	0
June 25, 2025 .....	86	0	0	0	0
June 25, 2026 .....	77	0	0	0	0
June 25, 2027 .....	66	0	0	0	0
June 25, 2028 .....	55	0	0	0	0
June 25, 2029 .....	43	0	0	0	0
June 25, 2030 .....	29	0	0	0	0
June 25, 2031 .....	14	0	0	0	0
June 25, 2032 .....	0	0	0	0	0
Weighted Average Life (in years)(1) .....	26.17	6.33	5.13	3.89	3.95
Weighted Average Life (in years)(1)(2) .....	26.07	5.94	4.80	3.69	3.08

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.

**Percent of the Initial Certificate Principal Balance  
at the Respective Percentages of the Prepayment Model**

<b>Distribution Date</b>	<b>Class B-1</b>				
	<b>0%</b>	<b>80%</b>	<b>100%</b>	<b>150%</b>	<b>200%</b>
Initial Percentage.....	100%	100%	100%	100%	100%
June 25, 2003 .....	100	100	100	100	100
June 25, 2004 .....	100	100	100	100	100
June 25, 2005 .....	100	100	100	100	100
June 25, 2006 .....	100	73	52	14	0
June 25, 2007 .....	100	54	32	1	0
June 25, 2008 .....	100	37	18	0	0
June 25, 2009 .....	100	25	8	0	0
June 25, 2010 .....	100	15	1	0	0
June 25, 2011 .....	100	7	0	0	0
June 25, 2012 .....	100	1	0	0	0
June 25, 2013 .....	100	0	0	0	0
June 25, 2014 .....	100	0	0	0	0
June 25, 2015 .....	100	0	0	0	0
June 25, 2016 .....	100	0	0	0	0
June 25, 2017 .....	100	0	0	0	0
June 25, 2018 .....	100	0	0	0	0
June 25, 2019 .....	100	0	0	0	0
June 25, 2020 .....	100	0	0	0	0
June 25, 2021 .....	100	0	0	0	0
June 25, 2022 .....	100	0	0	0	0
June 25, 2023 .....	100	0	0	0	0
June 25, 2024 .....	95	0	0	0	0
June 25, 2025 .....	86	0	0	0	0
June 25, 2026 .....	77	0	0	0	0
June 25, 2027 .....	66	0	0	0	0
June 25, 2028 .....	52	0	0	0	0
June 25, 2029 .....	36	0	0	0	0
June 25, 2030 .....	18	0	0	0	0
June 25, 2031 .....	0	0	0	0	0
June 25, 2032 .....	0	0	0	0	0
Weighted Average Life (in years)(1) .....	25.86	5.61	4.52	3.41	3.26
Weighted Average Life (in years)(1)(2) .....	25.84	5.57	4.49	3.39	3.08

- (1) The weighted average lives of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates are determined by:
- (a) multiplying the amount of each principal payment by the number of years from the date of issuance to the related Distribution Date,
  - (b) adding the results, and
  - (c) dividing the sum by the initial respective Certificate Principal Balance for such class of Certificates.
- (2) To the Optional Termination Date.

## **Additional Information**

### **Use of Proceeds**

The Depositor will apply the net proceeds of the sale of the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates against the purchase price of the Mortgage Loans and to fund the Pre-Funding Account.

### **Material Federal Income Tax Consequences**

For federal income tax purposes, the Trust Fund (exclusive of the Cap Contracts and the assets held in the Carryover Reserve Fund and the Pre-Funding Account) will comprise multiple REMICs; one or more underlying REMICs and the master REMIC (the “Master REMIC”). Each underlying REMIC will issue several uncertificated classes of interests (the “underlying REMIC Regular Interests”) that will be designated as the regular interests in such underlying REMIC. The assets of the underlying REMICs will consist of the mortgage loans and all other property in the trust fund except for the property in the trust fund allocated to the Master REMIC and the Cap Contracts and the assets held in Carryover Reserve Fund and the Pre-Funding Account. The Master REMIC will issue the Class 1-A-1, Class 2-A-1, Class 2-M-1, Class M-2 and Class B-1 Certificates, which will be designated as regular interests in the Master REMIC. The Class A-R Certificates will represent the beneficial ownership of the residual interest in each underlying REMIC and the residual interest in the Master REMIC. The assets of the Master REMIC will consist of underlying REMIC regular interests. Aggregate distributions on the underlying REMIC regular interests held by the Master REMIC will equal the aggregate distributions on the regular interests (including the regular interests not offered herein) issued by the Master REMIC.

The Class 1-A-1 Certificates will represent beneficial ownership of regular interests issued by the Upper Tier REMIC. In addition, the Class 1-A-1 Certificates will represent a beneficial interest in the right to receive payments from the Carryover Reserve Fund, to the extent of their respective entitlements to Net Rate Carryover.

Upon the issuance of the Class 1-A-1 Certificates, Sidley Austin Brown & Wood LLP (“***Tax Counsel***”), will deliver its opinion concluding, assuming compliance with the Pooling and Servicing Agreement, for federal income tax purposes, that each REMIC created under the Pooling and Servicing Agreement will qualify as a REMIC within the meaning of Section 860D of the Internal Revenue Code of 1986, as amended (the “***Code***”), and that the Class 1-A-1 Certificates will represent regular interests in a REMIC. Moreover, Tax Counsel will deliver an opinion concluding that the rights of the holders of the Class 1-A-1 Certificates to receive payments from the Carryover Reserve Fund, pursuant to the Interest Rate Cap Agreement, represent, for federal income tax purposes, contractual rights coupled with regular interests within the meaning of Treasury regulations §1.860G-2(i). The term “***Interest Rate Cap Agreement***” refers to the rights of the Class 1-A-1 Certificates to receive payments from the Carryover Reserve Fund with respect to Net Rate Carryover.

### **Taxation of Regular Interests**

The following discussion assumes that the rights and obligations of the Class 1-A-1 Certificateholders under the Net Rate Carryover Agreement will be treated as rights and obligations under a notional principal contract rather than as a partnership for federal income tax purposes. If these rights and obligations were treated as representing the beneficial interests in an entity taxable as a partnership for federal income tax purposes, then there could be different tax timing consequences to all Class 1-A-1 Certificateholders and different withholding tax consequences on payments of Net Rate Carryover to Class 1-A-1 Certificateholders who are non-U.S. Persons. **Prospective investors in the Class 1-A-1 Certificates should consult their tax advisors regarding their appropriate tax treatment.**

A holder of a Class 1-A-1 Certificate must allocate the purchase price for such Class 1-A-1 Certificate between two components — the REMIC regular interest component and the Interest Rate Cap Agreement component. For information reporting purposes, the Trustee will assume that, with respect to any Class 1-A-1 Certificate, the Interest Rate Cap Agreement component will have an insubstantial value relative to the value of the regular interest component. The IRS could, however, argue that the Interest Rate Cap Agreement component has a

greater value, and if that argument were to be sustained, the regular interest component could be viewed as having been issued with either an additional amount of original issue discount (“**OID**”) (which could cause the total amount of discount to exceed a statutorily defined de minimis amount) or with less premium (which would reduce the amount of premium available to be used as an offset against interest income). See “*Federal Income Tax Consequences — Taxation of Regular Interest Certificates*” in the Information Circular.

Upon the sale, exchange, or other disposition of a Class 1-A-1 Certificate, the holder must allocate the amount realized between the two components of these Certificates (that is, the regular interest component and the Interest Rate Cap Agreement component) based on the relative fair market values of those components at the time of sale. Assuming that these Certificates are held as “**capital assets**” within the meaning of section 1221 of the Code, gain or loss on the disposition of an interest in the Interest Rate Cap Agreement component should be capital gain or loss, and, gain or loss on the disposition of the regular interest component should, subject to the limitation described below, be capital gain or loss. Gain attributable to the regular interest component of such a Certificate will be treated as ordinary income, however, to the extent such gain does not exceed the excess, if any, of:

(1) the amount that would have been includable in the holder’s gross income with respect to the regular interest component had income thereon accrued at a rate equal to 110% of the applicable federal rate as defined in section 1274(d) of the Code determined as of the date of purchase of the Class 1-A-1 Certificate

over

(2) the amount actually included in such holder’s income.

As indicated above, a portion of the purchase price paid by a holder to acquire a Class 1-A-1 Certificate will be attributable to the Interest Rate Cap Agreement component of such Certificate. The portion of the overall purchase price attributable to the Interest Rate Cap Agreement component must be amortized over the life of such Certificate, taking into account the declining balance of the related regular interest component. Treasury regulations concerning notional principal contracts provide alternative methods for amortizing the purchase price of an interest rate cap contract. Under one method — the level yield constant interest method — the price paid for an interest rate cap agreement is amortized over the life of the cap as though it were the principal amount of a loan bearing interest at a reasonable rate. **Holders are urged to consult their tax advisors concerning the methods that can be employed to amortize the portion of the purchase price paid for the Interest Rate Cap Agreement component of such a Certificate.**

Any payments received by a holder of a Class 1-A-1 Certificate from the Carryover Reserve Fund, will be treated as periodic payments on an interest rate cap agreement. To the extent the sum of such periodic payments for any year exceeds that year’s amortized price of the Interest Rate Cap Agreement component, such excess is ordinary income. If for any year the amount of that year’s amortized price exceeds the sum of the periodic payments, such excess is allowable as an ordinary deduction. In the case of an individual, such deduction will be subject to the 2-percent floor imposed on miscellaneous itemized deductions under section 67 of the Code and may be subject to the overall limitation on itemized deductions imposed under section 68.

Interest on a regular interest must be included in income by a holder under the accrual method of accounting, regardless of the holder’s regular method of accounting. In addition, a regular interest could be considered to have been issued with OID. The prepayment assumption that will be used in determining the accrual of any OID, market discount, or bond premium, if any, will be a rate equal to a 23% Prepayment Vector in the case of the Fixed Rate Mortgage Loans and 30% CPR in the case of the Adjustable Rate Mortgage Loans, each as described above. No representation is made that the mortgage loans will prepay at such a rate or at any other rate. OID must be included in income as it accrues on a constant yield method, regardless of whether the holder receives currently the cash attributable to such OID.

## Status of the Class 1-A-1 Certificates

The regular interest component of the Class 1-A-1 Certificates will be treated as assets described in Section 7701(a)(19)(C) of the Code, and as “*real estate assets*” under Section 856(c)(5)(B) of the Code, generally, in the same proportion that the assets of the Trust Fund, exclusive of the applicable Carryover Reserve Fund, would be so treated. In addition, the interest derived from the regular interest component will be treated as interest derived from an obligation secured by real property or an interest in real property for purposes of section 856(c)(3) of the Code in the same proportion that the income of the Trust Fund would be so treated. The Interest Rate Cap Agreement or partnership interest component of a Class 1-A-1 Certificate will not, however, qualify as an asset described in Section 7701(a)(19)(C) of the Code or as a real estate asset under Section 856(c)(5)(B) of the Code. Due to their entitlement or obligation under the Interest Rate Cap Agreement component, the Class 1-A-1 Certificates are not appropriate assets for resecuritization in a REMIC. Once these rights and obligations expire completely, the Class 1-A-1 Certificates will be REMIC-qualified assets.

## Prohibited Transactions Tax and Other Taxes

The Code imposes a tax on REMICs equal to 100% of the net income derived from “*prohibited transactions*” (the “*Prohibited Transactions Tax*”). In general, subject to certain specified exceptions, a prohibited transaction means the disposition of a Mortgage Loan, the receipt of income from a source other than a Mortgage Loan or certain other permitted investments, the receipt of compensation for services, or gain from the disposition of an asset purchased with the payments on the Mortgage Loans for temporary investment pending distribution on the Certificates. It is not anticipated that the Trust Fund will engage in any prohibited transactions from which it would recognize a material amount of net income.

In addition, subject to certain exceptions (including an exception for cash contributed to a REMIC during the 3-month period beginning on the startup day), contributions to a trust fund that elects to be treated as a REMIC made after the day on which such trust fund issues all of its interests (the “*startup day*”) could result in the imposition of a tax on the trust fund equal to 100% of the value of the contributed property (the “*Contributions Tax*”). The Trust Fund will not accept contributions that would subject it to such tax.

In addition, a trust fund that elects to be treated as a REMIC may also be subject to federal income tax at the highest corporate rate on “*net income from foreclosure property*” determined by reference to the rules applicable to real estate investment trusts. “Net income from foreclosure property” generally means gain from the sale of a foreclosure property other than qualifying rents and other qualifying income for a real estate investment trust. It is not anticipated that the Trust Fund will recognize net income from foreclosure property subject to federal income tax.

If any Prohibited Transactions Tax, Contributions Tax, tax on net income from foreclosure property or state or local income or franchise tax that may be imposed on the REMIC arises out of a breach of the Master Servicer’s or the Trustee’s obligations, as the case may be, under the Pooling and Servicing Agreement and in respect of compliance with applicable law, then such tax will be borne by the Master Servicer or Trustee, in either case out of its own funds. In the event that either the Master Servicer or the Trustee, as the case may be, fails to pay or is not required to pay any such tax as provided above, such tax will be paid by the Trust Fund first with amounts otherwise distributable to the holders of Certificates in the manner provided in the Pooling and Servicing Agreement. It is not anticipated that any material state or local income or franchise tax will be imposed on the Trust Fund.

For further information regarding the federal income tax consequences of investing in the Certificates, see “*Material Federal Income Tax Consequences — REMIC Certificates*” in the Information Circular.

## Other Taxes

The Depositor makes no representations regarding the tax consequences of the purchase, ownership or disposition of the Class 1-A-1 Certificates under any state, local or foreign tax laws.

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 Class 1-A-1 Certificates.

### **Legal Matters**

The validity of the Certificates, including certain federal income tax consequences with respect thereto, will be passed upon for the Depositor by Sidley Austin Brown & Wood LLP, New York, New York.

## Index of Defined Terms

Accrual Period.....	42	Cross Collateral Subordinated	
Adjustable Rate Mortgage Loans.....	16	Certificates.....	34
Adjusted Maximum Mortgage Rate.....	45	CSSF.....	37
Adjusted Net Mortgage Rate.....	44	Cumulative Loss Trigger Event.....	51
Adjustment Date.....	16	Current Interest.....	44
Advance.....	33	Cut-off Date.....	18
Applied Realized Loss Amount.....	57	DBC.....	36
balloon loans.....	10	debt-to-income ratio.....	26
Bankruptcy Rate.....	32	Definitive Certificate.....	35
beneficial owner.....	35	Delay Delivery Mortgage Loans.....	62
Book-Entry Certificates.....	34	Deleted Mortgage Loan.....	23
Business Day.....	42	Delinquency Trigger Event.....	50
Cap Contract Counterparty.....	54	Detailed Description.....	21
capital assets.....	75	Deutsche Borse Clearing AG.....	36
Carryover Reserve Fund.....	57	Distribution Account.....	41
Cedelbank.....	36	Distribution Account Deposit Date.....	40
Certificate Account.....	38	Distribution Date.....	42
Certificate Owners.....	34	DTC.....	34
Certificate Principal Balance.....	34	Due Dates.....	33
Certificates.....	34	Due Period.....	41
Class 2-M-1 Principal Distribution		Euroclear.....	34
Amount.....	48	Euroclear Operator.....	37
Class A Principal Distribution Amount.....	47, 48	Euroclear Participants.....	37
Class B-1 Principal Distribution		European Depositaries.....	35
Amount.....	49	Excess Cashflow.....	51
Class M-2 Principal Distribution		Expense Fee Rate.....	44
Amount.....	48	Financial Intermediary.....	35
Clearstream.....	36	First Cap Contract Termination Date.....	56
Clearstream Banking.....	36	Fixed Rate Credit Comeback Loans.....	17
Clearstream Banking AG.....	36	Fixed Rate Mortgage Loans.....	16
Clearstream Banking, société anonyme.....	36	Foreclosure Rate.....	32
Clearstream International, société		Full Doc Program.....	27
anonyme.....	36	Funding Period.....	24
Clearstream Services, société anonyme.....	36	Gross Margin.....	16
Clearstream, Luxembourg.....	36	Group 2 Certificates.....	34
Clearstream, Luxembourg S.A.....	36	Indirect Participants.....	35
Code.....	74	Initial Cut-off Date.....	21
Collateral Value.....	17	Initial Cut-off Date Pool Principal	
Combined Loan-to-Value Ratio.....	17	Balance.....	21
Compensating Interest.....	33	Initial Mortgage Loans.....	21
Constant Prepayment Rate.....	64	Initial Mortgage Pool.....	21
Contributions Tax.....	76	Insurance Proceeds.....	39
Cooperative.....	37	Interest Carry Forward Amount.....	44
Countrywide Credit.....	30	Interest Determination Date.....	56
Countrywide Home Loans.....	29	Interest Funds.....	44
Countrywide Servicing.....	29	Interest Rate Cap Agreement.....	74
CPR.....	64	Interest Remittance Amount.....	40
Credit Bureau Risk Score.....	29	Last Scheduled Distribution Date.....	63
Credit Comeback Excess Amounts.....	17	LIBOR Business Day.....	56



Liquidation Proceeds.....	39	Purchase Price.....	23
Loan-to-Value Ratio.....	17	PV.....	64
Master Servicer.....	29	real estate assets.....	76
Master Servicer Advance Date.....	33	Record Date.....	42
Maximum Mortgage Rate.....	17	Reference Bank Rate.....	56
Maximum Rate.....	45	Reference Banks.....	56
Minimum Mortgage Rate.....	23	regular interests.....	5
Modeling Assumptions.....	64	Relevant Depository.....	35
Mortgage Index.....	16	REO Property.....	33
Mortgage Loans.....	22	Replacement Mortgage Loan.....	23
Mortgage Notes.....	16	Required Percentage.....	50
Mortgage Rate.....	16	residual interest.....	5
Mortgaged Properties.....	16	Rules.....	35
net income from foreclosure property.....	76	Scheduled Payments.....	16
Net Mortgage Rate.....	33	Second Cap Contract Termination Date.....	<b>56</b>
net rate cap.....	10	Secondary Carryover Reserve Fund	
Net Rate Cap.....	44	Deposit.....	57
Net Rate Carryover.....	45	Seller.....	29
New CI.....	36	Seller Shortfall Interest Requirement.....	40
OC Floor.....	50	senior certificates.....	4
OID.....	75	Senior Certificates.....	34
One-Month LIBOR.....	56	Servicing Fee.....	32
Optional Termination Date.....	59	Servicing Fee Rate.....	32
Overcollateralization Deficiency		Simple Doc Program.....	27
Amount.....	49	startup day.....	76
Overcollateralization Target Amount.....	49	Stated Income Program.....	27
Overcollateralized Amount.....	49	Stated Principal Balance.....	18
Participants.....	35	Stepdown Date.....	50
Pass-Through Margin.....	45	subordinate certificates.....	4
Pass-Through Rate.....	44	Subordinate Certificates.....	34
Percentage Interest.....	42	subordinate classes.....	7
Periodic Rate Cap.....	17	subordination.....	7
Pool Characteristics.....	18	Subsequent Cut-off Date.....	24
Pooling and Servicing Agreement.....	21	Subsequent Mortgage Loans.....	24
Pre-Funded Amount.....	24	Subsequent Transfer Date.....	24
Pre-Funding Account.....	24	Tax Counsel.....	74
Prepayment Interest Excess.....	32	Terms and Conditions.....	37
Prepayment Interest Shortfall.....	33	Three-Year Hybrid Mortgage Loan.....	17
Prepayment Models.....	64	Trigger Event.....	50
Prepayment Period.....	18	Trigger Event Realized Loss.....	51
Prepayment Vector.....	64	Trustee.....	21
Principal Distribution Amount.....	47	Trustee Fee.....	42
Principal Remittance Amount.....	41	Trustee's Mortgage File.....	22
prohibited transactions.....	25, 76	Two-Year Hybrid Mortgage Loan.....	17
Prohibited Transactions Tax.....	76		

## 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 secured by first or subordinate liens on one- to four-family residential properties.

#### 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.

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**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.**

December 14, 2001

## Table of Contents

Important Notice About Information in this Information Circular and Each Accompanying Information Supplement. . . . .	3	Certain Matters Regarding the Master Servicer and the Depositor . . . . .	43
Risk Factors . . . . .	4	Events of Default; Rights Upon Event of Default . . . . .	44
The Trust Fund . . . . .	13	Amendment . . . . .	45
General . . . . .	13	Termination; Optional Termination. . . . .	46
The Loans . . . . .	14	The Trustee . . . . .	47
Substitution of Trust Fund Assets. . . . .	17	Certain Legal Aspects of the Loans . . . . .	47
Reports to Securityholders. . . . .	17	General . . . . .	47
Use of Proceeds. . . . .	17	Foreclosure . . . . .	48
The Depositor . . . . .	17	Environmental Risks. . . . .	50
Loan Program . . . . .	17	Rights of Redemption. . . . .	51
Underwriting Standards. . . . .	17	Anti-Deficiency Legislation and Other Limitations On Lenders . . . . .	51
Qualifications of Sellers . . . . .	18	Due-On-Sale Clauses . . . . .	52
Representations by Sellers; Repurchases . . . . .	19	Enforceability of Prepayment and Late Payment Fees . . . . .	52
Description of the Securities . . . . .	20	Applicability of Usury Laws . . . . .	52
General . . . . .	20	Home Improvement Contracts . . . . .	52
Distributions on Securities. . . . .	22	Installment Contracts . . . . .	54
Advances . . . . .	23	Soldiers' and Sailors' Civil Relief Act . . . . .	54
Reports to Securityholders. . . . .	24	Junior Mortgages and Rights of Senior Mortgagees . . . . .	54
Categories of Classes of Securities. . . . .	25	The Title I Program . . . . .	55
Indices Applicable to Floating Rate and Inverse Floating Rate Classes . . . . .	26	Consumer Protection Laws . . . . .	58
Credit Enhancement. . . . .	29	Material Federal Income Tax Consequences . . . . .	58
General . . . . .	29	General . . . . .	58
Subordination. . . . .	29	Taxation of Debt Securities . . . . .	59
Letter of Credit . . . . .	30	Taxation of the REMIC and Its Holders . . . . .	62
Insurance Policies, Surety Bonds and Guaranties . . . . .	30	REMIC Expenses; Single Class REMICs . . . . .	63
Over-Collateralization. . . . .	31	Taxation of the REMIC . . . . .	63
Reserve Accounts. . . . .	31	Taxation of Holders of Residual Interest Securities . . . . .	64
Pool Insurance Policies. . . . .	32	Administrative Matters . . . . .	66
Financial Instruments . . . . .	33	Tax Status as a Grantor Trust . . . . .	67
Cross Support . . . . .	33	Sale or Exchange . . . . .	69
Yield and Prepayment Considerations . . . . .	34	Miscellaneous Tax Aspects . . . . .	69
The Agreements . . . . .	36	Tax Treatment of Foreign Investors . . . . .	69
Assignment of the Trust Fund Assets . . . . .	36	Tax Characterization of the Trust Fund as a Partnership . . . . .	70
Payments On Loans; Deposits to Security Account . . . . .	37	Tax Consequences to Holders of the Notes . . . . .	70
Pre-Funding Account . . . . .	38	Tax Consequences to Holders of the Certificates . . . . .	72
Sub-Servicing by Sellers . . . . .	39	State Tax Considerations . . . . .	75
Collection Procedures . . . . .	39	Method of Distribution. . . . .	75
Hazard Insurance . . . . .	40	Legal Matters . . . . .	76
Realization Upon Defaulted Loans . . . . .	42	Financial Information. . . . .	76
Servicing and Other Compensation and Payment of Expenses . . . . .	42	Index to Defined Terms . . . . .	77
Evidence as to Compliance . . . . .	42		

**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.

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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. For other means of acquiring additional information about us or a series of securities, see “The Trust Fund — Incorporation of Certain Documents by Reference” beginning on page 17.

## Risk Factors

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

*Consumer Protection Laws May  
Adversely Affect You*

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 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.

**Your Risk Of Loss May Be Higher  
Than You Expect If Your  
Securities Are Backed By  
Multifamily Loans**

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 Partially Unsecured Home Equity Loans**

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 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.

**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 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.

### **Ratings Of The Securities Do Not Assure Their Payment**

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.

## **Book-Entry Registration**

### *Limit on Liquidity*

Securities issued in book-entry form may have only limited liquidity in the resale market, since investors may be unwilling to purchase securities for which they cannot obtain physical instruments.

### *Limit on Ability to Transfer or Pledge*

Transactions in book-entry securities can be effected only through The Depository Trust Company, its participating organizations, its indirect participants, and certain banks. Therefore, your ability to transfer or pledge securities issued in book-entry form may be limited.

### *Delays in Distributions*

You may experience some delay in the receipt of distributions on book-entry securities since the distributions will be forwarded by the trustee to The Depository Trust Company for it to credit the accounts of its participants. In turn, these participants will then credit the distributions to your account either directly or indirectly through indirect participants.

## **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 87.

## 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 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.

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\* 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 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 certificateholders 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 certificateholders 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. The 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. In addition to being secured by mortgages on real estate the home improvement contracts may also be 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. No more than 5% of the aggregate Trust Fund Assets for any series, as constituted at the time of the applicable cut-off date (measured by principal balance), will be comprised of multifamily loans.



*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. The home improvement contracts will be secured by mortgages on Single Family Properties which are generally subordinate to other mortgages on the same Property. 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.

### **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.”

This information circular and any applicable information 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.

### **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 information 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 will be made available to certificateholders upon request. 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 will be made available to certificateholders upon request. 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 book-entry or 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.
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.
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### **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 information 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  $\frac{1}{2}\%$ ).

(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  $\frac{1}{2}\%$ ) 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 "LIBO 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 information 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 certificateholders 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 certificateholders 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 Rating Agency 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.

## **Financial Instruments**

If specified in the related information supplement, the trust fund may include one or more swap arrangements or other financial instruments that are intended to meet the following goals:

- to convert the payments on some or all of the mortgage loans from fixed to floating payments, or from floating to fixed, or from floating based on a particular index to floating based on another index;
- to provide payments in the event that any index rises above or falls below specified levels; or
- to provide protection against interest rate changes, certain types of losses, including reduced market value, or the payment shortfalls to one or more classes of the related series.

If a trust fund includes financial instruments of this type, the instruments may be structured to be exempt from the registration requirements of the Securities Act of 1933, as amended.

## **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 the security interest in the Property securing such home improvement contract. 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 meet 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 50% 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 (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 willful 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 66% 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, was historically a matter of judicial interpretation of the statutory language. Court decisions were inconsistent and, in fact, 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 a borrower's business to deny the protection of the secured creditor exemption to the lender. In 1996, Congress enacted the Asset Conservation, Lender Liability and Deposit Insurance Protection Act ("Asset Conservation Act"), which 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 Asset Conservation Act 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.* Some home improvement contracts may in addition to being secured by mortgages on real estate, also be secured by purchase money security interests in home improvements financed thereby (such home

improvement contracts are hereinafter referred to in this section as “contracts”). These 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 Sidley Austin 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 information 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 IRS 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.

The Treasury has issued regulations (the “Final 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 Final 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 Sidley Austin 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 Interest 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 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.

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.

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 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 Sidley Austin 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**

Sidley Austin 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 information 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 (the "Withholding Agent") with an appropriate statement, signed under penalties of perjury, certifying that the beneficial owner who is an individual or corporation for federal income tax purposes of the note is a foreign person and providing the foreign person's name and address.

Generally, this statement is made on an IRS Form W-8BEN ("W-8BEN"), which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided that the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of such change and furnish a new W-8BEN. A noteholder who is not an individual or corporation (or an entity treated as a corporation for federal income tax purposes) holding the Notes on its own behalf may have substantially increased reporting requirements. In particular, in the case of notes held by a foreign partnership (or foreign trust), the partners (or beneficiaries) rather than the partnership (or trust) will be required to provide the certification discussed above, and the partnership (or trust) will be required to provide certain additional information.

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-8BEN 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 on 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 information 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-8BEN, IRS Form W-9 or the holder's certification of nonforeign status signed under penalties of perjury. A holder who is not an individual or corporation (or an entity treated as a corporation for federal income tax purposes) holding the Notes on its own behalf may have substantially increased reporting requirements. In particular, if the holder is a foreign partnership (or foreign trust), the partners (or beneficiaries) rather than the partnership (or trust) will be required to provide the certification discussed above, and the partnership (or trust) will be required to provide certain additional information.

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 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.

### **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 as specified in the information supplement.

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 Sidley Austin Brown & Wood LLP, 875 Third Avenue, New York, New York 10022.

### **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 this information circular or in the related information supplement.

## Index to Defined Terms

<u>Term</u>	<u>Page</u>	<u>Term</u>	<u>Page</u>
Accretion Directed .....	25	Loan-to-Value Ratio .....	16
Accrual .....	26	Master Servicing Agreement .....	13
Agreements .....	36	Master Servicing Fee .....	42
APR .....	16	Moody's .....	31
Asset Conservation Act .....	50	Mortgage .....	36
Available Funds .....	22	National Cost of Funds Index .....	28
BIF .....	37	New Proposed Regulations .....	66
Capitalized Interest Account .....	39	Nonresidents .....	69
Cash Flow Bond Method .....	68	Notional Amount Securities .....	25
CERCLA .....	50	OID .....	59
Claimable Amount .....	58	OID Regulations .....	59
Class Security Balance .....	22	OTS .....	28
Code .....	21	PACs .....	25
COFI securities .....	28	Partial Accrual .....	26
Collateral Value .....	16	Pass-Through Securities .....	67
Combined Loan-to-Value Ratio .....	16	Pay-Through Security .....	60
Component Securities .....	25	Permitted Investments .....	31
Contingent Regulations .....	60	Planned Principal Class .....	25
cooperative loans .....	14	Pool Insurance Policy .....	32
cooperatives .....	14	Pool Insurer .....	32
Cut-off Date Principal Balance .....	20	Pooling and Servicing Agreement .....	20
Debt securities .....	59	Pre-Funded Amount .....	38
Detailed Description .....	14	Pre-Funding Account .....	38
Eleventh District .....	27	Prepayment Assumption .....	60
ERISA .....	21	Primary Mortgage Insurance Policy .....	15
FHA .....	14	Prime Rate .....	29
FHLBSF .....	27	Principal Only .....	26
Final Bond Premium Regulations .....	62	Principal Prepayments .....	23
Fixed Rate .....	26	Properties .....	15
Floating Rate .....	26	Property Improvement Loans .....	55
foreign person .....	71	Purchase Price .....	19
Funding Period .....	38	Ratio Strip Securities .....	68
Garn-St Germain Act .....	52	RCRA .....	50
Indenture .....	20	Record Date .....	21
Insurance Proceeds .....	38	Refinance Loan .....	16
Insured Expenses .....	37	Regular Interest Securities .....	59
Interest Only .....	26	Relief Act .....	54
Interest Weighted Securities .....	61	REMIC .....	58
Inverse Floating Rate .....	26	Residual Interest Security .....	64
IRS .....	60	Retained Interest .....	20
L/C Bank .....	30	SAIF .....	37
L/C Percentage .....	30	Scheduled Principal Class .....	25
Liquidation Expenses .....	7	Security Account .....	37
Liquidation Proceeds .....	38	Security Register .....	21
Loan Rate .....	14	Sellers .....	13



<u>Term</u>	<u>Page</u>
Senior Securities .....	29
Sequential Pay .....	25
Servicing Fee .....	67
Short-Term Note .....	71
Single Family Properties .....	15
Strip .....	25
Stripped Securities .....	67
Subsequent Loans .....	39
Support Class .....	25
TACs .....	25
Targeted Principal Class .....	25

<u>Term</u>	<u>Page</u>
TIN .....	69
Title I Loans .....	55
Title I Program .....	55
Title V .....	52
Trust Agreement .....	13
Trust Fund Assets .....	13
UCC .....	49
VA .....	14
VA Guaranty .....	42
Variable Rate .....	26

**605,800,000**  
(Approximate)

**Asset-Backed Certificates, Series 2002-2**  
**Class 1-A-1 Certificates**

**CWABS, INC.**  
Depositor



Seller

**Countrywide Home Loans Servicing LP**  
Master Servicer

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**INFORMATION SUPPLEMENT**

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You should rely only on the information contained or incorporated by reference in this information supplement and the accompanying information circular. We have not authorized anyone to provide you with different information.

June 19, 2002



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 .....	9
The Trust Agreement .....	13
Certain Federal Income Tax Consequences .....	15
Legal Investment Considerations .....	17
Legal Opinion .....	18
ERISA Considerations .....	18
Plan of Distribution .....	18
Legal Matters .....	19
Index of Defined Terms .....	20

### Information Supplement

Summary .....	1
Risk Factors .....	7
The Mortgage Pool .....	16
Servicing of the Mortgage Loans .....	29
Pool Factor and Trading Information .....	33
Description of the Certificates .....	34
Yield, Prepayment and Maturity Considerations .....	61
Use of Proceeds .....	73
Material Federal Income Tax Consequences .....	75
Other Taxes .....	76
Legal Matters .....	76
Index of Defined Terms .....	77

### Information Circular

Important Notice About Information in This Information Circular and Each Accompanying Information Supplement .....	3
Risk Factors .....	4
The Trust Fund .....	13
Use of Proceeds .....	17
The Depositor .....	17
Loan Program .....	17
Description of the Securities .....	20
Credit Enhancement .....	29
Yield and Prepayment Considerations .....	34
The Agreements .....	36
Certain Legal Aspects of the Loans .....	47
Material Federal Income Tax Consequences .....	58
State Tax Considerations .....	75
Method of Distribution .....	75
Legal Matters .....	76
Financial Information .....	76
Index to Defined Terms .....	77

**\$605,800,000**  
(Approximate)



**FannieMae®**

**Guaranteed Grantor Trust  
Pass-Through Certificates  
Fannie Mae Grantor Trust 2002-T10**

## PROSPECTUS

**Countrywide Securities Corporation**

**JPMorgan**

**June 19, 2002**