

**\$1,044,000,000 (Approximate)**



**Guaranteed Grantor Trust Pass-Through Certificates  
Fannie Mae Grantor Trust 2003-T2**

**Consider carefully the risk factors starting on page 6 of this prospectus. 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 classes of certificates listed in the chart below. The certificates will represent ownership interests in the trust assets, which will consist of two classes of underlying REMIC securities.

**Payments to Certificateholders**

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

- interest accrued on your certificates and
- principal paid on the corresponding class of underlying REMIC securities.

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, subject to the limitations described under "The Pooling Agreement—Fannie Mae Guaranty" in the Information Supplement attached to this prospectus. In addition, we guarantee that any outstanding principal balance of the A1 Class will be paid on the distribution date occurring in March 2033.

**The Trust and Its Assets**

The trust will own the underlying REMIC securities described in this prospectus. The underlying REMIC securities represent ownership interests in a portion of Long Beach Mortgage Loan Trust 2003-1, consisting of fixed-rate and adjustable-rate, first lien, fully amortizing, residential mortgage loans made to borrowers generally with blemished credit histories.

**Corresponding Classes**

The Class A1 and Class S1 Certificates will correspond to the Class A-1 and Class S-1 Certificates of the underlying REMIC securities, respectively.

<i>Class</i>	<i>Original Class Balance (1)</i>	<i>Principal Type</i>	<i>Interest Rate</i>	<i>Interest Type</i>	<i>CUSIP Number</i>	<i>Final Distribution Date</i>
A1 .....	\$1,044,000,000	PT	(2)	FLT / AFC	31392JAT6	March 2033
S1 .....	\$ 240,000,000 (3)	NTL	4.25% (4)	IO	31392JAV1	November 2004

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

(2) Based on LIBOR and subject to a net WAC rate cap. See "Description of the Certificates—Payments of Interest" in this prospectus.

(3) Notional amount. This amount will step down. See "Description of the Certificates—Payments of Interest—Notional Class" in this prospectus.

(4) The interest rate will step down to 0% over a 21-month period. See "Description of the Certificates—Payments of Interest" in this prospectus.

The underwriters listed below will offer the certificates from time to time in negotiated transactions at varying prices. We expect the settlement date to be February 6, 2003.

**Deutsche Bank Securities**

**Lehman Brothers**

**BancOne Capital Markets**

**Credit Suisse First Boston**

**Morgan Stanley**

**RBS Greenwich Capital**

**UBS Warburg**

**WaMu Capital Corp.**

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## 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 January 30, 2003 relating to the underlying REMIC securities, which is attached to, and forms a part of, this prospectus; and
- our Information Statement dated April 1, 2002 and its supplements (the “Information Statement”).

You can obtain all the Disclosure Documents by writing or calling:

Fannie Mae  
3900 Wisconsin Avenue, N.W.  
Area 2H-3S  
Washington, D.C. 20016  
(telephone 1-800-237-8627 or 202-752-6547).

This prospectus, the Information Statement and the class factors are available on our corporate website located at [www.fanniemae.com](http://www.fanniemae.com) and our business to business website at [www.efanniemae.com](http://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, by writing or calling:

Deutsche Bank Securities Inc.  
Syndicate Operations  
Prospectus Department  
31 West 52<sup>d</sup> Street  
New York, New York 10019  
(telephone 212-469-5000).

## 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 two classes of underlying REMIC securities that represent ownership interests in Long Beach Mortgage Loan Trust 2003-1 as further described in the Information Supplement.
- The mortgage loans underlying the underlying REMIC securities are fixed-rate and adjustable-rate, first lien, fully amortizing residential mortgage loans made to borrowers generally with blemished credit histories, as further described in this prospectus and the Information Supplement.

### Corresponding Classes

The Class A1 and the Class S1 Certificates correspond to the Class A-1 and the Class S-1 Certificates of the underlying REMIC securities, respectively. All amounts paid on each class of underlying REMIC securities will be passed through to the corresponding class of certificates. For a description of Fannie Mae's guaranty of the underlying REMIC securities, see "The Pooling Agreement—Fannie Mae Guaranty" in the Information Supplement.

### Characteristics of the Mortgage Loans Backing the Underlying REMIC Securities

For information about the nature of the mortgage loans backing the underlying REMIC securities, see the sections of the Information Supplement entitled "The Mortgage Pool—General" and "—The Group I Mortgage Loans."

### Class Factors

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

### Settlement Date

We expect to issue the certificates on February 6, 2003.

### Distribution Dates

Beginning in March 2003, 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 each class of certificates in an amount generally equal to the interest accrued on that class at the applicable interest rate during the related interest accrual period.

**Notional Class**

Holders of the certificates of the S1 Class will not receive any principal payments. The S1 Class has a notional balance used to determine accrued interest. The method for calculating the notional balance for the S1 Class is identical to that specified in the Information Supplement for the Class S-1 class of underlying REMIC securities.

**Payments of Principal**

We will pay monthly principal on the A1 Class in an amount equal to the principal, if any, paid in that month on the Class A-1 class of underlying REMIC securities.

**Guaranty Payments**

We guarantee that interest and principal on the certificates will be paid as provided above, subject to the limitations described under “The Pooling Agreement—Fannie Mae Guaranty” in the Information Supplement attached to this prospectus. In addition, we guarantee the payment of any principal balance of the A1 Class that remains outstanding on the distribution date occurring in March 2033.

## 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 9 of the Information Supplement.

### 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 documents incorporated by reference.
- You should thoroughly understand the terms of the certificates.
- You should thoroughly understand the terms of the underlying REMIC securities and the mortgage loans that back them.
- 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 certain 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:

- the price you paid for the certificates;
- how quickly or slowly borrowers prepay the underlying mortgage loans;
- if and when the underlying mortgage loans are liquidated due to borrower defaults, casualties or condemnations affecting the properties securing those loans;
- if and when the underlying mortgage loans are repurchased;
- if and when the master servicer (or any third party insurer identified in the Information Supplement) exercises its limited right to terminate the underlying trust fund by purchasing the mortgage loans;
- the actual characteristics of the underlying mortgage loans, including the effect of periodic and lifetime caps on the interest rates of adjustable rate underlying mortgage loans; and
- in the case of the A1 Class, monthly changes in the LIBOR index.

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

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

Furthermore, in the case of the S1 Class, you could fail to recover all of your investment if

prepayments on the underlying mortgage loans occur at a rapid rate.

Even if the underlying mortgage loans are prepaid at a rate that on average is consistent with your expectations, variations over time in the prepayment rate of the underlying mortgage 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 mortgage 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 mortgage loans were used in preparing the tabular information set forth in the Information Supplement. If the actual mortgage loan characteristics differ even slightly from those assumptions, the weighted average lives and yields of the certificates could be affected.

**You must make your own decision as to the assumptions, including the principal prepayment assumptions, you will use in deciding whether to purchase the certificates.**

*The A1 Class is subject to basis risk.* The interest rate on the A1 Class adjusts monthly based on one-month LIBOR. The interest rates on the underlying adjustable-rate mortgage loans generally adjust less frequently and on the basis of a different index, and the interest rates on the underlying fixed-rate mortgage loans do not adjust at all. As a result, the A1 Class is subject to basis risk, which may reduce its yield.

*Unpredictable timing of last payment may affect your yield.* The actual final payment on your class of certificates may occur earlier, and could occur much earlier, than the distribution date occurring in March 2033. If you assumed the actual final payment would occur on the final distribution date specified, your yield could be lower than you expect.

*Delayed payments reduce yield and market value of the S1 Class.* Because the S1 Class does not receive interest immediately following each interest accrual period, it will have a lower

yield and market value than it would if there were no such delay.

## **Prepayment Considerations**

*The rate of principal payments on the A1 Class depends on numerous factors and cannot be predicted.* The rate of principal payments on the A1 Class generally will depend on the rate of principal payments on the underlying mortgage loans. 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 mortgage loans will prepay:

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

Most of the mortgage loans underlying the underlying certificates require that the borrower pay a prepayment premium if the loan is prepaid in full or in part during the period specified in the mortgage note. Generally, each mortgage loan which has a prepayment charge provision provides for a prepayment charge on certain partial prepayments and prepayments in full received during the first 36 months from the first due date of the mortgage loan equal to 3%, 2% or 1% of the original principal balance of the mortgage loan if the prepayment is received on or before the first, second or third anniversary, respectively, of the first due date of the mortgage loan. After the expiration of the applicable prepayment premium period, however, borrowers may prepay the loans at any time without paying a premium. In no event will certificateholders be entitled to any portion of any prepayment premiums paid by borrowers.

The 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. Fur-



thermore, the seller of the underlying mortgage loans 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 the underlying mortgage loans held in the underlying trust are reduced to 10% or less of the sum of their balances as of the issue date, the master servicer or, alternatively, any third party insurer identified in the Information Supplement may purchase all the remaining mortgage loans subject to certain restrictions described in the Information Supplement. In addition, the master servicer or such third party insurer has the option to repurchase mortgage loans that become 90 days or more delinquent, and if neither party chooses to exercise such option with respect to mortgage loans underlying the certificates, Fannie Mae may purchase such mortgage loans. If the mortgage loans are purchased in either of these ways, 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 mortgage loans,
- homeowner mobility,
- the general creditworthiness of the borrowers,
- repurchases of mortgage loans, 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 REMIC securities.

*Overcollateralization can accelerate principal payments.* Due to the overcollateralization feature of the underlying trust, the rate of principal payments on the A1 Class may be somewhat faster from time to time than the rates of principal payments on the underlying mortgage loans. On each distribution date, excess interest, if any, generated by the underlying mortgage

loans will be applied to pay principal on the Class A-1 Certificates of the underlying REMIC securities if necessary to maintain overcollateralization at the required level.

*The S1 Class is subject to prepayment risk.* The yield to maturity of the S1 Class will be extremely sensitive to the rate of principal prepayment on the mortgage loans underlying the underlying REMIC Securities, if on or prior to the due date in any month through October 2004, the aggregate principal balance of such mortgage loans with adjusted net minimum mortgage rates in excess of 4.25% is reduced to or below the amount equal to the notional amount of S1 Class Certificates for the distribution date in the subsequent month. Investors in the S1 Class should fully consider the risk that an extremely rapid rate of principal prepayment on the mortgage loans underlying the underlying REMIC Securities could result in the failure of such investors to fully recover their initial investments.

### **Reinvestment Risk**

*You may have to reinvest principal payments at a rate of return lower than that on the A1 Class.* Generally, a borrower may prepay a mortgage loan at any time, although early prepayment may be subject to a prepayment premium as described above. As a result, we cannot predict the amount of principal payments on the A1 Class. The A1 Class 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 A1 Class 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 corresponding classes of the underlying REMIC securities;
- the characteristics of the underlying mortgage loans;
- past and expected prepayment levels of the underlying mortgage 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 REMIC securities. If that happened, delinquencies and defaults or other shortfalls on the mortgage loans could directly affect the amounts that certificateholders would receive each month.*

## DESCRIPTION OF THE CERTIFICATES

The material under this heading summarizes certain features of the Certificates (defined below) 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 such 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 February 1, 2003 (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 two classes of mortgage pass-through certificates (the “Underlying REMIC Securities”) evidencing beneficial ownership interests in Long Beach Mortgage Loan Trust 2003-1 (the “Underlying Trust”) as further described in the Information Supplement. The A1 Class of Certificates and the S1 Class of Certificates (each, a “Class”) will correspond to the Class A-1 and the Class S-1 Certificates of the Underlying REMIC Securities, respectively. The assets of the Underlying Trust will consist primarily of a pool of conforming balance mortgage loans (the “Group I Mortgage Loans”) and a second pool of generally non-conforming balance mortgage loans (together with the Group I Mortgage Loans, the “Mortgage Loans”) as more fully described in the Information Supplement under the heading “The Mortgage Pool.”

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

- the amount of interest accrued on the Certificates at the applicable interest rates during the related Interest Accrual Period, and
- in the case of the A1 Class, the amount of principal payable on the corresponding class of Underlying REMIC Securities.

In addition, in the case of the A1 Class, we guarantee the payment of any principal balance that remains outstanding on the Distribution Date occurring in March 2033.

Our guaranty is subject to the limitations described under “The Pooling Agreement—Fannie Mae Guaranty” in the Information Supplement attached to this prospectus.

If we were unable to perform our guaranty obligations, Certificateholders would receive only the amounts paid and other recoveries on the Underlying REMIC Securities. If that happened, delinquencies and defaults or other shortfalls on the Mortgage Loans could directly affect the amounts that Certificateholders would receive each month. **Our guaranty is not backed by the full faith and credit of the United States.**

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

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

*Distribution Date.* Beginning in March 2003, 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 A1 Certificateholders who were Holders of record on the business day preceding such Distribution Date and to S1 Certificateholders who were Holders of record on the last day of the preceding month.

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

*Servicer Mortgage Loan Cleanup Call.* Long Beach Mortgage Company, in its capacity as master servicer or, alternatively, any third party insurer identified in the Information Supplement, may, subject to the limitation described in the Information Supplement, repurchase the Mortgage Loans when the principal balances of the Mortgage Loans have been reduced to 10% or less of their balances as of the Issue Date. If the Group I Mortgage Loans are purchased in this way, it will have the same effect on the Certificates as a prepayment in full of the Group I Mortgage Loans.

*Option to Repurchase Delinquent Loans.* The master servicer or such third party insurer has the option to repurchase Group I Mortgage Loans that become 90 days or more delinquent, and if neither party chooses to exercise such option with respect to the Group I Mortgage Loans, Fannie Mae may purchase such Group I Mortgage Loans.

*Voting the Underlying REMIC Securities.* Holders of the Underlying REMIC Securities may have to vote on issues arising under the documents governing the Underlying Trust. If so, the Trustee will vote the Underlying REMIC Securities as instructed by Holders of the corresponding Classes of Certificates. The Trustee must receive instructions from Holders of the related Certificates holding voting rights totaling at least 51% of the voting rights of the related Class. 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 REMIC Securities**

The Underlying REMIC Securities represent the senior ownership interests in the Group I Mortgage Loans held in the Underlying Trust. As indicated in the Information Supplement, the Mortgage Loans will be deposited in the Underlying Trust by Long Beach Securities Corp.

Each of the Underlying REMIC Securities represents an entitlement to an applicable portion of interest and, if applicable, principal due on the Group I Mortgage Loans, subject to the payment priorities specified in the Information Supplement. Interest and, if applicable, principal paid on each class of the Underlying REMIC Securities will be passed through to Holders of the corresponding Class of Certificates. Interest on the Underlying REMIC Securities will accrue on their outstanding principal balance or notional principal balance as described in the Information Supplement. Principal on the Underlying REMIC Securities will be paid as described in the Information Supplement.

See the Information Supplement for detailed information about each class of the Underlying REMIC Securities.

## 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 an 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 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 ownership 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 Morgan Guaranty Trust Company of New York, Brussels office (“Morgan”), and all Euroclear securities clearance and cash accounts are with Morgan. They are governed by procedures of Euroclear, and applicable Belgian law. Clearstream Banking, *Société anonyme* (“Clearstream”), was incorporated in 1970 under the laws of Luxembourg as a limited liability company. 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

### *Categories of Classes*

For the purpose of interest payments, the Classes of Certificates fall into the following categories:

<u>Interest Type*</u>	<u>Classes</u>
Floating Rate	A1
Available Funds	A1
Interest Only	S1

\* See “—Class Definitions and Abbreviations” below.

*Monthly Interest.* We will pay interest on each Class of Certificates at the annual interest rate applicable to the corresponding class of Underlying REMIC Securities as described in the Information Supplement, subject to the limitations specified in this prospectus under “General—*Fannie Mae Guaranty*.” We calculate interest, in the case of the A1 Class, on the basis of an assumed 360-day year and the actual number of days elapsed in the related Interest Accrual Period and, in the case of the S1 Class, on the basis of an assumed 360-day year consisting of twelve 30-day months. We pay interest monthly on each Distribution Date, beginning in the month after the Settlement Date.

Interest to be paid on each Certificate on a Distribution Date will consist of the interest accrued during the related Interest Accrual Period on its outstanding principal balance or notional principal balance immediately prior to that Distribution Date.

*Interest Accrual Periods.* Interest to be paid on a Distribution Date will accrue on the Certificates during the applicable one-month periods set forth below (each, an “Interest Accrual Period”).

<u>Classes</u>	<u>Interest Accrual Period</u>
A1	The period beginning on the Distribution Date in the month preceding the month in which the Distribution Date occurs and ending on the day immediately preceding such Distribution Date (other than the initial Interest Accrual Period, which is the period beginning on February 6, 2003 and ending on the day immediately preceding the initial Distribution Date)
S1	Calendar month preceding the month in which the Distribution Date occurs.

See “Risk Factors—Yield Considerations—*Delayed payments reduce yield and market value of the S1 Class*” in this prospectus.

*Notional Class.* The S1 Class is a Notional Class and, accordingly, will not have a principal balance. During each Interest Accrual Period, the S1 Class will be entitled to receive interest on its notional principal balance which at all times will equal the notional amount of the corresponding class of Underlying REMIC Securities.

We use the notional principal balance of the S1 Class to determine interest payments on that Class. Although the S1 Class will not have a principal balance and will not be entitled to any principal payments, we will publish a class factor for it. References in this prospectus to the principal balances of the Certificates generally shall refer also to the notional principal balance of the S1 Class.

## Calculation of One-Month LIBOR

One-Month LIBOR will be calculated using the method described in the Information Supplement under the heading “Description of the Certificates—Calculation of One-Month LIBOR.”

## Payments of Principal

### *Categories of Classes*

For the purpose of principal payments, the Classes of Certificates fall into the following categories:

<u>Principal Type*</u>	<u>Classes</u>
Pass-Through	A1
Notional	S1

\* See “—Class Definitions and Abbreviations” below.

*Monthly Principal.* On each Distribution Date, we will pay to the Holders of the A1 Class an amount of principal equal to the principal amount paid on the corresponding class of Underlying REMIC Securities in the month of that Distribution Date.



## Class Definitions and Abbreviations

The following chart identifies and generally defines the categories 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 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 for the related Interest Accrual Period.
FLT	Floating Rate	Has an interest rate that resets periodically based upon the designated index and that varies directly with changes in the index.
IO	Interest Only	Receives some of the interest payments made on the Mortgage Loans but no principal. The Interest Only Class has a notional principal balance, which is the amount used as a reference to calculate the amount of interest due on the Interest Only Class.
<b>PRINCIPAL TYPES</b>		
PT	Pass-Through	Receives principal payments based on the actual distributions on the corresponding class of Underlying REMIC Securities.
NTL	Notional	Has no principal balance and bears interest on its notional principal balance. The notional principal balance is used to determine interest distributions on the Interest Only Class, which is not entitled to principal.

## Yield, Modeling Assumptions, Decrement Tables, Weighted Average Lives

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

## THE TRUST AGREEMENT

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

## Reports to Certificateholders

As soon as practicable on or shortly before each Distribution Date, we will publish (in print or otherwise) the class factor for each Class of Certificates. The “class factor” is a number (carried to eight decimal places) which, when multiplied by the original principal balance (or notional principal balance) of a Certificate, will equal the principal balance (or notional 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 of any Class 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 related Class Certificate Balance 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 of any Class who represent ownership interests totaling at least 25% of the related Class Certificate Balance; 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 of any Class who represent ownership interests totaling at least 25% of the related Class Certificate Balance 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 REMIC Securities and any other assets of the Trust.

### **Voting Rights**

Certain actions specified in the Trust Agreement that may be taken by Holders of Certificates evidencing a specified percentage of all undivided interests in the Trust may be taken by Holders of Certificates entitled in the aggregate to such percentage of voting rights. The percentage of the voting

rights allocated among Holders of the S1 Class will be 1.5%; the percentage of the voting rights allocated among Holders of the A1 Class will be 98.5%. The voting rights allocated to each Class of Certificates will be allocated among all Holders of each such Class in proportion to the outstanding Class Balance of such Certificates.

## **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 REMIC Securities have been paid off or liquidated, and their 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.

## **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.

The Treasury Department recently issued temporary regulations directed at “tax shelters” that are quite broad and could be read to apply to transactions generally not considered to be tax shelters. These regulations require taxpayers that participate in a “reportable transaction” to disclose such transaction on their tax returns by attaching IRS Form 8886 and to retain information related to the transaction. A transaction may be a “reportable transaction” based upon any of several indicia, one or more of which may be present with respect to the Certificates. You should consult your own tax advisor concerning any possible disclosure obligation with respect to your investment in the Certificates and you should be aware that we and others may be required to disclose information relating to the Certificates.

### **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 REMIC Securities will be the assets of the Trust. Each beneficial owner of a Certificate will be treated as the beneficial owner of an undivided interest in the corresponding class of Underlying REMIC Securities held by the Trust. Consequently, each beneficial owner of a Certificate will be required to report its pro rata share of the income accruing with respect to the corresponding class of Underlying REMIC Securities, and a sale or other disposition of a Certificate will constitute a sale or other disposition of a pro rata portion of the corresponding class of Underlying REMIC Securities. 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 nonpublicly 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 two percent of the beneficial owner’s adjusted gross income. For this purpose, an estate or nongrantor trust computes adjusted gross income in the same manner as 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 nongrantor 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 Underlying REMIC Securities**

The Information Supplement discusses tax consequences to holders of the Underlying REMIC Securities. The Information Supplement states that each holder of a Class A-1 Certificate will be deemed to own two assets, a REMIC regular interest and the right to receive payments from the Net WAC Rate Carryover Reserve Fund (the “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 corresponding class of Underlying REMIC Securities 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 corresponding class of Underlying REMIC Securities, you should review the discussion there.

The Information Supplement states that, taking into account certain assumptions described therein, each Underlying REMIC Security (except for the right to receive payments from the Reserve Fund) will qualify as a “regular interest” in a “real estate mortgage investment conduit” (a “REMIC”) 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 a REMIC Security were to fail to qualify as a regular interest in a REMIC, that REMIC Security might not be accorded the status described under the section of the Information Supplement entitled “Certain Federal Income Tax Consequences—Taxation of Owners of 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 an Underlying REMIC 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, 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 or guaranty (such as the Certificates) will be 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 as to principal and interest by the United States or any agency or instrumentality thereof. 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 guaranty, such securities will constitute legal investments for such entities only to the extent provided in such legislation. Certain states have 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 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 REMIC Securities from Long Beach Securities Corp. (“LBSC”) in exchange for the Certificates. LBSC has agreed to sell the Certificates to the underwriters identified on the front cover (the “Underwriters”), of which Deutsche Bank Securities and Lehman Brothers are the Co-Lead Underwriters. The Underwriters propose 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 Underwriters may effect these transactions to or through other dealers.

## **LEGAL MATTERS**

Sidley Austin Brown & Wood LLP will provide legal representation for Fannie Mae. Thacher Proffitt & Wood will provide legal representation for the Underwriters.

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**\$1,044,000,000 (APPROXIMATE)**

**LONG BEACH MORTGAGE LOAN TRUST 2003-1  
ASSET-BACKED CERTIFICATES, SERIES 2003-1**

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<b>Class A-1</b>	<b>\$1,044,000,000</b>	<b>Initial Certificate Principal Balance<sup>(1)</sup></b>	<b>Variable Rate<sup>(2)</sup></b>
<b>Class S-1</b>	<b>\$ 240,000,000</b>	<b>Initial Notional Amount<sup>(1)</sup></b>	<b>4.25%<sup>(3)</sup></b>

<sup>(1)</sup> Approximate.

<sup>(2)</sup> Determined and subject to limitation as described herein.

<sup>(3)</sup> Initial Pass-Through Rate.

**LONG BEACH SECURITIES CORP.**

*Depositor*

**Long Beach Mortgage**

Specialty Home Loans



**Washington Mutual**

*Seller and Master Servicer*

**Consider carefully the risk factors beginning on page 9 in this information supplement.**

The Offered Certificates represent interests in the trust only and do not represent an interest in or obligation of Long Beach Securities Corp., Long Beach Mortgage Company or any of their affiliates.

This information supplement has been prepared solely in connection with the offering of the Offered Certificates to Fannie Mae.

The only certificates being offered by this information supplement are the Class A-1 Certificates and the Class S-1 Certificates.

**The Offered Certificates**

- The Class A-1 Certificates and the Class S-1 Certificates represent ownership interests in a trust, a portion of which consists primarily of a pool of first lien, fully-amortizing adjustable-rate and fixed-rate residential mortgage loans. The mortgage loans underlying the trust will be segregated into two groups as described in this information supplement. The Class A-1 Certificates and the Class S-1 Certificates represent interests in one of the groups of mortgage loans.
- The Class A-1 Certificates will accrue interest at a variable rate equal to one-month LIBOR plus a fixed margin, subject to increase or limitation as described in this information supplement.
- The Class S-1 Certificates will accrue interest for 21 months at a scheduled rate on their notional amount as set forth in this information supplement.

*(continued on following page)*

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The Class A-1 Certificates and the Class S-1 Certificates have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). The obligations of Fannie Mae under its guarantee of the Class A-1 Certificates and the Class S-1 Certificates are obligations of Fannie Mae only. The Class A-1 Certificates and the Class S-1 Certificates, including interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Fannie Mae. Income on the Class A-1 Certificates and the Class S-1 Certificates has no exemption under federal law from federal, state or local taxation.

January 30, 2003

(continued from previous page)

#### **Credit Enhancement**

- *Subordination*—The Class A-1 Certificates and the Class S-1 Certificates will have payment priority over the subordinate certificates issued by the trust, as described herein.
- *Excess Interest*—The mortgage loans owned by the trust will bear interest each month that in the aggregate is expected to exceed the amount needed to pay monthly interest on the Class A-1 Certificates and the Class S-1 Certificates and the other certificates to be issued by the trust and the fees and expenses of the trust. Such excess interest will be available to absorb losses and maintain a required level of overcollateralization, thereby providing credit support for the Class A-1 Certificates and the Class S-1 Certificates and certain other certificates.
- *Overcollateralization*—The cashflow provisions of the trust may result in limited acceleration of payment of the Class A-1 Certificates relative to amortization of the underlying mortgage loans. This acceleration feature would maintain “overcollateralization.”
- *Allocation of Losses*—Realized losses on the mortgage loans not absorbed by excess interest or overcollateralization will be allocated to the mezzanine certificates issued by the trust, as described herein.
- *Guaranty*—The Class A-1 Certificates and the Class S-1 Certificates will be covered by a guarantee from the Federal National Mortgage Association (“Fannie Mae” or the “Guarantor”).
- *Cap Agreements*—The Class A-1 Certificates may benefit from a series of interest rate cap payments pursuant to a cap agreement which is intended to partially mitigate interest rate risk.

Proceeds of the assets in the trust, together with the Fannie Mae guaranty, are the sole source of payments on the Class A-1 Certificates and the Class S-1 Certificates. The Class A-1 Certificates and the Class S-1 Certificates do not represent an interest in or obligation of the depositor, the seller, the master servicer, the trustee or any of their respective affiliates. Neither the Class A-1 Certificates, the Class S-1 Certificates nor the mortgage loans are insured or guaranteed by any governmental agency or instrumentality (other than the Guarantor with respect to the Class A-1 Certificates and the Class S-1 Certificates) or by the depositor, the seller, the originator, the master servicer, the trustee or any of their respective affiliates.

The depositor has prepared this information supplement solely in connection with the offering of the Class A-1 Certificates and the Class S-1 Certificates to Fannie Mae. Fannie Mae will guarantee the Class A-1 Certificates and the Class S-1 Certificates as described in this information supplement. It is expected that the Class A-1 Certificates and the Class S-1 Certificates will be issued on or about February 6, 2003 (the “Closing Date”).

No person has been authorized to give any information or to make any representations other than those contained in this information supplement and, if given or made, such information or representations must not be relied upon. This information supplement does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Class A-1 Certificates and the Class S-1 Certificates. The delivery of this information supplement at any time does not imply that information in this information supplement is correct as of any time after the date of this information supplement.

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## SUMMARY OF TERMS

- **This summary highlights selected information from this document and does not contain all of the information that you need to consider in making your investment decision. To understand all of the terms of the offering of the Offered Certificates, read carefully this entire document.**
- **This summary provides an overview of certain calculations, cashflow priorities and other information to aid your understanding and is qualified by the full description of these calculations, cashflow priorities and other information in this information supplement.**
- **Some of the information consists of forward-looking statements relating to future economic performance or projections and other financial items. 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, and various other matters, all of which are beyond our control. Accordingly, what actually happens may be very different from what we predict in our forward-looking statements.**

### Offered Certificates and Other Certificates

On the Closing Date, Long Beach Mortgage Loan Trust 2003-1 will issue thirteen classes of certificates, two of which are being offered by this information supplement. The assets of the trust that will support the certificates will consist primarily of a pool of fixed-rate and adjustable-rate mortgage loans having the characteristics described in this information supplement. The Class A-1 Certificates and the Class S-1 Certificates (collectively, the “Offered Certificates”) are the only classes of certificates offered by this information supplement.

The Offered Certificates will be represented by certificates which will be registered in the name of the nominee of The Depository Trust Company (“DTC”). DTC will maintain the Offered Certificates through its book entry facilities.

The Class A-2 Certificates, the Class S-2 Certificates, the Class M-1 Certificates, the Class M-2 Certificates, the Class M-3 Certificates and the Class M-4 Certificates (collectively, the “Non-Offered Certificates”), which are not offered hereby, are being offered by the trust to the public contemporaneously with the sale of the Offered Certificates pursuant to a prospectus supplement and an accompanying prospectus.

The Class A-2 Certificates will have an original certificate principal balance of approximately \$644,000,000. The Class M-1 Certificates will have an original certificate principal balance of approximately \$52,000,000. The Class M-2 Certificates will have an original certificate principal balance of approximately \$101,000,000. The Class M-3 Certificates will have an

original certificate principal balance of approximately \$80,000,000. The Class M-4 Certificates will have an original certificate principal balance of approximately \$40,000,000. The Class S-2 Certificates will have an initial notional amount of approximately \$160,000,000.

The Non-Offered Certificates are described in this information supplement because their amount, structure, collateral, rights, risks and other characteristics affect the amount, structure, rights, collateral, risks and other characteristics of the Offered Certificates.

In addition to the Offered Certificates and the Non-Offered Certificates, the trust will issue five additional classes of certificates. These certificates will be designated as the Class C Certificates, the Class P Certificates, the Class R Certificates, the Class R-CX Certificates and the Class R-PX Certificates and are not being offered by this information supplement or to the public. These additional certificates will be delivered to a wholly-owned bankruptcy remote subsidiary of the Seller or its designee as partial consideration for the mortgage loans.

The Class C Certificates will accrue interest as provided in the pooling agreement and will have an original certificate principal balance of approximately \$38,999,900, which is approximately equal to the initial overcollateralization required by the pooling agreement. The certificate principal balance of the Class C Certificates on any related determination date represents the overcollateralization for both Loan Groups and may change from time to time as provided in the pooling agreement. The Class C Certificates initially evidence an interest of approximately 1.95% in the trust.

The Class P Certificates will have an original certificate principal balance of \$100 and will not be entitled to distributions in respect of interest. The Class P Certificates will be entitled to all prepayment premiums or charges received in respect of the mortgage loans.

The Class R Certificates, the Class R-CX Certificates and the Class R-PX Certificates will not have an original principal balance and are the classes of certificates representing the residual interests in the trust.

*We refer you to “The Mortgage Pool” and “Description of the Certificates—General” in this information supplement for additional information.*

#### **Closing Date**

On or about February 6, 2003.

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

February 1, 2003.

#### **Depositor**

Long Beach Securities Corp., a Delaware corporation and a wholly-owned subsidiary of Long Beach Mortgage Company. *We refer you to “The Depositor” in this information supplement for additional information.*

#### **Seller and Master Servicer**

Long Beach Mortgage Company, a Delaware corporation. *We refer you to “Long Beach Mortgage Company” in this information supplement for additional information.*

#### **Subservicer**

Washington Mutual Bank, FA, a federal savings association. *We refer you to “Long Beach Mortgage Company—General—Washington Mutual Bank, FA” in this information supplement for additional information.*

#### **Trustee**

Deutsche Bank National Trust Company, a national banking association. *We refer you to “The Pooling Agreement—The Trustee” in this information supplement for additional information.*

#### **Guarantor**

Fannie Mae. *We refer you to “The Pooling Agreement—Fannie Mae Guaranty” and “Description of the Certificates—Allocation of Available Funds” in this information supplement for additional information.*

#### **Cap Provider**

Swiss Re Financial Products Corporation. *We refer you to “Description of the Certificates—The Cap Agreements” in this information supplement for additional information.*

#### **NIMS Insurer**

One or more insurance companies (together, the “NIMS Insurer”) may issue a financial guaranty insurance policy covering certain payments to be made on net interest margin securities (“NIMS”) to be backed by the Class C Certificates and the Class P Certificates and which are currently expected to be issued by an affiliate of the Depositor or by one or more entities sponsored by an affiliate of the Depositor on or after the Closing Date. In such event, the NIMS Insurer will have various rights under the pooling agreement and will be able to exercise certain rights that could adversely impact the certificateholders. *We refer you to “Risk Factors—Certain Rights of the NIMS Insurer May Affect the Rights of Holders of Offered Certificates” in this information supplement for additional information.*

#### **Designations**

Each class of certificates will have different characteristics, some of which are reflected in the following general designations:

- *Offered Certificates*

Class A-1 Certificates and Class S-1 Certificates.

- *Class A Certificates*

Class A-1 Certificates and Class A-2 Certificates.

- *Mezzanine Certificates*

Class M-1 Certificates, Class M-2 Certificates, Class M-3 Certificates and Class M-4 Certificates.

- *Class S Certificates*

Class S-1 Certificates and Class S-2 Certificates.

- *Residual Certificates*

Class R Certificates, Class R-CX Certificates and Class R-PX Certificates.

- *Senior Certificates*

With respect to Loan Group I, the Class A-1 Certificates, and with respect to Loan Group II, the Class A-2 Certificates and the Class M-1 Certificates.

- *Subordinate Certificates*

Mezzanine Certificates and Class C Certificates.

- *Loan Group I*

The Mortgage Loans with principal balances that conform to Fannie Mae loan limits.

- *Loan Group II*

The Mortgage Loans with principal balances that generally do not conform to Fannie Mae loan limits.

## Mortgage Loans

The trust will acquire a pool of first and second lien, fully amortizing adjustable-rate and fixed-rate residential mortgage loans which will be divided into two loan groups, Loan Group I and Loan Group II (each, a “Loan Group”). Loan Group I will consist of first lien, adjustable-rate and fixed-rate mortgage loans with principal balances that conform to Fannie Mae loan limits (the “Group I Mortgage Loans”) and Loan Group II will consist of first and second lien, adjustable-rate and fixed-rate mortgage loans with principal balances that generally do not conform to Fannie Mae loan limits (the “Group II Mortgage Loans”) and, together with the Group I Mortgage Loans, the “Mortgage Loans”).

On the Closing Date, the Group I Mortgage Loans will consist of approximately 8,036 mortgage loans with an aggregate scheduled principal balance as of the Cut-off Date of approximately \$1,200,000,059, and the Group II Mortgage Loans will consist of approximately 4,162 mortgage loans with an aggregate scheduled principal balance as of the Cut-off Date of

approximately \$800,000,046. The scheduled principal balance of a Mortgage Loan as of any date is equal to the principal balance of that Mortgage Loan at origination, less all scheduled payments of principal on that Mortgage Loan due on or before that date, whether or not received.

The statistical information in this information supplement reflects the characteristics of the Mortgage Loans as of the Cut-off Date. Unless otherwise noted, all statistical percentages or weighted averages set forth in this information supplement are measured as a percentage of the aggregate scheduled principal balances as of the Cut-off Date of the Mortgage Loans in the applicable Loan Group or of the indicated subset of the Mortgage Loans in the applicable Loan Group. After the date of this information supplement and prior to the Closing Date, some Mortgage Loans may be removed from the mortgage pool, as described under “The Mortgage Pool” in this information supplement and some Mortgage Loans will be added to the mortgage pool. As a result, the characteristics of the Mortgage Loans in each Loan Group on the Closing Date may differ from the characteristics presented in this information supplement; however, such differences are not expected to be material. It is expected that the mortgage pool on the Closing Date will consist of Group I Mortgage Loans with an aggregate scheduled principal balance as of the Cut-off Date of approximately \$1,200,000,059 and Group II Mortgage Loans with an aggregate scheduled principal balance as of the Cut-off Date of approximately \$800,000,046.

The Group I Mortgage Loans have the following characteristics as of the Cut-off Date<sup>(1)</sup>:

Loans with Prepayment Charges:	72.96%
Second Lien Mortgage Loans:	0.00%
Range of Remaining Term to Stated Maturities:	117 months to 359 months
Weighted Average Remaining Term to Stated Maturity:	355 months
Range of Original Principal Balances:	\$20,000 to \$560,000
Average Original Principal Balance:	\$149,573
Range of Outstanding Principal Balances:	\$19,976 to \$556,921
Average Outstanding Principal Balance:	\$149,328
Range of Mortgage Rates:	5.850% to 13.000%
Weighted Average Mortgage Rate:	7.981%
Range of Original Loan-to-Value Ratios:	10.34% to 95.00%
Weighted Average Original Loan-to-Value Ratio:	79.76%

Geographic Concentrations in Excess of 5%:

California	42.94%
Colorado	9.09%
Texas	6.38%
Washington	5.02%

- <sup>(1)</sup> All figures are approximate. Percentages and weighted averages are based on scheduled principal balances as of the Cut-off Date.

Approximately 73.50% of the Group I Mortgage Loans, by aggregate scheduled principal balance as of the Cut-off Date, are adjustable-rate mortgage loans. The adjustable-rate Group I Mortgage Loans have the following characteristics<sup>(1)</sup>:

Weighted Average Gross Margin:	5.387%
Weighted Average Maximum Mortgage Rate:	14.180%
Weighted Average Minimum Mortgage Rate:	8.178%
Weighted Average Initial Periodic Rate Cap:	1.067%
Weighted Average Subsequent Periodic Rate Cap:	1.000%
Weighted Average Time Until Next Adjustment Date:	22 months

- <sup>(1)</sup> All figures are approximate. Percentages and weighted averages are based on scheduled principal balances as of the Cut-off Date.

The Group II Mortgage Loans have the following characteristics as of the Cut-off Date<sup>(1)</sup>:

Loans with Prepayment Charges:	58.15%
Second Lien Mortgage Loans:	16.15%
Range of Remaining Term to Stated Maturities:	174 months to 359 months
Weighted Average Remaining Term to Stated Maturity:	336 months
Range of Original Principal Balances:	\$10,000 to \$1,125,000
Average Original Principal Balance:	\$192,601
Range of Outstanding Principal Balances:	\$9,954 to \$1,123,853
Average Outstanding Principal Balance:	\$192,215
Range of Mortgage Rates:	4.990% to 14.000%
Weighted Average Mortgage Rate:	7.835%
Range of Original Loan-to-Value Ratios:	28.61% to 100.00%
Weighted Average Original Loan-to-Value Ratio:	82.08%

Geographic Concentrations in Excess of 5%:

California	63.56%
Colorado	7.23%
Texas	5.42%

- <sup>(1)</sup> All figures are approximate. Percentages and weighted averages are based on scheduled principal balances as of the Cut-off Date.

Approximately 62.67% of the Group II Mortgage Loans, by aggregate scheduled principal balance as of the Cut-off Date, are adjustable-rate mortgage loans. The adjustable-rate Group II Mortgage Loans have the following characteristics<sup>(1)</sup>:

Weighted Average Gross Margin:	5.164%
Weighted Average Maximum Mortgage Rate:	13.347%
Weighted Average Minimum Mortgage Rate:	7.346%
Weighted Average Initial Periodic Rate Cap:	1.081%
Weighted Average Subsequent Periodic Rate Cap:	1.000%
Weighted Average Time Until Next Adjustment Date:	22 months

- <sup>(1)</sup> All figures are approximate. Percentages and weighted averages are based on scheduled principal balances as of the Cut-off Date.

Information about the characteristics of the Mortgage Loans in each Loan Group is described under “The Mortgage Pool” in this information supplement. The Class A-1 Certificates and the Class S-1 Certificates represent interests in the Group I Mortgage Loans, and the Class A-2 Certificates, the Class S-2 Certificates and the Class M-1 Certificates represent interests in the Group II Mortgage Loans. The Mezzanine Certificates (other than the Class M-1 Certificates) represent interests in all Mortgage Loans.

## Distribution Dates

The Trustee will make distributions on the certificates on the 25th day of each calendar month (or if the 25th day of a month is not a business day, then on the next business day) beginning in March 2003. Such distributions will be made to the holder of record of the certificates on the business day preceding such date of distribution in the case of the Class A-1 Certificates (for so long as they are book-entry certificates), or on the last business day of the previous calendar month in the case of the Class S-1 Certificates.

## Payments on the Certificates

### Interest Payments

The initial pass-through rate for the Class A-1 Certificates will be calculated at the per annum rate of One-Month LIBOR + 0.14%, subject to the limitations

described in this information supplement. “One-Month LIBOR” is the “Interest Settlement Rate” for U.S. dollar deposits of one-month maturity set by the British Bankers’ Association as of the related determination date.

The initial pass-through rate for the Class A-2 Certificates will be calculated at the per annum rate of One-Month LIBOR + 0.40%, subject to the limitations described in this information supplement.

The initial pass-through rate for the Class M-1 Certificates will be calculated at the per annum rate of One-Month LIBOR + 0.92%, subject to the limitations described in this information supplement.

The initial pass-through rate for the Class M-2 Certificates will be calculated at the per annum rate of One-Month LIBOR + 2.05%, subject to the limitations described in this information supplement.

The initial pass-through rate for the Class M-3 Certificates will be calculated at the per annum rate of One-Month LIBOR + 4.00%, subject to the limitations described in this information supplement.

The initial pass-through rate for the Class M-4 Certificates will be calculated at the per annum rate of One-Month LIBOR + 3.50%, subject to the limitations described in this information supplement.

If the Master Servicer or the NIMS Insurer, if any, fails to exercise its option to terminate the trust on the earliest permitted date as described below under “Optional Termination,” the pass-through rate on the Class A-1 Certificates will then increase to the per annum rate of One-Month LIBOR + 0.28%; the pass-through rate on the Class A-2 Certificates will then increase to the per annum rate of One-Month LIBOR + 0.80%; the pass-through rate on the Class M-1 Certificates will then increase to the per annum rate of One-Month LIBOR + 1.38%; the pass-through rate on the Class M-2 Certificates will then increase to the per annum rate of One-Month LIBOR + 3.075%; the pass-through rate on the Class M-3 Certificates will then increase to the per annum rate of One-Month LIBOR + 6.00%; and the pass-through rate on the Class M-4 Certificates will then increase to the per annum rate of One-Month LIBOR + 5.25%. All such increases in the pass-through rate are subject to the limitations described in this information supplement.

The pass-through rate for the Class S-1 Certificates will be 4.25% per annum for the March 2003 distribution date through the August 2003 distribution date, 4.00% per annum for the September 2003 distribution date

through the February 2004 distribution date, 3.75% per annum for the March 2004 distribution date through the August 2004 distribution date and 3.50% per annum for the September 2004 distribution date through the November 2004 distribution date. After the November 2004 distribution date, the pass-through rate for the Class S-1 Certificates will be 0.00% per annum, and such classes will therefore then cease to accrue interest.

The pass-through rate for the Class S-2 Certificates will be 4.25% per annum for the March 2003 distribution date through the August 2003 distribution date, 4.00% per annum for the September 2003 distribution date through the February 2004 distribution date, 3.75% per annum for the March 2004 distribution date through the August 2004 distribution date and 3.50% per annum for the September 2004 distribution date through the November 2004 distribution date. After the November 2004 distribution date, the pass-through rate for the Class S-2 Certificates will be 0.00% per annum, and such classes will therefore then cease to accrue interest.

The “Notional Amount” of the Class S-1 Certificates immediately prior to any distribution date will be equal to the lesser of (i) the aggregate principal balance of the Group I Mortgage Loans with adjusted net minimum mortgage rates in excess of 4.25% (prior to giving effect to scheduled payments of principal due during the related due period, and unscheduled collections of principal received during the related prepayment period) and (ii) the scheduled notional amount for such class for such Distribution Date as set forth in Schedule A to this information supplement.

The “Notional Amount” of the Class S-2 Certificates immediately prior to any distribution date will be equal to the lesser of (i) the aggregate principal balance of the Group II Mortgage Loans with adjusted net minimum mortgage rates in excess of 4.25% (prior to giving effect to scheduled payments of principal due during the related due period, and unscheduled collections of principal received during the related prepayment period) and (ii) the scheduled notional amount for such class for such Distribution Date as set forth in Schedule A to this information supplement.

*We refer you to “Description of the Certificates—Pass-Through Rates” in this information supplement for additional information.*

Interest payable on the certificates accrues during an accrual period. The accrual period for the Class A Certificates and the Mezzanine Certificates for any distribution date is the period from the previous distribution date (or, in the case of the first accrual period, from the Closing Date) to the day prior to the

current distribution date. Interest will be calculated for the Class A Certificates and the Mezzanine Certificates on the basis of the actual number of days in the accrual period, based on a 360-day year. The accrual period for the Class S Certificates for any distribution date is the calendar month preceding the month in which such distribution date occurs. Interest will be calculated for the Class S Certificates on the basis of a 360-day year consisting of twelve 30-day months.

The Class A Certificates and the Mezzanine Certificates will accrue interest on their certificate principal balances outstanding immediately prior to each distribution date. The Class S Certificates will accrue interest on their Notional Amounts outstanding immediately prior to each distribution date.

The Class C Certificates will accrue interest as provided in the pooling agreement. The Class P Certificates and the Residual Certificates will not accrue interest.

*We refer you to “Description of the Certificates” in this information supplement for additional information.*

#### *Principal Payments*

Principal will be distributed to holders of the Class A Certificates and the Mezzanine Certificates on each distribution date in the priority, in the amounts and to the extent described herein under “Description of the Certificates—Allocation of Available Funds.” The Class S Certificates do not have a certificate principal balance and will not be entitled to distributions of principal.

#### *Payment Priorities*

In general, on any distribution date, funds available for distribution from payments and other amounts received on the Mortgage Loans will be distributed as follows:

##### *Interest Distributions*

*first, concurrently*, to pay interest on the Class A Certificates and the Class S Certificates as described under “Description of the Certificates—Allocation of Available Funds” in this information supplement; and

*second*, to pay interest on the Mezzanine Certificates, but only in the order of priority, in the amounts and to the extent described under “Description of the Certificates—Allocation of Available Funds” in this information supplement.

#### *Principal Distributions*

to pay principal on the Class A Certificates and the Mezzanine Certificates, but only in the order of priority, in the amounts and to the extent described under “Description of the Certificates—Allocation of Available Funds” in this information supplement.

*We refer you to “Description of the Certificates—Allocation of Available Funds” in this information supplement for additional information.*

#### **Advances**

The Master Servicer will make cash advances to cover delinquent payments of principal and interest to the extent it reasonably believes that the cash advances are recoverable from future payments on the Mortgage Loans. Advances are 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.

*We refer you to “The Pooling Agreement—Advances” in this information supplement for additional information.*

#### **Optional Termination**

The Master Servicer (or, if the Master Servicer fails to exercise such right, the NIMS Insurer, if any) may purchase all of the Mortgage Loans and retire the certificates when the aggregate stated principal balance of the Mortgage Loans is equal to or less than 10% of the aggregate stated principal balance of the Mortgage Loans as of the Cut-off Date, subject to certain limitations.

*We refer you to “The Pooling Agreement—Termination” and “Description of the Certificates—Pass-Through Rates” in this information supplement for additional information.*

#### **Credit Enhancement**

##### **1. Subordination**

The rights of the Mezzanine Certificates and the Class C Certificates to receive distributions will be subordinated to the rights of the Class A Certificates and the Class S Certificates (except in certain limited circumstances with respect to distributions to the Class M-1 Certificates from amounts collected on the Group II Mortgage Loans), in each case to the extent described in this information supplement.



Subordination is intended to enhance the likelihood of regular distributions on the more senior classes of certificates in respect of interest and principal and to afford such certificates protection against realized losses on the Mortgage Loans.

*We refer you to “Description of the Certificates—Credit Enhancement” in this information supplement for additional information.*

## **2. Excess Interest**

The Mortgage Loans bear interest each month that in the aggregate is expected to exceed the amount needed to pay monthly interest on the certificates and to pay the fees and expenses of the trust. The excess interest from the Mortgage Loans each month will be available to absorb realized losses on the Mortgage Loans and to maintain overcollateralization at required levels as described in the pooling agreement.

*We refer you to “Description of the Certificates—Allocation of Available Funds” and “Overcollateralization Provisions” in this information supplement for additional information.*

## **3. Overcollateralization**

As of the Closing Date, the aggregate principal balance of the Mortgage Loans as of the Cut-off Date will exceed the aggregate certificate principal balance of the Class A Certificates, the Mezzanine Certificates and the Class P Certificates on the Closing Date by approximately \$38,999,900, which is equal to the original certificate principal balance of the Class C Certificates. Such amount represents approximately 1.95% of the aggregate principal balance of the Mortgage Loans as of the Cut-off Date, and is approximately equal to the initial amount of overcollateralization required to be provided under the pooling agreement. Excess interest generated by the Mortgage Loans will be distributed as a payment of principal to the Class A Certificates and the Mezzanine Certificates then entitled to distributions of principal to the extent necessary to maintain the required level of overcollateralization. The required level of overcollateralization may be permitted to step down as provided in the pooling agreement. We cannot assure you that sufficient interest will be generated by the Mortgage Loans to maintain the required level of overcollateralization.

*We refer you to “Description of the Certificates—Overcollateralization Provisions” in this information supplement for additional information.*

## **4. Cap Agreements**

The Class A-1 Certificates, the Class A-2 Certificates and the Mezzanine Certificates will have the benefit of additional credit enhancement in respect of basis risk shortfalls provided by two interest rate cap agreements, one, related to Loan Group I and the second, related to Loan Group II, each for the first 23 distribution dates. The interest rate cap agreement related to Loan Group I requires the counterparty to make a cap payment to the trust for the first 20 distribution dates to the extent LIBOR for any interest accrual period exceeds 6.30%, and for the succeeding three distribution dates to the extent LIBOR for any interest accrual period exceeds 7.50% but in either case is not greater than 9.35% on the related scheduled notional amount based on the expected amortization of the Mortgage Loans in Loan Group I. The interest rate cap agreement related to Loan Group II requires the counterparty to make a cap payment to the trust for the first 20 distribution dates to the extent LIBOR for any interest accrual period exceeds 6.30%, and for the succeeding three distribution dates to the extent LIBOR for any interest accrual period exceeds 7.50% but in either case is not greater than 9.20% on the related scheduled notional amount based on the expected amortization of the Mortgage Loans in Loan Group II.

Cap payments, if any, made by the counterparty will be deposited in a reserve fund and will be available for distribution on the Class A-1 Certificates, the Class A-2 Certificates and the Mezzanine Certificates in respect of basis risk shortfall amounts, to the limited extent described in this information supplement.

*We refer you to “Description of the Certificates—Cap Agreements” in this information supplement for additional information.*

## **5. Allocation of Losses**

If, on any distribution date, excess interest and overcollateralization are not sufficient to absorb realized losses on the Mortgage Loans as described under “Description of the Certificates—Overcollateralization Provisions” in this information supplement, then realized losses on such Mortgage Loans will be allocated to the Mezzanine Certificates. If realized losses on the Mortgage Loans are allocated to the Mezzanine Certificates, such losses will be allocated *first*, to the Class M-4 Certificates, *second* to the Class M-3 Certificates, *third*, to the Class M-2 Certificates, and *fourth*, to the Class M-1 Certificates. The pooling agreement does not permit the allocation of realized losses on the Mortgage Loans to the Class A Certificates, the Class S Certificates or the Class P Certificates; however, investors in the Class A-1

Certificates and the Class S-1 Certificates should be aware that under certain loss scenarios there will not be enough interest and principal on the Mortgage Loans to pay the Class A-1 Certificates all interest and principal amounts to which the Class A-1 Certificates are then entitled or enough interest on the Mortgage Loans to pay the Class S-1 Certificates all interest amounts to which the Class S-1 Certificates are then entitled.

*We refer you to “Description of the Certificates—Allocation of Losses; Subordination” in this information supplement for additional information.*

## **6. Crosscollateralization**

The trust provides for limited crosscollateralization of (i) the Class A-1 Certificates and (ii) the Class A-2 Certificates and the Class M-1 Certificates through the application of interest generated by one loan group to fund interest shortfalls on the Class A Certificates and the Class M-1 Certificates primarily supported by the other loan group and through the application of principal generated by one loan group to fund certain distributions of principal on the Class A Certificates and the Class M-1 Certificates primarily supported by the other loan group. The trust also provides that funds from each of the cap agreements will be available for distribution first on the Class A Certificates and then on the Mezzanine Certificates in respect of basis risk shortfall amounts.

*We refer you to “Description of the Certificates—Allocation of Available Funds” and “— Pass-Through Rates” in this information supplement for additional information.*

## **Fannie Mae Guaranty**

The Guarantor will guaranty the timely payment of interest due on the Offered Certificates and the ultimate payment of principal on the Class A-1 Certificates, subject to certain limitations, as described in this information supplement (the “Guaranty”). If the Guarantor were unable to pay under the Guaranty, the Offered Certificates could be subject to losses.

*We refer you to “The Pooling Agreement—Fannie Mae Guaranty” in this information supplement for additional information.*

## **Tax Status**

One or more elections will be made to treat designated portions of the trust (exclusive of the reserve fund, as

described more fully herein) as real estate mortgage investment conduits for federal income tax purposes. *We refer you to “Certain Federal Income Tax Consequences” in this information supplement for additional information.*

## **RISK FACTORS**

**The following information, which you should carefully consider, identifies certain significant sources of risk associated with an investment in the Offered Certificates.**

### **Mortgage Loans Originated under the Seller's Underwriting Guidelines Carry a Risk of High Delinquencies**

The Seller's business primarily consists of originating, purchasing, selling and, through its affiliate Washington Mutual Bank, FA ("WMBFA"), servicing mortgage loans secured by one- to four-family residences that generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower's credit history and debt-to-income ratio. Borrowers who qualify under the Seller's underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. The Seller originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae.

The Seller's underwriting standards are primarily intended to assess the value of the mortgaged property and to evaluate the adequacy of such property as collateral for the mortgage loan and the applicant's credit standing and ability to repay. The Seller's considerations in underwriting a mortgage loan include the value and adequacy of the mortgaged property as collateral, a mortgagor's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the mortgaged property. The Seller's underwriting standards do not prohibit a mortgagor from obtaining secondary financing, from the Seller or from another source, at the time of origination of the Seller's first lien, which secondary financing would reduce the equity the mortgagor would otherwise have in the related mortgaged property as indicated in the Seller's loan-to-value ratio determination.

As a result of such 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 mortgaged properties may have a greater effect on the delinquency, foreclosure, bankruptcy and loss experience of the Mortgage Loans than on mortgage loans originated in a more traditional manner. No assurance can be given that the values of the related mortgaged properties have remained or will remain at the levels in effect on the dates of origination of the related Mortgage Loans. See "Long Beach Mortgage Company—Underwriting Standards" in this information supplement.

### **Unpredictability of Prepayments and Effect on Yields**

Mortgagors may prepay their Mortgage Loans in whole or in part at any time. We cannot predict the rate at which mortgagors will repay their Mortgage Loans. A prepayment of a Mortgage Loan generally will result in a prepayment on the certificates.

- If you purchase your certificates at a discount and principal is repaid slower than you anticipate, then your yield may be lower than you anticipate.
- If you purchase your certificates at a premium and principal is repaid faster than you anticipate, then your yield may be lower than you anticipate.
- The yield to maturity of the Class S-1 Certificates will become extremely sensitive to the rate of principal prepayment on the Group I Mortgage Loans, if on or prior to the due date in any month through October 1, 2004, the aggregate principal balance of the Group I Mortgage Loans with adjusted net minimum mortgage rates in excess of 4.25% is reduced to or below the amount equal to the notional amount of the Class S-1 Certificates for the distribution date in the subsequent month. The notional amount of the Class S-1 Certificates for each distribution date is set forth in Schedule A to this information supplement. Investors in the Class S-1 Certificates should fully consider the risk that an extremely rapid rate of principal prepayment on the Group I Mortgage Loans could result in the failure of such investors to fully recover their initial investments.

- The rate of prepayments on the Mortgage Loans may be sensitive to prevailing interest rates. Generally, if prevailing interest rates decline significantly below the interest rates on the fixed-rate Mortgage Loans, those Mortgage Loans are more likely to prepay than if prevailing rates remain above the interest rates on those Mortgage Loans. In addition, if interest rates decline, adjustable-rate mortgage loan prepayments may increase due to the availability of fixed-rate mortgage loans or other adjustable-rate mortgage loans at lower interest rates. Conversely, if prevailing interest rates rise significantly, the prepayments on fixed-rate and adjustable-rate mortgage loans may decrease. Furthermore, adjustable-rate mortgage loans may prepay at different rates and in response to different factors than fixed-rate mortgage loans; the inclusion of both types of mortgage loans in the mortgage pool may increase the difficulty in analyzing possible prepayment rates.
- The prepayment behavior of the adjustable-rate Mortgage Loans and of the fixed-rate Mortgage Loans may respond to different factors, or may respond differently to the same factors. If, at the time of their first adjustment, the mortgage rates on any of the adjustable-rate Mortgage Loans would be subject to adjustment to a rate higher than the then prevailing mortgage rates available to the related borrowers, such borrowers may prepay their adjustable-rate Mortgage Loans. The adjustable-rate Mortgage Loans may also suffer an increase in defaults and liquidations following upward adjustments of their mortgage rates, especially following their initial adjustments.
- Approximately 72.96% of the Group I Mortgage Loans and 58.15% of the Group II Mortgage Loans (by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) require the mortgagor to pay a prepayment charge in certain instances if the mortgagor prepays the Mortgage Loan during a stated period, which may be from one year to five years after the Mortgage Loan was originated. A prepayment charge may or may not discourage a mortgagor from prepaying the related Mortgage Loan during the applicable period.
- The Seller may be required to purchase Mortgage Loans from the trust in the event certain breaches of representations and warranties occur and have not been cured. In addition, the Master Servicer has the option to purchase Mortgage Loans that become 90 days or more delinquent, which option is exercisable until the last day of the calendar quarter during which a Mortgage Loan became 90 days delinquent and is subject to certain limitations and conditions described in this information supplement. If the Master Servicer does not exercise such option, the NIMS Insurer, if any, may purchase such Mortgage Loans at any time thereafter without restriction on the timing of such purchases. If neither the Master Servicer nor the NIMS Insurer, if any, exercises its option to purchase any such Group I Mortgage Loans, the Guarantor, as provided in the pooling agreement, may purchase such Group I Mortgage Loans at any time thereafter without restriction on the timing of such purchases. These purchases will have the same effect on the holders of the Offered Certificates as a prepayment of those Mortgage Loans.
- The Master Servicer (or, if the Master Servicer fails to exercise such right, the NIMS Insurer, if any) may purchase all of the Mortgage Loans and retire the certificates when the aggregate stated principal balance of the Mortgage Loans is equal to or less than 10% of the aggregate stated principal balance of the Mortgage Loans as of the Cut-off Date. Such purchases will result in an earlier return of the principal on the certificates and will affect the yield on the Offered Certificates in a manner similar to the manner in which principal prepayments on the Mortgage Loans will affect the yield on the Offered Certificates.
- If the rate of default and the amount of losses on the Mortgage Loans is higher than you expect, then your yield may be lower than you expect.
- As a result of the absorption of realized losses on the Mortgage Loans by excess interest and overcollateralization as described herein, liquidations of defaulted Mortgage Loans, whether or not realized losses are incurred upon such liquidations, will result in an earlier return of the principal of the certificates and will influence the yield on the Class A-1 Certificates in a manner similar to the manner in which principal prepayments on the Mortgage Loans will influence the yield on the Class A-1 Certificates.
- The overcollateralization provisions are intended to result in an accelerated rate of principal distributions to the certificates then entitled to principal distributions at any time that the overcollateralization provided by the mortgage pool falls below the required level. An earlier return of principal to the holders of the certificates as a

result of the overcollateralization provisions will influence the yield on the Class A-1 Certificates in a manner similar to the manner in which principal prepayments on the Mortgage Loans will influence the yield on the Class A-1 Certificates. In addition, if the Class A Certificates and/or the Class M-1 Certificates are entitled to distributions of principal at any time that overcollateralization is required to be restored to the required level, then the amounts available for such purpose will be allocated between (i) the Class A-1 Certificates and (ii) the Class A-2 Certificates and/or the Class M-1 Certificates on a *pro rata* basis based on the amount of principal actually received on the Group I Mortgage Loans and Group II Mortgage Loans, respectively, for the related distribution date. This, as well as the relative sizes of the two Loan Groups, may magnify the prepayment effect on the Class A Certificates caused by the relative rates of prepayments and defaults experienced by the two Loan Groups.

*See “Yield, Prepayment and Maturity Considerations” in this information supplement for a description of factors that may influence the rate and timing of prepayments on the Mortgage Loans.*

### **The Subservicer Has Limited Experience Servicing Mortgage Loans Underwritten Under the Seller’s Underwriting Standards**

The Seller is the Master Servicer under the Pooling Agreement. Effective April 9, 2001, the Seller transferred to WMBFA substantially all of its servicing portfolio and servicing operations, and in connection therewith, has appointed WMBFA as a subservicer to perform, on behalf of the Master Servicer, the servicing functions that are required to be performed with respect to the Mortgage Loans. WMBFA is an affiliate of the Seller. The Seller or WMBFA serviced the Mortgage Loans since origination or acquisition by the Seller.

While WMBFA is an experienced mortgage loan servicer, WMBFA had no experience prior to April 9, 2001 servicing mortgage loans similar to the Mortgage Loans. As a result, WMBFA has had limited experience servicing mortgage loans similar to the Mortgage Loans. Moreover, all transfers of servicing functions involve the risk of disruption in collections due to data input errors, misapplied or misdirected payments, system incompatibilities, changes in personnel and other reasons which, together with WMBFA’s limited experience in servicing mortgage loans similar to the Mortgage Loans, may have negatively affected the Mortgage Loans that have been serviced by WMBFA since the date of the servicing transfer from the Seller.

Since the servicing transfer, mortgage loans similar to the Mortgage Loans serviced by WMBFA have experienced significant increases in delinquencies due to, among other things, the factors listed above. In response, WMBFA and the Master Servicer have undertaken various actions, including reconciliation of payments, increased borrower contact and the addition of experienced personnel to limit and reduce delinquencies. While WMBFA believes that the increase in delinquencies is a temporary phenomenon, there can be no assurance as to the extent or duration of the increased levels of such delinquencies or the resulting effects on the yield on the Offered Certificates. See “Long Beach Mortgage Company—General” in this information supplement.

Because WMBFA commenced its servicing of mortgage loans similar to the Mortgage Loans in April 2001, WMBFA has limited historical delinquency, bankruptcy, foreclosure or default experience that may be referred to for purposes of examining WMBFA’s past performance in servicing mortgage loans similar to the Mortgage Loans. There can be no assurance that the delinquency experience of the mortgage loans serviced by Long Beach is or will be representative of WMBFA’s performance in servicing the Mortgage Loans.

### **Conflicts of Interest Between the Master Servicer and the Trust**

The Master Servicer will initially, directly or indirectly, own all or a portion of the Class C Certificates, the Class P Certificates and the Residual Certificates. The timing of mortgage loan foreclosures and sales of the related mortgaged properties may affect the weighted average lives and yields of the Offered Certificates. Investors should consider that the timing of such foreclosures or sales may not be in the best interests of all certificateholders and that no formal policies or guidelines have been established to resolve or minimize such a conflict of interest.

### **Delinquent Mortgage Loan Risk**

As of the Cut-off Date, there were no Group I Mortgage Loans or Group II Mortgage Loans on which the monthly payment due thereon in December 2002 had not been received. However, investors in the Offered Certificates

should realize that approximately 67.33% of the Group I Mortgage Loans and approximately 64.83% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) have a first payment date occurring on or after January 1, 2003 and, therefore, such Mortgage Loans could not, as of the date of this information supplement, have been delinquent.

### **Potential Inadequacy of Credit Enhancement for the Offered Certificates**

The credit enhancement features described in the summary of this information supplement are intended to enhance the likelihood that holders of the Class A Certificates, and to a limited extent, the holders of the Mezzanine Certificates, will receive regular payments of interest and principal and that holders of the Class S Certificates will receive regular payments of interest. However, we cannot assure you that the applicable credit enhancement will adequately cover any shortfalls in cash available to pay your certificates as a result of delinquencies or defaults on the Mortgage Loans. If delinquencies or defaults occur on the Mortgage Loans, neither the Master Servicer nor any other entity will advance scheduled monthly payments of interest and principal on delinquent or defaulted Mortgage Loans if such advances are not likely to be recovered.

If substantial losses occur as a result of defaults and delinquent payments on the Mortgage Loans, and the Guarantor is unable to pay under the Guaranty, you may suffer losses.

### **Interest Generated by the Mortgage Loans May Be Insufficient to Maintain Overcollateralization**

The weighted average of the mortgage rates on the Mortgage Loans is expected to be higher than the pass-through rates on the certificates. The Mortgage Loans are expected to generate more interest than is needed to pay interest owed on the certificates and to pay the fees and expenses of the trust. Any remaining interest generated by the Mortgage Loans will then be used to absorb losses that occur on the Mortgage Loans. After these financial obligations of the trust are covered, the available excess interest generated by the Mortgage Loans will be used to maintain overcollateralization at the required level determined as provided in the pooling agreement. We cannot assure you, however, that enough excess interest will be generated to absorb losses or to maintain the required level of overcollateralization. The factors described below, as well as the factors described in the next Risk Factor, will affect the amount of excess interest that the Mortgage Loans will generate:

- Every time a Mortgage Loan is prepaid in full or in part, excess interest may be reduced because the Mortgage Loan will no longer be outstanding and generating interest or, in the case of a partial prepayment, may be generating less interest.
- Every time a Mortgage Loan is liquidated or written off, excess interest will be reduced because such Mortgage Loan will no longer be outstanding and generating interest.
- If the rates of delinquencies, defaults or losses on the Mortgage Loans turn out to be higher than expected, excess interest will be reduced by the amount necessary to compensate for any shortfalls in cash available to make required distributions on the certificates.
- The adjustable-rate Mortgage Loans have mortgage rates that adjust based on an index that is different from the index used to determine the pass-through rates on the Class A-I Certificates and the fixed-rate Mortgage Loans have mortgage rates that do not adjust. In addition, the first adjustment of the mortgage rates for approximately 0.47% of the Group I Mortgage Loans and approximately 1.07% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) will occur within six months of the date of origination, the first adjustment of the mortgage rates for approximately 70.65% of the Group I Mortgage Loans and approximately 59.27% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) will not occur until two years after the date of origination, the first adjustment of the mortgage rates for approximately 2.27% of the Group I Mortgage Loans and approximately 2.10% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) will not occur until three years after the date of origination and the first adjustment of the mortgage rates for approximately 0.11% of the Group I Mortgage Loans and approximately 0.24% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) will not occur until five years

after the date of origination. As a result, the pass-through rates on the Class A-1 Certificates may increase relative to the weighted average of the mortgage rates on the Group I Mortgage Loans, or the pass-through rate on such certificates may remain constant as the weighted average of the mortgage rates on the Group I Mortgage Loans declines. In either case, this would require that more of the interest generated by the Group I Mortgage Loans be applied to cover interest on the Offered Certificates.

- If prepayments, defaults and liquidations occur more rapidly on the Mortgage Loans with relatively higher mortgage rates than on the Mortgage Loans with relatively lower mortgage rates, the amount of excess interest generated by the Mortgage Loans will be less than would otherwise be the case.
- If neither the Master Servicer nor the NIMS Insurer, if any, terminates the trust at the earliest possible date that such termination could occur as described under “The Pooling Agreement—Termination” herein, then the pass-through rate on the Class A-1 Certificates will, subject to the limitation described in the next Risk Factor below, increase. Any such increase will reduce the amount of excess interest that could become available for other purposes.

***The Fannie Mae Guaranty will not cover any basis risk shortfalls described above.***

### **Effect of Mortgage Rates and Other Factors on the Pass-Through Rate of the Class A-1 Certificates**

The Class A-1 Certificates accrue interest at a pass-through rate based on the One-Month LIBOR index plus a specified margin, but subject to a limit. The limit on the pass-through rate for the Class A-1 Certificates is based on the weighted average of the mortgage rates on the Group I Mortgage Loans, net of certain fees and expenses of the trust, net of certain interest distributions on the Class S-1 Certificates and net of the guaranty fee payable to the Guarantor.

A variety of factors, in addition to those described in the previous Risk Factor, could limit the pass-through rate and adversely affect the yield to maturity on the Class A-1 Certificates. Some of these factors are described below:

- The mortgage rates on the fixed-rate Mortgage Loans will not adjust, and the mortgage rates on the adjustable-rate Mortgage Loans generally are based on a Six-Month LIBOR index. Generally, the adjustable-rate Mortgage Loans have periodic and maximum limitations on adjustments to their mortgage rates, and approximately 0.47% of the Group I Mortgage Loans and approximately 1.07% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) will have their first adjustment within six months of the date of origination, and approximately 73.02% of the Group I Mortgage Loans and approximately 61.60% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date), will not have the first adjustment to their mortgage rates until two years, three years or five years after the origination thereof. As a result of the limit on the pass-through rate for the Class A-1 Certificates, such certificates may accrue less interest than they would accrue if their pass-through rate were based solely on the One-Month LIBOR index plus the specified margins.
- Six-Month LIBOR may change at different times and in different amounts than One-Month LIBOR. As a result, it is possible that mortgage rates on certain of the adjustable-rate Mortgage Loans may decline while the pass-through rate on the Class A-1 Certificates is stable or rising. It is also possible that the mortgage rates on the adjustable-rate Mortgage Loans and the pass-through rate for the Class A-1 Certificates may decline or increase during the same period, but that the pass-through rate on these certificates may decline more slowly or increase more rapidly.
- The pass-through rate for the Class A-1 Certificates adjusts monthly while the mortgage rates on the adjustable-rate Mortgage Loans adjust less frequently and the mortgage rates on the fixed-rate Mortgage Loans do not adjust. Consequently, the limit on the pass-through rate for the Class A-1 Certificates may limit increases in the pass-through rate for such certificates for extended periods in a rising interest rate environment.
- If prepayments, defaults and liquidations occur more rapidly on the Group I Mortgage Loans with relatively higher mortgage rates than on the Group I Mortgage Loans with relatively lower mortgage rates, the pass-through rate on the Class A-1 Certificates is more likely to be limited.



- The limit on the pass-through rate on the Class A-1 Certificates will be affected by the amount of interest payable on the Class S-1 Certificates. As the aggregate principal balance of the Group I Mortgage Loans is reduced by payments of principal (including prepayments and the proceeds of liquidations of defaulted Group I Mortgage Loans), the percentage of the total amount of interest generated by the Group I Mortgage Loans that is used to pay interest on the Class S-1 Certificates will increase. A rapid rate of prepayments on the Group I Mortgage Loans before the end of the first 21 distribution dates would lower the pass-through rate ceiling applicable to the Class A-1 Certificates, increasing the likelihood that such ceiling will limit the pass-through rate on the Class A-1 Certificates.

If the pass-through rate on the Class A-1 Certificates is limited for any distribution date, the resulting basis risk shortfalls may be recovered on the same distribution date or on future distribution dates on a subordinated basis to the extent that on such distribution date or future distribution dates there are available funds remaining after certain other distributions on the Offered Certificates and the Non-Offered Certificates and the payment of the fees and expenses of the trust.

***The Fannie Mae Guaranty will not cover any basis risk shortfalls described above.***

### **Prepayment Interest Shortfalls and Relief Act Shortfalls**

When a Mortgage Loan is prepaid, the mortgagor is charged interest on the amount prepaid only up to the date on which the prepayment is made, rather than for an entire month. This may result in a shortfall in interest collections available for payment on the next distribution date. The Master Servicer is required to cover a portion of the shortfall in interest collections that is attributable to prepayments, but only up to the amount of the Master Servicer's servicing fee for the related calendar month. In addition, certain shortfalls in interest collections arising from the application of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended (the "Relief Act"), will not be covered by the Master Servicer.

On any distribution date, any shortfalls resulting from the application of the Relief Act, and any prepayment interest shortfalls to the extent not covered by compensating interest paid by the Master Servicer will be allocated, first, to the monthly interest distributable amount with respect to the Class C Certificates, and thereafter, to the monthly interest distributable amounts with respect to the Offered Certificates and the Non-Offered Certificates, on a *pro rata* basis based on the respective amounts of interest accrued on such certificates for such distribution date. Any shortfall resulting from net prepayment interest shortfalls or from application of the Relief Act allocated to the Offered Certificates will be covered by the Fannie Mae Guaranty.

### **Delay in Receipt of Liquidation Proceeds; Liquidation Proceeds May Be Less than Mortgage Loan Balance**

Substantial delays could be encountered in connection with the liquidation of delinquent Mortgage Loans. Further, reimbursement of advances made on a Mortgage Loan, liquidation expenses such as legal fees, real estate taxes, hazard insurance and maintenance and preservation expenses may reduce the portion of liquidation proceeds payable on the certificates. If a mortgaged property fails to provide adequate security for the Mortgage Loan, you could incur a loss on your investment if the credit enhancements are insufficient to cover the loss.

### **High Loan-to-Value Ratios Increase Risk of Loss**

Mortgage loans with higher loan-to-value ratios may present a greater risk of loss than mortgage loans with loan-to-value ratios of 80% or below. Approximately 33.41% of the Group I Mortgage Loans and approximately 41.39% of the Group II Mortgage Loans (in each case by aggregate scheduled principal balance of the related Loan Group as of the Cut-off Date) had loan-to-value ratios, at origination (or combined loan-to-value ratios, in the case of second lien Mortgage Loans) in excess of 80%, but no more than 100%. Additionally, the Master Servicer's determination of the value of a mortgaged property used in the calculation of the loan-to-values ratios of the Mortgage Loans may differ from the appraised value of such mortgaged properties or the actual value of such mortgaged properties.

## **Geographic Concentration**

The chart presented under “Summary of Terms—Mortgage Loans” lists the states with the highest concentrations of Mortgage Loans. Mortgaged properties in California may be particularly susceptible to certain types of uninsurable hazards, such as earthquakes, floods, mudslides and other natural disasters not covered by standard hazard insurance policies for each mortgage loan or otherwise insured against for the benefit of the trust.

In addition, the conditions below will have a disproportionate impact on the Mortgage Loans in general:

- Economic conditions in states with high concentrations of Mortgage Loans may affect the ability of mortgagors to repay their loans on time even if such conditions do not affect real property values.
- Declines in the residential real estate markets in the states with high concentrations of Mortgage Loans may reduce the values of properties located in those states, which would result in an increase in loan-to-value ratios.
- Any increase in the market value of properties located in the states with high concentrations of Mortgage Loans would reduce loan-to-value ratios and could, therefore, make alternative sources of financing available to mortgagors at lower interest rates, which could result in an increased rate of prepayment of the Mortgage Loans.

## **Violation of Various Federal and State Laws May Result in Losses on the Mortgage Loans**

Applicable state laws generally regulate interest rates and other charges, require certain disclosure, and require licensing of the Seller. In addition, other state laws, municipal ordinances, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices (including predatory lending 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:

- the Federal Truth-in-Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to the mortgagors regarding the terms of the Mortgage Loans;
- the Equal Credit Opportunity Act and Regulation B promulgated thereunder, 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; and
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the mortgagor’s credit experience.

Violations of certain provisions of these federal laws may limit the ability of the Master Servicer to collect all or part of the principal of or interest on the Mortgage Loans and in addition could subject the trust to damages and administrative enforcement. In particular, the Seller’s failure to comply with certain requirements of the Federal Truth-in-Lending Act, as implemented by Regulation Z, could subject the trust (and other assignees of the Mortgage Loans) to monetary penalties, and result in the obligors’ rescinding the Mortgage Loans against either the trust or subsequent holders of the Mortgage Loans. *See “Certain Legal Aspects of the Mortgage Loans—Anti-Deficiency Legislation and Other Limitations on Lenders” in this information supplement.*

The Seller will represent that as of the Closing Date each Mortgage Loan is in compliance with applicable federal and state laws and regulations. In addition, the Seller will represent that none of the Mortgage Loans is subject to the Home Ownership and Equity Protection Act of 1994 and none of the Mortgage Loans is secured by a mortgaged property located in the State of Georgia. In the event of a breach of any of such representations, the Seller will be obligated to cure such breach or repurchase or replace the affected Mortgage Loan, in the manner and to the extent described under “The Pooling Agreement—Assignment of the Mortgage Loans” in this information supplement.

## Environmental Risks

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 Mortgage Loans. Failure to comply with these laws and regulations can result in fines and penalties.

In some states, a lien on the property due to contamination has priority over the lien of an existing mortgage. Further, 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 may suffer losses as a result of any liability imposed for environmental hazards on the property.

## Certain Rights of the NIMS Insurer May Affect the Rights of Holders of Offered Certificates

A financial guaranty insurance policy or policies (collectively, a “NIMS Policy”) may be issued by the NIMS Insurer, if any, covering certain payments to be made on NIMS which may be issued by an affiliate of the Depositor or by one or more entities sponsored by an affiliate of the Depositor on or after the Closing Date. The NIMS are not offered hereby and, if issued, the NIMS would be backed only by cashflow received on the Class C Certificates, the Class P Certificates and the Class R Certificates, which are not offered hereby. The NIMS, if issued, **would not** be backed by the trust (other than by the interests therein represented by the Class C Certificates, the Class P Certificates and the Class R Certificates) or by any of the Offered Certificates.

Notwithstanding the foregoing, pursuant to the terms of the pooling agreement, unless there exists a continuance of any failure by the NIMS Insurer, if any, to make a required payment under the NIMS Policy or there exists a proceeding in bankruptcy by or against the NIMS Insurer (any such event, a “NIMS Insurer Default”), the NIMS Insurer will be entitled to exercise (after consultation with the Guarantor), among others, certain rights that preempt the rights of the holders of the Offered Certificates, without the consent of such holders, and the holders of the Offered Certificates may exercise such rights only with the prior written consent of the NIMS Insurer (after consultation with the Guarantor). Such rights are expected to include (i) the right to provide notices of Master Servicer defaults and the right to direct the Trustee to terminate the rights and obligations of the Master Servicer under the pooling agreement in the event of a default by the Master Servicer; (ii) the right to remove the Trustee, any co-trustee or custodian pursuant to the pooling agreement; and (iii) the right to direct the Trustee to make investigations and take actions pursuant to the pooling agreement. In addition, unless a NIMS Insurer Default exists, the NIMS Insurer’s consent will be required (after consultation with the Guarantor) prior to, among other things: (i) the appointment of any successor master servicer or the removal of the Trustee; (ii) the appointment and removal of any subservicer other than WMBFA or any co-trustee; or (iii) any amendment to the pooling agreement regardless of whether such amendment would affect the Class C Certificates, the Class P Certificates or the Class R Certificates. Moreover, if (i) the NIMS are no longer outstanding but any Offered Certificates remain outstanding, and under certain conditions specified in the pooling agreement, the Guarantor will be entitled to exercise rights substantially similar to the rights the NIMS Insurer is entitled to exercise or (ii) the ratings of the Class M-2 Certificates are lowered from “A” or the equivalent rating by two rating agencies or if a NIMS Policy is not issued with respect to the NIMS, the Guarantor will be entitled to exercise exclusively certain of the rights of the NIMS Insurer as further described in the pooling agreement.

Investors in the Offered Certificates should note that:

- any NIMS Policy will not cover, or benefit in any manner whatsoever, the Offered Certificates;
- the rights granted to any NIMS Insurer are extensive;
- the interests of any NIMS Insurer may be inconsistent with, and adverse to, the interests of the holders of the Offered Certificates, and the NIMS Insurer has no obligation or duty to consider the interests of the Offered Certificates in connection with the exercise or non-exercise of the NIMS Insurer’s rights (except to the extent the NIMS Insurer is required to consult with the Guarantor); and
- any NIMS Insurer’s exercise of the rights and consents set forth above may negatively affect the Offered Certificates, and the existence of such rights, whether or not exercised, may adversely affect the liquidity of the

Offered Certificates relative to other asset-backed certificates backed by comparable mortgage loans and with comparable payment priorities and ratings.

### **Legal Actions are Pending Against the Seller**

Because the nature of the Seller's business involves the collection of numerous accounts, the validity of liens and compliance with state and federal lending laws, the Seller is subject to claims and legal actions in the ordinary course of its business. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to claims and actions, and while an adverse judgment in a claim or action could have a significant adverse financial effect on the Seller, the Seller believes that the aggregate amount of liabilities that it may face will not result in monetary damages which in the aggregate would have a material adverse effect on the financial condition or results of the Seller.

### **Terrorist Attacks and Military Action Could Adversely Affect the Yield on the Offered Certificates**

The effects that the terrorist attacks in the United States and elsewhere and related military action may have on the performance of the Mortgage Loans and the Offered Certificates cannot be determined at this time. Investors should consider the possible effects on the delinquency, default and prepayment experience of the Mortgage Loans. In accordance with the servicing standard set forth in the pooling agreement, the Master Servicer may defer, reduce or forgive payments and delay foreclosure proceedings in respect of Mortgage Loans to borrowers affected in some way by recent and possible future events. In addition, activation of a substantial number of United States military reservists or members of the National Guard may significantly increase the proportion of Mortgage Loans whose mortgage payments are reduced by the application of the Relief Act. See "Certain Legal Aspects of Mortgage Loans—Soldiers' and Sailors' Civil Relief Act of 1940" in this information supplement for additional information.

### **Suitability of the Offered Certificates as Investments**

The Offered Certificates are not suitable investments for any investor that requires a regular or predictable schedule of monthly payments or payment on any specific date. The Offered Certificates are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment and the interaction of these factors.

## THE MORTGAGE POOL

The information set forth in the following paragraphs has been provided by the Seller. Neither the Depositor nor any other affiliate of the Seller, nor any of the Trustee, the Guarantor, the NIMS Insurer, if any, Deutsche Bank Securities, Inc., Lehman Brothers Inc., Banc One Capital Markets, Inc., Credit Suisse First Boston LLC, Greenwich Capital Markets, Inc., Morgan Stanley & Co., Incorporated, UBS Warburg LLC, WaMu Capital Corp., the Subservicer or any of their respective affiliates has made or will make any representation as to the accuracy or completeness of such information.

The statistical information presented in this information supplement relates to the Mortgage Loans and related mortgaged properties in each Loan Group as of the Cut-off Date. On the Closing Date, the mortgage pool will consist of approximately 12,198 Mortgage Loans with an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$2,000,000,105 consisting of approximately 8,036 Group I Mortgage Loans with an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$1,200,000,059 and approximately 4,162 Group II Mortgage Loans with an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$800,000,046. Prior to the Closing Date, Mortgage Loans may be removed from the mortgage pool as a result of incomplete documentation, delinquency, payment in full, insufficient collateral value or otherwise if the Depositor deems such removal necessary or desirable, and may be prepaid at any time and some Mortgage Loans will be added to the mortgage pool. As a result, the characteristics of the Mortgage Loans in each Loan Group on the Closing Date may differ from the characteristics presented in this information supplement; however, such differences are not expected to be material. The Depositor expects that the mortgage pool on the Closing Date will consist of Group I Mortgage Loans with an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$1,200,000,059 and Group II Mortgage Loans with an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$800,000,046.

Unless otherwise noted, all statistical percentages or weighted averages set forth in this information supplement are measured as a percentage of the aggregate Scheduled Principal Balance as of the Cut-off Date of the Mortgage Loans in the applicable Loan Group, or of the indicated subset of the Mortgage Loans in the applicable Loan Group. The “Principal Balance” of a Mortgage Loan as of any date is equal to the principal balance of such Mortgage Loan at its origination, less the sum of scheduled and unscheduled payments in respect of principal made on such Mortgage Loan. The “Scheduled Principal Balance” of a Mortgage Loan as of any date is equal to the principal balance of such Mortgage Loan at its origination, less the sum of all scheduled payments in respect of principal due on such Mortgage Loan on or before such date, whether or not received.

References in this information supplement to the loan-to-value ratios of the Mortgage Loans, in the case of junior lien Mortgage Loans, unless indicated otherwise, refer to the quotient of (x) the sum of the principal balance of the applicable junior lien Mortgage Loan and the principal balance of all mortgage indebtedness secured by any senior lien(s) on the related mortgaged property divided by (y) the value (as determined as described herein, and which may not be the actual value) of such related mortgaged property.

### General

Long Beach Mortgage Loan Trust 2003-1 (the “Trust”) will consist of a pool of residential mortgage loans (the “Mortgage Loans” or the “Mortgage Pool”). Such pool will, in turn, consist of the Group I Mortgage Loans, which consist of fixed-rate and adjustable-rate, first lien, fully-amortizing residential mortgage loans with principal balances that conform to Fannie Mae loan limits, and the Group II Mortgage Loans, which consist of fixed-rate and adjustable-rate, first and second lien, fully-amortizing residential mortgage loans with principal balances that generally do not conform to Fannie Mae loan limits. The Mortgage Loans have original terms to maturity ranging from 10 years to 30 years and an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$2,000,000,105. All of the Mortgage Loans will be secured by first or second mortgages or deeds of trust or other similar security instruments (each, a “Mortgage”). The Mortgages create first liens or second liens on one- to four-family residential properties consisting of attached or detached one- to four-family dwelling units, individual condominium units and manufactured housing (each, a “Mortgaged Property”). Approximately 93.54% of the Mortgage Loans are secured by first liens on the related Mortgaged Property, and approximately 6.46% of the Mortgage Loans are secured by second liens on the related Mortgaged Property.

The Depositor will purchase the Mortgage Loans from the Seller pursuant to the Mortgage Loan Purchase Agreement (the “Mortgage Loan Purchase Agreement”) between the Seller and the Depositor. Pursuant to the Pooling and Servicing Agreement, dated as of February 1, 2003 (the “Pooling Agreement”), among the Depositor, the Master Servicer, the Guarantor (as guarantor of the Offered Certificates) and the Trustee, the Depositor will cause the Mortgage Loans to be assigned to the Trustee for the benefit of the Certificateholders. *See* “The Pooling Agreement” in this information supplement.

Each of the Mortgage Loans was, or will be, selected from the Seller’s portfolio of mortgage loans. The Mortgage Loans were, or will be, originated by the Seller or acquired by the Seller in the secondary market or from one of its affiliates in the ordinary course of its business and were, or will be, underwritten or re-underwritten by the Seller in accordance with its underwriting standards as described under “Long Beach Mortgage Company—Underwriting Standards” in this information supplement.

Under the Mortgage Loan Purchase Agreement, the Seller will make certain representations and warranties to the Depositor (which will be assigned to the Trustee) relating to, among other things, the due execution and enforceability of the Mortgage Loan Purchase Agreement and certain characteristics of the Mortgage Loans. Subject to certain limitations, the Seller will be obligated to repurchase or substitute a similar mortgage loan for any Mortgage Loan as to which there exists deficient documentation or an uncured breach of any such representation or warranty, if such breach of any such representation or warranty materially and adversely affects the Certificateholders’ interests in such Mortgage Loan. The Depositor will make no representations or warranties with respect to the Mortgage Loans and will have no obligation to repurchase or substitute Mortgage Loans with deficient documentation or that are otherwise defective. The Seller will have no obligation with respect to the Certificates in its capacity as Seller other than repurchase or substitution obligations described above.

No proceeds from any Mortgage Loan were, or will be, used to finance single-premium credit insurance policies.

None of the Mortgage Loans is, or will be, subject to the Home Ownership and Equity Protection Act of 1994 or the Georgia Fair Lending Act.

None of the Mortgage Loans is secured by a mortgaged property located in the State of Georgia.

The Master Servicer will be required under the Pooling Agreement to accurately and fully report its borrower credit files to all three nationally-recognized credit repositories in a timely manner.

Each Mortgage contains an enforceable provision for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the relevant mortgagee.

If the mortgagor of any Mortgage Loan fails to make timely payment of the initial monthly payment due under the terms of the mortgage note, the Seller may be obligated to repurchase the Mortgage Loan (or, in certain circumstances, substitute another mortgage loan).

Each Mortgage Loan will accrue interest at the fixed-rate or adjustable-rate calculated as specified under the terms of the related mortgage note (each such rate, a “Mortgage Rate”).

Approximately 30.83% of the Mortgage Loans are fixed-rate Mortgage Loans that have Mortgage Rates that are fixed for the life of the related Mortgage Loan.

Approximately 69.17% of the Mortgage Loans are adjustable-rate Mortgage Loans. Each adjustable-rate Mortgage Loan accrues interest at a Mortgage Rate that adjusts from time to time as described below. Generally, the adjustable-rate Mortgage Loans provide for semi-annual adjustment to the Mortgage Rate thereon and for corresponding adjustments to the monthly payment amount due thereon, in each case on each adjustment date applicable thereto (each such date, an “Adjustment Date”); provided, that the first adjustment for the adjustable-rate Mortgage Loans will occur within an initial period of six months, in the case of approximately 0.71% of the Mortgage Loans, two years, in the case of approximately 66.10% of the Mortgage Loans, three years, in the case of approximately 2.20% of the Mortgage Loans

and five years, in the case of approximately 0.16% of the Mortgage Loans. On each Adjustment Date for each adjustable-rate Mortgage Loan, the Mortgage Rate thereon will be adjusted to equal the sum, rounded to the nearest or next highest multiple of 0.01%, of Six-Month LIBOR and a related fixed percentage amount set forth in the mortgage note (the “Gross Margin”).

The Mortgage Rate on each adjustable-rate Mortgage Loan will not decrease or increase on the first related Adjustment Date by more than a stated percentage specified in the related mortgage note on the first related Adjustment Date (the “Initial Periodic Rate Cap”) and will not increase or decrease by more than a stated percentage specified in the related mortgage note on any Adjustment Date thereafter (the “Subsequent Periodic Rate Cap”). The adjustable-rate Mortgage Loans have a weighted average Initial Periodic Rate Cap of approximately 1.072% per annum and a weighted average Subsequent Periodic Rate Cap of approximately 1.000% per annum. Each Mortgage Rate on each adjustable-rate Mortgage Loan will not exceed a specified maximum Mortgage Rate over the life of such Mortgage Loan (the “Maximum Mortgage Rate”) or be less than a specified minimum Mortgage Rate over the life of such Mortgage Loan (the “Minimum Mortgage Rate”). Effective with the first monthly payment due on each adjustable-rate Mortgage Loan after each related Adjustment Date, the monthly payment amount will be adjusted to an amount that will amortize fully the outstanding Scheduled Principal Balance of the related Mortgage Loan over its remaining term, and pay interest at the Mortgage Rate as so adjusted. Due to the application of the Periodic Rate Caps and the Maximum Mortgage Rates, the Mortgage Rate on each such adjustable-rate Mortgage Loan, as adjusted on any related Adjustment Date, may be less than the sum of the Index and the related Gross Margin, rounded as described in this information supplement. None of the adjustable-rate Mortgage Loans permits the related mortgagor to convert the adjustable Mortgage Rate thereon to a fixed Mortgage Rate.

With respect to the adjustable-rate Mortgage Loans, the “Index” is generally the average of interbank offered rates for six-month U.S. dollar deposits in the London market based on quotations of major banks, and most recently available as of a day specified in the related note as published in the Western Edition of *The Wall Street Journal* (“Six-Month LIBOR”). If the Index becomes unpublished or is otherwise unavailable, the Master Servicer will select an alternative index which is based upon comparable information.

Approximately 67.04% of the Mortgage Loans provide for payment by the mortgagor of a prepayment charge in limited circumstances on certain prepayments. Generally, each Mortgage Loan originated or acquired prior to January 1, 2002 having a prepayment charge provision provides for payment of a prepayment charge on certain partial prepayments and all prepayments in full made within a stated number of months that is between 12 and 60 months, and that will in no event exceed 60 months, from the date of origination of such Mortgage Loan. The amount of the prepayment charge is provided in the related mortgage note and is generally equal to six months’ interest on the amount prepaid in excess of 20% of the original principal balance of the related Mortgage Loan in any twelve-month period. Generally, each Mortgage Loan originated or acquired after January 1, 2002 having a prepayment charge provision provides for payment of a prepayment charge on certain partial prepayments and prepayments in full made during the 36 months from the first Due Date of such Mortgage Loan. The amount of such prepayment charge is generally equal to: (a) 3% of the original Principal Balance of the Mortgage Loan if the prepayment is received on or before the first anniversary of the first Due Date of the Mortgage Loan; (b) 2% of the original Principal Balance of the Mortgage Loan if the prepayment is received after the first anniversary of the first Due Date of the Mortgage Loan but on or before the second anniversary of the first Due Date of the Mortgage Loan; and (c) 1% of the original Principal Balance of the Mortgage Loan if the prepayment is received after the second anniversary of the first Due Date of the Mortgage Loan but on or before the third anniversary of the first Due Date of the Mortgage Loan. The holders of the Class P Certificates will be entitled to all prepayment charges received on the Mortgage Loans, and such amounts will not be available for distribution on the other classes of Certificates. Under certain circumstances, as described in the Pooling Agreement, the Master Servicer may waive the payment of any otherwise applicable prepayment charge. Investors should conduct their own analysis of the effect, if any, that the prepayment charges, and decisions by the Master Servicer with respect to the waiver thereof, may have on the prepayment performance of the Mortgage Loans. The Depositor makes no representations as to the effect that the prepayment charges, and decisions by the Master Servicer with respect to the waiver thereof, may have on the prepayment performance of the Mortgage Loans.

Approximately 36.60% of the Mortgage Loans had loan-to-value ratios at origination in excess of 80%. No Mortgage Loan had a loan-to-value ratio at origination in excess of 100%, and the weighted average loan-to-value ratio of the Mortgage Loans at origination was approximately 80.69%. There can be no assurance that the loan-to-value ratio of any Mortgage Loan determined at any time after origination is less than or equal to its original loan-to-value ratio.



Additionally, the Master Servicer's determination of the value of a Mortgaged Property used in the calculation of the loan-to-value ratios of the Mortgage Loans may differ from the appraised value of such Mortgaged Property or the actual value of such Mortgaged Property.

All of the Mortgage Loans have a scheduled payment due each month (the "Due Date") on the first day of the month.

The Class A-1 Certificates and the Class S-1 Certificates primarily represent interests in the Group I Mortgage Loans, and the Class A-2 Certificates, the Class S-2 Certificates and the Class M-1 Certificates primarily represent interests in the Group II Mortgage Loans. The Mezzanine Certificates (other than the Class M-1 Certificates) represent interests in all Mortgage Loans. Information about the characteristics of the Mortgage Loans in each such group is described under "—The Group I Mortgage Loans" and "—The Group II Mortgage Loans" below.

### **The Group I Mortgage Loans**

The Group I Mortgage Loans consist of approximately 8,036 Mortgage Loans and have an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$1,200,000,059. All of the Group I Mortgage Loans are secured by first liens on the related Mortgaged Property.

Approximately 26.50% of the Group I Mortgage Loans are fixed-rate Mortgage Loans, and approximately 73.50% of the Group I Mortgage Loans are adjustable-rate Mortgage Loans. The first adjustment for the adjustable-rate Group I Mortgage Loans will occur within an initial period of six months, in the case of approximately 0.47% of the Group I Mortgage Loans, two years, in the case of approximately 70.65% of the Group I Mortgage Loans, three years, in the case of approximately 2.27% of the Group I Mortgage Loans and five years, in the case of approximately 0.11% of the Group I Mortgage Loans. The adjustable-rate Group I Mortgage Loans have a weighted average Initial Periodic Rate Cap of approximately 1.067% per annum and a weighted average Subsequent Periodic Rate Cap of approximately 1.000% per annum.

Approximately 72.96% of the Group I Mortgage Loans provide for payment by the mortgagor of a prepayment charge in limited circumstances on certain prepayments.

Approximately 33.41% of the Group I Mortgage Loans had loan-to-value ratios at origination in excess of 80%. No Group I Mortgage Loan had a loan-to-value ratio at origination in excess of 95%, and the weighted average loan-to-value ratio of the Group I Mortgage Loans at origination was approximately 79.76%.

The weighted average remaining term to maturity of the Group I Mortgage Loans is approximately 355 months as of the Cut-off Date. None of the Group I Mortgage Loans had a first Due Date prior to June 1, 2001 or after February, 2003 or will have a remaining term to maturity of less than 117 months or greater than 359 months as of the Cut-off Date. The latest maturity date of any Group I Mortgage Loan is January 1, 2033.

The average Principal Balance of the Group I Mortgage Loans at origination was approximately \$149,573. The average Scheduled Principal Balance of the Group I Mortgage Loans as of the Cut-off Date was approximately \$149,328. No Group I Mortgage Loan had a Scheduled Principal Balance as of the Cut-off Date greater than \$556,921 or less than \$19,976.

The Group I Mortgage Loans that had credit scores had a weighted average credit score of approximately 618. The credit scores for the Group I Mortgage Loans that had credit scores ranged from a minimum credit score of 415 to a maximum credit score of 813. See "Long Beach Mortgage Company—Underwriting Standards." 54 of the Group I Mortgage Loans did not have a credit score, which represent approximately 0.44% of the Group I Mortgage Loans.

The Group I Mortgage Loans had Mortgage Rates as of the Cut-off Date of not less than 5.850% per annum and not more than 13.000% per annum and the weighted average Mortgage Rate of the Group I Mortgage Loans was approximately 7.981% per annum as of the Cut-off Date.

As of the Cut-off Date, the adjustable-rate Group I Mortgage Loans had Gross Margins ranging from 4.25% to 7.25%, Minimum Mortgage Rates ranging from 5.850% per annum to 12.900% per annum and Maximum Mortgage

Rates ranging from 11.850% per annum to 18.900% per annum. As of the Cut-off Date, the adjustable-rate Group I Mortgage Loans had a weighted average Gross Margin of approximately 5.387%, a weighted average Minimum Mortgage Rate of approximately 8.178% per annum and a weighted average Maximum Mortgage Rate of approximately 14.180% per annum. The first Adjustment Date following the Cut-off Date on any adjustable-rate Group I Mortgage Loan will occur on May 1, 2003, and the weighted average time until the first Adjustment Date for the adjustable-rate Group I Mortgage Loans following the Cut-off Date is approximately 22 months.

The Group I Mortgage Loans are expected to have the following characteristics as of the Cut-off Date (the sum in any column may not equal the total indicated due to rounding):

**Scheduled Principal Balances as of the Cut-off Date of the Group I Mortgage Loans<sup>(1)</sup>**

<b>Scheduled Principal Balance (\$)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
0.01 - 50,000.00 .....	543	\$ 22,265,880.91	1.86%
50,001.00 - 100,000.00 .....	2,106	158,941,298.21	13.25
100,001.00 - 150,000.00 .....	1,858	229,517,313.79	19.13
150,001.00 - 200,000.00 .....	1,420	248,622,158.10	20.72
200,001.00 - 250,000.00 .....	1,041	232,772,593.06	19.40
250,001.00 - 300,000.00 .....	756	207,120,386.65	17.26
300,001.00 - 350,000.00 .....	280	87,731,020.58	7.31
350,001.00 - 400,000.00 .....	23	8,648,775.73	0.72
400,001.00 - 450,000.00 .....	2	831,109.53	0.07
450,001.00 - 500,000.00 .....	3	1,422,104.02	0.12
500,001.00 - 550,000.00 .....	3	1,570,497.36	0.13
550,001.00 - 600,000.00 .....	<u>1</u>	<u>556,920.96</u>	<u>0.05</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The average aggregate Scheduled Principal Balance as of the Cut-off Date of the Group I Mortgage Loans was approximately \$149,328. The principal balances of all of the Group I Mortgage Loans conform to Fannie Mae loan limits.

**Original Terms to Maturity of the Group I Mortgage Loans<sup>(1)</sup>**

<b>Original Term (months)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
120 .....	6	\$ 232,609.35	0.02%
180 .....	177	20,403,873.90	1.70
240 .....	24	2,180,215.39	0.18
360 .....	<u>7,829</u>	<u>1,177,183,360.26</u>	<u>98.10</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average original term to maturity of the Group I Mortgage Loans was approximately 357 months.

### Remaining Terms to Maturity of the Group I Mortgage Loans<sup>(1)</sup>

Remaining Terms (months)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
115 - 120.....	6	\$ 232,609.35	0.02%
169 - 174.....	3	281,723.99	0.02
175 - 180.....	174	20,122,149.91	1.68
235 - 240.....	24	2,180,215.39	0.18
337 - 342.....	1	98,398.79	0.01
343 - 348.....	1	126,736.22	0.01
349 - 354.....	67	8,244,933.01	0.69
355 - 359.....	<u>7,760</u>	<u>1,168,713,292.24</u>	<u>97.39</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average remaining term to maturity of the Group I Mortgage Loans was approximately 355 months.

### Property Types of the Group I Mortgage Loans

Property Type	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Single Family.....	5,990	\$ 889,696,094.40	74.14%
PUD <sup>(1)</sup> .....	578	100,957,883.54	8.41
2-4 Units .....	435	88,075,906.19	7.34
Condominium .....	458	69,115,152.03	5.76
Manufactured Housing .....	543	48,344,529.76	4.03
Townhouse.....	<u>32</u>	<u>3,810,492.98</u>	<u>0.32</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> PUD refers to a home or “unit” in a Planned Unit Development.

### Occupancy Status of the Group I Mortgage Loans<sup>(1)</sup>

Occupancy Status	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Owner Occupied.....	7,325	\$1,110,336,197.62	92.53%
Non-Owner Occupied.....	655	81,587,204.98	6.80
Second Home .....	<u>56</u>	<u>8,076,656.30</u>	<u>0.67</u>
Total.....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> Occupancy as represented by the mortgagor at the time of origination.

### Purpose of the Group I Mortgage Loans

Purpose	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Cashout Refinance.....	3,922	\$ 582,638,955.28	48.55%
Purchase.....	3,202	482,086,103.72	40.17
Rate/Term Refinance .....	<u>912</u>	<u>135,274,999.90</u>	<u>11.27</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

**Original Loan-to-Value Ratios of the Group I Mortgage Loans<sup>(1)</sup>**

<b>Original Loan-to-Value Ratio (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
10.01 - 15.00 .....	4	\$ 229,323.27	0.02%
15.01 - 20.00 .....	7	460,167.72	0.04
20.01 - 25.00 .....	9	852,306.56	0.07
25.01 - 30.00 .....	14	1,518,437.04	0.13
30.01 - 35.00 .....	18	2,018,713.79	0.17
35.01 - 40.00 .....	32	3,334,117.82	0.28
40.01 - 45.00 .....	34	4,065,035.32	0.34
45.01 - 50.00 .....	67	8,210,734.43	0.68
50.01 - 55.00 .....	78	9,882,576.58	0.82
55.01 - 60.00 .....	139	18,403,258.16	1.53
60.01 - 65.00 .....	281	37,849,682.26	3.15
65.01 - 70.00 .....	414	55,672,537.99	4.64
70.01 - 75.00 .....	638	88,925,137.23	7.41
75.01 - 80.00 .....	3,630	567,599,906.81	47.30
80.01 - 85.00 .....	1,459	197,032,021.02	16.42
85.01 - 90.00 .....	1,021	169,752,358.67	14.15
90.01 - 95.00 .....	<u>191</u>	<u>34,193,744.23</u>	<u>2.85</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average original loan-to-value ratio of the Group I Mortgage Loans as of the Cut-off Date was approximately 79.76%.

**Geographic Distribution of the Mortgaged Properties relating to the Group I Mortgage Loans<sup>(1)</sup>**

<b>Location</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
Alabama.....	122	\$ 10,610,348.71	0.88%
Alaska.....	10	1,588,082.58	0.13
Arizona.....	149	20,421,180.24	1.70
Arkansas.....	51	4,194,638.98	0.35
California.....	2,557	515,327,334.48	42.94
Colorado.....	658	109,052,243.03	9.09
Connecticut.....	30	4,859,759.29	0.40
Delaware.....	5	589,281.42	0.05
Florida.....	380	45,345,463.54	3.78
Hawaii.....	2	535,724.42	0.04
Idaho.....	33	3,623,829.87	0.30
Illinois.....	390	55,157,755.49	4.60
Indiana.....	96	7,215,936.68	0.60
Iowa.....	46	4,157,734.83	0.35
Kansas.....	21	1,488,589.59	0.12
Kentucky.....	22	1,592,820.30	0.13
Louisiana.....	81	6,737,246.29	0.56
Maine.....	5	553,197.96	0.05
Maryland.....	60	9,090,357.10	0.76
Massachusetts.....	39	7,502,498.85	0.63
Michigan.....	254	24,902,413.40	2.08
Minnesota.....	66	9,957,047.92	0.83
Mississippi.....	12	660,947.59	0.06
Missouri.....	155	14,036,070.16	1.17
Montana.....	48	6,646,996.42	0.55
Nebraska.....	68	5,292,665.50	0.44
Nevada.....	89	13,581,581.20	1.13
New Hampshire.....	3	588,488.17	0.05
New Jersey.....	57	8,839,627.72	0.74
New Mexico.....	38	3,476,017.84	0.29
New York.....	190	40,894,514.86	3.41
North Carolina.....	217	19,633,792.85	1.64
North Dakota.....	7	523,345.83	0.04
Ohio.....	200	17,837,536.70	1.49
Oklahoma.....	60	4,791,394.08	0.40
Oregon.....	187	26,597,465.42	2.22
Pennsylvania.....	84	8,893,136.88	0.74
Rhode Island.....	13	2,020,071.67	0.17
South Carolina.....	48	3,948,058.38	0.33
South Dakota.....	8	767,485.09	0.06
Tennessee.....	101	8,086,576.10	0.67
Texas.....	760	76,597,057.31	6.38
Utah.....	145	19,239,207.63	1.60
Vermont.....	2	298,136.60	0.02
Virginia.....	47	6,952,293.81	0.58
Washington.....	376	60,229,967.82	5.02
West Virginia.....	11	1,134,929.47	0.09
Wisconsin.....	21	2,601,785.01	0.22
Wyoming.....	12	1,327,423.82	0.11
Total.....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The greatest ZIP Code geographic concentration of the Group I Mortgage Loans was approximately 0.66% in the 94509 ZIP Code.

**Documentation Level of the Group I Mortgage Loans<sup>(1)</sup>**

<b>Documentation Level</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
Full Documentation .....	4,979	\$ 676,541,347.09	56.38%
Stated Income Documentation .....	2,951	507,289,186.84	42.27
Limited Documentation .....	<u>106</u>	<u>16,169,524.97</u>	<u>1.35</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> For a description of each Documentation Level, see “Long Beach Mortgage Company—Underwriting Standards” herein.

**Credit Grade for the Group I Mortgage Loans<sup>(1)</sup>**

<b>Credit Grade</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
A1.....	1,455	\$ 249,110,114.42	20.76%
A2.....	1,221	204,630,279.26	17.05
A3.....	615	97,898,497.51	8.16
A4.....	45	7,440,442.80	0.62
A5.....	25	3,623,275.92	0.30
AA.....	1,135	197,800,561.90	16.48
A-1 .....	41	5,483,763.56	0.46
A-2 .....	958	138,183,394.66	11.52
A-3 .....	24	3,814,991.53	0.32
A-4 .....	203	30,941,899.32	2.58
A-5 .....	131	21,049,818.20	1.75
B1 .....	570	62,376,852.27	5.20
B2.....	117	14,244,279.02	1.19
B3.....	63	7,744,830.16	0.65
B4.....	291	42,895,032.36	3.57
B-1.....	560	52,827,710.59	4.40
B-2.....	132	14,301,808.47	1.19
B-3.....	103	11,291,216.12	0.94
B-4.....	6	796,901.31	0.07
B-5.....	5	494,526.16	0.04
C.....	252	23,938,630.73	1.99
D.....	<u>84</u>	<u>9,111,232.63</u>	<u>0.76</u>
Total.....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> For a description of Credit Grade, see “Long Beach Mortgage Company—Risk Categories” herein.



**Credit Scores for the Group I Mortgage Loans<sup>(1)</sup>**

<b>Credit Score</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
N/A .....	54	\$ 5,324,307.80	0.44%
401 - 420 .....	3	394,346.43	0.03
421 - 440 .....	5	462,961.37	0.04
441 - 460 .....	65	7,786,262.15	0.65
461 - 480 .....	266	31,950,306.00	2.66
481 - 500 .....	563	69,712,915.60	5.81
501 - 520 .....	630	73,003,926.41	6.08
521 - 540 .....	599	72,545,776.58	6.05
541 - 560 .....	495	67,732,629.91	5.64
561 - 580 .....	427	55,135,860.74	4.59
581 - 600 .....	409	55,954,788.01	4.66
601 - 620 .....	624	94,458,002.07	7.87
621 - 640 .....	705	111,804,312.68	9.32
641 - 660 .....	972	165,266,453.10	13.77
661 - 680 .....	807	136,917,674.82	11.41
681 - 700 .....	587	104,788,302.00	8.73
701 - 720 .....	315	56,837,217.78	4.74
721 - 740 .....	237	41,053,088.02	3.42
741 - 760 .....	149	25,070,783.62	2.09
761 - 780 .....	81	14,851,153.91	1.24
781 - 800 .....	35	7,387,092.08	0.62
801 - 813 .....	<u>8</u>	<u>1,561,897.82</u>	<u>0.13</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average credit score of the Group I Mortgage Loans that had credit scores was approximately 618.

**Current Mortgage Rates of the Group I Mortgage Loans<sup>(1)</sup>**

<b>Current Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
5.001 - 6.000 .....	51	\$ 9,901,533.77	0.83%
6.001 - 7.000 .....	2,303	437,138,749.75	36.43
7.001 - 8.000 .....	1,890	309,862,266.38	25.82
8.001 - 9.000 .....	1,086	149,578,877.12	12.46
9.001 - 10.000 .....	1,059	134,716,844.81	11.23
10.001 - 11.000 .....	931	98,949,428.54	8.25
11.001 - 12.000 .....	566	48,643,294.68	4.05
12.001 - 13.000 .....	<u>150</u>	<u>11,209,063.85</u>	<u>0.93</u>
Total .....	<u>8,036</u>	<u>\$1,200,000,058.90</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average current Mortgage Rate of the Group I Mortgage Loans as of the Cut-off Date was approximately 7.981% per annum.

**Maximum Mortgage Rates of the Adjustable-Rate Group I Mortgage Loans<sup>(1)</sup>**

<b>Maximum Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
11.001 - 12.000 .....	30	\$ 5,953,154.33	0.67%
12.001 - 13.000 .....	1,478	287,325,597.91	32.58
13.001 - 14.000 .....	1,239	204,383,945.14	23.17
14.001 - 15.000 .....	817	118,216,094.69	13.40
15.001 - 16.000 .....	923	121,935,236.41	13.82
16.001 - 17.000 .....	842	91,573,069.83	10.38
17.001 - 18.000 .....	484	43,108,406.73	4.89
18.001 - 19.000 .....	<u>123</u>	<u>9,534,736.80</u>	<u>1.08</u>
Total .....	<u>5,936</u>	<u>\$882,030,241.84</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Maximum Mortgage Rate of the adjustable-rate Group I Mortgage Loans as of the Cut-off Date was approximately 14.180% per annum.

**Minimum Mortgage Rates of the Adjustable-Rate Group I Mortgage Loans<sup>(1)</sup>**

<b>Minimum Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
5.001 - 6.000 .....	30	\$ 5,953,154.33	0.67%
6.001 - 7.000 .....	1,479	287,604,877.67	32.61
7.001 - 8.000 .....	1,240	204,418,408.81	23.18
8.001 - 9.000 .....	816	118,196,493.16	13.40
9.001 - 10.000 .....	923	121,719,993.57	13.80
10.001 - 11.000 .....	842	91,661,977.70	10.39
11.001 - 12.000 .....	483	42,940,599.80	4.87
12.001 - 13.000 .....	<u>123</u>	<u>9,534,736.80</u>	<u>1.08</u>
Total .....	<u>5,936</u>	<u>\$882,030,241.84</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Minimum Mortgage Rate of the adjustable-rate Group I Mortgage Loans as of the Cut-off Date was approximately 8.178% per annum.

**Gross Margins of the Adjustable-Rate Group I Mortgage Loans<sup>(1)</sup>**

<b>Gross Margin (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
4.001 - 5.000 .....	2,797	\$487,051,290.59	55.22%
5.001 - 6.000 .....	1,997	275,769,324.02	31.27
6.001 - 7.000 .....	1,141	119,082,891.01	13.50
7.001 - 8.000 .....	<u>1</u>	<u>126,736.22</u>	<u>0.01</u>
Total .....	<u>5,936</u>	<u>\$882,030,241.84</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Gross Margin of the adjustable-rate Group I Mortgage Loans as of the Cut-off Date was approximately 5.387% per annum.

### Next Adjustment Dates for the Adjustable-Rate Group I Mortgage Loans

<b>Next Adjustment Date</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
May 2003 .....	12	\$ 1,923,536.64	0.22%
June 2003 .....	12	1,950,671.14	0.22
July 2003 .....	11	1,755,822.85	0.20
December 2003 .....	1	103,719.99	0.01
April 2004 .....	1	142,002.24	0.02
May 2004 .....	2	183,071.92	0.02
June 2004 .....	3	253,493.90	0.03
July 2004 .....	21	2,731,605.38	0.31
August 2004 .....	34	4,142,379.01	0.47
September 2004 .....	27	4,450,532.07	0.50
October 2004 .....	79	12,901,536.84	1.46
November 2004 .....	1,674	255,125,073.44	28.92
December 2004 .....	2,242	338,294,547.83	38.35
January 2005 .....	1,597	229,700,151.06	26.04
February 2005 .....	1	126,736.22	0.01
April 2005 .....	1	79,979.73	0.01
August 2005 .....	1	117,606.47	0.01
September 2005 .....	1	152,542.25	0.02
October 2005 .....	3	208,906.57	0.02
November 2005 .....	64	8,194,766.14	0.93
December 2005 .....	85	11,067,320.84	1.25
January 2006 .....	56	7,148,739.49	0.81
November 2007 .....	2	159,451.75	0.02
December 2007 .....	5	1,060,819.56	0.12
January 2008 .....	<u>1</u>	<u>55,228.51</u>	<u>0.01</u>
Total .....	<u>5,936</u>	<u>\$882,030,241.84</u>	<u>100.00%</u>

### Initial Periodic Rate Caps of the Adjustable-Rate Group I Mortgage Loans<sup>(1)</sup>

<b>Initial Periodic Rate Cap (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
1.000 .....	5,708	\$852,412,248.59	96.64%
3.000 .....	<u>228</u>	<u>29,617,993.25</u>	<u>3.36</u>
Total .....	<u>5,936</u>	<u>\$882,030,241.84</u>	<u>100.00%</u>

<sup>(1)</sup> Relates solely to initial rate adjustments.

### Subsequent Periodic Rate Caps of the Adjustable-Rate Group I Mortgage Loans<sup>(1)</sup>

Periodic Rate Cap (%)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
1.000 .....	<u>5,936</u>	<u>\$ 882,030,241.84</u>	<u>100.00%</u>
Total .....	<u>5,936</u>	<u>\$ 882,030,241.84</u>	<u>100.00%</u>

<sup>(1)</sup> Relates to all rate adjustments subsequent to initial rate adjustments.

### The Group II Mortgage Loans

The Group II Mortgage Loans consist of approximately 4,162 Mortgage Loans and have an aggregate Scheduled Principal Balance as of the Cut-off Date of approximately \$800,000,046. Approximately 83.85% of the Group II Mortgage Loans are secured by first liens on the related Mortgaged Property and approximately 16.15% of the Group II Mortgage Loans are secured by second liens on the related Mortgaged Property.

Approximately 37.33% of the Group II Mortgage Loans are fixed-rate Mortgage Loans, and approximately 62.67% of the Group II Mortgage Loans are adjustable-rate Mortgage Loans. The first adjustment for the adjustable-rate Group II Mortgage Loans will occur within an initial period of six months, in the case of approximately 1.07% of the Group II Mortgage Loans, two years, in the case of approximately 59.27% of the Group II Mortgage Loans, three years, in the case of approximately 2.10% of the Group II Mortgage Loans and five years, in the case of approximately 0.24% of the Group II Mortgage Loans. The adjustable-rate Group II Mortgage Loans have a weighted average Initial Periodic Rate Cap of approximately 1.081% per annum and a weighted average Subsequent Periodic Rate Cap of approximately 1.000% per annum.

Approximately 58.15% of the Group II Mortgage Loans provide for payment by the mortgagor of a prepayment charge in limited circumstances on certain prepayments.

Approximately 41.39% of the Group II Mortgage Loans had loan-to-value ratios at origination in excess of 80%. No Group II Mortgage Loan had a loan-to-value ratio at origination in excess of 100.00%, and the weighted average loan-to-value ratio of the Group II Mortgage Loans at origination was approximately 82.08%.

The weighted average remaining term to maturity of the Group II Mortgage Loans is approximately 336 months as of the Cut-off Date. None of the Group II Mortgage Loans had a first Due Date prior to May 1, 2002 or after February, 2003 or will have a remaining term to maturity of less than 174 months or greater than 359 months as of the Cut-off Date. The latest maturity date of any Group II Mortgage Loan is January 1, 2033.

The average Principal Balance of the Group II Mortgage Loans at origination was approximately \$192,601. The average Scheduled Principal Balance of the Group II Mortgage Loans as of the Cut-off Date was approximately \$192,215. No Group II Mortgage Loans had a Principal Balance as of the Cut-off Date greater than \$1,123,853 or less than \$9,954.

The Group II Mortgage Loans that had credit scores had a weighted average credit score of approximately 644. The credit scores for the Group II Mortgage Loans that had credit scores ranged from a minimum credit score of 436 to a maximum credit score of 813. See “Long Beach Mortgage Company—Underwriting Standards.” 3 of the Group II Mortgage Loans did not have a credit score, which represent approximately 0.09% of the Group II Mortgage Loans.

The Group II Mortgage Loans had Mortgage Rates as of the Cut-off Date of not less than 4.990% per annum and not more than 14.000% per annum and the weighted average Mortgage Rate of the Group II Mortgage Loans was approximately 7.835% per annum as of the Cut-off Date.

As of the Cut-off Date, the adjustable-rate Group II Mortgage Loans had Gross Margins ranging from 4.250% to 6.750%, Minimum Mortgage Rates ranging from 4.990% per annum to 13.700% per annum and Maximum Mortgage Rates ranging from 10.990% per annum to 19.700% per annum. As of the Cut-off Date, the adjustable-rate Group II Mortgage Loans had a weighted average Gross Margin of approximately 5.164%, a weighted average Minimum Mortgage Rate of approximately 7.346% per annum and a weighted average Maximum Mortgage Rate of approximately 13.347% per annum. The first Adjustment Date following the Cut-off Date on any adjustable-rate Group II Mortgage Loan occurs on April 1, 2003, and the weighted average time until the first Adjustment Date for the adjustable-rate Group II Mortgage Loans following the Cut-off Date is 22 months.

The Group II Mortgage Loans are expected to have the following characteristics as of the Cut-off Date (the sum in any column may not equal the total indicated due to rounding):

**Scheduled Principal Balances as of the Cut-off Date of the Group II Mortgage Loans<sup>(1)</sup>**

<b>Principal Balance (\$)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
0.01 - 50,000.00 .....	1,410	\$ 45,237,289.18	5.65%
50,001.00 - 100,000.00 .....	1,203	86,101,280.47	10.76
100,001.00 - 150,000.00 .....	52	6,245,742.63	0.78
150,001.00 - 200,000.00 .....	20	3,514,828.86	0.44
200,001.00 - 250,000.00 .....	16	3,539,979.15	0.44
250,001.00 - 300,000.00 .....	12	3,362,928.37	0.42
300,001.00 - 350,000.00 .....	282	94,744,993.58	11.84
350,001.00 - 400,000.00 .....	464	174,539,321.59	21.82
400,001.00 - 450,000.00 .....	184	78,379,102.61	9.80
450,001.00 - 500,000.00 .....	186	89,421,664.61	11.18
500,001.00 - 550,000.00 .....	78	41,015,362.11	5.13
550,001.00 - 600,000.00 .....	81	46,672,431.68	5.83
600,001.00 - 650,000.00 .....	64	40,234,126.75	5.03
650,001.00 - 700,000.00 .....	32	21,674,857.74	2.71
700,001.00 - 750,000.00 .....	27	19,646,712.74	2.46
750,001.00 - 800,000.00 .....	9	7,025,568.97	0.88
800,001.00 - 850,000.00 .....	8	6,659,541.06	0.83
850,001.00 - 900,000.00 .....	14	12,388,679.24	1.55
900,001.00 - 950,000.00 .....	5	4,575,120.48	0.57
950,001.00 - 1,000,000.00 .....	13	12,848,760.90	1.61
1,000,001.00 - 1,123,853.01 .....	<u>2</u>	<u>2,171,753.20</u>	<u>0.27</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The average Scheduled Principal Balance as of the Cut-off Date of the Group II Mortgage Loans was approximately \$192,215.

### Original Terms to Maturity of the Group II Mortgage Loans<sup>(1)</sup>

Original Term (months)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
180 .....	395	\$ 21,079,718.94	2.63%
240 .....	2,191	114,433,110.90	14.30
360 .....	<u>1,576</u>	<u>664,487,216.08</u>	<u>83.06</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average original term to maturity of the Group II Mortgage Loans was approximately 338 months.

### Remaining Terms to Maturity of the Group II Mortgage Loans<sup>(1)</sup>

Remaining Term (months)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
169 - 174 .....	2	\$ 103,053.57	0.01%
175 - 180 .....	393	20,976,665.37	2.62
229 - 234 .....	3	149,622.39	0.02
235 - 240 .....	2,188	114,283,488.51	14.29
349 - 354 .....	13	3,673,773.82	0.46
355 - 359 .....	<u>1,563</u>	<u>660,813,442.26</u>	<u>82.60</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average remaining term to maturity of the Group II Mortgage Loans was approximately 336 months.

### Property Types of the Group II Mortgage Loans

Property Type	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Single Family Unit.....	3,253	\$648,845,002.26	81.11%
PUD <sup>(1)</sup> .....	463	90,481,756.89	11.31
2-4 Units .....	121	23,802,644.94	2.98
Condominium .....	306	34,209,055.29	4.28
Townhouse.....	10	1,370,349.94	0.17
Manufactured Housing .....	<u>9</u>	<u>1,291,236.60</u>	<u>0.16</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> PUD refers to a home or “unit” in a Planned Unit Development.

### Occupancy Status of the Group II Mortgage Loans<sup>(1)</sup>

Occupancy Status	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Owner Occupied .....	4,083	\$768,918,345.23	96.11%
Non-Owner Occupied .....	62	23,102,013.08	2.89
Second Home.....	<u>17</u>	<u>7,979,687.61</u>	<u>1.00</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> Occupancy as represented by the mortgagor at the time of origination.

### Purpose of the Group II Mortgage Loans

Purpose	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
Cashout Refinance .....	1,136	\$345,227,124.15	43.15%
Purchase .....	2,769	354,424,648.59	44.30
Rate/Term Refinance .....	<u>257</u>	<u>100,348,273.18</u>	<u>12.54</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>



**Original Loan-to-Value Ratios of the Group II Mortgage Loans<sup>(1)</sup>**

<b>Original Loan-to-Value Ratio (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
25.01 - 30.00 .....	2	\$ 456,398.73	0.06%
30.01 - 35.00 .....	1	997,177.79	0.12
35.01 - 40.00 .....	5	945,581.64	0.12
40.01 - 45.00 .....	2	703,047.57	0.09
45.01 - 50.00 .....	12	5,683,030.11	0.71
50.01 - 55.00 .....	12	7,049,107.65	0.88
55.01 - 60.00 .....	30	13,015,607.70	1.63
60.01 - 65.00 .....	50	23,994,167.22	3.00
65.01 - 70.00 .....	93	45,590,325.63	5.70
70.01 - 75.00 .....	147	72,835,724.29	9.10
75.01 - 80.00 .....	759	297,642,295.29	37.21
80.01 - 85.00 .....	236	97,627,853.23	12.20
85.01 - 90.00 .....	298	103,611,172.60	12.95
90.01 - 95.00 .....	199	13,786,944.02	1.72
95.01 -100.00 .....	<u>2,316</u>	<u>116,061,612.45</u>	<u>14.51</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average original loan-to-value ratio of the Group II Mortgage Loans as of the Cut-off Date was approximately 82.08%. References in this information supplement to the loan-to-value ratios of the Mortgage Loans, in the case of junior lien Mortgage Loans, unless indicated otherwise, refer to the quotient of (1) the sum of the principal balance of the applicable junior lien Mortgage Loan and the principal balance of any mortgage indebtedness secured by any senior lien on the related mortgaged property divided by (y) the value (as determined as described herein, and which may not be the actual value) of such related mortgaged property.

**Geographic Distribution of the Mortgaged Properties relating to the Group II Mortgage Loans<sup>(1)</sup>**

<b>Location</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
Alabama.....	28	\$ 5,678,035.45	0.71%
Alaska.....	1	32,855.49	0.00
Arizona.....	74	12,006,841.47	1.50
Arkansas.....	2	498,796.45	0.06
California.....	2,393	508,473,671.13	63.56
Colorado.....	360	57,807,686.12	7.23
Connecticut.....	6	2,825,661.56	0.35
Florida.....	103	12,920,264.24	1.62
Idaho.....	16	1,256,981.27	0.16
Illinois.....	136	24,126,749.65	3.02
Indiana.....	4	613,579.21	0.08
Iowa.....	3	654,242.85	0.08
Louisiana.....	6	2,039,067.41	0.25
Maryland.....	17	5,425,522.54	0.68
Massachusetts.....	19	9,304,220.10	1.16
Michigan.....	35	6,316,041.54	0.79
Minnesota.....	13	5,276,005.15	0.66
Missouri.....	15	1,566,352.04	0.20
Montana.....	13	3,140,525.59	0.39
Nebraska.....	14	842,470.08	0.11
Nevada.....	54	7,489,781.20	0.94
New Jersey.....	11	5,533,357.50	0.69
New Mexico.....	7	1,075,431.89	0.13
New York.....	64	19,129,921.08	2.39
North Carolina.....	22	3,326,456.99	0.42
Ohio.....	9	1,933,113.12	0.24
Oklahoma.....	1	485,318.63	0.06
Oregon.....	82	9,235,487.62	1.15
Pennsylvania.....	8	2,440,674.55	0.31
Rhode Island.....	1	357,785.62	0.04
South Carolina.....	5	1,178,169.91	0.15
South Dakota.....	4	605,549.08	0.08
Tennessee.....	15	3,109,397.76	0.39
Texas.....	303	43,350,919.73	5.42
Utah.....	90	10,982,046.62	1.37
Virginia.....	11	2,058,402.25	0.26
Washington.....	215	26,269,497.34	3.28
Wyoming.....	2	633,165.69	0.08
Total.....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The greatest ZIP code geographic concentration of the Group II Mortgage Loans was approximately 1.32% in the 94080 ZIP Code.

**Documentation Level of the Group II Mortgage Loans<sup>(1)</sup>**

<b>Documentation Level</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
Full Documentation .....	2,128	\$442,732,044.58	55.34%
Stated Income Documentation .....	2,001	342,141,146.65	42.77
Limited Documentation .....	<u>33</u>	<u>15,126,854.69</u>	<u>1.89</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> For a description of each Documentation Level, see “Long Beach Mortgage Company—Underwriting Standards” herein.

**Credit Grade for the Group II Mortgage Loans<sup>(1)</sup>**

<b>Credit Grade</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
A1 .....	1,753	\$229,692,994.80	28.71%
A2 .....	1,220	188,765,472.03	23.60
A3 .....	347	67,607,209.47	8.45
A4 .....	3	823,183.42	0.10
A5 .....	1	649,115.90	0.08
AA .....	256	112,643,829.06	14.08
A-1 .....	47	6,246,899.06	0.78
A-2 .....	241	96,393,771.92	12.05
A-3 .....	9	5,230,347.54	0.65
A-4 .....	60	27,106,539.31	3.39
A-5 .....	32	15,856,487.66	1.98
B1 .....	69	11,554,306.56	1.44
B2 .....	11	3,384,383.94	0.42
B3 .....	9	3,646,410.88	0.46
B4 .....	38	14,771,509.81	1.85
B-1 .....	31	5,947,808.88	0.74
B-2 .....	8	1,401,492.12	0.18
B-3 .....	5	1,023,293.97	0.13
C .....	18	6,579,588.97	0.82
D .....	<u>4</u>	<u>675,400.62</u>	<u>0.08</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> For a description of Credit Grade, see “Long Beach Mortgage Company—Risk Categories” herein.

**Credit Scores for the Group II Mortgage Loans<sup>(1)</sup>**

<b>Credit Score</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
N/A.....	3	\$ 708,705.63	0.09%
421 - 440.....	1	504,672.09	0.06
441 - 460.....	4	1,399,106.35	0.17
461 - 480.....	20	6,360,888.26	0.80
481 - 500.....	59	20,600,051.14	2.58
501 - 520.....	51	19,553,731.09	2.44
521 - 540.....	83	32,513,297.07	4.06
541 - 560.....	68	28,595,622.55	3.57
561 - 580.....	60	26,660,083.25	3.33
581 - 600.....	104	43,277,161.50	5.41
601 - 620.....	360	67,054,483.23	8.38
621 - 640.....	465	85,343,639.10	10.67
641 - 660.....	792	134,262,211.87	16.78
661 - 680.....	733	115,744,373.21	14.47
681 - 700.....	494	70,945,120.74	8.87
701 - 720.....	303	49,292,655.66	6.16
721 - 740.....	240	37,195,699.95	4.65
741 - 760.....	151	24,332,151.64	3.04
761 - 780.....	104	21,750,958.85	2.72
781 - 800.....	55	11,879,866.40	1.48
801 - 813.....	<u>12</u>	<u>2,025,566.34</u>	<u>0.25</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average credit score of the Group II Mortgage Loans that had credit scores was approximately 644.

**Current Mortgage Rates of the Group II Mortgage Loans<sup>(1)</sup>**

<b>Current Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
4.001 - 5.000 .....	8	\$ 3,169,777.46	0.40%
5.001 - 6.000 .....	133	57,234,635.69	7.15
6.001 - 7.000 .....	703	301,092,774.53	37.64
7.001 - 8.000 .....	401	177,433,746.37	22.18
8.001 - 9.000 .....	180	77,511,175.80	9.69
9.001 - 10.000 .....	661	64,823,546.01	8.10
10.001 - 11.000 .....	1,246	74,766,310.32	9.35
11.001 - 12.000 .....	792	41,457,498.27	5.18
12.001 - 13.000 .....	23	1,675,582.40	0.21
13.001 - 14.000 .....	<u>15</u>	<u>834,999.07</u>	<u>0.10</u>
Total .....	<u>4,162</u>	<u>\$800,000,045.92</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average current Mortgage Rate of the Group II Mortgage Loans as of the Cut-off Date was approximately 7.835% per annum.

**Maximum Mortgage Rates of the Adjustable-Rate Group II Mortgage Loans<sup>(1)</sup>**

<b>Maximum Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
10.001 - 11.000 .....	8	\$ 3,169,777.46	0.63%
11.001 - 12.000 .....	121	52,694,061.81	10.51
12.001 - 13.000 .....	463	194,847,855.94	38.86
13.001 - 14.000 .....	285	128,168,136.03	25.56
14.001 - 15.000 .....	156	70,205,379.16	14.00
15.001 - 16.000 .....	94	34,991,907.51	6.98
16.001 - 17.000 .....	42	11,856,377.86	2.36
17.001 - 18.000 .....	17	4,434,829.25	0.88
18.001 - 19.000 .....	4	557,062.43	0.11
19.001 - 20.000 .....	<u>9</u>	<u>439,236.93</u>	<u>0.09</u>
Total .....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Maximum Mortgage Rate of the adjustable-rate Group II Mortgage Loans as of the Cut-off Date was approximately 13.347% per annum.

**Minimum Mortgage Rates of the Adjustable-Rate Group II Mortgage Loans<sup>(1)</sup>**

<b>Minimum Mortgage Rate (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
4.001 - 5.000 .....	8	\$ 3,169,777.46	0.63%
5.001 - 6.000 .....	121	52,694,061.81	10.51
6.001 - 7.000 .....	464	195,198,469.05	38.93
7.001 - 8.000 .....	285	128,310,701.87	25.59
8.001 - 9.000 .....	155	69,712,200.21	13.90
9.001 - 10.000 .....	94	34,991,907.51	6.98
10.001 - 11.000 .....	42	11,856,377.86	2.36
11.001 - 12.000 .....	17	4,434,829.25	0.88
12.001 - 13.000 .....	4	557,062.43	0.11
13.001 - 14.000 .....	<u>9</u>	<u>439,236.93</u>	<u>0.09</u>
Total .....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Minimum Mortgage Rate of the adjustable-rate Group II Mortgage Loans as of the Cut-off Date was approximately 7.346% per annum.

**Gross Margins of the Adjustable-Rate Group II Mortgage Loans<sup>(1)</sup>**

<b>Gross Margin (%)</b>	<b>Number of Mortgage Loans</b>	<b>Scheduled Principal Balance as of the Cut-off Date</b>	<b>% of Aggregate Scheduled Principal Balance as of the Cut-off Date</b>
4.001 - 5.000 .....	841	\$359,698,008.87	71.74%
5.001 - 6.000 .....	291	122,043,942.91	24.34
6.001 - 7.000 .....	<u>67</u>	<u>19,622,672.60</u>	<u>3.91</u>
Total .....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

<sup>(1)</sup> The weighted average Gross Margin of the adjustable-rate Group II Mortgage Loans as of the Cut-off Date was approximately 5.164% per annum.

### Next Adjustment for the Adjustable-Rate Group II Mortgage Loans

Next Adjustment Date	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
April 2003.....	1	\$ 398,597.19	0.08%
May 2003.....	5	2,439,180.40	0.49
June 2003.....	9	5,697,536.23	1.14
July 2004.....	5	2,591,252.73	0.52
August 2004.....	5	927,767.66	0.19
September 2004.....	7	3,162,079.47	0.63
October 2004.....	23	11,158,083.66	2.23
November 2004.....	347	142,585,118.32	28.44
December 2004.....	442	186,654,700.39	37.23
January 2005.....	304	127,082,172.17	25.35
July 2005.....	1	63,405.07	0.01
November 2005.....	13	5,406,758.53	1.08
December 2005.....	19	5,879,809.35	1.17
January 2006.....	14	5,424,925.02	1.08
November 2007.....	1	665,663.36	0.13
December 2007.....	2	819,164.87	0.16
January 2008.....	<u>1</u>	<u>408,409.96</u>	<u>0.08</u>
Total.....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

### Initial Periodic Rate Caps of the Adjustable-Rate Group II Mortgage Loans<sup>(1)</sup>

Initial Periodic Rate Cap (%)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
1.000.....	1,145	\$481,181,079.78	95.97%
3.000.....	<u>54</u>	<u>20,183,544.60</u>	<u>4.03</u>
Total.....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

<sup>(1)</sup> Relates solely to initial rate adjustments.

### Subsequent Periodic Rate Caps of the Adjustable-Rate Group II Mortgage Loans<sup>(1)</sup>

Periodic Rate Cap (%)	Number of Mortgage Loans	Scheduled Principal Balance as of the Cut-off Date	% of Aggregate Scheduled Principal Balance as of the Cut-off Date
1.000.....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>
Total.....	<u>1,199</u>	<u>\$501,364,624.38</u>	<u>100.00%</u>

<sup>(1)</sup> Relates to all rate adjustments subsequent to initial rate adjustments.

## LONG BEACH MORTGAGE COMPANY

### General

The information set forth in the following paragraphs has been provided by the Master Servicer. None of the Depositor, the Subservicer (except with respect to the information set forth in “—Washington Mutual Bank, FA”), the Trustee, the NIMS Insurer, if any, the Guarantor, the underwriters of the Non-Offered Certificates, WaMu Capital Corp. or any of their affiliates has made or will make any representation as to the accuracy or completeness of such information.

The Master Servicer, a Delaware corporation, is a specialty finance company engaged in the business of originating, purchasing, selling and, through WMBFA, servicing mortgage loans secured by one- to four-family residences that generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower’s credit history and debt-to-income ratio. Borrowers who qualify under the Master Servicer’s underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. The Master Servicer originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae. The Master Servicer began originating mortgage loans in 1988.

The Master Servicer and WMBFA are each approved as a seller/servicer for Fannie Mae and as a servicer for Freddie Mac. The Master Servicer is also approved as a non-supervised mortgagee by the U.S. Department of Housing and Urban Development.

In October 1999, Washington Mutual, Inc. (“WM”), a publicly traded financial services company headquartered in Seattle, Washington, acquired the parent company of the Master Servicer. As a result of this transaction, the Master Servicer became a wholly-owned subsidiary of WM.

Effective April 9, 2001, the Master Servicer transferred to WMBFA substantially all of its servicing portfolio and servicing operations, and in connection therewith, appointed WMBFA as a subservicer to perform, on behalf of the Master Servicer, the servicing functions that are required to be performed with respect to the Mortgage Loans. The servicing functions being performed by WMBFA are performed by servicing personnel, many of whom were formerly employed by the Master Servicer. See “Risk Factors—The Subservicer Has Limited Experience Servicing Mortgage Loans Underwritten Under the Seller’s Underwriting Standards” in this information supplement.

*Washington Mutual Bank, FA.* Washington Mutual Bank, FA, the subservicer, is a federally chartered savings association. The primary mortgage loan servicing office of WMBFA is located at 19850 Plummer Street, Chatsworth, California 91311. Its telephone number is (818) 775-2278. WMBFA is subject to regulation and examination by the Office of Thrift Supervision (“OTS”), which is its primary regulator. Its deposit accounts are insured by the FDIC primarily through the Savings Association Insurance Fund. As a result, the FDIC also has some authority to regulate WMBFA. WMBFA is a wholly-owned subsidiary of WM.

*Lending Activities and Loan Sales.* The Master Servicer originates real estate loans through its network of offices and loan origination centers. The Master Servicer also participates in secondary market activities by originating and selling mortgage loans, the majority of which continue to be serviced by WMBFA. In other cases, the Master Servicer’s whole loan sale agreements provide for the transfer of servicing rights.

The Master Servicer’s primary lending activity is funding loans to enable mortgagors to purchase or refinance residential real property, which loans are secured by first or second liens on the related real property. The Master Servicer’s single-family real estate loans are predominantly “conventional” mortgage loans, meaning that they are not insured by the Federal Housing Administration or partially guaranteed by the U.S. Department of Veterans Affairs.



The following table summarizes the Master Servicer's one- to four-family residential mortgage loan origination activity for the periods shown below.

	Year ended December 31,				
	1998	1999	2000 <sup>(1)</sup>	2001	2002 <sup>(2)</sup>
	(Dollars in Thousands)				
Originations and Purchases .....	\$2,575,965	\$3,181,948	\$3,859,472	\$5,537,589	\$5,836,479

<sup>(1)</sup> Excludes \$475,125,156 of loans which were originated and sold to Washington Mutual, Inc. in 1999 (included in the 1999 balance) and were subsequently repurchased in 2000 and sold.

<sup>(2)</sup> Through September 30, 2002.

*Loan Servicing; The Subservicing Agreement.* The Master Servicer and WMBFA are parties to a subservicing agreement dated as of April 9, 2001 (the "Subservicing Agreement") pursuant to which the Master Servicer appointed WMBFA, effective April 9, 2001, to service all of the mortgage loans the Master Servicer originates that are retained in the Master Servicer's loan servicing portfolio, except certain loans that were delinquent at the time, and at least a majority of the loans originated by the Master Servicer that have been sold to investors. All mortgage loans including the mortgage loans that were delinquent on April 9, 2001 are currently being serviced by WMBFA pursuant to the Subservicing Agreement. Servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, and supervising foreclosure in the event of unremedied defaults. All of the Mortgage Loans are serviced by WMBFA.

The Master Servicer's and WMBFA's servicing activities are examined periodically by applicable regulatory authorities. Certain financial records of each of the Master Servicer and WMBFA relating to their loan servicing activities are reviewed annually as part of the audit of the Master Servicer's and WMBFA's financial statements conducted by their independent accountants.

*Collection Procedures.* WMBFA's collection procedures are substantially similar to those formerly used by the Master Servicer. When a mortgagor fails to make a required payment on a residential mortgage loan, WMBFA attempts to cause the deficiency to be cured by communicating with the mortgagor. In most cases, deficiencies are cured promptly. Pursuant to WMBFA's customary procedures for residential mortgage loans serviced by it for its own account, WMBFA generally mails a notice of intent to foreclose to the mortgagor after the loan is delinquent two payments and, within one month thereafter, if the loan remains delinquent, typically institutes appropriate legal action to foreclose on the property securing the loan. If foreclosed, the property is sold at public or private sale and may be purchased by the Master Servicer or WMBFA. In California, real estate lenders are generally unable as a practical matter to obtain a deficiency judgment against the mortgagor on a loan secured by single-family real estate.

*Loan Servicing Portfolio, Delinquency and Loss Experience.* The following table sets forth the delinquency and loss experience at the dates indicated for the Master Servicer's total loan servicing portfolio. The information set forth in the table at December 31, 2001 and thereafter reflects the delinquency and loan loss experience of the Master Servicer's loan servicing portfolio since WMBFA began servicing this portfolio in April 2001. The information set forth in the table at the other dates indicated reflects the delinquency and loan loss experience of the Master Servicer in servicing its loan servicing portfolio:<sup>(1)</sup>

	September 30, 2002	December 31, 2001	December 31, 2000	December 31, 1999
	(Dollars in Thousands)			
Total Outstanding Principal Balance .....	\$12,598,964	\$9,264,325	\$5,974,510	\$3,951,592
Number of Loans .....	94,859	75,293	52,850	35,359
DELINQUENCY				
Period of Delinquency:				
31-60 Days				
Principal Balance .....	\$493,018	\$403,817	\$171,440	\$63,403
Number of Loans .....	4,434	3,549	1,713	645
Delinquency as a Percentage of Total Outstanding Principal Balance .....	3.91%	4.36%	2.87%	1.60%
Delinquency as a Percentage of Number of Loans ....	4.67%	4.71%	3.24%	1.82%
61-90 Days				
Principal Balance .....	\$211,940	\$189,932	\$80,024	\$31,375
Number of Loans .....	1,904	1,712	815	278
Delinquency as a Percentage of Total Outstanding Principal Balance .....	1.68%	2.05%	1.34%	0.79%
Delinquency as a Percentage of Number of Loans ....	2.01%	2.27%	1.54%	0.79%
91 Days or More				
Principal Balance .....	\$887,075	\$775,987	\$268,054	\$97,653
Number of Loans .....	8,465	7,436	2,575	939
Delinquency as a Percentage of Total Outstanding Principal Balance .....	7.04%	8.38%	4.49%	2.47%
Delinquency as a Percentage of Number of Loans ....	8.92%	9.88%	4.87%	2.66%
Total Delinquencies				
Principal Balance .....	\$1,592,033	\$1,369,736	\$519,518	\$192,433
Number of Loans .....	14,803	12,697	5,103	1,862
Delinquency as a Percentage of Total Outstanding Principal Balance .....	12.64%	14.79%	8.70%	4.87%
Delinquency as a Percentage of Number of Loans ....	15.61%	16.86%	9.66%	5.27%
FORECLOSURES PENDING <sup>(2)</sup>				
Principal Balance .....	\$457,404	\$459,500	\$187,165	\$97,661
Number of Loans .....	4,310	4,530	1,795	930
Foreclosures Pending as a Percentage of Total Outstanding Principal Balances .....	3.63%	4.96%	3.13%	2.47%
Foreclosures Pending as a Percentage of Number of Loans .....	4.54%	6.02%	3.40%	2.63%
NET LOAN LOSSES				
for the Period <sup>(3)</sup> .....	\$34,848	\$20,264	\$7,184	\$2,771
NET LOAN LOSSES as a Percentage of Total Outstanding Principal Balance .....	0.28%	0.22%	0.12%	0.07%

<sup>(1)</sup> The delinquency and loss experience of the mortgage loans serviced by Long Beach may not be representative of WMBFA's performance in servicing the Mortgage Loans. See "Risk Factors—The Subservicer Has Limited Experience Servicing Mortgage Loans Underwritten Under the Seller's Underwriting Standards."

<sup>(2)</sup> Includes mortgage loans which are in foreclosure but as to which title to the mortgaged property has not been acquired, at the dates indicated. Foreclosures pending are included in the delinquencies set forth above.

<sup>(3)</sup> Net Loan Losses is calculated for loans conveyed to REMIC trust funds as the aggregate of the net loan loss for all such loans liquidated during the period indicated. The Net Loan Loss for any such loan is equal to the difference between (a) the principal balance plus accrued interest through the date of liquidation plus all liquidation expenses related to such loan and (b) all amounts received in connection with the liquidation of such loan. The majority of residential loans reflected in this table have been conveyed to REMIC trust funds.

As of September 30, 2002, 1,948 one- to four-family residential properties relating to loans in the Master Servicer's loan servicing portfolio had been acquired through foreclosure or deed in lieu of foreclosure and were not liquidated.

The delinquency and loss experience of the Mortgage Loans is unlikely to correspond to the delinquency and loss experience of the Master Servicer's loan servicing portfolio set forth in the foregoing table. The statistics shown above represent the delinquency and loss experience for the Master Servicer's total loan servicing portfolio only for the periods presented, whereas the aggregate delinquency and loss experience on the Mortgage Loans will depend on the results obtained over the life of the Trust. If the residential real estate market should experience an overall decline in property values, the actual rates of delinquencies, foreclosures and losses could be higher than those previously experienced by the Master Servicer and WMBFA. In addition, adverse economic conditions (which may or may not affect real property values) may affect the timely payment by mortgagors of scheduled payments of principal and interest on the Mortgage Loans and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to the Mortgage Loans.

The delinquency and loss experience percentages set forth above in the immediately preceding table are calculated on the basis of the total mortgage loans serviced at the dates indicated. However, because the total outstanding principal balance of residential loans serviced by the Master Servicer, and since April 9, 2001 by WMBFA, has increased from \$3,951,592,000 at December 31, 1999 to \$12,598,964 at September 30, 2002, the total outstanding principal balance of originated loans serviced at the dates indicated includes many loans that will not have been outstanding long enough to give rise to some or all of the indicated periods of delinquency. In the absence of such substantial and continual additions of newly originated loans to the total amount of loans serviced, the percentages indicated above would be higher and could be substantially higher. The actual delinquency percentages with respect to the Mortgage Loans may be expected to be substantially higher than the delinquency percentages indicated above because the composition of the Mortgage Loans will not change.

### **Underwriting Standards**

The Mortgage Loans have been, or will be, acquired by the Depositor from the Seller (referred to in this Section as "Long Beach"). All of the Mortgage Loans were, or will be, originated, acquired or re-underwritten upon acquisition by Long Beach generally in accordance with the underwriting criteria described below.

The information regarding Long Beach's underwriting standards has been provided by Long Beach. None of the Depositor, the Subservicer, the Trustee, the Guarantor, the underwriters of the Non-Offered Certificates, WaMu Capital Corp. or any of their affiliates has made any independent investigation of such information or has made or will make any representation as to the accuracy or completeness of such information.

The Mortgage Loans were, or will be, originated or re-underwritten, in the case of Mortgage Loans acquired by Long Beach from WMBFA, Washington Mutual Bank ("WMB") or Washington Mutual Bank fsb ("WMB fsb") (the "WAMU Loans"), generally in accordance with guidelines established by Long Beach under its Full Documentation ("Full Doc"), Limited Documentation ("Limited Doc") or Stated Income Documentation ("Stated Income") residential loan programs. Long Beach's underwriting guidelines are primarily intended to evaluate the value and adequacy of the mortgaged property as collateral and to consider the mortgagor's credit standing and repayment ability. On a case-by-case basis and only with the approval of a lending officer with appropriate risk level authority, Long Beach may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under its underwriting risk category guidelines warrants an underwriting exception. Compensating factors may include, but are not limited to, low loan-to-value ratio, low debt-to-income ratio, good credit history, stable employment and time in residence at the applicant's current address. It is expected that a substantial number of the Mortgage Loans to be included in the Mortgage Pool will represent exceptions to the underwriting guidelines.

Under Long Beach's programs, during the underwriting or re-underwriting process, Long Beach reviews and verifies the loan applicant's sources of income (only under the Full Doc residential loan program), calculates the amount of income from all such sources indicated on the loan application, reviews the credit history of the applicant and calculates the debt-to-income ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with Long Beach's underwriting guidelines. Long Beach applies its underwriting guidelines in accordance with a procedure which complies with applicable federal and state laws and regulations and requires (i) an

appraisal of the mortgaged property which generally conforms to Fannie Mae and Freddie Mac standards and (ii) a review of that appraisal. The appraisal review may be conducted by a representative of Long Beach or WMBFA and, depending upon the original principal balance and loan-to-value ratio of the mortgaged property, may include a desk review of the original appraisal or a drive-by review appraisal of the mortgaged property. In re-underwriting the WAMU loans under its underwriting guidelines, Long Beach did not obtain a new appraisal for the mortgaged properties securing the WAMU Loans but completed a desk review of the original appraisals for each of such mortgaged properties.

Long Beach's underwriting guidelines permit loans with loan-to-value ratios at origination of up to 95%. The maximum allowable loan-to-value ratio varies based upon the residential loan program, income documentation, property type, creditworthiness, debt service-to-income ratio of the mortgagor and the overall risks associated with the loan decision. Under the residential loan programs, the maximum combined loan-to-value ratio, including any second liens subordinate to Long Beach's first lien, is generally 100% for owner occupied mortgaged properties and 90% for non-owner occupied mortgaged properties.

All of the Mortgage Loans are either originated under Long Beach's underwriting programs based on loan application packages submitted through mortgage brokerage companies, purchased from approved originators or purchased from WMBFA, WMB or WMB fsb. Loan application packages submitted through mortgage brokerage companies, containing relevant credit, property and underwriting information on the loan request, are compiled by the mortgage brokerage company and submitted to Long Beach for approval and funding. The mortgage brokerage companies receive a portion of the loan origination fee charged to the mortgagor at the time the loan is made. No single mortgage brokerage company accounts for more than 5%, measured by outstanding principal balance, of the mortgage loans originated by Long Beach.

Each prospective mortgagor completes an application which includes information with respect to the applicant's liabilities, income, credit history and employment history, as well as certain other personal information. Long Beach obtains a credit report on each applicant from a credit reporting company or, in the case of the WAMU Loans, reviews the credit report on the mortgagor obtained when the mortgage loan was originated. 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. The applicant must generally provide to Long Beach or the originator a letter explaining all late payments on mortgage debt and, generally, non-mortgage consumer debt. Under the Full Doc residential loan program, self-employed individuals are generally required to submit their most recent federal income tax return. As part of its quality control system, Long Beach re-verifies information with respect to the foregoing matters that has been provided by the mortgage brokerage company prior to funding a loan and WMBFA, as subservicer, periodically audits files based on a random sample of closed loans. In the course of its pre-funding audit, Long Beach re-verifies the income of each mortgagor or, for a self-employed individual, reviews the income documentation obtained (only under the Full Doc residential loan program). Long Beach generally verifies the source of funds for the down payment. In the course of its re-underwriting of the WAMU Loans, Long Beach reviews the mortgagor's application completed in connection with the origination of the mortgage loan but does not re-verify any of the information included in such application.

The mortgaged properties are appraised by qualified independent appraisers who are approved through WMBFA's approved appraiser process. In most cases, properties in below average condition, including properties requiring major deferred maintenance, are not acceptable under the Long Beach underwriting programs. 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. Every independent appraisal is reviewed by a representative of Long Beach or WMBFA before the loan is funded or re-underwritten.

Long Beach uses a credit scoring system as part of its underwriting and re-underwriting process. The credit scoring system assesses a prospective borrower's ability to repay a mortgage loan based upon predetermined mortgage loan characteristics and credit risk factors. The credit scoring model generates a credit score (also known as a FICO score) ranging from around 250 to 900, with a higher score indicating a borrower with a relatively more favorable credit history. The credit score is based upon such factors as the prospective borrower's payment history, delinquencies on accounts, levels of outstanding debt, length of credit history, types of credit and bankruptcy experience.

Long Beach originates or acquires mortgage loans that generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower's

credit history and debt-to-income ratio. Borrowers who qualify under Long Beach's underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. Long Beach originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae. Long Beach's underwriting guidelines establish the maximum permitted loan-to-value ratio for each loan type based upon these and other risk factors.

Under the Limited Doc and Stated Income residential loan programs, the mortgagor's employment and income sources must be stated on the mortgagor's application. The mortgagor'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 mortgagor's income as stated on the application is not independently verified. Verification of employment is required for salaried mortgagors only in mortgage loans underwritten by Long Beach but not in re-underwritten mortgage loans. Maximum loan-to-value ratios are generally lower under the Limited Doc and Stated Income residential loan programs than those permitted under the Full Doc residential loan program. Except as otherwise stated above, the same mortgage credit, consumer credit and collateral property underwriting guidelines that apply to the Full Doc residential loan program apply to the Limited Doc and Stated Income residential loan programs.

Long Beach requires that all mortgage loans in its underwriting programs have title insurance and be secured by liens on real property. Long Beach also requires that fire and extended coverage casualty insurance be maintained on the secured property in an amount at least equal to the principal balance of the mortgage loan or the replacement cost of the property, whichever is less. Long Beach does not require that the mortgage loans originated or re-underwritten under its underwriting programs be covered by a primary mortgage insurance policy.

#### *Long Beach's Risk Categories*

Under Long Beach's underwriting 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 and loan amount, given the occupancy status of the mortgaged property and the mortgagor's credit history and debt ratio. In general, higher credit risk mortgage loans are graded in categories which permit higher debt ratios and more (or more recent) major derogatory credit items such as outstanding judgments or prior bankruptcies; however, Long Beach's underwriting programs establish lower maximum loan-to-value ratios and maximum loan amounts for loans graded in such categories.

Long Beach's underwriting guidelines have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:

Credit Grade: "AA". Under the "AA" risk categories, the applicant must generally have repaid installment or revolving debt according to its terms. Open or unpaid collections, charge-offs, judgments, garnishments, liens or derogatory public records in the last two years are permitted provided there are no more than two such accounts with an aggregate balance of \$1,000. Minor credit derogatory items are acceptable. The borrower must have a credit report reflecting a two year credit history and a prior mortgage or rental history evidencing no 30-day late payments during the last 24 months. First time home buyers are acceptable. No bankruptcy filings may have occurred and no discharge may have occurred during the previous four years (two years for medical-related bankruptcies with proper documentation). There must be a minimum of four years between the cure date of any foreclosure and the loan application date and credit must have been satisfactorily re-established. No open lawsuits in the prior two years are permitted, however, the borrower may be a plaintiff in a lawsuit if a reasonable explanation is provided. For loans with principal balances that conform to the Fannie Mae loan limits there is no limit on the number of properties owned by the borrower as a primary residence, second home and non-owner occupied properties. Where the borrower owns more than eight financed properties the borrower must have verified cash reserves equal to at least six months PITI for each new loan for a non-owner occupied property financed by Long Beach. For loans with principal balances that do not conform to the Fannie Mae loan limits the borrower may finance no more than eight other properties consisting of one-to-four units. Maximum qualifying debt service-to-income ratio is 47/47. A maximum loan-to-value ratio of 95% is permitted for owner occupied mortgaged property and a maximum loan-to-value ratio of 90% is permitted for second home and non-owner occupied mortgaged property.

Credit Grade: “A”. Under the “A” risk categories, the applicant generally must have repaid installment or revolving debt according to its terms. Some non-consumer credit, collections or judgments may be disregarded on a case-by-case basis. Any and all delinquent payments made within the past 12 months may not represent more than 35% of the credit reported during that period. Minor derogatory items are permitted on a case-by-case basis as to non-mortgage credit when the majority of the consumer credit is good. No bankruptcy filings may have occurred during the preceding one year and no discharge or notice of default filings may have occurred during the preceding two years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 90% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 85% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units. Generally, the debt service-to-income ratio maximum may be 55% based on the mortgagor’s net disposable income and if the loan-to-value ratio is less than or equal to 90%. In addition, the applicant must have a credit score of 600 or higher.

Credit Grade: “A1”. Under the “A1” risk sub-category, in addition to the characteristics described under the “A” risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 640 or higher and a debt service-to-income ratio of 45% or less.

Credit Grade: “A2”. Under the “A2” risk sub-category, in addition to the characteristics described under the “A” risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 620 or higher and a debt service-to-income ratio of 50% or less.

Credit Grade: “A3”. Under the “A3” risk sub-category, in addition to the characteristics described under the “A” risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 600 or higher and a debt service-to-income ratio of 55% or less.

Credit Grade: “A-”. Under the “A-” risk categories, the applicant generally must have repaid installment or revolving debt according to its terms. Some non-consumer credit, collections or judgments may be disregarded on a case-by-case basis. Any and all delinquent payments made within the past 12 months may not represent more than 35% of the credit reported during that period. Minor derogatory items are permitted on a case-by-case basis as to non-mortgage credit when the majority of the consumer credit is good. No bankruptcy filings may have occurred during the preceding one year and no discharge or notice of default filings may have occurred during the preceding two years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 90% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 85% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units. Generally, the debt service-to-income ratio maximum may be 55% based on the mortgagor’s net disposable income and if the loan-to-value ratio is less than or equal to 90%.

Credit Grade: “A-1”. Under the “A-1” risk sub-category, in addition to the characteristics described under the “A-” risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as borrower. In addition, the applicant must have a credit score of 620 or higher and a debt service-to-income ratio of 45% or less.

Credit Grade “A-2”. Under the “A-2” risk sub-category, in addition to the characteristics described under the “A-” risk category above, no late payments are permitted during the previous twelve months on an existing mortgage

loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as borrower.

Credit Grade "A-3". Under the "A-3" risk sub-category, in addition to the characteristics described under the "A-" risk category above, no late payments are permitted during the previous twelve months on an existing mortgage loan on the property which is being made subject to Long Beach's lien.

Credit Grade "A-4". Under the "A-4" risk sub-category, in addition to the characteristics described under the "A-" risk category above, a maximum of one 30-day late payment and no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade "A-5". Under the "A-5" risk sub-category, in addition to the characteristics described under the "A-" risk category above, a maximum of two 30-day late payments and no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade: "B". Under the "B" risk category, the applicant must have generally repaid installment or revolving debt according to its terms. Certain non-consumer credit, collections or judgments may be disregarded on a case-by-case basis. Any and all delinquent payments within the past 12 months may not represent more than 50% of the credit reported during that period. No bankruptcy filings may have occurred during the preceding one year and no discharge or notice of default filings may have occurred during the preceding three years. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 85% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 80% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 80% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must be 55% or less based on the mortgagor's net disposable income and/or loan-to-value ratio.

Credit Grade "B1". Under the "B1" risk sub-category, in addition to the characteristics described under the "B" risk category described above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade "B2". Under the "B2" risk sub-category, in addition to the characteristics described under the "B" risk category described above, a maximum of one 30-day late payment and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade "B3". Under the "B3" risk sub-category, in addition to the characteristics described under the "B" risk category described above, a maximum of two 30-day late payments and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade "B4". Under the "B4" risk sub-category, in addition to the characteristics described under the "B" risk category described above, a maximum of three 30-day late payments and generally no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach's lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade: "B-". Under the "B-" risk category, the borrower's consumer credit history is generally not considered in lieu of a strong mortgage or rental payment history. No payment delinquent more than 30 days at the time of application is permitted on an existing mortgage loan. Certain collections or judgments may be disregarded on a case-by-case basis. No bankruptcy filings may have occurred during the preceding twelve months and no discharge or notice of default filings may have occurred during the preceding eighteen months. The mortgaged property must be in at least

average condition. A maximum loan-to-value ratio of 85% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 75% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 75% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%.

Credit Grade “B-1”. Under the “B-1” risk sub-category, in addition to the characteristics described under the “B-” risk category described above, no late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade “B-2”. Under the “B-2” risk sub-category, in addition to the characteristics described under the “B-” risk category described above, a maximum of one 30-day late payment and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade “B-3”. Under the “B-3” risk sub-category, in addition to the characteristics described under the “B-” risk category described above, a maximum of two 30-day late payments and no 60-day late payments are permitted during the previous twelve months on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade “B-4”. Under the “B-4” risk sub-category, in addition to the characteristics described under the “B-” risk category described above, a maximum of three 30-day late payments and generally no 60-day late payments during the previous twelve months are permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade “B-5”. Under the “B-5” risk sub-category, in addition to the characteristics described under the “B-” risk category described above, a maximum of one 60-day late payment during the previous twelve months is permitted on an existing mortgage loan, on either the property which is being made subject to Long Beach’s lien or any mortgage on any other property for which the applicant is listed as mortgagor.

Credit Grade: “C”. Under the “C” risk category, the applicant may have experienced significant credit problems in the past. A maximum of four 60-day late payments and no 90-day late payments, or three 60-day late payments and one 90-day late payment, within the last 12 months is permitted on an existing mortgage loan. An existing mortgage loan is not required to be current at the time the application is submitted, but cannot be more than 60 days delinquent at funding. Consumer credit derogatory items will be considered on a case-by-case basis. No bankruptcy, discharge or notice of default filings may have occurred during the preceding twelve months. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 75% (80% with no cash out to the borrower) is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 70% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 70% is permitted for non-owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 65% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%; however, a debt service-to-income ratio of 55% to 60% will be considered on a case-by-case basis.

Credit Grade: “D”. Under the “D” risk category, the applicant may have experienced significant credit problems in the past. The applicant may be in bankruptcy or have a notice of default or foreclosure, and in any such case must provide a reasonable explanation including why the problem no longer exists. All debts in bankruptcy must be paid off or discharged or the proceeding dismissed prior to the funding of the mortgage loan. The mortgaged property must be in at least average condition. A maximum loan-to-value ratio of 65% is permitted for owner occupied purchase money and/or refinance mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 60% is permitted on an owner occupied mortgaged property consisting of three-to-four units or second homes. A maximum loan-to-value ratio of 60% is permitted for non-owner occupied purchase money and/or refinance



mortgage loans on single-family, two-unit and condominium properties, and a maximum loan-to-value ratio of 50% is permitted on a non-owner occupied mortgaged property consisting of three-to-four units or second homes. Generally, the debt service-to-income ratio must not exceed 55%; however, a debt service-to-income ratio of 55% to 60% will be considered on a case-by-case basis.

The Seller will make representations and warranties as of the Closing Date with respect to the Mortgage Loans, and will be obligated to replace or repurchase any such Mortgage Loan in respect of which a breach of the representations and warranties it has made has occurred (other than those breaches which have been cured) if such breach of any such representation or warranty materially and adversely affects the Certificateholders' interests in such Mortgage Loan.

### **THE DEPOSITOR**

Long Beach Securities Corp., the Depositor, is a Delaware corporation incorporated on July 13, 2000 as a wholly-owned subsidiary of Long Beach Mortgage Company. The Depositor was organized for the purpose of serving as a private secondary mortgage market conduit. The Depositor maintains its principal office at 1100 Town & Country Road, Orange, California 92868. Its telephone number is (714) 541-5378. The Depositor does not have, nor is it expected in the future to have, any significant assets.

## **THE POOLING AGREEMENT**

### **General**

The Certificates will be issued pursuant to the Pooling Agreement. The Trust created under the Pooling Agreement will consist of (i) all of the Depositor's right, title and interest in the Mortgage Loans, the related mortgage notes, Mortgages and other related documents, (ii) all scheduled payments on the Mortgage Loans due after the Cut-off Date and all unscheduled collections of principal in respect of the Mortgage Loans received after January 1, 2003 (other than the portion of such collections due on or prior to the Cut-off Date), together with any proceeds thereof, (iii) any Mortgaged Properties acquired on behalf of Certificateholders by foreclosure or by deed in lieu of foreclosure, and any revenues received thereon, (iv) the rights of the Trustee under all insurance policies required to be maintained pursuant to the Pooling Agreement, (v) the Guaranty, (vi) the Net WAC Rate Carryover Reserve Fund and the rights of the Trustee under the Cap Agreements and (vii) certain rights of the Depositor under the Mortgage Loan Purchase Agreement.

The Guarantor will be a party to the Pooling Agreement and will have certain rights thereunder, including, among other things, the right to be reimbursed for payments made on its guaranty and voting rights with respect to the Offered Certificates. The NIMS Insurer, if any, will be a third party beneficiary of the Pooling Agreement and will have certain other rights.

### **Assignment of the Mortgage Loans**

On the Closing Date, the Depositor will transfer to the Trust all of its right, title and interest in and to each Mortgage Loan, the related mortgage note, Mortgage, assignment of mortgage in recordable form in blank or to the Trustee and other related documents (collectively, the "Related Documents"), including all scheduled payments with respect to each such Mortgage Loan due after the Cut-off Date and all unscheduled collections of principal in respect of the Mortgage Loans received after January 1, 2003 (other than the portion of such collections due on or prior to the Cut-off Date). The Trustee, concurrently with such transfer and deposit, will deliver the Certificates to the Depositor. Each Mortgage Loan transferred to the Trust will be identified on a schedule (as amended from time to time, the "Mortgage Loan Schedule") delivered to the Trustee pursuant to the Pooling Agreement. The Mortgage Loan Schedule will include information such as the Scheduled Principal Balance of each Mortgage Loan as of the Cut-off Date, its Mortgage Rate as well as other information with respect to each Mortgage Loan.

The Pooling Agreement will require that, within the time period specified therein, the Depositor will deliver or cause to be delivered to the Trustee (or another custodian, as the Trustee's agent for such purpose) the mortgage notes endorsed to the Trustee on behalf of the Certificateholders and the Related Documents. In lieu of delivery of an original of certain of the Related Documents, if such original is not available or lost, the Depositor may deliver or cause to be delivered true and correct copies thereof, together with, in the case of a lost mortgage note, a lost note affidavit executed by the Seller. The assignments of mortgage are generally required to be recorded by or on behalf of the Depositor in the appropriate offices for real property records; provided, however, that such assignments of mortgage are required to be recorded unless each Rating Agency determines that such recording is not required in order for such Rating Agency to assign the initial rating to the Class A Certificates, the Class S Certificates, the Mezzanine Certificates and the NIMS; provided further, however, upon the occurrence of certain events set forth in the Pooling Agreement, each such assignment of mortgage will be recorded by the Master Servicer or the Trustee as set forth in the Pooling Agreement. The Depositor expects that the Rating Agencies will determine that no such recordation is required and that the assignments of mortgage for substantially all of the Mortgage Loans will not initially be recorded. Any cost associated with the recording of such assignments of mortgage will be borne by the Seller without reimbursement; provided, however, if the Seller fails to pay the cost of recording, such expense will be paid by the Master Servicer or the Trustee, as applicable, and will be reimbursable to such party (other than the Master Servicer so long as the Seller is also the Master Servicer) by the Trust prior to any distribution to Certificateholders.

On or prior to the Closing Date, the Trustee will review the Mortgage Loans and the Related Documents to the limited extent required pursuant to the Pooling Agreement. If at any time any Mortgage Loan or Related Document is found to be defective in any material respect and such defect is not cured within 90 days following notification thereof to the Seller by the Trustee, the Seller will be obligated to either (i) substitute for such Mortgage Loan a Qualified Substitute Mortgage Loan (as defined below), provided that such substitution is permitted only within two years of the

Closing Date and may not be made unless an opinion of counsel is provided to the effect that such substitution will not disqualify any of the REMICs as a REMIC or result in a prohibited transaction tax under the Internal Revenue Code of 1986, as amended (the “Code”), or (ii) purchase such Mortgage Loan at a price (the “Purchase Price”) equal to the Stated Principal Balance of such Mortgage Loan as of the date of purchase, plus all accrued and unpaid interest thereon, computed at the applicable Mortgage Rate through the end of the calendar month in which the purchase is effected, plus the amount of any unreimbursed Advances and Servicing Advances (each as defined in this information supplement) made by the Master Servicer. The Purchase Price will be required to be remitted to the Master Servicer for deposit in the Collection Account (as defined in this information supplement) on or prior to the next succeeding Determination Date (as defined in this information supplement) after such obligation arises. The obligation of the Seller to repurchase or substitute for a Deleted Mortgage Loan (as defined in this information supplement) is the sole remedy regarding any defects in the Mortgage Loans and Related Documents available to the Trustee, the Certificateholders or the Guarantor.

In connection with the substitution of a Qualified Substitute Mortgage Loan, the Seller will be required to deposit in the Collection Account on or prior to the next succeeding Determination Date after such obligation arises an amount (the “Substitution Adjustment”) equal to the excess of the Stated Principal Balance of the related Deleted Mortgage Loan over the Stated Principal Balance of such Qualified Substitute Mortgage Loan.

A “Qualified Substitute Mortgage Loan” is a mortgage loan substituted by the Seller for a Deleted Mortgage Loan which must, on the date of such substitution, (i) have an outstanding Scheduled Principal Balance (or in the case of a substitution of more than one Mortgage Loan for a Deleted Mortgage Loan, an aggregate Scheduled Principal Balance) not in excess of, and not more than 5% less than, the Scheduled Principal Balance of the Deleted Mortgage Loan; (ii) have a Mortgage Rate not less than the Mortgage Rate of the Deleted Mortgage Loan and not more than 1% in excess of the Mortgage Rate of such Deleted Mortgage Loan; (iii) with respect to an adjustable-rate Mortgage Loan, have a Maximum Mortgage Rate not greater than, and a Minimum Mortgage Rate not less than, those of the Deleted Mortgage Loan, have a Gross Margin equal to or greater than that of the Deleted Mortgage Loan and have a next Adjustment Date not more than two months later than the next Adjustment Date on the Deleted Mortgage Loan; (iv) have a lien priority equal to or superior to that of the Deleted Mortgage Loan; (v) have a remaining term to maturity not more than one year earlier and not later than the remaining term to maturity of the Deleted Mortgage Loan; (vi) have a loan-to-value ratio equal to or lower than the loan-to-value ratio of the Deleted Mortgage Loan; (vii) comply with each representation and warranty as to the Mortgage Loans set forth in the Mortgage Loan Purchase Agreement (deemed to be made as of the date of substitution); (viii) have been underwritten or re-underwritten by the Seller in accordance with the same or more favorable underwriting criteria and guidelines as the Deleted Mortgage Loan being replaced; (ix) have a risk grading of at least equal to the risk grading assigned on the Deleted Mortgage Loan; (x) be current (with no contractual delinquencies outstanding) as of the date of substitution; (xi) be secured by the same property type as the Deleted Mortgage Loan; (xii) with respect to Qualified Substitute Mortgage Loans substituted for Deleted Mortgage Loans that are Group I Mortgage Loans, have had an original Principal Balance that conformed to Fannie Mae loan limits as of the date of its origination and be otherwise acceptable to the Guarantor; and (xiii) satisfy certain other conditions specified in the Pooling Agreement.

The Seller will make certain representations and warranties as to the accuracy in all material respects of certain information furnished to the Trustee with respect to each Mortgage Loan (e.g., aggregate Scheduled Principal Balance as of the Cut-off Date and Mortgage Rate). In addition, the Seller will represent and warrant on the Closing Date that, among other things: (i) at the time of transfer to the Depositor, the Seller has transferred or assigned all of its right, title and interest in each Mortgage Loan and the Related Documents, free of any lien, and (ii) each Mortgage Loan complied, at the time of origination, in all material respects with applicable state and federal laws. Upon discovery of a breach of any such representation and warranty which materially and adversely affects the value of any Mortgage Loan or the interests of the Certificateholders in the related Mortgage Loan and Related Documents, the Seller will have a period of 90 days after the earlier of discovery or receipt of written notice of the breach to effect a cure. If the breach cannot be cured within the 90-day period, the Seller will be obligated to (i) substitute for such Mortgage Loan a Qualified Substitute Mortgage Loan or (ii) purchase such Mortgage Loan from the Trust. The same procedure and limitations that are set forth above for the substitution or purchase of Mortgage Loans as a result of deficient documentation relating thereto will apply to the substitution or purchase of a Mortgage Loan as a result of a breach of a representation or warranty in the Mortgage Loan Purchase Agreement that materially and adversely affects the interests of the Certificateholders.

Mortgage Loans required to be substituted for or purchased by the Seller as described in the preceding paragraphs are referred to as “Deleted Mortgage Loans.”

The Master Servicer will be required under the Pooling Agreement to accurately and fully report its borrower credit files to all three nationally-recognized credit repositories in a timely manner.

Pursuant to the Pooling Agreement, the Master Servicer will be responsible for the servicing and administration of the Mortgage Loans as more fully set forth therein.

#### **Payments on Mortgage Loans; Deposits to Collection Account and Distribution Account**

The Master Servicer will establish and maintain or cause to be maintained a separate trust account (the “Collection Account”) for the benefit of the Certificateholders. The Collection Account will be an Eligible Account (as defined in the Pooling Agreement). Upon receipt by the Master Servicer of amounts in respect of the Mortgage Loans (excluding amounts representing the Servicing Fee or other servicing compensation, reimbursement for Advances and Servicing Advances (each, as defined below) and Insurance Proceeds (as defined in “Description of the Certificates—Definitions” below) to be applied to the restoration or repair of a Mortgaged Property or similar items), the Master Servicer will deposit such amounts in the Collection Account. Amounts so deposited may be invested in Permitted Investments (as described in the Pooling Agreement) maturing no later than one business day prior to the date on which the amount on deposit therein is required to be deposited in the Distribution Account. The Trustee will establish an account (the “Distribution Account”) into which will be deposited amounts withdrawn from the Collection Account for distribution to Certificateholders on a Distribution Date and payment of certain fees and expenses of the Trust. The Distribution Account will be an Eligible Account. Amounts on deposit therein may be invested in Permitted Investments maturing on or before the business day prior to the related Distribution Date unless such Permitted Investments are invested in investments managed or advised by the Trustee or an affiliate thereof, in which case such Permitted Investments may mature on the related Distribution Date.

#### **Advances**

Subject to the following limitations, the Master Servicer will be obligated to advance or cause to be advanced on or before each Distribution Date its own funds, or funds in the Collection Account that are not included in the Available Funds for such Distribution Date, in an amount equal to the aggregate of all payments of principal and interest (net of Servicing Fees) that were due during the related Due Period on the Mortgage Loans and that were delinquent on the related Determination Date, plus certain amounts representing assumed payments not covered by any current net income on the Mortgaged Properties acquired by foreclosure or deed in lieu of foreclosure (any such advance, an “Advance” and together, the “Advances”).

Advances are required to be made only to the extent they are deemed by the Master Servicer to be recoverable from related late collections, Insurance Proceeds, condemnation proceeds or liquidation proceeds. The purpose of making such Advances is to maintain a regular cashflow to the Certificateholders, rather than to guarantee or insure against losses. The Master Servicer will not be required, however, to make any Advances with respect to reductions in the amount of the monthly payments on the Mortgage Loans due to bankruptcy proceedings or the application of the Relief Act. Subject to the recoverability standard above, the Master Servicer’s obligation to make Advances as to any Mortgage Loan will continue until the Mortgage Loan is paid in full or until the recovery of all liquidation proceeds and Insurance Proceeds thereon.

All Advances will be reimbursable to the Master Servicer from late collections, Insurance Proceeds, condemnation proceeds and liquidation proceeds from the related Mortgage Loan unless such amounts are deemed to be nonrecoverable by the Master Servicer from the proceeds of the related Mortgage Loan, in which event reimbursement will be made to the Master Servicer from general funds in the Collection Account. The Master Servicer may recover from amounts in the Collection Account the amount of any Advance that remains unreimbursed to the Master Servicer from the related liquidation proceeds after the final liquidation of the related Mortgage Loan or at such other time that such Advance is determined by the Master Servicer to be nonrecoverable from the proceeds of the related Mortgage Loan, and such reimbursement amount will not be available for remittance to the Trustee for distribution on the Certificates. In the event the Master Servicer fails in its obligation to make any required Advance, the Trustee in its

capacity as successor Master Servicer, will be obligated to make any such Advance, to the extent required in the Pooling Agreement.

In the course of performing its servicing obligations, the Master Servicer will pay all reasonable and customary “out-of-pocket” costs and expenses (including reasonable attorneys’ fees and disbursements) incurred in the performance of its servicing obligations, including, but not limited to, the cost of (i) the preservation, restoration, inspection and protection of the Mortgaged Properties, (ii) environmental audit reports, (iii) any enforcement or judicial proceedings, including foreclosures, (iv) the management and liquidation of Mortgaged Properties acquired in satisfaction of the related mortgage and (v) certain insurance premiums and certain ongoing expenses associated with the Mortgage Pool and incurred by the Master Servicer in connection with its responsibilities under the Pooling Agreement. Each such expenditure will constitute a “Servicing Advance.”

The Master Servicer’s right to reimbursement for Servicing Advances is limited to late collections on the related Mortgage Loan, including liquidation proceeds, condemnation proceeds, released mortgaged property proceeds, Insurance Proceeds and such other amounts as may be collected by the Master Servicer from the related mortgagor or otherwise relating to the Mortgage Loan in respect of which such unreimbursed amounts are owed, unless such amounts are deemed to be nonrecoverable by the Master Servicer from the proceeds of the related Mortgage Loan, in which event reimbursement will be made to the Master Servicer from general funds in the Collection Account.

The Pooling Agreement provides that the Trustee at the direction of the Master Servicer, on behalf of the Trust and with the consent of the parties set forth in the Pooling Agreement, may enter into a facility with any person which provides that such person (an “Advancing Person”) may fund Advances and/or Servicing Advances, although no such facility may reduce or otherwise affect the Master Servicer’s obligation to fund such Advances and/or Servicing Advances. Any Advances and/or Servicing Advances made by an Advancing Person will be reimbursed to the Advancing Person in the same manner as reimbursements would be made to the Master Servicer.

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

The principal compensation to be paid to the Master Servicer in respect of its servicing activities (the “Servicing Fee”) for the Mortgage Loans will be at the “Servicing Fee Rate” of 0.50% per annum on the Principal Balance of each Mortgage Loan. As additional servicing compensation, the Master Servicer is entitled to retain all service-related fees, including assumption fees, modification fees, extension fees, late payment charges, non-sufficient fund fees and other ancillary fees (but not prepayment charges, which will be distributed to the holders of the Class P Certificates), to the extent collected from mortgagors, together with any interest or other income earned on funds held in the Collection Account and any servicing accounts. The Master Servicer is obligated to deposit into the Collection Account the amount of any Prepayment Interest Shortfall (payments made by the Master Servicer in satisfaction of such obligation, “Compensating Interest”) but only in an amount up to its Servicing Fee for the related Distribution Date. The Master Servicer will be solely responsible for subservicing fees payable to WMBFA which shall be paid from the Servicing Fee.

The “Determination Date” with respect to any Distribution Date will be the 15th day of the calendar month in which such Distribution Date occurs or, if such 15th day is not a business day, the business day immediately preceding such 15th day. With respect to any Determination Date and each Mortgage Loan as to which a principal prepayment was applied during the portion of the related Prepayment Period (as defined below), the “Prepayment Interest Shortfall” is an amount equal to the interest at the applicable Mortgage Rate (net of the Servicing Fee Rate) on the amount of such principal prepayment for the lesser of (i) the number of days from the date on which the principal prepayment is applied until the last day of such Prepayment Period and (ii) 30 days.

### **Fannie Mae Guaranty**

On each Distribution Date, the Guarantor will be entitled to receive the Guaranty Fee payable primarily from interest collections on the Group I 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 A-1 Certificates and the Class S-1 Certificates (the “Guaranteed Certificates”), subject to the limitations described below, any amount by which the aggregate Certificate Principal Balance of the Class A-1 Certificates exceeds the aggregate Stated Principal Balance of the Group I Mortgage Loans on any Distribution Date, and the ultimate payment of principal on the Class 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 A-1 Certificates, although it will cover net Prepayment Interest Shortfalls and shortfalls resulting from application of the Relief Act (the “Relief Act Interest Shortfalls”).

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 from the Group I Interest Remittance Amount and (i) prior to the Stepdown Date or when a Trigger Event is in effect, from the Group I Principal Distribution Amount and (ii) after the Stepdown Date if a Trigger Event is not in effect, from the Class A-1 Principal Distribution Amount prior to any other distributions from the Group I Interest Remittance Amount or the Group I Principal Distribution Amount.

The “Guaranty Fee,” for any Distribution Date and with respect to the Guaranteed Certificates, is the fee payable to the Guarantor in respect of its services as guarantor that accrues at the applicable Guaranty Fee Rate for such Guaranteed Certificates on a balance equal to the aggregate Certificate Principal Balance of the Class A-1 Certificates immediately prior to such Distribution Date, computed on the basis of a 360-day year and the actual number of days elapsed in the related Accrual Period.

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

The “Guaranteed Interest Distribution Amount” for any Distribution Date and the Guaranteed Certificates is the amount, if any, after giving effect to the distributions of the Monthly Interest Remittance Amount, by which the (i) sum of (x) the Monthly Interest Distributable Amount and the Unpaid Interest Shortfall Amount payable on the Guaranteed Certificates for such Distribution Date and (y) the net Prepayment Interest Shortfalls and Relief Act Interest Shortfalls allocated to the Guaranteed Certificates for such Distribution Date, exceeds (ii) the amount of interest actually paid to the holders of the Guaranteed Certificates on such Distribution Date.

The “Guaranteed Principal Distribution Amount” with respect to (a) any Distribution Date (other than the Distribution Date in March 2033) is the amount, if any, by which (i) the aggregate Certificate Principal Balance of the Class A-1 Certificates (after giving effect to all amounts distributable and allocable to principal on such Class 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 I Mortgage Loans (after giving effect to the principal portion of Monthly Payments due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (b) the Distribution Date in March 2033 is the aggregate Certificate Principal Balance of the Class A-1 Certificates (after giving effect to all amounts distributable and allocable to principal on such Class A-1 Certificates but prior to giving effect to any Guarantor Payment on such Distribution Date).

The “Guarantor Interest Reimbursement Amount” with respect to any Distribution Date is (i) the sum of 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.

## **Events of Default**

Upon the occurrence of certain loss and/or delinquency triggers with respect to the Mortgage Loans, the Master Servicer may be removed as master servicer of the Mortgage Loans in accordance with the terms of the Pooling Agreement. In addition, as set forth in the Pooling Agreement, the failure of the Master Servicer to continue to engage WMBFA or another eligible subservicer as the subservicer of the Mortgage Loans will constitute an event of default of the Master Servicer, whereupon the Master Servicer may be removed as master servicer of the Mortgage Loans in accordance with the terms of the Pooling Agreement. Other events of default that may result in the removal of the Master Servicer under the Pooling Agreement include the uncured failure of the Master Servicer to distribute or remit for distribution funds required to be distributed or remitted for distribution under the Pooling Agreement, the failure of the Master Servicer to perform its material obligations under the Pooling Agreement, the Master Servicer becoming subject to an event of bankruptcy or insolvency, or the Master Servicer ceasing to be an approved seller or servicer of Fannie Mae.

Any successor to the Master Servicer appointed under the Pooling Agreement, which may be the Trustee, must be a housing loan servicing institution acceptable to each Rating Agency (as defined in the Pooling Agreement) and the NIMS Insurer, if any, with a net worth at the time of such appointment of at least \$15,000,000, and meet the other requirements set forth in the Pooling Agreement.

## **The Trustee**

Deutsche Bank National Trust Company, a national banking association organized and existing under the laws of the United States, will be named Trustee pursuant to the Pooling Agreement. The Trustee's offices for notices under the Pooling Agreement are located at 1761 East St. Andrew Place, Santa Ana, California 92705-4934, Attention: LB0301, and its telephone number is (714) 247-6000. The principal compensation to be paid to the Trustee in respect of its obligations under the Pooling Agreement (the "Trustee Fee") will be paid monthly, as well as certain investment income earnings on amounts on deposit in the Distribution Account. The Pooling Agreement will provide that the Trustee and any director, officer, employee or agent of the Trustee will be indemnified by the Trust and will be held harmless against any loss, liability or expense incurred by the Trustee arising out of or in connection with the acceptance or administration of its obligations and duties under the Pooling Agreement, other than any loss, liability or expense (i) resulting from the Master Servicer's actions or omissions in connection with the Pooling Agreement (for which the Master Servicer is required to indemnify the Trustee under the terms of the Pooling Agreement), (ii) that constitutes a specific liability of the Trustee under certain specific sections of the Pooling Agreement or (iii) incurred by reason of willful misfeasance, bad faith or negligence in the performance of the Trustee's duties under the Pooling Agreement or as a result of a breach, or by reason of reckless disregard, of the Trustee's obligations and duties under the Pooling Agreement.

The indemnification provided to the Trustee in the Pooling Agreement will not include expenses, disbursements and advances incurred or made by the Trustee, including the compensation and the expenses and disbursements of its agents and counsel, in the ordinary course of the Trustee's performance in accordance with the provisions of the Pooling Agreement.

Moreover, the indemnification provided to the Trustee in the Pooling Agreement will be subject to monthly and aggregate limits in the case of certain legal counsel fees and expenses associated with certain third party claims. The failure of the Trustee to incur this type of expense in excess of the limits set forth in the Pooling Agreement could result in greater harm, loss or liability being incurred by the Trust than might otherwise be the case. By accepting their Certificates, the Certificateholders agree to hold the Trustee harmless for any consequences to the Certificateholders resulting from any failure of the Trustee to incur, in excess of the specified limits, any expenses that are limited by the Pooling Agreement.

## **Voting Rights**

At all times, 97% of all voting rights will be allocated among the holders of the Class A Certificates, the Mezzanine Certificates and the Class C Certificates in proportion to the then outstanding Certificate Principal Balances of their respective Certificates. At all times, 1% of all voting rights will be allocated to the holders of the Class S Certificates, 1% of all voting rights will be allocated to the holders of the Class P Certificates and 1% of all voting rights will be allocated to the holders of the Class R Certificates, provided that, if and for so long as the Class C Certificates

and the Class P Certificates are held by one or more foreign entities and serve as collateral for the NIMS, the total combined voting power of the Class C Certificates and the Class P Certificates will not exceed 9.9%. The voting rights allocated to any class of Certificates will be allocated among all Certificateholders of such class in proportion to the outstanding percentage interests of such holders in such class. However, on any date on which any Offered Certificates are outstanding or any amounts are owed to the Guarantor under the Pooling Agreement, the Guarantor will have all voting rights of the Offered Certificates.

## **Amendment**

The Pooling Agreement may be amended by the Depositor, the Master Servicer, the Guarantor and the Trustee, with the consent of the NIMS Insurer, if any, but without the consent of any of the Certificateholders, to cure any ambiguity, to correct, modify or supplement any provision in the Pooling Agreement, to make any other provisions with respect to matters or questions arising under the Pooling Agreement which are not inconsistent with the provisions of the Pooling Agreement, or to maintain the qualification of the trust fund as a REMIC, provided that the action will not adversely affect in any material respect the interests of any Certificateholder. The Pooling Agreement may also be amended by the Depositor, the Master Servicer, the Guarantor and the Trustee, with the consent of the holders of Certificates evidencing not less than 66% of the voting rights and subject to certain rights of the NIMS Insurer, if any, for any purpose, but that no amendment may:

- reduce in any manner the amount of or delay the timing of, payments received on the Mortgage Loans which are required to be distributed on any Certificate without the consent of the holder of the Certificate,
- adversely affect in any material respect the interests of the holders of any class of Certificates in a manner other than as described in the preceding bullet point, without the consent of the holders of Certificates of that class evidencing not less than 66% of the aggregate voting rights of that class, or
- reduce the percentage of voting rights required by the preceding bullet point for the consent to any amendment without the consent of the holders of all Certificates covered by the Pooling Agreement then outstanding.

However, the Trustee need not consent to any amendment of the Pooling Agreement unless it shall first have received an opinion of counsel to the effect that the amendment will not cause the Trust to fail to qualify as a REMIC at any time that the related Certificates are outstanding.

## **Termination**

The Master Servicer (or if the Master Servicer fails to exercise such rights, the NIMS Insurer, if any) will have the right to repurchase all of the Mortgage Loans and REO Properties and thereby effect the early retirement of the Certificates, on any Distribution Date on which the aggregate Stated Principal Balance of such Mortgage Loans and REO Properties is equal to or less than 10% of the aggregate Stated Principal Balance of the Mortgage Loans as of the Cut-off Date. The first Distribution Date on which such option could be exercised is referred to in this information supplement as the "Optional Termination Date." In the event that the option is exercised by the Master Servicer, the repurchase will be made at a price (the "Master Servicer Termination Price") generally equal to the par value of the Mortgage Loans and the appraised value of any REO Properties plus accrued interest for each Mortgage Loan at the related Mortgage Rate to but not including the first day of the month in which such repurchase price is paid. The Master Servicer will have the right to exercise such option only if the Master Servicer Termination Price is equal to or less than the fair market value of all the Mortgage Loans and REO Properties in the Trust (as determined by the Master Servicer) plus accrued interest for each Mortgage Loan at the related Mortgage Rate to but not including the first day of the month in which such Master Servicer Termination Price is paid. Additionally, if NIMS are outstanding or amounts are owed to the NIMS Insurer or the Guarantor, the Master Servicer will have the right to exercise such option only if the amount of the Master Servicer Termination Price will result in distributions on the Class C Certificates sufficient to cause the NIMS to be retired and to result in the NIMS Insurer and the Guarantor being paid the respective amounts owed to them. In the event that the option is exercised by the NIMS Insurer, the repurchase will be made at a price (the "Insurer Termination Price") generally equal to the greater of (i) the par value of the Mortgage Loans and the appraised value of any REO Properties and (ii) the fair market value of all the Mortgage Loans and REO Properties in the Trust (as determined by the NIMS Insurer), in each case plus accrued interest for each Mortgage Loan at the related Mortgage Rate to but not including the first day of the month in which such repurchase price is paid. Each of the Master Servicer Termination Price and the



Insurer Termination Price is referred to in this information supplement as the “Termination Price.” If NIMS are outstanding or amounts are owed to the NIMS Insurer or the Guarantor, the Insurer Termination Price will also include any amount necessary to result in distributions on the Class C Certificates sufficient to cause the NIMS to be retired and to result in the NIMS Insurer and the Guarantor being paid the respective amounts owed to them. In the event the Master Servicer or the NIMS Insurer exercises this option, the portion of the related Termination Price allocable to the Offered Certificates will be distributed in accordance with the priorities described under “Description of the Certificates—Allocation of Available Funds” and “—Overcollateralization Provisions” in this information supplement. Neither the Master Servicer nor the NIMS Insurer may exercise this option without the Guarantor’s consent if the distribution of the Termination Price according to such priorities would result in the Guarantor being required to make a Guarantor Payment on the applicable Distribution Date. The distribution of the related Termination Price allocable to the Offered Certificates will result in the following amounts, to the extent of available funds, being distributed on the Offered Certificates:

- (i) 100% of the then outstanding Certificate Principal Balance of the Class A-1 Certificates, plus
- (ii) interest for the final Accrual Period on the then outstanding Certificate Principal Balance of the Class A-1 Certificates and the then outstanding Notional Amount of the Class S-1 Certificates at the then applicable Pass-Through Rate for each class of the Offered Certificates, plus
- (iii) any previously accrued but unpaid interest thereon to which the holders of the Offered Certificates are entitled, together with, in the case of the Class A-1 Certificates, the amount of any Net WAC Rate Carryover Amounts.

#### **Master Servicer Alternatives to Foreclosure**

The Master Servicer may foreclose on any delinquent Mortgage Loan or, subject to certain limitations set forth in the Pooling Agreement, work out an agreement with the mortgagor, which may involve waiving or modifying any term of the Mortgage Loan; provided that in the judgment of the Master Servicer, any such modification or waiver could reasonably be expected to result in collections and other recoveries in respect of such Mortgage Loan in excess of Net Liquidation Proceeds that would be recovered upon the foreclosure of, or other realization upon, such Mortgage Loan. If the Master Servicer extends the payment period or accepts a lesser amount than stated in the mortgage note in satisfaction of the mortgage note, your yield may be reduced.

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

As to any Mortgage Loan which is 90 days or more in default, the Master Servicer may, at its option, which option expires as of the last day of the calendar quarter during which such Mortgage Loan becomes 90 days in default, purchase such Mortgage Loan from the Trust at the Purchase Price for such Mortgage Loan. However, the Master Servicer must first purchase the Mortgage Loan with respect to which the option to purchase has not expired and that, as of the time of such purchase, has been in default for the longest period before purchasing Mortgage Loans that have been in default for shorter periods. In the event the Master Servicer does not exercise its option to purchase such Mortgage Loan, the NIMS Insurer, if any, will be entitled to purchase such Mortgage Loan at any time thereafter. If neither the Master Servicer nor the NIMS Insurer exercises its option to purchase any such Group I Mortgage Loans, the Guarantor may purchase such Group I Mortgage Loans at any time thereafter without restriction on the timing of such purchases.

## DESCRIPTION OF THE CERTIFICATES

### General

The Offered Certificates and the Non-Offered Certificates will be issued pursuant to the Pooling Agreement. Summaries of the specific terms and provisions pursuant to which such Certificates will be issued are set forth below. The following summaries do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions of the Pooling Agreement. When particular provisions or terms used in the Pooling Agreement are referred to, the actual provisions (including definitions of terms) are incorporated by reference.

The Trust will issue (i) the Class A-1 Certificates and the Class A-2 Certificates (together, the “Class A Certificates”), (ii) the Class S-1 Certificates and the Class S-2 Certificates (together, the “Class S Certificates”), (iii) the Class M-1 Certificates, the Class M-2 Certificates, the Class M-3 Certificates and the Class M-4 Certificates (collectively, the “Mezzanine Certificates”), (iv) the Class C Certificates, (v) the Class P Certificates and (vi) the Class R Certificates, the Class R-CX Certificates and the Class R-PX Certificates (together, the “Residual Certificates”). The Class A Certificates, the Class S Certificates, the Mezzanine Certificates, the Class C Certificates, the Class P Certificates and the Residual Certificates are collectively referred to in this information supplement as the “Certificates.” **Only the Class A-1 Certificates and the Class S-1 Certificates are offered by this information supplement. However, a description of the Non-Offered Certificates is included in this information supplement because their amount, structure, rights, risks and other characteristics affect the amount, structure, rights, risks and other characteristics of the Offered Certificates.**

The Class A-1 Certificates and the Class S-1 Certificates generally represent interests in the Group I Mortgage Loans. The Class A-2 Certificates, the Class S-2 Certificates and the Class M-1 Certificates generally represent interests in the Group II Mortgage Loans. The Mezzanine Certificates (other than the Class M-1 Certificates) represent interests in all Mortgage Loans. The Mezzanine Certificates and the Class C Certificates are together referred to in this information supplement as the “Subordinate Certificates.”

The Class A-1 Certificates will have the Original Certificate Principal Balance specified on the cover hereof. The Class A-2 Certificates will have an Original Certificate Principal Balance of \$644,000,000. The Class S Certificates will not have Certificate Principal Balances, but will bear interest on their Notional Amounts outstanding from time to time. The Class S-1 Certificates will have the initial Notional Amount specified on the cover hereof. The Class S-2 Certificates will have an initial Notional Amount of \$160,000,000. The Original Certificate Principal Balance of the Class C Certificates will be approximately \$38,999,900, which is equal to the excess of the aggregate Principal Balance of the Mortgage Loans as of the Cut-off Date over the Original Certificate Principal Balances of the aggregate Class A Certificates, the Mezzanine Certificates and the Class P Certificates. The Class P Certificates will have an Original Certificate Principal Balance of \$100 and will not bear interest. The Class P Certificates will be entitled to all prepayment charges received in respect of the related Mortgage Loans and such amounts will not be available for distribution to the holders of the Offered Certificates. The Residual Certificates will not have Original Certificate Principal Balances and will not bear interest.

The assumed final maturity date (the “Assumed Final Distribution Date”) for the Certificates other than the Class S Certificates is the Distribution Date in March 2033. The assumed final maturity date for the Class S Certificates is the Distribution Date in November 2004. The actual final Distribution Date for any class of the Certificates (other than the Class S Certificates) may occur earlier or later than the Assumed Final Distribution Date.

Distributions on the Offered Certificates will be made by the Trustee on the 25th day of each month, or if such day is not a business day, on the first business day thereafter, commencing in March 2003 (each, a “Distribution Date”), to the persons in whose names such Certificates are registered at the close of business on the related Record Date. The “Record Date” for the Class A Certificates and the Mezzanine Certificates and any Distribution Date (for so long as they are Book-Entry Certificates) is the business day immediately preceding such Distribution Date, and for the Class S Certificates and any Distribution Date is the last business day of the month immediately preceding the month in which such Distribution Date occurs.

A NIMS Policy may be issued by the NIMS Insurer covering certain payments to be made on NIMS which may be issued by an affiliate of the Depositor or by one or more entities sponsored by an affiliate of the Depositor on or after

the Closing Date. The NIMS are not offered hereby and, if issued, the NIMS would be backed only by cashflow received on the Class C Certificates, the Class P Certificates and the Class R Certificates, which are not offered hereby. The NIMS, if issued, *would not* be backed by the Trust (other than by the interests therein represented by the Class C Certificates, Class P Certificates and the Class R Certificates) or by any of the Offered Certificates.

### **Allocation of Available Funds**

Distributions with respect to the Offered Certificates will be made on each Distribution Date primarily from Available Funds. With respect to any Distribution Date, “Available Funds” will be equal to the sum of the following amounts with respect to the Mortgage Loans, net of amounts reimbursable therefrom to the Master Servicer or the Trustee: (i) the aggregate amount of monthly payments on the Mortgage Loans due on the related Due Date and received by the Determination Date (as defined in the Pooling Agreement), after deduction of the Servicing Fee and Trustee Fee for such Distribution Date and any accrued and unpaid Servicing Fees and Trustee Fees in respect of any prior Distribution Dates, (ii) certain unscheduled payments in respect of the Mortgage Loans, including prepayments, Insurance Proceeds, Net Liquidation Proceeds, Termination Price deposits and proceeds from repurchases of and substitutions for such Mortgage Loans occurring during the related Prepayment Period, excluding prepayment charges and (iii) payments from the Master Servicer in connection with Advances and Prepayment Interest Shortfalls for such Distribution Date. The holders of the Class P Certificates will be entitled to all prepayment charges received on the Mortgage Loans and such amounts will not be part of Available Funds or available for distribution with respect to the Offered Certificates.

The Class A-1 Certificates and the Class S-1 Certificates generally represent interests in the Group I Mortgage Loans, and the Class A-2 Certificates, the Class S-2 Certificates and the Class M-1 Certificates generally represent interests in the Group II Mortgage Loans. The Mezzanine Certificates (other than the Class M-1 Certificates) represent interests in all Mortgage Loans.

#### *Interest Distributions on the Class A Certificates, Class S Certificates and Mezzanine Certificates*

On each Distribution Date, the Trustee will withdraw from the Distribution Account that portion of Available Funds equal to the Group I Interest Remittance Amount and the Group II Interest Remittance Amount for such Distribution Date, and make the following disbursements and transfers in the order of priority described below, in each case to the extent of the Group I Interest Remittance Amount or the Group II Interest Remittance Amount, as applicable, remaining for such Distribution Date:

- (i) the Group I Interest Remittance Amount will be distributed:
  - (A) *first*, to the Guarantor for payment of (i) the Guaranty Fee and (ii) any Guarantor Reimbursement Amount then due;
  - (B) *second*, concurrently, to the Class A-1 Certificates and the Class S-1 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such classes, allocated between the Class A-1 Certificates and the Class S-1 Certificates, *pro rata*, based on their respective entitlements;
  - (C) *third*, concurrently, to the Class A-2 Certificates and the Class S-2 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such classes, in each case to the extent not paid pursuant to clause (ii)(A) below, allocated between the Class A-2 Certificates and the Class S-2 Certificates, *pro rata*, based on their respective entitlements; and
  - (D) *fourth*, to the Class M-1 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such class to the extent not paid pursuant to clause (ii)(B) below.
- (ii) the Group II Interest Remittance Amount will be distributed:
  - (A) *first*, concurrently, to the Class A-2 Certificates and the Class S-2 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such classes, allocated

between the Class A-2 Certificates and the Class S-2 Certificates, *pro rata*, based on their respective entitlements;

(B) *second*, to the Class M-1 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such class; and

(C) *third*, concurrently, to the Class A-1 Certificates and the Class S-1 Certificates, the Monthly Interest Distributable Amount and any Unpaid Interest Shortfall Amount for such classes, in each case to the extent not paid pursuant to clause (i)(B) above, allocated between the Class A-1 Certificates and the Class S-1 Certificates, *pro rata*, based on their respective entitlements.

(iii) the sum of any Group I Interest Remittance Amount and Group II Interest Remittance Amount remaining undistributed following the distributions pursuant to clauses (i) and (ii) above will be distributed:

*first*, to the Class M-2 Certificates, the related Monthly Interest Distributable Amount;

*second*, to the Class M-3 Certificates, the related Monthly Interest Distributable Amount; and

*third*, to the Class M-4 Certificates, the related Monthly Interest Distributable Amount.

Any Group I Interest Remittance Amount and Group II Interest Remittance Amount remaining undistributed following these distributions will be used in determining the amount of Net Monthly Excess Cashflow, if any, for such Distribution Date.

On any Distribution Date, any shortfalls resulting from the application of the Relief Act and any Prepayment Interest Shortfalls to the extent not covered by Compensating Interest paid by the Master Servicer will be allocated, first, to the Monthly Interest Distributable Amount with respect to the Class C Certificates and thereafter, to the Monthly Interest Distributable Amounts with respect to the Offered Certificates and the Non-Offered Certificates, on a *pro rata* basis based on the respective amounts of interest accrued on such Certificates for such Distribution Date. However, the Fannie Mae Guaranty will cover any such interest shortfalls allocable to the Offered Certificates.

If on any Distribution Date, the Class A Certificates, the Class S Certificates or the Mezzanine Certificates do not receive the related Monthly Interest Distributable Amount and the related Unpaid Interest Shortfall Amount, if any, then such unpaid amounts will be recoverable by the holders of such classes (in the case of the Class A-1 Certificates and the Class S-1 Certificates only if the Guarantor defaults under the Guaranty), with interest thereon, on future Distribution Dates, as Unpaid Interest Shortfall Amounts, subject to the priorities described in this information supplement.

#### *Principal Distributions on the Class A Certificates and Mezzanine Certificates*

On each Distribution Date (a) prior to the Stepdown Date or (b) on which a Trigger Event is in effect, the Class A Certificates and the Mezzanine Certificates will be entitled to receive distributions in respect of principal to the extent of the Group I Principal Distribution Amount and the Group II Principal Distribution Amount in the following amounts and order of priority:

(i) *first*,

(A) (x) an amount equal to the Group I Principal Distribution Amount will be distributed in the following order of priority:

*first*, to the Guarantor for payment of (i) the Guaranty Fee and (ii) any Guarantor Reimbursement Amount then due (to the extent not paid from the Group I Interest Remittance Amount for such Distribution Date);

*second*, to the Class A-1 Certificates, until the Certificate Principal Balance thereof has been reduced to zero; and then

(y) any portion of the Group II Principal Distribution Amount distributable pursuant to clause (B)(x), below, that remains following distribution to the Class A-2 Certificates and the Class M-1 Certificates will be distributed as set forth in clause (A)(x), above;

- (B) (x) an amount equal to the Group II Principal Distribution Amount will be distributed in the following order of priority:

*first*, to the Class A-2 Certificates, until the Certificate Principal Balance thereof has been reduced to zero;

*second*, to the Class M-1 Certificates, until the Certificate Principal Balance thereof has been reduced to zero; and then

(y) any portion of the Group I Principal Distribution Amount distributable pursuant to clause (A)(x), above, that remains following distribution to the Class A-1 Certificates, will be distributed as set forth in clause (B)(x), above.

- (ii) *second*, the sum of any Group I Principal Distribution Amount and Group II Principal Distribution Amount remaining undistributed following the distributions pursuant to clause (i) will be distributed in the following order of priority:

*first*, to the Class M-2 Certificates, until the Certificate Principal Balance thereof has been reduced to zero;

*second*, to the Class M-3 Certificates, until the Certificate Principal Balance thereof has been reduced to zero; and

*third*, to the Class M-4 Certificates, until the Certificate Principal Balance thereof has been reduced to zero.

Any principal remaining undistributed following these distributions will be used in determining the amount of Net Monthly Excess Cashflow, if any, for such Distribution Date.

On each Distribution Date (a) on or after the Stepdown Date and (b) on which a Trigger Event is not in effect, the Class A Certificates and the Mezzanine Certificates will be entitled to receive distributions in respect of principal to the extent of the Group I Principal Distribution Amount and the Group II Principal Distribution Amount in the following amounts and order of priority:

- (i) *first*,

- (A) from the Group I Principal Distribution Amount, an amount equal to the Class A-1 Principal Distribution Amount will be distributed in the following order of priority:

*first*, to the Guarantor for payment of (i) the Guaranty Fee and (ii) any Guarantor Reimbursement Amount then due (to the extent not paid from the Group I Interest Remittance Amount for such Distribution Date); and then

*second*, to the Class A-1 Certificates, until the Certificate Principal Balance thereof has been reduced to zero.

- (B) from the Group II Principal Distribution Amount, an amount equal to the Class A-2 Principal Distribution Amount will be distributed to the Class A-2 Certificates, until the Certificate Principal Balance thereof has been reduced to zero.

- (C) from the Group II Principal Distribution Amount remaining undistributed following the distribution pursuant to clause (i)(B), an amount equal to the Class M-1 Principal Distribution

Amount will be distributed to the Class M-1 Certificates until the Certificate Principal Balance thereof has been reduced to zero.

- (ii) *second*, the sum of any Group I Principal Distribution Amount and Group II Principal Distribution Amount remaining undistributed following the distribution pursuant to clause (i) will be distributed in the following order of priority:

*first*, to the Class M-2 Certificates, the Class M-2 Principal Distribution Amount, until the Certificate Principal Balance thereof has been reduced to zero;

*second*, to the Class M-3 Certificates, the Class M-3 Principal Distribution Amount, until the Certificate Principal Balance thereof has been reduced to zero; and

*third*, to the Class M-4 Certificates, the Class M-4 Principal Distribution Amount, until the Certificate Principal Balance thereof has been reduced to zero.

Any principal remaining undistributed following these distributions will be used in determining the amount of Net Monthly Excess Cashflow, if any, for such Distribution Date.

The allocation of distributions in respect of principal to the Class A Certificates on each Distribution Date (a) prior to the Stepdown Date or (b) on which a Trigger Event has occurred, will have the effect of accelerating the amortization of the Class A Certificates while, in the absence of Realized Losses, increasing the respective percentage interest in the principal balance of the Mortgage Loans evidenced by the Subordinate Certificates. Increasing the respective percentage interest in the Trust of the Subordinate Certificates relative to that of the Class A Certificates is intended to preserve the availability of the subordination provided by the Subordinate Certificates.

### **Credit Enhancement**

The credit enhancement provided for the benefit of the holders of the Class A Certificates, the Class S Certificates and the Mezzanine Certificates consists of subordination, as described below, excess interest and overcollateralization, as described under “Overcollateralization Provisions” in this information supplement, the Fannie Mae Guaranty, with respect to the Offered Certificates, as described under “The Pooling Agreement—Fannie Mae Guaranty” in this information supplement and the Cap Agreements as described under “Description of Certificates—Cap Agreements” in this information supplement.

The rights of the Subordinate Certificates to receive distributions will be subordinated, to the extent described in this information supplement, to the rights of the Class A Certificates and the Class S Certificates. This subordination is intended to enhance the likelihood of regular receipt by the holders of the Class A Certificates of the full amount of their scheduled monthly payments of interest and principal and by the holders of the Class S Certificates of the full amount of their scheduled monthly payments of interest, and in each case to afford such holders protection against Realized Losses.

The protection afforded to the Class A Certificates and the Class S Certificates by means of the subordination of the Subordinate Certificates will be accomplished by (i) the preferential right of the Class A Certificates to receive on any Distribution Date, prior to distributions on the Subordinate Certificates, distributions in respect of interest and principal, and the preferential right of the Class S Certificates to receive on any Distribution Date, prior to distributions on the Subordinate Certificates, distributions of interest, in each case subject to funds available for such distributions (except that the Class M-1 Certificates have a preferential right to receive from the Group II Principal Remittance Amount and the Group II Interest Remittance Amount principal and interest distributions prior to the Class A-1 Certificates and interest distributions prior to the Class S-1 Certificates as described under “Allocation of Available Funds—Interest Distributions on the Class A Certificates, Class S Certificates and Mezzanine Certificates” and “Allocation of Available Funds—Principal Distributions on the Class A Certificates and Mezzanine Certificates” above), and (ii) if necessary, the right of the Class A Certificates and the Class S Certificates to receive future distributions of amounts that would otherwise be payable to the Subordinate Certificates.

In addition, the Class M-1 Certificates, the Class M-2 Certificates, the Class M-3 Certificates and then, the Class M-4 Certificates will have the right to receive distributions in respect of the Mortgage Loans in that order. The

rights of the Mezzanine Certificates to receive distributions in respect of the Mortgage Loans will be senior to the rights of the Class C Certificates to the extent described in this information supplement. This subordination is intended to enhance the likelihood of regular receipt by the more senior classes of Certificates of distributions in respect of interest and principal and to afford such classes of Certificates protection against Realized Losses.

### **Overcollateralization Provisions**

The weighted average net Mortgage Rate for the Mortgage Loans is generally expected to be higher than the weighted average of the Pass-Through Rates on the Certificates. As a result of the foregoing and as a result of overcollateralization, interest collections on the Mortgage Loans are expected to be generated in excess of the amount of interest payable to the Offered Certificates and the related fees and expenses payable by the Trust. The Pooling Agreement requires that, on each Distribution Date, the Net Monthly Excess Cashflow, if any, be applied on such Distribution Date as an accelerated payment of principal on the class or classes of Certificates then entitled to receive distributions in respect of principal, but only to the limited extent hereafter set forth.

With respect to any Distribution Date, any Net Monthly Excess Cashflow will be paid in the following order of priority, in each case to the extent of the Net Monthly Excess Cashflow remaining undistributed:

(i) to the Certificates then entitled to receive distributions in respect of principal, in an amount equal to any Extra Principal Distribution Amount, payable to such Certificates as part of the Group I Principal Distribution Amount or the Group II Principal Distribution Amount, as applicable, as described under “Allocation of Available Funds—Principal Distributions on the Class A Certificates and Mezzanine Certificates” above;

(ii) concurrently, to the Class A Certificates and the Class S Certificates, in an amount equal to the Unpaid Interest Shortfall Amount, if any, for such classes for such Distribution Date to the extent remaining unpaid after distribution of the Group I Interest Remittance Amount and the Group II Interest Remittance Amount on such Distribution Date, allocated between such classes *pro rata*, based on their respective entitlements;

(iii) to the Class M-1 Certificates, in an amount equal to the Unpaid Interest Shortfall Amount, if any, for such class for such Distribution Date to the extent remaining unpaid after distribution of the Group I Interest Remittance Amount and the Group II Interest Remittance Amount on such Distribution Date;

(iv) to the Class M-1 Certificates, in an amount equal to the Allocated Realized Loss Amount, if any, for such class for such Distribution Date;

(v) to the Class M-2 Certificates, in an amount equal to the Unpaid Interest Shortfall Amount, if any, for such class for such Distribution Date;

(vi) to the Class M-2 Certificates, in an amount equal to the Allocated Realized Loss Amount, if any, for such class for such Distribution Date;

(vii) to the Class M-3 Certificates, in an amount equal to the Unpaid Interest Shortfall Amount, if any, for such class for such Distribution Date;

(viii) to the Class M-3 Certificates, in an amount equal to the Allocated Realized Loss Amount, if any, for such class for such Distribution Date;

(ix) to the Class M-4 Certificates, in an amount equal to the Unpaid Interest Shortfall Amount, if any, for such class for such Distribution Date;

(x) to the Class M-4 Certificates, in an amount equal to the Allocated Realized Loss Amount, if any, for such class for such Distribution Date;

(xi) to the Net WAC Rate Carryover Reserve Fund, the amount by which the sum of the Net WAC Rate Carryover Amounts, if any, with respect to the Class A Certificates and the Mezzanine Certificates for such Distribution Date exceeds the sum of (x) any amounts received by the Trustee with respect to the Cap Agreements for such

Distribution Date and (y) any amounts in the Net WAC Rate Carryover Reserve Fund that were not distributed on the prior Distribution Dates;

(xii) if such Distribution Date follows the Prepayment Period during which occurs the latest date on which a prepayment charge may be required to be paid in respect of any Mortgage Loan, to the Class P Certificates, in reduction of the Certificate Principal Balance thereof, until the Certificate Principal Balance thereof is reduced to zero;

(xiii) to the Class C Certificates as provided in the Pooling Agreement; and

(xiv) any remaining amounts to the Residual Certificates as provided in the Pooling Agreement.

On each Distribution Date, after making the distributions of the Available Funds (including the Net Monthly Excess Cashflow) as set forth above and after depositing in the Net WAC Rate Carryover Reserve Fund any payments received under the Cap Agreements, the Trustee will withdraw from the Net WAC Rate Carryover Reserve Fund the amounts on deposit therein and will distribute them to the Class A Certificates and the Mezzanine Certificates as set forth under “Pass-Through Rates” below in this information supplement.

On each Distribution Date, the Trustee will withdraw from the Distribution Account all amounts representing prepayment charges in respect of the Mortgage Loans received during the related Prepayment Period and will distribute these amounts to the Class P Certificates.

### **The Cap Agreements**

The Class A Certificates and the Mezzanine Certificates will have the benefit of an interest rate cap agreement (the “Group I Cap Agreement”) with respect to the Group I Mortgage Loans and an interest rate cap agreement (the “Group II Cap Agreement” and together with the Group I Cap Agreement, the “Cap Agreements”) with respect to the Group II Mortgage Loans. Each Cap Agreement will be documented pursuant to an ISDA Master Agreement (Multicurrency-Cross Border), as supplemented by a schedule and a confirmation.

Pursuant to the Group I Cap Agreement, Swiss Re Financial Products Corporation (together with any successor, the “Counterparty” or “Cap Provider”) will agree to pay to the Trust a monthly payment in an amount equal to the product of:

(1) for the first 20 Distribution Dates, the excess, if any, of LIBOR over 6.30% and for the succeeding three Distribution Dates, the excess, if any, of LIBOR over 7.50% (but in either case such excess will not be greater than 9.35%);

(2) the Group I Scheduled Notional Amount; and

(3) a fraction, the numerator of which is the actual number of days elapsed from the previous Distribution Date to but excluding the current Distribution Date (or, for the first Distribution Date, the actual number of days elapsed from the Closing Date to but excluding the first Distribution Date), and the denominator of which is 360.

Each “Group I Scheduled Notional Amount” is set forth with respect to each Distribution Date in Annex I to this information supplement. The Group I Scheduled Notional Amount for the first Distribution Date is zero and thereafter declines in accordance with the expected amortization of the Group I Mortgage Loans. The Group I Cap Agreement will terminate after the Distribution Date in February 2005.

Pursuant to the Group II Cap Agreement, the Cap Provider will agree to pay to the Trust a monthly payment in an amount equal to the product of:

(1) for the first 20 Distribution Dates, the excess, if any, of LIBOR over 6.30% and for the succeeding three Distribution Dates, the excess, if any, of LIBOR over 7.50% (but in either case such excess will not be greater than 9.20%);

(2) the Group II Scheduled Notional Amount; and



(3) a fraction, the numerator of which is the actual number of days elapsed from the previous Distribution Date to but excluding the current Distribution Date (or, for the first Distribution Date, the actual number of days elapsed from the Closing Date to but excluding the first Distribution Date), and the denominator of which is 360.

Each “Group II Scheduled Notional Amount” is set forth with respect to each Distribution Date in Annex I to this information supplement. The Group II Scheduled Notional Amount for the first Distribution Date is zero and thereafter declines in accordance with the expected amortization of the Group II Mortgage Loans. The Group II Cap Agreement will terminate after the Distribution Date in February 2005.

Each of the Cap Agreements will be governed by and construed in accordance with the law of the State of New York. The obligations of the Counterparty are limited to those specifically set forth in each Cap Agreement.

The Cap Provider under the Cap Agreements is Swiss Re Financial Products Corporation (“SRFP”), a Delaware corporation and indirect, wholly owned subsidiary of Swiss Reinsurance Company (“Swiss Re”), a Swiss corporation. SRFP currently has a long-term counterparty credit rating of “AA+(stable)” and a short-term rating of “A-1+” from Standard & Poor’s. The obligations of SRFP under the Cap Agreements are fully and unconditionally guaranteed by Swiss Re. Swiss Re currently has an insurance financial strength rating of “AA+(stable)” and a short-term rating of “A-1+” from Standard & Poor’s and an insurance financial strength rating of “Aal (stable)” and a short-term rating of “Prime-1” from Moody’s Investor’s Service.

Except for the information provided in the preceding paragraph, SRFP and Swiss Re have not been involved in the preparation of, and do not accept responsibility for, this information supplement.

#### **Allocation of Losses; Subordination**

Any Realized Losses on the Mortgage Loans on any Distribution Date will reduce amounts distributable in respect of, first, the Class C Certificates (through the reduction of the Net Monthly Excess Cashflow resulting both from a reduction in the Overcollateralization Release Amount which reduces the amount of the Net Monthly Excess Cashflow and the application of the Net Monthly Excess Cashflow to fund the amount of the Overcollateralization Deficiency Amount, if any, caused by such Realized Losses); second, the Class M-4 Certificates; third, the Class M-3 Certificates; fourth, the Class M-2 Certificates; and fifth, the Class M-1 Certificates.

If Realized Losses occur, such Realized Losses will reduce the aggregate Stated Principal Balance of the Mortgage Loans. Such a reduction will reduce the Overcollateralized Amount and may result in an Overcollateralization Deficiency Amount. If on any Distribution Date after giving effect to all Realized Losses incurred with respect to the Mortgage Loans during or prior to the related Due Period and distributions of principal with respect to the Class A Certificates and the Mezzanine Certificates on such Distribution Date, an Overcollateralization Deficiency Amount exists and such amount exceeds the Net Monthly Excess Cashflow, the Realized Losses equal to the amount of such excess will be allocated to the Mezzanine Certificates in the following order: first to the Class M-4 Certificates, until the Certificate Principal Balance thereof has been reduced to zero, second to the Class M-3 Certificates, until the Certificate Principal Balance thereof has been reduced to zero, third to the Class M-2 Certificates until the Certificate Principal Balance thereof has been reduced to zero, and fourth to the Class M-1 Certificates until the Certificate Principal Balance thereof has been reduced to zero.

Any allocation of Realized Losses to the Mezzanine Certificates will be made by reducing the Certificate Principal Balance thereof by the amount so allocated as of the Distribution Date in the month following the calendar month in which such Realized Loss was incurred. Notwithstanding anything to the contrary in this information supplement, in no event will the Certificate Principal Balance of any Mezzanine Certificate be reduced more than once in respect of any particular amount both (i) allocable to such Mezzanine Certificate in respect of Realized Losses and (ii) payable as principal to such Mezzanine Certificate from Net Monthly Excess Cashflow.

The Pooling Agreement does not permit the allocation of Realized Losses to the Class A Certificates, the Class S Certificates or the Class P Certificates. Investors in the Class A-1 Certificates should note that although Realized Losses cannot be allocated to the Class A-1 Certificates, under certain loss scenarios there will not be enough principal and interest on the Mortgage Loans to pay the Class A-1 Certificates all interest and principal amounts to which

they are then entitled. Investors in the Class S-1 Certificates should note that although Realized Losses cannot be allocated to the Class S-1 Certificates, under certain loss scenarios there will not be enough interest on the Mortgage Loans to pay the Class S-1 Certificates all interest amounts to which such classes are then entitled and, if in such event the Guarantor fails to pay under the Guaranty, the Certificateholders may suffer losses.

Once Realized Losses have been allocated to the Mezzanine Certificates, such amounts with respect to such Certificates will no longer accrue interest nor will such amounts be reinstated thereafter. However, Allocated Realized Loss Amounts may be paid to the Mezzanine Certificates from the Net Monthly Excess Cashflow, according to the priorities set forth under “Overcollateralization Provisions” above.

## Definitions

The “Accrual Period” (a) for the Class A Certificates and the Mezzanine Certificates for any Distribution Date will be the actual number of days (based on a 360-day year) included in the period commencing on the immediately preceding Distribution Date (or, in the case of the first such Accrual Period, commencing on the Closing Date) and ending on the day immediately preceding such Distribution Date and (b) for the Class S Certificates for any Distribution Date will be the calendar month preceding the month of such Distribution Date based on a 360-day year consisting of twelve 30-day months.

An “Allocated Realized Loss Amount” with respect to any class of the Mezzanine Certificates and any Distribution Date is an amount equal to the sum of any Realized Loss allocated to that class of the Mezzanine Certificates on such Distribution Date and any Allocated Realized Loss Amount for that class of the Mezzanine Certificates remaining unpaid from the previous Distribution Date.

The “Certificate Principal Balance” of any Class A Certificate, Mezzanine Certificate or Class P Certificate immediately prior to any Distribution Date will be equal to the Certificate Principal Balance thereof on the Closing Date (the “Original Certificate Principal Balance”) reduced by the sum of all amounts actually distributed in respect of principal of such class and, in the case of a Mezzanine Certificate, Realized Losses allocated thereto on all prior Distribution Dates. The “Certificate Principal Balance” of the Class C Certificates as of any date of determination is equal to the excess, if any, of (a) the then aggregate Stated Principal Balance of the Mortgage Loans over (b) the sum of the then aggregate Certificate Principal Balances of the Class A Certificates, the Mezzanine Certificates and the Class P Certificates.

The “Class A Principal Distribution Amount” with respect to any Distribution Date is the sum of the Class A-1 Principal Distribution Amount and the Class A-2 Principal Distribution Amount.

The “Class A-1 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class A-1 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the aggregate Certificate Principal Balance of the Class A-1 Certificates immediately prior to such Distribution Date over (y) the lesser of (A) the product of (i) 74.00% and (ii) the aggregate Stated Principal Balance of the Group I Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Group I Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$6,000,000.

The “Class A-2 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class A-2 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the aggregate Certificate Principal Balance of the Class A-2 Certificates immediately prior to such Distribution Date over (y) the lesser of (A) the product of (i) 61.00% and (ii) the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the

related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$4,000,000.

The “Class M-1 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class M-1 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the sum of (i) the aggregate Certificate Principal Balance of the Class A-2 Certificates (after taking into account the payment of the Class A-2 Principal Distribution Amount on such Distribution Date) and (ii) the aggregate Certificate Principal Balance of the Class M-1 Certificates immediately prior to such Distribution Date over (y) the lesser of (A) the product of (i) 74.00% and (ii) the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$4,000,000.

The “Class M-2 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class M-2 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the sum of (i) the aggregate Certificate Principal Balance of the Class A Certificates (after taking into account the payment of the Class A Principal Distribution Amount on such Distribution Date), (ii) the aggregate Certificate Principal Balance of the Class M-1 Certificates (after taking into account the payment of the Class M-1 Principal Distribution Amount on such Distribution Date) and (iii) the aggregate Certificate Principal Balance of the Class M-2 Certificates immediately prior to such Distribution Date over (y) the lesser of (A) the product of (i) 84.10% and (ii) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$10,000,000.

The “Class M-3 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class M-3 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the sum of (i) the aggregate Certificate Principal Balance of the Class A Certificates (after taking into account the payment of the Class A Principal Distribution Amount on such Distribution Date), (ii) the aggregate Certificate Principal Balance of the Class M-1 Certificates (after taking into account the payment of the Class M-1 Principal Distribution Amount on such Distribution Date), (iii) the aggregate Certificate Principal Balance of the Class M-2 Certificates (after taking into account the payment of the Class M-2 Principal Distribution Amount on such Distribution Date) and (iv) the aggregate Certificate Principal Balance of the Class M-3 Certificates immediately prior to such Distribution Date over (y) the lesser of (A) the product of (i) 92.10% and (ii) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$10,000,000.

The “Class M-4 Principal Distribution Amount” for any Distribution Date is an amount equal to the lesser of (I) the aggregate Certificate Principal Balance of the Class M-4 Certificates immediately prior to such Distribution Date and (II) the excess of (x) the sum of (i) the aggregate Certificate Principal Balance of the Class A Certificates (after taking into account the payment of the Class A Principal Distribution Amount on such Distribution Date), (ii) the aggregate Certificate Principal Balance of the Class M-1 Certificates (after taking into account the payment of the Class M-1 Principal Distribution Amount on such Distribution Date), (iii) the aggregate Certificate Principal Balance of the Class M-2 Certificates (after taking into account the payment of the Class M-2 Principal Distribution Amount on such Distribution Date), (iv) the aggregate Certificate Principal Balance of the Class M-3 Certificates (after taking into account the payment of the Class M-3 Principal Distribution Amount on such Distribution Date), and (v) the aggregate Certificate Principal Balance of the Class M-4 Certificates immediately prior to such Distribution Date over (y) the lesser

of (A) the product of (i) 96.10% and (ii) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (B) the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) minus \$10,000,000.

The “Class S-1 Notional Amount” immediately prior to any Distribution Date will be equal to the lesser of (i) the aggregate Principal Balance of the Group I Mortgage Loans with Adjusted Net Minimum Mortgage Rates in excess of 4.25% (prior to giving effect to scheduled payments of principal due during the related Due Period and unscheduled collections of principal received during the related Prepayment Period) and (ii) the scheduled notional amount as set forth in Schedule A to this information supplement.

The “Class S-2 Notional Amount” immediately prior to any Distribution Date will be equal to the lesser of (i) the aggregate Principal Balance of the Group II Mortgage Loans with Adjusted Net Minimum Mortgage Rates in excess of 4.25% (prior to giving effect to scheduled payments of principal due during the related Due Period and unscheduled collections of principal received during the related Prepayment Period) and (ii) the scheduled notional amount as set forth in Schedule A to this information supplement.

The “Credit Enhancement Percentage 1” for any Distribution Date is the percentage obtained by dividing (x) the aggregate Certificate Principal Balance of the Subordinate Certificates (other than the Class M-1 Certificates) calculated prior to distribution of the Group I Principal Distribution Amount and the Group II Principal Distribution Amount in respect of the Certificates then entitled to distributions of principal on such Distribution Date by (y) the aggregate Stated Principal Balance of the Mortgage Loans, calculated prior to taking into account payments of principal on the Mortgage Loans due on the related Due Date or received during the related Prepayment Period.

The “Credit Enhancement Percentage 2” for any Distribution Date is the percentage obtained by dividing (x) the aggregate Certificate Principal Balance of the Class M-1 Certificates calculated prior to distribution of the Group II Principal Distribution Amount in respect of the Certificates then entitled to distributions of principal on such Distribution Date by (y) the aggregate Stated Principal Balance of the Group II Mortgage Loans, calculated prior to taking into account payments of principal on the Group II Mortgage Loans due on the related Due Date or received during the related Prepayment Period.

A “Cumulative Loss Trigger Event” is in effect with respect to any Distribution Date on or after March 2006, if the percentage obtained by dividing (x) the aggregate amount of Realized Losses incurred with respect to the Mortgage Loans from the Cut-off Date through the last day of the related Due Period by (y) the aggregate Stated Principal Balance of the Mortgage Loans as of the Cut-off Date, exceeds the applicable percentage set forth below for such Distribution Date:

<b><u>Distribution Date Occurring in</u></b>	<b><u>Cumulative Loss Percentage</u></b>
March 2006 through February 2007	2.90% for the first month, plus an additional 1/12th of 1.72% for each month thereafter.
March 2007 through February 2008	4.62% for the first month, plus an additional 1/12th of 1.38% for each month thereafter.
March 2008 through February 2009	6.00% for the first month, plus an additional 1/12th of 0.75% for each month thereafter.
March 2009 and thereafter	6.75% for each month

A “Delinquency Trigger Event” is in effect with respect to a Distribution Date if the percentage obtained by dividing (x) the aggregate Stated Principal Balance of (i) Mortgage Loans Delinquent 60 days or more, (ii) REO Properties and (iii) Mortgage Loans in foreclosure and in bankruptcy (excluding any such Mortgage Loans which are less than 60 days Delinquent under the bankruptcy plan) by (y) the aggregate Stated Principal Balance of the Mortgage Loans, in each case, calculated prior to taking into account payments of principal on the Mortgage Loans due on the

related Due Date or received during the related Prepayment Period, exceeds 40% of the sum of Credit Enhancement Percentage 1 and Credit Enhancement Percentage 2.

A Mortgage Loan is “Delinquent” if any monthly payment due on a Due Date is not made by the close of business on the next scheduled Due Date for such Mortgage Loan. A Mortgage Loan is “30 days Delinquent” if such monthly payment has not been received by the close of business on the corresponding day of the month immediately succeeding the month in which such monthly payment was due or, if there was no such corresponding day (*e.g.*, as when a 30-day month follows a 31-day month in which a payment was due on the 31st day of such month), then on the last day of such immediately succeeding month; and similarly for “60 days Delinquent” and “90 days Delinquent,” etc.

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

The “Extra Principal Distribution Amount” with respect to any Distribution Date is the lesser of (x) the Net Monthly Excess Cashflow for such Distribution Date and (y) the Overcollateralization Deficiency Amount for such Distribution Date.

The “Group I Interest Remittance Amount” with respect to any Distribution Date is that portion of the Available Funds for such Distribution Date attributable to interest received or advanced with respect to the Group I Mortgage Loans or to Compensating Interest paid by the Master Servicer with respect to the Group I Mortgage Loans.

The “Group I Principal Allocation Percentage” for any Distribution Date is the percentage equivalent of a fraction, the numerator of which is (x) the Group I Principal Remittance Amount for such Distribution Date, and the denominator of which is (y) the Principal Remittance Amount for such Distribution Date.

The “Group I Principal Distribution Amount” for any Distribution Date is the sum of (i) (x) the Group I Principal Remittance Amount minus (y) the amount of any Overcollateralization Release Amount for such Distribution Date multiplied by the Group I Principal Allocation Percentage, and (ii) the Extra Principal Distribution Amount for such Distribution Date multiplied by the Group I Principal Allocation Percentage.

The “Group I Principal Remittance Amount” means with respect to any Distribution Date, the sum of (i) all scheduled payments of principal collected or advanced on the Group I Mortgage Loans by the Master Servicer that were due during the related Due Period, (ii) all partial and full principal prepayments of the Group I Mortgage Loans applied by the Master Servicer during the related Prepayment Period, (iii) the principal portion of all Net Liquidation Proceeds and Insurance Proceeds received during the related Prepayment Period with respect to the Group I Mortgage Loans, (iv) that portion of the Purchase Price, representing principal of any repurchased Group I Mortgage Loan, deposited to the Collection Account during the related Prepayment Period, (v) the principal portion of any Substitution Adjustments deposited in the Collection Account during the related Prepayment Period with respect to the Group I Mortgage Loans, and (vi) on the Distribution Date on which the Trust is to be terminated in accordance with the Pooling Agreement, that portion of the Termination Price representing principal with respect to the Group I Mortgage Loans.

The “Group II Interest Remittance Amount” with respect to any Distribution Date is that portion of the Available Funds for such Distribution Date attributable to interest received or advanced with respect to the Group II Mortgage Loans or to Compensating Interest paid by the Master Servicer with respect to the Group II Mortgage Loans.

The “Group II Principal Allocation Percentage” for any Distribution Date is the percentage equivalent of a fraction, the numerator of which is (x) the Group II Principal Remittance Amount for such Distribution Date, and the denominator of which is (y) the Principal Remittance Amount for such Distribution Date.

The “Group II Principal Distribution Amount” for any Distribution Date is the sum of (i) (x) the Group II Principal Remittance Amount minus (y) the amount of any Overcollateralization Release Amount for such Distribution Date multiplied by the Group II Principal Allocation Percentage, and (ii) the Extra Principal Distribution Amount for such Distribution Date multiplied by the Group II Principal Allocation Percentage.

The “Group II Principal Remittance Amount” means with respect to any Distribution Date, the sum of (i) all scheduled payments of principal collected or advanced on the Group II Mortgage Loans by the Master Servicer that were due during the related Due Period, (ii) all partial and full principal prepayments of the Group II Mortgage Loans applied by the Master Servicer during the related Prepayment Period, (iii) the principal portion of all Net Liquidation Proceeds and Insurance Proceeds received during the related Prepayment Period with respect to the Group II Mortgage Loans, (iv) that portion of the Purchase Price, representing principal of any repurchased Group II Mortgage Loan, deposited to the Collection Account during the related Prepayment Period, (v) the principal portion of any Substitution Adjustments deposited in the Collection Account during the related Prepayment Period with respect to the Group II Mortgage Loans and (vi) on the Distribution Date on which the Trust is to be terminated in accordance with the Pooling Agreement, that portion of the Termination Price representing principal with respect to the Group II Mortgage Loans.

“Insurance Proceeds” means the proceeds of any title policy, hazard policy or other insurance policy covering a Mortgage Loan to the extent such proceeds are not to be applied to the restoration of the related Mortgaged Property or released to the mortgagor in accordance with the procedures that the Master Servicer would follow in servicing mortgage loans held for its own account, subject to the terms and conditions of the related mortgage note and Mortgage.

The “Monthly Interest Distributable Amount” for any Distribution Date and each class of Certificates equals the amount of interest accrued during the related Accrual Period at the related Pass-Through Rate on the Certificate Principal Balance or Notional Amount of such class of Certificates immediately prior to such Distribution Date, in each case reduced by any net Prepayment Interest Shortfalls allocated to such class of Certificates and shortfalls resulting from the application of the Relief Act allocated to such class of Certificates, in each such case as such shortfall allocations are described under “*Allocation of Available Funds—Interest Distributions on the Class A Certificates, Class S Certificates and Mezzanine Certificates*” above.

The “Net Monthly Excess Cashflow” for any Distribution Date is an amount equal to the sum of (a) any Overcollateralization Release Amount for such Distribution Date and (b) the positive excess of (x) the Available Funds for such Distribution Date over (y) the sum for such Distribution Date of (A) the Monthly Interest Distributable Amounts for the Class A Certificates, the Class S Certificates and the Mezzanine Certificates, (B) the Unpaid Interest Shortfall Amounts for the Class A Certificates, the Class S Certificates and the Class M-1 Certificates, (C) the Principal Remittance Amount, (D) the Guarantor Reimbursement Amount and (E) the Guaranty Fee.

An “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 (assuming that 100% of the Principal Remittance Amount is applied as a principal payment on such Distribution Date).

The “Overcollateralization Release Amount” means, with respect to any Distribution Date, the lesser of (x) the Principal Remittance Amount for such Distribution Date and (y) the excess, if any, of (i) the Overcollateralized Amount for such Distribution Date (assuming that 100% of the Principal Remittance Amount is applied as a principal payment on such Distribution Date) over (ii) the Overcollateralization Target Amount for such Distribution Date.

The “Overcollateralization Target Amount” means with respect to any Distribution Date (i) prior to the Stepdown Date, 1.95% of the aggregate Stated Principal Balance of the Mortgage Loans as of the Cut-off Date, (ii) on or after the Stepdown Date provided a Trigger Event is not in effect, the greater of (x) the lesser of (I) 1.95% of the aggregate Stated Principal Balance of the Mortgage Loans as of the Cut-off Date and (II) 3.90% of the aggregate Stated Principal Balance of the Mortgage Loans as of the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) and (y) 0.50% of the aggregate Stated Principal Balance of the Mortgage Loans as of the Cut-off Date and (iii) on or after the Stepdown Date if a Trigger Event is in effect, the Overcollateralization Target Amount for the immediately preceding Distribution Date.

The “Overcollateralized Amount” for any Distribution Date is the amount, if any, by which (i) the aggregate Stated Principal Balance of the Mortgage Loans on the last day of the related Due Period (after giving effect to scheduled payments of principal due during the related Due Period, to the extent received or advanced, and unscheduled collections of principal received during the related Prepayment Period) exceeds (ii) the aggregate Certificate Principal Balance of the Class A Certificates, the Mezzanine Certificates and the Class P Certificates as of such Distribution Date (after giving effect to distributions of the Principal Remittance Amount to be made on such Distribution Date).

The “Prepayment Period” for the first Distribution Date is the period from January 1, 2003 through February 28, 2003, and for any Distribution Date thereafter is the calendar month immediately preceding the month in which the Distribution Date occurs.

The “Principal Remittance Amount” means with respect to any Distribution Date, the sum of the Group I Principal Remittance Amount and the Group II Principal Remittance Amount.

“Realized Loss” means, with respect to any defaulted Mortgage Loan that is finally liquidated (a “Liquidated Mortgage Loan”), the amount of loss realized equal to the portion of the Principal Balance remaining unpaid after application of all liquidation proceeds, net of amounts reimbursable to the Master Servicer for related Advances, Servicing Advances and Servicing Fees (such amount, the “Net Liquidation Proceeds”) and all Insurance Proceeds in respect of such Mortgage Loan.

The “Stated Principal Balance” with respect to any Mortgage Loan: (a) as of any date of determination up to but not including the Distribution Date on which the proceeds, if any, of a liquidation event with respect to such Mortgage Loan would be distributed, the Scheduled Principal Balance as of the Cut-off Date, as shown in the Mortgage Loan Schedule, minus the sum of (i) the principal portion of each monthly payment due on a Due Date subsequent to the Cut-off Date, to the extent received from the Mortgagor or advanced by the Master Servicer and distributed on or before such date of determination, (ii) all Principal Prepayments received after the Cut-off Date, to the extent distributed on or before such date of determination, (iii) all Liquidation Proceeds and Insurance Proceeds to the extent distributed on or before such date of determination and (iv) any Realized Loss incurred with respect thereto as a result of a deficient valuation made during or prior to the Due Period for the most recent Distribution Date coinciding with or preceding such date of determination; and (b) as of any date of determination coinciding with or subsequent to the Distribution Date on which the proceeds, if any, of a liquidation event with respect to such Mortgage Loan would be distributed, zero.

The “Stepdown Date” means the earlier of (a) the latest of (i) the Distribution Date in March 2006, (ii) the first Distribution Date on which the Credit Enhancement Percentage 2 (calculated for this purpose only after taking into account payments of principal on the Group II Mortgage Loans due on the related Due Date or received during the related Prepayment Period but prior to distribution of the Group I Principal Distribution Amount and the Group II Principal Distribution Amount in respect of the Certificates then entitled to distributions of principal on such Distribution Date) is greater than or equal to 13.00% and (iii) the first Distribution Date on which the Credit Enhancement Percentage 1 (calculated for this purpose only after taking into account payments of principal on the Mortgage Loans due on the related Due Date or received during the related Prepayment Period but prior to distribution of the Group I Principal Distribution Amount and the Group II Principal Distribution Amount in respect of the Certificates then entitled to distributions of principal on such Distribution Date) is greater than or equal to 26.00% and (b) the date on which the aggregate Certificate Principal Balance of the Class A Certificates and the Class M-1 Certificates have been reduced to zero.

A “Trigger Event” is in effect with respect to any Distribution Date if either a Cumulative Loss Trigger Event or a Delinquency Trigger Event is in effect on such Distribution Date.

The “Unpaid Interest Shortfall Amount” means (i) for the Class A Certificates, the Class S Certificates and the Mezzanine Certificates and the first Distribution Date, zero, and (ii) for such class of Certificates and any Distribution Date after the first Distribution Date, the amount, if any, by which (a) the sum of (1) the Monthly Interest Distributable Amount for such class of Certificates for the immediately preceding Distribution Date and (2) the outstanding Unpaid Interest Shortfall Amount, if any, for such class of Certificates for such preceding Distribution Date exceeds (b) the aggregate amount distributed on such class of Certificates in respect of interest pursuant to clause (a) of this definition on such preceding Distribution Date, plus interest on the amount of interest due but not paid on the class of Certificates on such preceding Distribution Date, to the extent permitted by law, at the Pass-Through Rate on such Distribution Date for such class of Certificates for the related Accrual Period.

## Pass-Through Rates

The “Pass-Through Rate” for the Class A Certificates and the Mezzanine Certificates for any Distribution Date (other than the first Distribution Date) will equal the lesser of (x) the related Formula Rate for such Distribution Date and (y) the related Net WAC Rate for such Distribution Date.

The “Pass-Through Rate” for the Class S-1 Certificates will be 4.25% per annum for the March 2003 distribution date through the August 2003 distribution date, 4.00% per annum for the September 2003 distribution date through the February 2004 distribution date, 3.75% per annum for the March 2004 distribution date through the August 2004 distribution date and 3.50% per annum for the September 2004 distribution date through the November 2004 distribution date. After the November 2004 Distribution Date, the Pass-Through Rate for the Class S-1 Certificates will be 0.00% per annum, and such class will therefore then cease to accrue interest.

The “Pass-Through Rate” for the Class S-2 Certificates will be 4.25% per annum for the March 2003 distribution date through the August 2003 distribution date, 4.00% per annum for the September 2003 distribution date through the February 2004 distribution date, 3.75% per annum for the March 2004 distribution date through the August 2004 distribution date and 3.50% per annum for the September 2004 distribution date through the November 2004 distribution date. After the November 2004 Distribution Date, the Pass-Through Rate for the Class S-2 Certificates will be 0.00% per annum, and such class will therefore then cease to accrue interest.

The “Net WAC Rate” for any Distribution Date (other than the first Distribution Date) with respect to the Class A-1 Certificates is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Mortgage Rates of the Group I Mortgage Loans, weighted on the basis of the Stated Principal Balances thereof as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the sum of (A) the Guaranty Fee for such Distribution Date multiplied by 12 and (B) the product of (I) the Pass-Through Rate for the Class S-1 Certificates for such Distribution Date and (II) the Class S-1 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Group I Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.

The “Net WAC Rate” for any Distribution Date (other than the first Distribution Date) with respect to the Class A-2 Certificates and the Class M-1 Certificates is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Mortgage Rates of the Group II Mortgage Loans, weighted on the basis of the Stated Principal Balances thereof as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the product of (I) the Pass-Through Rate for the Class S-2 Certificates for such Distribution Date and (II) the Class S-2 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.

The “Net WAC Rate” for any Distribution Date (other than the first Distribution Date) with respect to the Mezzanine Certificates (other than the Class M-1 Certificates) is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Mortgage Rates of the Mortgage Loans, weighted in proportion to the results of subtracting from the aggregate principal balance of each Loan Group, the current principal amount of the related class or classes of Senior Certificates as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the sum of (A) the Guaranty Fee for such Distribution Date multiplied by 12, (B) the product of (I) the Pass-Through Rate for the Class S-1 Certificates for such Distribution Date and (II) the Class S-1 Notional Amount immediately prior to such Distribution Date and (C) the product of (I) the Pass-Through Rate for the Class S-2 Certificates for such Distribution Date and (II) the Class S-2 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date, multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.



The “Adjusted Net Mortgage Rate” for any Mortgage Loan for any Distribution Date is a per annum rate equal to the applicable Mortgage Rate for such Mortgage Loan as of the first day of the month preceding the month in which such Distribution Date occurs minus the sum of (i) the Servicing Fee Rate and (ii) the Trustee Fee (expressed as a percentage per annum of the aggregate Stated Principal Balance of the Mortgage Loans).

The “Formula Rate” for any class of the Class A Certificates and the Mezzanine Certificates is the lesser of (a) the “Interest Settlement Rate” for U.S. dollar deposits of one-month maturity set by the British Bankers’ Association (“One-Month LIBOR”) as of the related LIBOR Determination Date (as defined in this information supplement) plus a related margin (the “Certificate Margin”) and (b) the related Maximum Cap Rate. The Certificate Margin with respect to the Class A-1 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 0.14% and on each Distribution Date after the Optional Termination Date will equal 0.28%. The Certificate Margin with respect to the Class A-2 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 0.40% and on each Distribution Date after the Optional Termination Date will equal 0.80%. The Certificate Margin with respect to the Class M-1 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 0.92% and on each Distribution Date after the Optional Termination Date will equal 1.38%. The Certificate Margin with respect to the Class M-2 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 2.05% and on each Distribution Date after the Optional Termination Date will equal 3.075%. The Certificate Margin with respect to the Class M-3 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 4.00% and on each Distribution Date after the Optional Termination Date will equal 6.00%. The Certificate Margin with respect to the Class M-4 Certificates on each Distribution Date on or prior to the Optional Termination Date will equal 3.50% and on each Distribution Date after the Optional Termination Date will equal 5.25%.

The “Maximum Cap Rate” for any Distribution Date (other than the first Distribution Date) and the Class A-1 Certificates is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Maximum Mortgage Rates of the Group I Mortgage Loans, weighted on the basis of the Stated Principal Balances thereof as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the sum of (A) the Guaranty Fee for such Distribution Date multiplied by 12 and (B) the product of (I) the Pass-Through Rate for the Class S-1 Certificates for such Distribution Date and (II) the Class S-1 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Group I Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.

The “Maximum Cap Rate” for any Distribution Date (other than the first Distribution Date) and the Class A-2 Certificates and the Class M-1 Certificates is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Maximum Mortgage Rates of the Group II Mortgage Loans, weighted on the basis of the Stated Principal Balances thereof as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the product of (I) the Pass-Through Rate for the Class S-2 Certificates for such Distribution Date and (II) the Class S-2 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Group II Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.

The “Maximum Cap Rate” for any Distribution Date (other than the first Distribution Date) and the Mezzanine Certificates (other than the Class M-1 Certificates) is (a) a per annum rate equal to the excess, if any, of (i) the weighted average of the Adjusted Net Maximum Mortgage Rates of the Mortgage Loans, weighted on the basis of the Stated Principal Balances thereof as of the Due Date in the month preceding the month of such Distribution Date, over (ii) the percentage equivalent of a fraction, (1) the numerator of which is the sum of (A) the Guaranty Fee for such Distribution Date multiplied by 12, (B) the product of (I) the Pass-Through Rate for the Class S-1 Certificates for such Distribution Date and (II) the Class S-1 Notional Amount immediately prior to such Distribution Date and (C) the product of (I) the Pass-Through Rate for the Class S-2 Certificates for such Distribution Date and (II) the Class S-2 Notional Amount immediately prior to such Distribution Date and (2) the denominator of which is the aggregate Stated Principal Balance of the Mortgage Loans as of the Due Date in the month preceding the month of such Distribution Date, multiplied by (b) a fraction the numerator of which is 30 and the denominator of which is the actual number of days elapsed in the related Accrual Period.

The “Adjusted Net Maximum Mortgage Rate” for any Mortgage Loan for any Distribution Date is a per annum rate equal to the Maximum Mortgage Rate for such Mortgage Loan (if such Mortgage Loan is an adjustable-rate Mortgage Loan) or the Mortgage Rate for such Mortgage Loan (if such Mortgage Loan is a fixed-rate Mortgage Loan), in either case as of the first day of the month preceding the month in which the Distribution Date occurs, minus the sum of the Servicing Fee Rate and the Trustee Fee (expressed as a percentage per annum of the aggregate Stated Principal Balance of the Mortgage Loans).

The “Adjusted Net Minimum Mortgage Rate” for any Mortgage Loan for any Distribution Date is a per annum rate equal to the Minimum Mortgage Rate for such Mortgage Loan (if such Mortgage Loan is an adjustable-rate Mortgage Loan) or the Mortgage Rate for such Mortgage Loan (if such Mortgage Loan is a fixed-rate Mortgage Loan), in either case as of the first day of the month preceding the month in which the Distribution Date occurs, minus the sum of (i) the Servicing Fee Rate, (ii) the Trustee Fee (expressed as a percentage per annum of the aggregate Stated Principal Balance of the Mortgage Loans) and (iii) with respect to a Group I Mortgage Loan, the Guaranty Fee Rate (expressed as a percentage per annum of the aggregate Stated Principal Balance of the Group I Mortgage Loans).

On the Closing Date, the Trustee will establish a Net WAC Rate Carryover Reserve Fund account (the “Net WAC Rate Carryover Reserve Fund”) from which payments in respect of Net WAC Rate Carryover Amounts (as defined below) on the Class A Certificates and the Mezzanine Certificates will be made. The Net WAC Rate Carryover Reserve Fund will be an asset of the Trust but not of any REMIC. On each Distribution Date, the Trustee will deposit in the Net WAC Rate Carryover Reserve Fund all amounts received with respect to the Cap Agreements and that portion of the Net Monthly Excess Cashflow described in clause (xi) under “— Overcollateralization Provisions” above. On each Distribution Date, to the extent required following the distribution of the Available Funds as described under “Allocation of Available Funds” above, the Trustee will withdraw from amounts in the Net WAC Rate Carryover Reserve Fund to pay the Class A Certificates and the Mezzanine Certificates, any Net WAC Rate Carryover Amounts.

Amounts in the Net WAC Rate Carryover Reserve Fund will be distributed in the following order of priority to the extent of amounts remaining in the Net WAC Rate Carryover Reserve Fund:

- (i) Any amounts received by the Trustee on account of the Group I Cap Agreement will be distributed:
  - (A) *first*, to the Class A-1 Certificates, the related Net WAC Rate Carryover Amount;
  - (B) *second*, to the Class A-2 Certificates, the related Net WAC Rate Carryover Amount to the extent not paid pursuant to clause (ii)(A) below; and
  - (C) *third*, to the Class M-1 Certificates, the related Net WAC Rate Carryover Amount to the extent not paid pursuant to clause (ii)(B) below.
- (ii) Any amounts received by the Trustee on account of the Group II Cap Agreement will be distributed:
  - (A) *first*, to the Class A-2 Certificates, the related Net WAC Rate Carryover Amount;
  - (B) *second*, to the Class M-1 Certificates, the related Net WAC Rate Carryover Amount; and
  - (C) *third*, to the Class A-1 Certificates, the related Net WAC Rate Carryover Amount to the extent not paid pursuant to clause (i)(A) above.
- (iii) Any amounts received by the Trustee on account of the Cap Agreements remaining undistributed following the distributions pursuant to clauses (i) and (ii) above and any amounts deposited in the Net WAC Rate Carryover Reserve Fund from the Net Monthly Excess Cashflow will be distributed:
  - (A) *first*, concurrently, to the Class A-1 Certificates and the Class A-2 Certificates, the related Net WAC Rate Carryover Amount to the extent not paid pursuant to clauses (i) and (ii) above, *pro rata*, based on their respective Net WAC Rate Carryover Amounts for such Distribution Date;

- (B) *second*, to the Class M-1 Certificates, the related Net WAC Rate Carryover Amount to the extent not paid pursuant to clauses (i) and (ii) above;
- (C) *third*, to the Class M-2 Certificates, the related Net WAC Rate Carryover Amount;
- (D) *fourth*, to the Class M-3 Certificates, the related Net WAC Rate Carryover Amount; and
- (E) *fifth*, to the Class M-4 Certificates, the related Net WAC Rate Carryover Amount.

If on any Distribution Date, the Pass-Through Rate for the Class A Certificates or any class of the Mezzanine Certificates is the related Net WAC Rate (other than the first Distribution Date), then the “Net WAC Rate Carryover Amount” for such class of Certificates for such Distribution Date is an amount equal to the sum of (i) the positive excess of (x) the amount of interest that would have been distributable to such class of Certificates on such Distribution Date if the Pass-Through Rate for such class of Certificates for such Distribution Date were calculated at the related Formula Rate over (y) the amount of interest distributable on such class of Certificates at the related Net WAC Rate for such Distribution Date and (ii) the related Net WAC Rate Carryover Amount for the previous Distribution Date not previously distributed together with interest thereon at a rate equal to the related Formula Rate for such class of Certificates for the most recently ended Accrual Period.

To the extent interest on the Class A Certificates or any class of the Mezzanine Certificates is paid at the related Net WAC Rate instead of the Formula Rate, a shortfall in interest equal to the Net WAC Rate Carryover Amount will occur. Such shortfall will be payable only from the Net Monthly Excess Cashflow and payments received under the Cap Agreements (through the use of the Net WAC Rate Carryover Reserve Fund), as described under “Description of the Certificates—Overcollateralization Provisions” in this information supplement.

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

On the second LIBOR Business Day (as defined below) preceding the commencement of each Accrual Period for the Class A Certificates and the Mezzanine Certificates (each such date, a “LIBOR Determination Date”), the Trustee will determine the One-Month LIBOR for such Accrual Period for the Class A Certificates and the Mezzanine Certificates on the basis of the “Interest Settlement Rate” for U.S. dollar deposits of one-month maturity set by the British Bankers’ Association (the “BBA”) as of 11:00 a.m. (London time) on such LIBOR Determination Date.

The BBA’s Interest Settlement Rates are currently displayed on the Dow Jones Telerate Service page 3750 (such page, or such other page as may replace page 3750 on that service or such other service as may be nominated by the BBA as the information vendor for the purpose of displaying the BBA’s Interest Settlement Rates for deposits in U.S. dollars, the “Designated Telerate page”). Such Interest Settlement Rates are also currently available on Reuters Monitor Money Rates Service page “LIBOR01” and Bloomberg L.P. page “BBAM.” The BBA’s Interest Settlement Rates currently are rounded to five decimal places.

A “LIBOR Business Day” means any day on which banks in London and New York are open for conducting transactions in foreign currency and exchange.

With respect to any LIBOR Determination Date, if the BBA’s Interest Settlement Rate does not appear on the Designated Telerate Page as of 11:00 a.m. (London time) on such date, or if the Designated Telerate Page is not available on such date, the Trustee will obtain such from the Reuters or Bloomberg page. Alternatively, the Trustee may request the principal London office of each of the Reference Banks (as defined in this information supplement) to provide a quotation of its rate. If on such LIBOR Determination Date two or more Reference Banks provide such offered quotations, the One-Month LIBOR for the related Accrual Period will be the arithmetic mean of such offered quotations (rounded upwards if necessary to the nearest whole multiple of 0.03125%). If on such LIBOR Determination Date fewer than two Reference Banks provide such offered quotations, the One-Month LIBOR for the related Accrual Period shall be the higher of (x) the One-Month LIBOR as determined on the previous LIBOR Determination Date and (y) the Reserve Interest Rate (as defined in this information supplement).

As used in this section, “Reference Banks” means leading banks selected by the Trustee with the consent of the NIMS Insurer, if any, and engaged in transactions in Eurodollar deposits in the international Eurocurrency market (i)

with an established place of business in London, (ii) which have been designated as such by the Trustee with the consent of the NIMS Insurer and (iii) not controlling, controlled by or under common control with, the Depositor, the Master Servicer or any successor Master Servicer or the Seller; and “Reserve Interest Rate” shall be the rate per annum that the Trustee determines to be either (i) the arithmetic mean (rounded upwards if necessary to the nearest whole multiple of 0.03125%) of the one-month United States dollar lending rates which New York City banks selected by the Trustee with the consent of the NIMS Insurer, if any, are quoting on the relevant LIBOR Determination Date to the principal London Offices of leading banks in the London interbank market or (ii) in the event that the Trustee can determine no such arithmetic mean, the lowest one-month United States dollar lending rate which New York City banks selected by the Trustee with the consent of the NIMS Insurer are quoting on such LIBOR Determination Date to leading European banks.

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

### **Reports To Certificateholders**

On each Distribution Date, the Trustee will prepare and make available to each holder of a Certificate, a statement based upon information received from the Master Servicer generally setting forth, among other things:

- (i) the amount of distributions with respect to each class of Certificates;
- (ii) the amount of such distributions set forth in clause (i) allocable to principal, separately identifying the aggregate amount of any principal prepayments or other unscheduled recoveries of principal included therein;
- (iii) the amount of such distributions set forth in clause (i) allocable to interest and the calculation thereof;
- (iv) the amount of any Net WAC Rate Carryover Amounts or Unpaid Interest Shortfall Amounts;
- (v) the Group I Interest Remittance Amount and the Group II Interest Remittance Amount and the Group I Principal Remittance Amount and Group II Principal Remittance Amount for such Distribution Date;
- (vi) cumulative Guarantor Payments under the Guaranty after giving effect to distributions to be made on such Distribution Date;
- (vii) any Guarantor Reimbursement Amount paid to the Guarantor and the amount, if any, allocable to principal and interest;
- (viii) the Certificate Principal Balance of each class of Certificates after giving effect to the distribution of principal on such Distribution Date;
- (ix) the Stated Principal Balance for the Group I Mortgage Loans and the Group II Mortgage Loans at the end of the related Due Period;
- (x) by Loan Group and in the aggregate, the amounts of Servicing Fees paid to or retained by the Master Servicer or any sub-servicer;
- (xi) in the aggregate, the amount of Advances made by the Master Servicer for the related Collection Period, the amount of unrecovered Advances (after giving effect to Advances made on the Distribution Date) outstanding, and the aggregate amount of non-recoverable Advances for such Distribution Date;

(xii) by Loan Group and in the aggregate, the number and aggregate Stated Principal Balance of Mortgage Loans that were (A) delinquent (exclusive of Mortgage Loans in bankruptcy or foreclosure or REO Properties) (1) 30 to 59 days, (2) 60 to 89 days and (3) 90 or more days, as of the last day of the calendar month, (B) in foreclosure, (C) in bankruptcy and (D) REO Properties;

(xiii) the aggregate Stated Principal Balance of all Mortgage Loans with respect to which the retained mortgaged property was acquired by the Trust in foreclosure or by deed in lieu of foreclosure (any such mortgaged property, an “REO Property”) as of the close of business on the last day of the related Prepayment Period;

(xiv) by Loan Group and in the aggregate, the amount of Realized Losses incurred during the related Prepayment Period and the cumulative amount of Realized Losses;

(xv) by Loan Group and in the aggregate, the amount of any net Prepayment Interest Shortfalls for such Distribution Date to the extent not covered by the Master Servicer and the amount of any Relief Act Interest Shortfalls for such Distribution Date;

(xvi) any Overcollateralization Deficiency Amount (after giving effect to distribution of principal on such Distribution Date);

(xvii) by Loan Group and in the aggregate, the aggregate Principal Balance of Mortgage Loans repurchased by the Seller;

(xviii) the date when a Stepdown Date or a Trigger Event has occurred;

(xix) the Overcollateralization Target Amount as of such Distribution Date;

(xx) the amount of payments made by the Cap Provider under each of the Group I Cap Agreement and the Group II Cap Agreement; and

(xxi) the aggregate amount of extraordinary trust expenses (as described in the Pooling Agreement) paid to the Trustee for such Distribution Date.

The Trustee will make such statement (and, at its option, any additional files containing the same information in an alternative format) available each month via the Trustee’s internet website. The Trustee’s internet website will initially be located at “<https://www.corporatetrust.db.com>”. Assistance in using the website can be obtained by calling the Trustee’s customer service desk at 1-800-735-7777. Parties that are unable to use the above distribution options are entitled to have a paper copy mailed to them via first class mail by calling the customer service desk and indicating such. The Trustee will have the right to change the way such statements are distributed in order to make such distribution more convenient and/or more accessible to the above parties and the Trustee will provide timely and adequate notification to all above parties regarding any such changes.

In addition, within a reasonable period of time after the end of each calendar year, the Trustee will prepare and deliver to each holder of a Certificate 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.

## **YIELD, PREPAYMENT AND MATURITY CONSIDERATIONS**

The yield to maturity of the Offered Certificates will be sensitive to defaults on the Mortgage Loans. If a purchaser of an Offered Certificate calculates its anticipated yield based on an assumed rate of default and amount of losses that is lower than the default rate and amount of losses actually incurred, its actual yield to maturity may be lower than that so calculated. In general, the earlier a loss occurs, the greater is the effect on an investor's yield to maturity. There can be no assurance as to the delinquency, foreclosure or loss experience with respect to the Mortgage Loans. The Mortgage Loans were underwritten in accordance with guidelines that generally do not conform to the underwriting guidelines typically applied by banks and other primary lending institutions, particularly with respect to a prospective borrower's credit history and debt-to-income ratio. Borrowers who qualify under the Master Servicer's underwriting guidelines generally have equity in their property and repayment ability but may have a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. The Master Servicer originates mortgage loans based on its underwriting guidelines and does not determine whether such mortgage loans would be acceptable for purchase by Fannie Mae. As a result, the risk of delinquencies with respect to, and losses on, the Mortgage Loans will be greater than that of mortgage loans underwritten in a more traditional manner.

The rate of principal payments, the aggregate amount of distributions and the yields to maturity of the Offered Certificates will be affected by the rate and timing of payments of principal on the Mortgage Loans. The rate of principal payments on the Mortgage Loans will in turn be affected by the amortization schedules of the Mortgage Loans and by the rate of principal prepayments (including for this purpose prepayments resulting from refinancing, liquidations of the Mortgage Loans due to defaults, casualties or condemnations and repurchases by the Seller or Master Servicer). Certain of the Mortgage Loans contain prepayment charges, and the rate of principal payments on such Mortgage Loans may or may not be less than the rate of principal payments for mortgage loans that did not have prepayment charges. The Mortgage Loans are subject to the "due-on-sale" provisions included therein which provide that the Mortgage Loan is due upon the transfer of the related Mortgaged Property or is assumable by a creditworthy purchaser of the related Mortgaged Property, subject to limitations described under "Certain Legal Aspects of the Mortgage Loans—Enforceability of Provisions" in this information supplement. We refer you to "The Mortgage Pool" in this information supplement.

Prepayments, liquidations and purchases of the Mortgage Loans (including any optional purchase) will result in distributions on the Offered Certificates (other than the Class S-1 Certificates) of principal amounts which would otherwise be distributed over the remaining terms of the Mortgage Loans. Since the rate of payment of principal on the Mortgage Loans will depend on future events and a variety of other factors, no assurance can be given as to such rate or the rate of principal prepayments. The extent to which the yield to maturity of a class of Offered Certificates may vary from the anticipated yield will depend upon the degree to which such class of Certificates is purchased at a discount or premium. Further, an investor should consider the risk that, in the case of any Offered Certificate (other than the Class S-1 Certificates) purchased at a discount, a slower than anticipated rate of principal payments (including prepayments) on the Mortgage Loans could result in an actual yield to such investor that is lower than the anticipated yield and, in the case of any Offered Certificate (including the Class S-1 Certificates) purchased at a premium, a faster than anticipated rate of principal payments on the Mortgage Loans could result in an actual yield to such investor that is lower than the anticipated yield.

The rate of principal payments (including prepayments) on pools of mortgage loans may vary significantly over time and may be influenced by a variety of economic, geographic, social and other factors, including changes in mortgagors' housing needs or general creditworthiness of the mortgagors, job transfers, unemployment, mortgagors' net equity in the mortgaged properties and servicing decisions. In general, if prevailing interest rates were to fall significantly below the Mortgage Rates on the Mortgage Loans, such Mortgage Loans could be subject to higher prepayment rates than if prevailing interest rates were to remain at or above the Mortgage Rates on such Mortgage Loans. Conversely, if prevailing interest rates were to rise significantly, the rate of prepayments on such Mortgage Loans would generally be expected to decrease. The Mortgage Loans may be subject to a greater rate of principal prepayments in a low interest rate environment. For example, if prevailing interest rates were to fall, mortgagors with adjustable-rate Mortgage Loans may be inclined to refinance their adjustable-rate Mortgage Loans with a fixed-rate loan to "lock in" a lower interest rate or to refinance their adjustable-rate Mortgage Loans with other more competitive adjustable-rate mortgage loans. The existence of the applicable Periodic Rate Cap and Maximum Mortgage Rate with respect to the adjustable-rate Mortgage Loans also may affect the likelihood of prepayments resulting from refinancings. No assurances can be given as to the rate of prepayments on the Mortgage Loans in stable or changing interest rate

environments. In addition, the delinquency and loss experience of the fixed-rate Mortgage Loans may differ from that of the adjustable-rate Mortgage Loans because the amount of the monthly payments on the adjustable-rate Mortgage Loans are subject to adjustment on each Adjustment Date. In addition, a majority of the adjustable-rate Mortgage Loans will not have their initial Adjustment Date for two, three or five years after the origination thereof. The adjustable-rate Mortgage Loans may be subject to greater rates of prepayments as they approach their initial Adjustment Dates even if market interest rates are only slightly higher or lower than the Mortgage Rates on the adjustable-rate Mortgage Loans as mortgagors seek to avoid changes in their monthly payments.

Approximately 72.96% and 58.15% of the Group I Mortgage Loans and Group II Mortgage Loans (by aggregate Scheduled Principal Balance as of the Cut-off Date), respectively, provide for payment by the mortgagor of a prepayment charge in limited circumstances on certain prepayments. The holders of the Class P Certificates will be entitled to all prepayment charges received on the Mortgage Loans, and such amounts will not be available for distribution on the other classes of Certificates. Under certain circumstances, as described in the Pooling Agreement, the Master Servicer may waive the payment of any otherwise applicable prepayment charge. Investors should conduct their own analysis of the effect, if any, that the prepayment charges, and decisions by the Master Servicer with respect to the waiver thereof, may have on the prepayment performance of the Mortgage Loans. The Depositor makes no representations as to the effect that the prepayment charges, and decisions by the Master Servicer with respect to the waiver thereof, may have on the prepayment performance of the Mortgage Loans.

To the extent interest on the Class A Certificates or the Mezzanine Certificates is paid at the Net WAC Rate instead of the Formula Rate, a shortfall in interest equal to the Net WAC Rate Carryover Amount will occur. Such shortfall will only be payable from the Net Monthly Excess Cashflow and payments received under the Cap Agreements (through the use of the Net WAC Rate Carryover Reserve Fund), as described under “Description of the Certificates—Overcollateralization Provisions” in this information supplement.

### **Weighted Average Lives**

The timing of changes in the rate of principal prepayments on the Mortgage Loans may significantly affect an investor’s actual yield to maturity, even if the average rate of principal prepayments is consistent with such investor’s expectation. In general, the earlier a principal prepayment on the Mortgage Loans occurs, the greater the effect of such principal prepayment on an investor’s yield to maturity. 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 Offered Certificates may not be offset by a subsequent like decrease (or increase) in the rate of principal prepayments.

The weighted average life of a Class A-1 Certificate is the average amount of time that will elapse from the date such Certificates are sold to investors (February 6, 2003), until each dollar of principal is repaid to the investors in such Certificate. Because it is expected that there will be prepayments and defaults on the Mortgage Loans, the actual weighted average lives of these Certificates are expected to vary substantially from the weighted average remaining terms to stated maturity of the Mortgage Loans as set forth in this information supplement under “The Mortgage Pool.”

Prepayments of mortgage loans are commonly measured relative to a prepayment standard or model. The model used in this information supplement (the “Prepayment Assumption”) assumes:

- (i) In the case of the fixed-rate Mortgage Loans, 115% of the related Vector. In the case of the fixed-rate Mortgage Loans, the related “Vector” means a constant prepayment rate (“CPR”) of 4.00% per annum of the then unpaid principal balance of such Mortgage Loans in the first month of the life of such Mortgage Loans and an additional approximately 1.4545% (precisely 16/11 expressed as a percentage) per annum in each month thereafter until the 12th month, and then beginning in the 12th month and in each month thereafter during the life of such Mortgage Loans, a CPR of 20% per annum.
- (ii) In the case of the adjustable-rate Mortgage Loans, a CPR of 27% per annum.

CPR is a prepayment assumption that represents a constant 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. The Prepayment Assumption does not purport to be either an historical description of the prepayment experience of any pool of mortgage

loans or a prediction of the anticipated rate of prepayment of any mortgage loans, including the Mortgage Loans to be included in the Trust. Each of the Prepayment Scenarios in the table below assumes the respective percentages of CPR or the Vector, as applicable, indicated for such scenario.

The table entitled “Percent of Original Certificate Principal Balance Outstanding” was prepared on the basis of the assumptions in the following paragraph and the tables set forth below. There are certain differences between the loan characteristics included in such assumptions and the characteristics of the actual Mortgage Loans. Any such discrepancy may have an effect upon the percentages of Original Certificate Principal Balances outstanding and weighted average lives of the Class A-1 Certificates set forth in the table. In addition, since the actual Mortgage Loans in the Trust will have characteristics that differ from those assumed in preparing the tables set forth below, the distributions of principal on such classes of Offered Certificates may be made earlier or later than indicated in the table.

The percentages and weighted average lives in the table entitled “Percent of Original Certificate Principal Balance Outstanding” were determined assuming that (the “Structuring Assumptions”): (i) the Mortgage Loans have the characteristics set forth in the table below, (ii) the closing date for the Offered Certificates occurs on February 6, 2003 and the Offered Certificates are sold to investors on February 6, 2003, (iii) distributions on the Certificates are made on the 25th day of each month regardless of the day on which the Distribution Date actually occurs, commencing in March 2003, in accordance with the allocation of Available Funds set forth above under “Description of the Certificates—Allocation of Available Funds,” (iv) the prepayment rates are those indicated in the “Prepayment Scenarios” table below, (v) prepayments include thirty days’ interest thereon, (vi) the Seller is not required to substitute or repurchase any or all of the Mortgage Loans pursuant to the Pooling Agreement and no optional termination is exercised, except with respect to the entries identified by the row captioned “Weighted Average Life (years) to Optional Termination” in the tables below, (vii) the Overcollateralization Target Amount is as set forth herein, (viii) scheduled payments for all Mortgage Loans are received on the first day of each month commencing in March 2003, the principal portion of such payments being computed prior to giving effect to prepayments received in the previous month and there are no losses or delinquencies with respect to such Mortgage Loans, (ix) all Mortgage Loans prepay at the indicated rate and all such payments are treated as prepayments in full of individual Mortgage Loans, with no shortfalls in collection of interest, (x) such prepayments are received on the last day of each month commencing in the month of the Closing Date, (xi) the level of One-Month LIBOR is at all times equal to 1.34%, (xii) the Pass-Through Rates for the Offered Certificates are as set forth in this information supplement, (xiii) 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 Six-Month LIBOR and (b) the respective Gross Margin (such sum being subject to the applicable Periodic Rate Caps, Minimum Mortgage Rates and Maximum Mortgage Rates), (xiv) with respect to the adjustable-rate Mortgage Loans, Six-Month LIBOR at all times are equal to 1.34375%, (xv) the Servicing Fee Rate is equal to 0.50% per annum and (xvi) the Trustee Fee rate is at all times equal to zero. Nothing contained in the foregoing assumptions should be construed as a representation that the Mortgage Loans will not experience delinquencies or losses.

#### Prepayment Scenarios

	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>	<u>Scenario IV</u>	<u>Scenario V</u>	<u>Scenario VI</u>	<u>Scenario VII</u>
Fixed-Rate Mortgage Loans <sup>(1)</sup> .....	0%	50%	85%	115%	150%	175%	200%
Adjustable-Rate Mortgage Loans <sup>(2)</sup> .....	0%	15%	22%	27%	35%	40%	45%

<sup>(1)</sup> Percentage of the related Vector

<sup>(2)</sup> Percentage per annum (CPR)



**Assumed Mortgage Loan Characteristics**  
**Group I Mortgage Loans**

<b>Description</b>	<b>Principal Balance (\$)</b>	<b>Initial Mortgage Rate (%)</b>	<b>Months to Next Adjustment Date</b>	<b>Gross Margin (%)</b>	<b>Maximum Mortgage Rate (%)</b>	<b>Minimum Mortgage Rate (%)</b>	<b>Initial Periodic Rate Cap (%)</b>	<b>Periodic Rate Cap (%)</b>	<b>Original Amortization Term (months)</b>	<b>Remaining Amortization Term (months)</b>
1	158,333,171.40	7.963	22	4.928	13.963	7.963	1.000	1.000	360	358
2	80,694.62	11.200	22	5.990	17.200	11.200	1.000	1.000	360	358
3	6,271,883.57	9.579	22	5.874	15.579	9.579	1.000	1.000	360	358
4	26,138,862.41	9.854	22	5.966	15.854	9.854	1.000	1.000	360	358
5	5,434,583.94	9.557	22	5.805	15.557	9.557	1.000	1.000	360	358
6	6,403,040.20	9.346	22	5.801	15.346	9.346	1.000	1.000	360	358
7	2,120,113.42	9.113	22	5.827	15.113	9.113	1.000	1.000	360	358
8	2,294,684.67	9.345	22	5.812	15.345	9.345	1.000	1.000	360	358
9	23,794,539.63	8.033	22	5.351	14.033	8.033	1.000	1.000	360	358
10	442,311,995.11	7.941	22	5.409	13.943	7.941	1.005	1.000	360	358
11	103,719.99	6.190	10	4.990	12.190	6.190	1.000	1.000	360	358
12	174,642,425.93	8.537	22	5.580	14.539	8.537	1.004	1.000	360	358
13	1,972,532.97	8.896	33	5.584	14.896	8.896	3.000	1.000	360	357
14	327,620.55	10.220	34	6.195	16.220	10.220	3.000	1.000	360	358
15	230,024.88	7.050	34	4.990	13.050	7.050	3.000	1.000	360	358
16	179,893.18	8.600	35	4.990	14.600	8.600	3.000	1.000	360	359
17	2,337,753.02	8.085	34	5.580	14.085	8.085	2.731	1.000	360	358
18	21,922,036.89	8.253	34	5.454	14.253	8.253	3.000	1.000	360	358
19	225,135.01	9.073	20	6.594	15.073	9.073	3.000	1.000	360	344
20	82,965.69	10.300	57	5.990	16.300	10.300	3.000	1.000	360	357
21	507,135.11	6.823	58	4.990	12.823	6.823	3.000	1.000	360	358
22	685,399.02	7.555	58	5.136	13.555	7.555	3.000	1.000	360	358
23	1,149,655.42	9.745	4	6.137	15.745	9.745	1.000	1.000	360	358
24	303,497.04	8.990	3	5.750	14.990	8.990	1.000	1.000	360	357
25	179,286.04	11.000	5	6.250	17.000	11.000	1.000	1.000	360	359
26	428,798.24	7.571	3	5.267	13.571	7.571	1.000	1.000	360	357
27	1,145,835.67	8.902	4	5.360	14.902	8.902	1.000	1.000	360	358
28	2,422,958.22	8.953	4	5.889	14.953	8.953	1.000	1.000	360	358
29	232,609.35	9.864	N/A	N/A	N/A	N/A	N/A	N/A	120	118
30	12,702,237.06	7.110	N/A	N/A	N/A	N/A	N/A	N/A	180	178
31	373,415.07	9.773	N/A	N/A	N/A	N/A	N/A	N/A	180	178
32	145,818.17	8.391	N/A	N/A	N/A	N/A	N/A	N/A	180	179
33	1,606,659.83	6.903	N/A	N/A	N/A	N/A	N/A	N/A	180	178
34	435,439.66	7.977	N/A	N/A	N/A	N/A	N/A	N/A	180	178
35	5,140,304.11	7.549	N/A	N/A	N/A	N/A	N/A	N/A	180	178
36	522,388.13	9.809	N/A	N/A	N/A	N/A	N/A	N/A	240	238
37	93,634.72	7.700	N/A	N/A	N/A	N/A	N/A	N/A	240	239
38	72,779.28	8.200	N/A	N/A	N/A	N/A	N/A	N/A	240	239
39	259,057.97	7.500	N/A	N/A	N/A	N/A	N/A	N/A	240	238
40	1,232,355.29	9.171	N/A	N/A	N/A	N/A	N/A	N/A	240	238
41	149,508,601.34	7.316	N/A	N/A	N/A	N/A	N/A	N/A	360	358
42	3,386,862.03	9.589	N/A	N/A	N/A	N/A	N/A	N/A	360	358
43	1,968,882.18	7.040	N/A	N/A	N/A	N/A	N/A	N/A	360	359
44	656,977.00	8.623	N/A	N/A	N/A	N/A	N/A	N/A	360	358
45	713,907.57	7.500	N/A	N/A	N/A	N/A	N/A	N/A	360	358
46	801,064.06	6.975	N/A	N/A	N/A	N/A	N/A	N/A	360	359
47	12,343,367.26	7.587	N/A	N/A	N/A	N/A	N/A	N/A	360	358
48	13,976,655.08	7.775	N/A	N/A	N/A	N/A	N/A	N/A	360	358
49	111,796,801.90	7.461	N/A	N/A	N/A	N/A	N/A	N/A	360	358

**Assumed Mortgage Loan Characteristics  
Group II Mortgage Loans**

Description	Principal Balance (\$)	Initial Mortgage Rate (%)	Months to Next Adjustment Date	Gross Margin (%)	Maximum Mortgage Rate (%)	Minimum Mortgage Rate (%)	Initial Periodic Rate Cap (%)	Periodic Rate Cap (%)	Original Amortization Term (months)	Remaining Amortization Term (months)
1	118,362,778.47	7.181	22	4.823	13.181	7.181	1.000	1.000	360	358
2	992,747.54	7.761	22	5.248	13.761	7.761	1.000	1.000	360	358
3	3,933,662.86	7.617	22	5.451	13.617	7.617	1.000	1.000	360	358
4	2,431,708.14	8.651	22	5.272	14.651	8.651	1.000	1.000	360	358
5	2,630,239.75	9.581	22	5.932	15.581	9.581	1.000	1.000	360	358
6	3,520,881.51	8.256	22	5.314	14.256	8.256	1.000	1.000	360	358
7	2,289,027.35	7.930	22	5.594	13.930	7.930	1.000	1.000	360	358
8	23,741,811.23	7.556	22	5.174	13.556	7.556	1.057	1.000	360	358
9	259,171,696.79	7.319	22	5.251	13.322	7.319	1.007	1.000	360	358
10	57,086,620.76	7.614	22	5.382	13.614	7.614	1.000	1.000	360	358
11	922,609.28	7.463	34	5.339	13.463	7.463	3.000	1.000	360	358
12	142,064.94	10.077	34	6.104	16.077	10.077	3.000	1.000	360	358
13	1,356,421.74	7.215	35	4.990	13.215	7.215	3.000	1.000	360	359
14	1,652,382.51	7.001	34	4.990	13.001	7.001	3.000	1.000	360	358
15	12,701,419.50	7.034	34	5.137	13.034	7.034	3.000	1.000	360	358
16	665,663.36	7.200	57	4.990	13.200	7.200	3.000	1.000	360	357
17	1,227,574.83	7.293	58	5.290	13.293	7.293	3.000	1.000	360	358
18	1,692,351.65	6.765	4	5.168	12.765	6.765	1.000	1.000	360	358
19	3,756,563.09	7.076	4	5.342	13.076	7.076	1.000	1.000	360	358
20	1,457,795.37	7.354	4	5.245	13.354	7.354	1.000	1.000	360	358
21	1,628,603.71	5.732	3	5.141	11.732	5.732	1.000	1.000	360	357
22	5,130,261.99	6.313	N/A	N/A	N/A	N/A	N/A	N/A	180	178
23	14,735,537.06	10.611	N/A	N/A	N/A	N/A	N/A	N/A	180	178
24	322,829.05	6.750	N/A	N/A	N/A	N/A	N/A	N/A	180	177
25	891,090.84	6.799	N/A	N/A	N/A	N/A	N/A	N/A	180	178
26	114,433,110.90	10.840	N/A	N/A	N/A	N/A	N/A	N/A	240	238
27	78,818,242.04	7.033	N/A	N/A	N/A	N/A	N/A	N/A	360	358
28	915,105.73	7.420	N/A	N/A	N/A	N/A	N/A	N/A	360	358
29	498,701.22	6.750	N/A	N/A	N/A	N/A	N/A	N/A	360	357
30	483,792.89	7.600	N/A	N/A	N/A	N/A	N/A	N/A	360	358
31	367,740.27	7.750	N/A	N/A	N/A	N/A	N/A	N/A	360	359
32	1,711,279.76	7.261	N/A	N/A	N/A	N/A	N/A	N/A	360	358
33	6,578,256.74	7.242	N/A	N/A	N/A	N/A	N/A	N/A	360	358
34	8,264,219.13	7.558	N/A	N/A	N/A	N/A	N/A	N/A	360	358
35	65,485,253.92	6.940	N/A	N/A	N/A	N/A	N/A	N/A	360	358

Based on the foregoing assumptions, the following tables set forth the percentages of the Original Certificate Principal Balance of the Class A-1 Certificates that would be outstanding after each of the dates shown, at various Prepayment Scenarios and the corresponding weighted average lives.

**Percent of Original Certificate Principal Balance Outstanding\***

**Class A-1**

**Prepayment Scenario**

	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>	<u>Scenario IV</u>	<u>Scenario V</u>	<u>Scenario VI</u>	<u>Scenario VII</u>
<u>Distribution Date</u>							
Initial Percentage.....	100%	100%	100%	100%	100%	100%	100%
February 25, 2004 .....	99	84	77	71	63	58	52
February 25, 2005 .....	98	70	57	48	36	29	23
February 25, 2006 .....	97	58	42	31	19	12	6
February 25, 2007 .....	95	47	33	25	16	12	6
February 25, 2008 .....	94	39	26	18	11	7	5
February 25, 2009 .....	92	33	20	14	7	5	3
February 25, 2010 .....	91	29	16	10	5	3	2
February 25, 2011 .....	89	24	13	7	3	2	1
February 25, 2012 .....	87	21	10	5	2	1	0
February 25, 2013 .....	85	18	8	4	1	0	0
February 25, 2014 .....	82	15	6	3	1	0	0
February 25, 2015 .....	80	13	5	2	0	0	0
February 25, 2016 .....	77	11	4	1	0	0	0
February 25, 2017 .....	74	9	3	1	0	0	0
February 25, 2018 .....	71	8	2	0	0	0	0
February 25, 2019 .....	68	6	2	0	0	0	0
February 25, 2020 .....	65	5	1	0	0	0	0
February 25, 2021 .....	61	4	1	0	0	0	0
February 25, 2022 .....	57	4	0	0	0	0	0
February 25, 2023 .....	53	3	0	0	0	0	0
February 25, 2024 .....	48	2	0	0	0	0	0
February 25, 2025 .....	43	2	0	0	0	0	0
February 25, 2026 .....	39	2	0	0	0	0	0
February 25, 2027 .....	34	1	0	0	0	0	0
February 25, 2028 .....	29	1	0	0	0	0	0
February 25, 2029 .....	24	0	0	0	0	0	0
February 25, 2030 .....	19	0	0	0	0	0	0
February 25, 2031 .....	12	0	0	0	0	0	0
February 25, 2032 .....	6	0	0	0	0	0	0
February 25, 2033 .....	0	0	0	0	0	0	0
Weighted Average Life (years) to Maturity <sup>(1)</sup> ...	19.28	5.66	3.82	3.01	2.22	1.85	1.53
Weighted Average Life (years) to Optional Termination <sup>(1)(2)</sup> .....	19.21	5.26	3.52	2.77	2.04	1.70	1.41

\* Rounded to the nearest whole percentage.

<sup>(1)</sup> The weighted average life of any class of Certificates is determined by (i) multiplying the assumed net reduction, if any, in the principal amount on each Distribution Date on such class of Certificates by the number of years from the date of issuance of the Certificates to the related Distribution Date; (ii) summing the results; and (iii) dividing the sum by the aggregate amount of the assumed net reductions in principal amount on such class of Certificates.

<sup>(2)</sup> Calculated pursuant to footnote (1) but assumes the Master Servicer exercises its option to purchase the Mortgage Loans on the earliest possible Distribution Date on which it is permitted to exercise such option.

## **Yield Sensitivity of the Class S-1 Certificates**

Investors should note that the Class S-1 Certificates are only entitled to distributions through the Distribution Date in November 2004. In addition, if, at any time on or prior to the due date in any month through October 2004, the aggregate Principal Balance of the Group I Mortgage Loans with Adjusted Net Minimum Mortgage Rates in excess of 4.25% is reduced below the amount equal to the notional amount of the Class S-1 Certificates for the distribution date in the subsequent month, the yield to investors in the Class S-1 Certificates will be extremely sensitive to the rate and timing of principal payments on such Mortgage Loans (including prepayments, defaults and liquidations), which rate may fluctuate significantly over time. Further, if the Optional Termination Date occurs prior to the Distribution Date in November 2004 and the person entitled thereto effects an optional termination of the Trust, the Class S-1 Certificates will receive no further distributions. Investors in the Class S-1 Certificates should fully consider the risk that an extremely rapid rate of prepayments on the Group I Mortgage Loans could result in the failure of such investors to fully recover their initial investments.

Based upon the Structuring Assumptions to call, and further assuming prepayments at approximately a CPR of 75% per annum in the case of all Mortgage Loans, and an assumed purchase price of \$14,102,234 (which figure includes accrued interest from February 1, 2003), the pre-tax yield of the Class S-1 Certificates would be less than 0%. If the actual prepayment rate on the Group I Mortgage Loans were to exceed such rate, then assuming the Group I Mortgage Loans behave in conformity with all other Structuring Assumptions, initial investors in the Class S-1 Certificates would not fully recover their initial investment. Timing of changes in the rate of prepayments may significantly affect the actual yield to investors, even if the average rate of principal prepayments is consistent with the expectations of investors. Investors must make their own decisions as to the appropriate prepayment assumption to be used in deciding whether to purchase any Class S-1 Certificates.

The 0% pre-tax yield described above was calculated by determining the monthly discount rates which, when applied to the assumed stream of cashflow to be paid on the Class S-1 Certificates, would cause the discounted present value of such assumed stream of cashflow to the Closing Date to equal the assumed purchase price (which includes accrued interest), and converting such monthly rate to a corporate bond equivalent rate. Such calculations do not take into account the interest rates at which funds received by holders of the Class S-1 Certificates may be reinvested and consequently does not purport to reflect the return on any investment in the Class S-1 Certificates when such reinvestment rates are considered.

## **USE OF PROCEEDS**

The Depositor will apply the net proceeds of the sale of the Offered Certificates (and the Non-Offered Certificates) to the purchase of the Mortgage Loans transferred to the Trust.

## **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

### **General**

The following is a general discussion of certain expected federal income tax consequences of the purchase, ownership and disposition of the Offered Certificates. This discussion has been prepared with the advice of Heller Ehrman White & McAuliffe LLP, counsel to the Depositor. This discussion is directed solely to persons holding beneficial interests in the Offered Certificates ("Certificateholders") that hold the securities as capital assets within the meaning of Section 1221 of the Code and does not purport to discuss all federal income tax consequences that may be applicable to certain types of investors, such as banks, insurance companies, foreign investors, tax-exempt organizations, dealers in securities or currencies, mutual funds, real estate investment trusts, S corporations, estates and trusts, Certificateholders that hold the securities as part of a hedge, straddle, or integrated or conversion transaction, and Certificateholders whose functional currency is not the United States dollar.

Taxpayers and preparers of tax returns should be aware that under applicable Treasury regulations a provider of advice on specific issues of law is not considered an income tax return preparer unless the advice is (1) given with respect to events that have occurred at the time the advice is rendered and is not given with respect to the consequences of contemplated actions, and (2) directly relevant to the determination of an entry on a tax return. Accordingly, taxpayers should consult their own tax advisors and tax return preparers regarding the preparation of any item on a tax

return, even where the anticipated tax treatment has been discussed herein. In addition, potential investors should consider the state, local and foreign tax consequences, if any, of the purchase, ownership and disposition of the Offered Certificates. See “State and Other Tax Consequences” below.

The authorities on which this discussion is based are subject to change or differing interpretations which could apply retroactively. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the “IRS”) with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

The following discussion is based in part upon the rules governing original issue discount that are set forth in Sections 1271-1275 of the Code and in the Treasury regulations issued thereunder (the “OID Regulations”), and in part upon Sections 860A-860G of the Code (the “REMIC Provisions”) and the Treasury regulations issued thereunder (the “REMIC Regulations”). The OID Regulations do not adequately address certain issues relevant to, and in some instances provide that they are not applicable to, securities such as the Offered Certificates.

### **Classification of the REMICs**

Multiple separate REMIC elections will be made for designated portions of the Trust, creating a tiered REMIC structure. On the issuance of the Offered Certificates, Heller Ehrman White & McAuliffe LLP, counsel to the Depositor, will provide its opinion that, assuming (i) each REMIC election is made timely in the required form, (ii) the Master Servicer, any sub-servicer, and the Trustee comply with all provisions of the Pooling Agreement, (iii) certain representations set forth in the Pooling Agreement and the Mortgage Loan Purchase Agreement are true, and (iv) there is continued compliance with applicable provisions of the Code, as it may be amended from time to time, and applicable Treasury regulations issued thereunder, then for federal income tax purposes, (a) each of the designated portions of the Trust (other than the Net WAC Rate Carryover Reserve Fund) will qualify as a real estate mortgage investment conduit (“REMIC”) under the Code and (b) the Class A-1 Certificates and the Class S-1 Certificates (exclusive of the right of the holders of the Class A-1 Certificates to receive payments from the Reserve Fund) will be considered to evidence ownership of REMIC “regular interests” and will be treated as debt instruments of a REMIC.

If an entity electing to be treated as a REMIC, such as a designated portion of the Trust, fails to comply with one or more of the ongoing requirements of the Code for status as a REMIC during any taxable year, the Code provides that the entity will not be treated as a REMIC for that year or for later years. In that event, the entity may be taxable as a corporation under Treasury regulations, and the related Offered Certificates may not be accorded the status or given the tax treatment described below. Although the Code authorizes the Treasury Department to provide relief in the event of an inadvertent termination of REMIC status, no regulations or other guidance have yet been issued. Any such relief may be accompanied by sanctions, which may include the imposition of a corporate tax on all or a portion of the REMIC’s income for the period in which the requirements for status as a REMIC are not satisfied. The Pooling Agreement will include provisions designed to maintain the REMIC status of the designated portions of the Trust under the REMIC Provisions. It is not anticipated that such REMIC status will be inadvertently terminated.

### **Characterization of Investments in the Offered Certificates**

The Offered Certificates (exclusive of any portion allocable to the rights of the holders of the Class A-1 Certificates to receive payments from the Net WAC Rate Carryover Reserve Fund) will be “real estate assets” under Section 856(c)(5) of the Code, and assets described in Section 7701(a)(19)(C) of the Code, generally in the same proportion as the assets of the REMIC underlying the certificates. Moreover, if 95% or more of the assets of the REMIC qualify for either of the treatments described in the previous sentence at all times during a calendar year, the Offered Certificates will qualify for the corresponding status in their entirety for that calendar year. The determination as to the percentage of a REMIC’s assets that constitute assets described in the foregoing sections of the Code will be made for each calendar quarter based on the average adjusted basis of each category of the assets held by the REMIC during the calendar quarter. The Trustee will report those determinations to the Certificateholders in the manner and at the times required by Treasury regulations. For purposes of these determinations, all the REMICs in the tiered structure will be treated as a single REMIC, the assets of which will include Mortgage Loans, payments on Mortgage Loans held prior to the distribution of these payments to the Certificateholders and any property acquired by foreclosure held prior to the sale of this property. No Mortgage Loans have been identified that would fail to qualify as assets described in such sections of the Code. It is unclear whether property acquired by foreclosure held prior to the sale of this property and

amounts in reserve accounts would be considered to be part of the Mortgage Loans, or whether these assets otherwise would receive the same treatment as the Mortgage Loans for purposes of the Code sections discussed in this paragraph. The REMIC Regulations do provide, however, that cash received from payments on Mortgage Loans held pending distribution is considered part of the Mortgage Loans for purposes of Section 856(c)(5) of the Code. Furthermore, foreclosure property will qualify as real estate assets under Section 856(c)(5) of the Code.

Interest, including original issue discount, on the Offered Certificates will be “interest on obligations secured by mortgages on real property” described in Section 856(c)(3)(B) of the Code generally to the extent that the Offered Certificates are treated as “real estate assets” under Section 856(c)(5) of the Code. In addition, the Offered Certificates (exclusive of any portion allocable to the right of the holders of the Class A-1 Certificates to receive payments from the Net WAC Rate Carryover Reserve Fund) will be “qualified mortgages” within the meaning of Section 860G(a)(3) of the Code if transferred to another REMIC on its startup day in exchange for regular or residual interests of that REMIC.

Any portion of the value of a Class A-1 Certificate that is allocated (as described below) to the right of the holder to receive payments from the Net WAC Rate Carryover Reserve Fund will not be treated as a qualifying asset for any Certificateholder that is a mutual savings bank, domestic building and loan association, real estate investment trust, or REMIC and any amounts received from the Net WAC Rate Carryover Reserve Fund will not be qualifying real estate income for real estate investment trusts.

### **Taxation of Owners of Offered Certificates**

Each holder of a Class A-1 Certificate will be deemed to own an undivided beneficial ownership interest in two assets, a REMIC regular interest and the right to receive payments from the Net WAC Rate Carryover Reserve Fund. The Net WAC Rate Carryover Reserve Fund is not an asset of any REMIC and the Trustee is required to account for the REMIC regular interests and the right to receive payments from the Net WAC Rate Carryover Reserve Fund as discrete property rights. Each holder of a Class A-1 Certificate must allocate its purchase price for the Certificate among the two property rights based on their relative fair market values. For tax reporting purposes, the Trustee intends to treat the right of the holders of the Class A-1 Certificates to receive payments from the Net WAC Rate Carryover Reserve Fund as having a *de minimis* value. Under the OID Regulations, this allocation is binding on all holders unless the holder explicitly discloses on its tax return that its allocation is different from the Trust’s allocation. The IRS could, however, take the position that the right to receive payments from the Net WAC Rate Carryover Reserve Fund has a different value and, if that position were to be sustained, the Class A-1 Certificates could be viewed as having been issued with an additional amount of original issue discount (which could cause the total amount of discount to exceed a statutorily defined *de minimis* amount) or less premium (which would reduce the amount of premium available to be used as an offset against interest income).

The Trustee intends to treat payments made to holders of the Class A-1 Certificates from the Net WAC Rate Carryover Reserve Fund as includible in income based on the regulations relating to notional principal contracts (the “Notional Principal Contract Regulations”). Treasury regulations have been promulgated under Section 1275 of the Code generally providing for the integration of a “qualifying debt instrument” with a hedge if the combined cashflows of the components are substantially equivalent to the cashflows on a fixed or variable rate debt instrument. However, such regulations specifically disallow integration of debt instruments subject to Section 1272(a)(6) of the Code. Therefore, holders of the Class A-1 Certificates will be unable to use the integration method provided for under such regulations. If the Trustee’s treatment of payments from the Net WAC Rate Carryover Reserve Fund as being subject to the Notional Principal Contract Regulations is respected, holders of the Class A-1 Certificates will be entitled to amortize the separate prices paid for the right to receive payments from the Net WAC Rate Carryover Reserve Fund under the Notional Principal Contract Regulations.

References to the Offered Certificates in the remainder of this section are to the Offered Certificates exclusive of any right of the Certificateholders to receive payments from the Net WAC Rate Carryover Reserve Fund.

The Offered Certificates will be treated for federal income tax purposes as debt instruments issued by a REMIC and not as ownership interests in a REMIC or its assets. Moreover, holders of Offered Certificates that ordinarily report income under a cash method of accounting will be required to report income from the Offered Certificates under an accrual method.

*Original Issue Discount.* The Trustee intends to take the position that the Class S-1 Certificates are, and the Class A-1 Certificates are not, being issued with original issue discount.

Purchasers of the Offered Certificates should be aware that the OID Regulations do not adequately address certain issues relevant to, or are not applicable to, prepayable securities such as the Offered Certificates. In addition, there is considerable uncertainty concerning the application of the OID Regulations to REMIC regular interests that provide for payments based on an adjustable rate such as the Class A-1 Certificates. Because of the uncertainty concerning the application of Section 1272(a)(6) of the Code to such Offered Certificates and because the rules of the OID Regulations relating to debt instruments having an adjustable rate of interest are limited in their application in ways that could preclude their application to such Certificates even in the absence of Section 1272(a)(6) of the Code, the IRS could assert that the Class A-1 Certificates should be treated as issued with original issue discount or should be governed by the rules applicable to debt instruments having contingent payments or by some other method not yet set forth in regulations. Prospective purchasers of the Offered Certificates are advised to consult their tax advisors concerning the tax treatment of such Certificates.

Any holder of an Offered Certificate issued with original issue discount generally will be required to include original issue discount in income as it accrues, in accordance with the constant yield method, in advance of the receipt of the cash attributable to that income. In addition, Section 1272(a)(6) of the Code provides special rules applicable to REMIC certificates issued with original issue discount. Regulations have not been issued under that section.

The Code requires that a reasonable prepayment assumption be used for Mortgage Loans held by the REMIC in computing the accrual of original issue discount on REMIC regular interests, and that adjustments be made in the amount and rate of accrual of the original issue discount to reflect differences between the actual prepayment rate and the prepayment assumption. The prepayment assumption is to be determined in a manner prescribed in Treasury regulations; however, as noted in the preceding paragraph, those regulations have not been issued. The Conference Committee Report (the "Committee Report") of the Tax Reform Act of 1986 indicates that the regulations will provide that the prepayment assumption used for a REMIC regular interest must be the same as that used in pricing the initial offering of the REMIC regular interest. The prepayment assumption that will be used in determining the rate of accrual of original issue discount, premium and market discount, if any, for federal income tax purposes will be based on the assumption that subsequent to the date of any determination the Mortgage Loans will prepay at Prepayment Scenario IV. However, none of the Depositor, the Master Servicer or the Trustee will make any representation that the Mortgage Loans will in fact prepay at a rate conforming to the prepayment assumption or at any other rate.

The original issue discount, if any, on an Offered Certificate will be the excess of its stated redemption price at maturity over its issue price. The issue price of a particular class of Offered Certificates will be the first cash price at which a substantial amount of Offered Certificates of that class is sold, excluding sales to bond houses, brokers and underwriters. If less than a substantial amount of a class of Offered Certificates is sold for cash on or prior to the Closing Date, the issue price for that class will be the fair market value of that class on the Closing Date. Under the OID Regulations, the stated redemption price of an Offered Certificate is equal to the total of all payments to be made on the certificate other than qualified stated interest. Qualified stated interest is interest that is unconditionally payable at least annually during the entire term of the instrument at a single fixed rate, one or more qualified floating rates, an objective rate, or a combination of a single fixed rate and one or more qualified floating rates or one qualified inverse floating rate. None of the interest on the Class S-1 Certificates will be qualified stated interest.

The first interest payment on the Offered Certificates will be made more than one month after the date of issuance, which is a period longer than the subsequent monthly intervals between interest payments. Assuming the accrual period for original issue discount is each monthly period that ends on the day prior to each Distribution Date, as a consequence of this long first accrual period some or all interest payments may be required to be included in the stated redemption price of the Offered Certificate and accounted for as original issue discount. Because interest on REMIC regular interests must in any event be accounted for under an accrual method, applying this analysis would result in only a slight difference in the timing of the inclusion in income of the yield on the Offered Certificates.

Because the accrued interest to be paid with respect to the Class S-1 Certificates on the first distribution date is computed for a period that begins prior to the Closing Date, a portion of the purchase price paid for an Offered Certificate will reflect the accrued interest. Information returns to the Certificateholders and the IRS will take the position that the portion of the purchase price paid for the interest accrued for periods prior to the Closing Date is part of

the overall cost of the Offered Certificate, and not a separate asset the cost of which is recovered entirely out of interest received on the next Distribution Date, and that portion of the interest paid on the first distribution date in excess of interest accrued for a number of days corresponding to the number of days from the Closing Date to the first Distribution Date should be included in the stated redemption price of the Offered Certificate. However, the OID Regulations state that all or a portion of the accrued interest may be treated as a separate asset the cost of which is recovered entirely out of interest paid on the first Distribution Date. It is unclear how an election to do so would be made under the OID Regulations and whether this election could be made unilaterally by a Certificateholder.

Notwithstanding the general definition of original issue discount, original issue discount on an Offered Certificate will be considered to be *de minimis* if it is less than 0.25% of the stated redemption price of the Offered Certificate multiplied by its weighted average life. For this purpose, the weighted average life of an Offered Certificate is computed as the sum of the amounts determined, as to each payment included in the stated redemption price of the Offered Certificate, by multiplying (1) the number of complete years from the issue date until that payment is expected to be made, presumably taking into account the prepayment assumption, by (2) a fraction, the numerator of which is the amount of the payment, and the denominator of which is the stated redemption price at maturity of the Offered Certificate. Under the OID Regulations, original issue discount of only a *de minimis* amount will be included in income as each payment of stated principal is made, based on the product of the total amount of the *de minimis* original issue discount attributable to that certificate and a fraction, the numerator of which is the amount of the principal payment and the denominator of which is the outstanding stated principal amount of the Offered Certificate. The OID Regulations also permit a Certificateholder to elect to accrue *de minimis* original issue discount into income currently based on a constant yield method.

If original issue discount on an Offered Certificate is in excess of a *de minimis* amount, the Certificateholder must include in ordinary gross income the sum of the daily portions of original issue discount for each day during its taxable year on which it held the Offered Certificate, including the purchase date but excluding the disposition date. In the case of an original holder of an Offered Certificate, the daily portions of original issue discount will be determined as follows.

An accrual period is a period that ends on the day prior to a Distribution Date and begins on the first day following the immediately preceding accrual period, except that the first accrual period begins on the Closing Date. As to each accrual period, a calculation will be made of the portion of the original issue discount that accrued during the accrual period. The portion of original issue discount that accrues in any accrual period will equal the excess of (1) the sum of (a) the present value, as of the end of the accrual period, of all of the distributions remaining to be made on the Offered Certificate in future periods and (b) the distributions made on the Offered Certificate during the accrual period of amounts included in the stated redemption price, over (2) the adjusted issue price of the Offered Certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated assuming that distributions on the Offered Certificate will be received in future periods based on the Mortgage Loans being prepaid at a rate equal to the prepayment assumption, using a discount rate equal to the original yield to maturity of the Certificate and taking into account events, including actual prepayments, that have occurred before the close of the accrual period. For these purposes, the original yield to maturity of the Offered Certificate will be calculated based on its issue price and assuming that distributions on the certificate will be made in all accrual periods based on the Mortgage Loans being prepaid at a rate equal to the prepayment assumption. The adjusted issue price of an Offered Certificate at the beginning of any accrual period will equal the issue price of the Certificate, increased by the aggregate amount of original issue discount that accrued with respect to the Certificate in prior accrual periods, and reduced by the amount of any distributions made on the Certificate in prior accrual periods of amounts included in the stated redemption price. The original issue discount accruing during any accrual period will be allocated ratably to each day during the accrual period to determine the daily portion of original issue discount for that day.

If an Offered Certificate issued with original issue discount is purchased at a cost, excluding any portion of the cost attributable to accrued qualified stated interest, less than its remaining stated redemption price, the purchaser will also be required to include in gross income the daily portions of any original issue discount for the Certificate. However, if the cost of the Offered Certificate is in excess of its adjusted issue price, each daily portion will be reduced in proportion to the ratio the excess bears to the aggregate original issue discount remaining to be accrued on the Offered Certificate. The adjusted issue price of an Offered Certificate on any given day equals the sum of (1) the adjusted issue price or, in the case of the first accrual period, the issue price, of the Certificate at the beginning of the accrual period



which includes that day and (2) the daily portions of original issue discount for all days during the accrual period prior to that day.

If the method for computing original issue discount described above results in a negative amount for any period with respect to a Certificateholder, the amount of original issue discount allocable to that period is zero and the Certificateholder will be permitted to offset that negative amount only against future original issue discount, if any, attributable to those Offered Certificates.

*Market Discount.* A Certificateholder that purchases an Offered Certificate at a market discount will recognize gain upon receipt of each distribution representing stated redemption price. An Offered Certificate issued without original issue discount will have market discount if purchased for less than its remaining stated principal amount and an Offered Certificate issued with original issue discount will have market discount if purchased for less than its adjusted issue price. Under Section 1276 of the Code, a Certificateholder that purchases an Offered Certificate at a market discount in excess of a *de minimis* amount will be required to allocate the portion of each distribution representing stated redemption price first to accrued market discount not previously included in income, and to recognize ordinary income to that extent. A Certificateholder may elect to include market discount in income currently as it accrues rather than including it on a deferred basis. If made, the election will apply to all market discount bonds acquired by the Certificateholder on or after the first day of the first taxable year to which the election applies. In addition, the OID Regulations permit a Certificateholder to elect to accrue all interest and discount in income as interest, and to amortize premium, based on a constant yield method. If such an election were made with respect to an Offered Certificate with market discount, the Certificateholder would be deemed to have made an election to include currently market discount in income with respect to all other debt instruments having market discount that the Certificateholder acquires during the taxable year of the election or later taxable years, and possibly previously acquired instruments. Similarly, a Certificateholder that made this election for an Offered Certificate that is acquired at a premium would be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that the Certificateholder owns or acquires. Each of these elections to accrue interest, discount and premium with respect to an Offered Certificate on a constant yield method or as interest would be irrevocable, except with the approval of the IRS. See “Taxation of Owners of Offered Certificates—Premium” below.

Market discount with respect to an Offered Certificate will be considered to be *de minimis* for purposes of Section 1276 of the Code if the market discount is less than 0.25% of the remaining stated redemption price of the Offered Certificate multiplied by the number of complete years to maturity remaining after the date of its purchase. In interpreting a similar rule with respect to original issue discount on obligations payable in installments, the OID Regulations refer to the weighted average maturity of obligations, and it is likely that the same rule will be applied with respect to market discount, presumably taking into account the prepayment assumption. If market discount is treated as *de minimis* under this rule, it appears that the actual discount would be treated in a manner similar to *de minimis* original issue discount. This treatment would 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 above. See “Taxation of Owners of Offered Certificates—Original Issue Discount” above.

Section 1276(b)(3) of the Code specifically authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments, the principal of which is payable in more than one installment. Until regulations are issued by the Treasury Department, the rules described in the Committee Report apply. The Committee Report indicates that in each accrual period, market discount on Offered Certificates should accrue, at the Certificateholder’s option:

- (1) on the basis of a constant yield method,
- (2) in the case of an Offered Certificate issued without original issue discount, in an amount that bears the same ratio to the total remaining market discount as the stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the Offered Certificate as of the beginning of the accrual period, or
- (3) in the case of an Offered Certificate issued with original issue discount, in an amount that bears the same ratio to the total remaining market discount as the original issue discount accrued in the accrual period bears to the total original issue discount remaining on the Offered Certificate at the beginning of the accrual period.

Moreover, the prepayment assumption used in calculating the accrual of original issue discount is also used in calculating the accrual of market discount. Because the regulations referred to in this paragraph have not been issued, it is not possible to predict what effect these regulations might have on the tax treatment of an Offered Certificate purchased at a discount in the secondary market.

To the extent that Offered Certificates provide for monthly or other periodic distributions throughout their term, the effect of these rules may be to require market discount to be includible in income at a rate that is not significantly slower than the rate at which the discount would accrue if it were original issue discount. Moreover, in any event a holder of an Offered Certificate generally will be required to treat a portion of any gain on the sale or exchange of the Offered Certificate as ordinary income to the extent of the market discount accrued to the date of disposition under one of these methods, less any accrued market discount previously reported as ordinary income.

Further, under Section 1277 of the Code a holder of an Offered Certificate may be required to defer a portion of its interest deductions for the taxable year attributable to any indebtedness incurred or continued to purchase or carry an Offered Certificate purchased with market discount. For these purposes, the *de minimis* rule applies. Any such deferred interest expense would not exceed the market discount that accrues during the taxable year and is, in general, allowed as a deduction not later than the year in which the market discount is includible in income. If a holder elects to include market discount in income currently as it accrues on all market discount instruments acquired by the holder in that taxable year or later taxable years, the interest deferral rule will not apply.

**Premium.** An Offered Certificate purchased at a cost, excluding any portion of the cost attributable to accrued qualified stated interest, greater than its remaining stated redemption price will be considered to be purchased at a premium. The holder of an Offered Certificate may elect under Section 171 of the Code to amortize the premium under the constant yield method over the life of the Certificate. If made, the election will apply to all debt instruments having amortizable bond premium that the holder owns or subsequently acquires. Amortizable premium will be treated as an offset to interest income on the related debt instrument, rather than as a separate interest deduction. The OID Regulations also permit Certificateholders to elect to include all interest, discount and premium in income based on a constant yield method, further treating the Certificateholder as having made the election to amortize premium generally. The Committee Report states that the same rules that apply to accrual of market discount, which rules will require use of a prepayment assumption in accruing market discount with respect to Offered Certificates without regard to whether the certificates have original issue discount, will also apply in amortizing bond premium under Section 171 of the Code. See “Taxation of Owners of Offered Certificates—Market Discount” above. However, it is possible that a prepayment assumption of zero is required. Whether any Certificateholder will be treated as holding an Offered Certificate with amortizable bond premium will depend on such Certificateholder’s purchase price and the distributions remaining to be made on such Certificate at the time of its acquisition by such Certificateholder. Prospective investors should consult their own tax advisors regarding the existence of bond premium and the possibility of making an election to amortize such premium.

### **Sales of Offered Certificates**

If an Offered Certificate is sold, the selling Certificateholder will recognize gain or loss equal to the difference between the amount realized on the sale and its adjusted basis in the Offered Certificate. The adjusted basis of an Offered Certificate generally will be:

- the cost of the Offered Certificate to the Certificateholder,
- increased by income reported by such Certificateholder with respect to the Offered Certificate, including original issue discount and market discount income, and
- reduced, but not below zero, by distributions on the Offered Certificate received by the Certificateholder and by any amortized premium (to the extent such premium has not been previously taken into account in determining income).

Except as provided in the following four paragraphs, gain or loss from the sale of an Offered Certificate will be capital gain or loss, provided the Offered Certificate is held as a capital asset within the meaning of Section 1221 of the Code.

Gain from the sale of an Offered Certificate that might otherwise be capital gain will be treated as ordinary income to the extent of the excess, if any, of (1) the amount that would have been includible in the seller's income with respect to the Offered Certificate assuming that income had accrued thereon at a rate equal to 110% of the applicable Federal rate, determined as of the date of purchase of the Offered Certificate, over (2) the amount of ordinary income actually includible in the seller's income prior to the sale. In addition, gain recognized on the sale of an Offered Certificate by a seller who purchased the Offered Certificate at a market discount will be taxable as ordinary income to the extent of the portion of the discount that accrued during the period the Offered Certificate was held by the holder, reduced by any market discount included in income under the rules described above under "Taxation of Owners of Offered Certificates—Market Discount" and "Premium."

The Offered Certificates will be evidences of indebtedness within the meaning of Section 582(c)(1) of the Code, so that gain or loss recognized from the sale of an Offered Certificate by a bank or other financial institution to which that section applies will be ordinary income or loss.

A portion of any gain from the sale of an Offered Certificate that might otherwise be capital gain may be treated as ordinary income to the extent that the Offered Certificate is held as part of a conversion transaction within the meaning of Section 1258 of the Code. A conversion transaction includes a transaction in which the taxpayer has taken two or more positions in the same or similar property that reduce or eliminate market risk, if substantially all of the taxpayer's return is attributable to the time value of the taxpayer's net investment in the transaction. The amount of gain realized in a conversion transaction that is recharacterized as ordinary income generally will not exceed the amount of interest that would have accrued on the taxpayer's net investment at 120% of the applicable Federal rate at the time the taxpayer enters into the conversion transaction, subject to appropriate reduction for prior inclusion of amounts treated as ordinary income under this rule.

Finally, a taxpayer may elect to have net capital gain taxed at ordinary income rates rather than capital gains rates in order to include the net capital gain in total net investment income for the taxable year, for purposes of the rule that limits the deduction of interest on indebtedness incurred to purchase or carry property held for investment to a taxpayer's net investment income.

Upon the sale of a Class A-1 Certificate, the amount of the sale price allocated to the selling Certificateholder's right to receive payments from the Net WAC Rate Carryover Reserve Fund would be considered a "termination payment" under the Notional Principal Contract Regulations. A Certificateholder will have gain or loss with respect to the termination of the right to receive payments from the Net WAC Rate Carryover Reserve Fund (separate from and in addition to any gain or loss realized on the disposition of the holder's interest in the REMIC regular interest) equal to (i) any termination payment it received or is deemed to have received minus (ii) the unamortized portion of any amount paid (or deemed paid) by the holder upon acquiring its interest in the right to receive payments from the Net WAC Rate Carryover Reserve Fund. Such gain or loss will generally be treated as capital gain or loss. Moreover, in the case of a bank or other financial institution, Code Section 582(c) would likely not apply to treat such gain or loss as ordinary.

### **Prohibited Transactions and Other Possible REMIC Taxes**

The Code imposes a 100% tax on the net income derived by a REMIC from prohibited transactions. A prohibited transaction may occur upon the disposition of a Mortgage Loan, the receipt of income from a source other than a Mortgage Loan or permitted investment, 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 Offered Certificates. It is not anticipated that any REMIC will engage in any prohibited transaction in which it would recognize a material amount of net income.

In addition, certain contributions to a REMIC made after the Closing Date could result in the imposition on the REMIC of a tax equal to 100% of the value of the contributed property. The Pooling Agreement will include provisions designed to prevent the acceptance of any contribution that would be subject to this tax.

REMICs also are 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 the excess over related deductions of the sum of the gain from the sale of foreclosure property that is inventory property and the gross income from foreclosure property other than qualifying rents and other

qualifying income for a real estate investment trust. It is not anticipated that any REMIC will recognize net income from foreclosure property subject to federal income tax.

To the extent permitted by then applicable laws, any tax resulting from a prohibited transaction, tax resulting from a contribution made after the Closing Date, tax on net income from foreclosure property or state or local income or franchise tax that may be imposed on the REMIC will be borne by the Master Servicer or the Trustee, in either case out of its own funds, provided that the Master Servicer or the Trustee has sufficient assets to do so, and provided that the tax arises out of a breach of the Master Servicer's or the Trustee's obligations under the Pooling Agreement and in respect of compliance with applicable laws and regulations. Any of these taxes not borne by the Master Servicer or the Trustee will be charged against the Trust Fund resulting in a reduction in amounts payable to holders of the Offered Certificates.

### **Termination**

The Trust will terminate immediately after the Distribution Date following the receipt by the Trust of the final payment in respect of the Mortgage Loans or upon a sale of the Trust's assets following the adoption by each REMIC of a plan of complete liquidation. The last distribution on an Offered Certificate will be treated as a payment in retirement of a debt instrument.

### **Reporting and Other Administrative Matters**

Solely for purposes of the administrative provisions of the Code, each REMIC will be treated as a partnership. The Trustee will file federal income tax returns on behalf of each REMIC, and, under the terms of the Pooling Agreement, will be irrevocably appointed by the holder of the largest percentage interest of the residual interest in each REMIC to perform all of the duties of the tax matters person with respect to the REMIC in all respects.

Reporting of interest income, including any original issue discount, with respect to Offered Certificates is required annually, and may be required more frequently under Treasury regulations. These information reports generally are required to be sent to individual holders of REMIC regular interests and the IRS; holders of Offered Certificates that are corporations, trusts, securities dealers and some other non-individuals will be provided interest and original issue discount income information and the information set forth in the following paragraph upon request in accordance with the requirements of the applicable regulations. The information must be provided by the later of 30 days after the end of the quarter for which the information was requested, or two weeks after the receipt of the request.

The Offered Certificate information reports will include a statement of the adjusted issue price of the Offered Certificate at the beginning of each accrual period. In addition, the reports will include information required by regulations with respect to computing the accrual of any market discount. Because exact computation of the accrual of market discount on a constant yield method would require information relating to the holder's purchase price that the REMIC may not have, Treasury regulations require only that information pertaining to the appropriate proportionate method of accruing market discount be provided. See "Taxation of Owners of Offered Certificates—Market Discount."

The responsibility for complying with the foregoing reporting rules will be borne by the Trustee.

### **Backup Withholding with Respect to Offered Certificates**

Payments of interest and principal, as well as payments of proceeds from the sale of Offered Certificates, may be subject to the backup withholding tax under Section 3406 of the Code if recipients of the payments fail to furnish to the payor information including their taxpayer identification numbers, or otherwise fail to establish an exemption from the backup withholding tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against the recipient's federal income tax. Furthermore, penalties may be imposed by the IRS on a recipient of payments that is required to supply information but that does not do so in the proper manner.

### **Foreign Investors in Offered Certificates**

A Certificateholder that is not a United States person (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States in addition to its ownership of an Offered Certificate will not be subject to United States federal income or withholding tax in respect of a distribution on an Offered Certificate (other than payments from the Reserve Funds), provided that the Certificateholder complies to the extent

necessary with identification requirements, including delivery of a statement signed by the Certificateholder under penalties of perjury certifying that the Certificateholder is not a United States person and providing the name and address of the Certificateholder. This statement is generally made on IRS Form W-8BEN and must be updated whenever the required information has changed or by the end of the third succeeding calendar year from the date the statement is delivered. It is possible that the IRS may assert that the foregoing tax exemption does not apply with respect to Offered Certificates held by a person that holds 10% or more of the residual interests of the REMICs. If the Certificateholder does not qualify for exemption, distributions of interest, including distributions in respect of accrued original issue discount, to the Certificateholder may be subject to withholding tax at a rate of 30%, subject to reduction under any applicable tax treaty. A non-individual holder of a Class A-1 Certificate that is not a United States person will not be subject to United States federal income taxation on payments received from the Reserve Funds unless the Certificateholder holds the Class A-1 Certificate as part of a trade or business conducted within the United States. For these purposes, a United States person is: (i) a citizen or resident of the United States; (ii) a corporation, partnership or other entity treated as a corporation or partnership for tax purposes organized in, or under the laws of, the United States or any political subdivision thereof (except, in the case of a partnership or entity treated as a partnership, to the extent provided in Treasury regulations); (iii) an estate the income of which is subject to United States federal income tax regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, a trust that was in existence on August 20, 1996 (other than a trust treated as wholly owned by the grantor under subpart E of part I of subchapter J of chapter 1 of subtitle A of the Code) and was treated as a United States person on August 19, 1996, may elect to continue to be treated as a United States person.

Special rules apply to partnerships, estates and trusts, and in certain circumstances certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

In addition, the foregoing rules will not apply to exempt a United States shareholder of a controlled foreign corporation from taxation on the United States shareholder's allocable portion of the interest income received by the controlled foreign corporation.

Further, it appears that an Offered Certificate would not be included in the estate of a nonresident alien individual and would not be subject to United States estate taxes. However, Certificateholders who are nonresident alien individuals should consult their tax advisors concerning this issue.

### **Tax Return Disclosure and Investor List Requirements**

Recent Treasury pronouncements directed at abusive tax shelter activity appear to apply to transactions not conventionally regarded as tax shelters. Temporary and proposed regulations require taxpayers to report certain disclosures on IRS Form 8886 if they participate in a "reportable transaction." Organizers and sellers of tax shelters are required to maintain records, including investor lists containing identifying information, and to furnish those records to the IRS upon demand. A transaction may be a reportable transaction or a tax shelter based upon any of several indicia, including the existence of book-tax differences common to financial transactions, one or more of which may be present with respect to your investment in the Certificates. There are pending in Congress legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. Prospective purchasers of Certificates should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment, and should be aware that the depositor and other participants in the transaction intend to comply with such disclosure and investor list maintenance requirements as they determine apply to them with respect to this transaction.

### **STATE AND OTHER TAX CONSEQUENCES**

In addition to the federal income tax consequences described in "Certain Federal Income Tax Consequences," potential investors should consider the state, local and foreign tax consequences of the acquisition, ownership, and disposition of the Offered Certificates. State tax law may differ substantially from the corresponding federal tax law, and the discussion described under "Certain Federal Income Tax Consequences" does not purport to describe any aspect of the tax laws of any state or other jurisdiction. Therefore, prospective investors should consult their own tax advisors with respect to the various tax consequences of investments in the Offered Certificates.

## **CERTAIN LEGAL ASPECTS OF THE MORTGAGE LOANS**

The following discussion contains general summaries of legal aspects of the Mortgage Loans. Because these legal aspects are governed in part by applicable state law, which laws may differ substantially from state to state, the summaries do not purport to be complete nor to reflect the laws of any particular state, nor to encompass the laws of all states in which the security for the Mortgage Loans is situated.

### **General**

The Mortgage Loans may be secured by either mortgages, deeds of trust, security deeds or deeds to secure debt depending upon the type of security instrument customary to grant a security interest according to the prevailing practice in the state in which the property subject to that Mortgage Loan is located. The filing of a mortgage or a deed of trust creates a lien upon or conveys title to the real property encumbered by that instrument and represents the security for the repayment of an obligation that is customarily evidenced by a promissory note. It is not prior to the lien for real estate taxes and assessments. Priority with respect to mortgages and deeds of trust depends on their terms and generally on the order of recording with the applicable state, county or municipal office. There are two parties to a mortgage, the mortgagor, who is the borrower/homeowner or the land trustee, and the mortgagee, who is the lender. Under the mortgage instrument, the mortgagor delivers to the mortgagee a note or bond and the mortgage. In the case of a land trust, title to the property is held by a land trustee under a land trust agreement, while the borrower/homeowner is the beneficiary of the land trust; at origination of a mortgage loan, the borrower executes a separate undertaking to make payments on the mortgage note. Although a deed of trust is similar to a mortgage, a deed of trust normally has three parties, the trustor, similar to a mortgagor, who may or may not be the borrower, the beneficiary, similar to a mortgagee, who is the lender, and the trustee, a third-party grantee. Under a deed of trust, the trustor 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 the time as the underlying debt is repaid. The mortgagee's authority under a mortgage and the trustee's authority under a deed of trust, security deed or deed to secure debt are governed by the law of the state in which the real property is located, the express provisions of the mortgage, deed of trust, security deed or deed to secure debt and, sometimes, the directions of the beneficiary.

### **Foreclosure**

Foreclosure of a deed of trust is generally accomplished by a non-judicial trustee's sale under a specific provision in the deed of trust, which authorizes the trustee to sell the property upon any default by the borrower under the terms of the note or deed of trust. In several states, the trustee must record a notice of default and send a copy to the borrower-trustor and to any person who has recorded a request for a copy of a notice of default and notice of sale. In addition, the trustee in several states must provide notice to any other individual having an interest in the real property, including any junior lienholder. The trustor, borrower, or any person having a junior encumbrance on the real estate, may, during a reinstatement period, cure the default by paying the entire amount in arrears plus the costs and expenses incurred in enforcing the obligation. Generally, state law controls the amount of foreclosure expenses and costs, including attorneys' fees, that may be recovered by a lender. If the deed of trust is not reinstated, a notice of sale must be posted in a public place and, in most states, published for a specific period of time in one or more newspapers. In addition, several state laws require that a copy of the notice of sale be posted on the property, recorded and sent to all parties having an interest in the real property.

An action to foreclose a mortgage is an action to recover the mortgage debt by enforcing the mortgagee's rights under the mortgage and in the mortgaged property. It is regulated by statutes and rules and subject throughout to the court's equitable powers. A mortgagor is usually bound by the terms of the mortgage note and the mortgage as made and cannot be relieved from its own default. However, since a foreclosure action is equitable in nature and is addressed to a court of equity, the court may relieve a mortgagor of a default and deny the mortgagee foreclosure on proof that the mortgagor's default was neither willful nor in bad faith and that the mortgagee's action established a waiver of fraud, bad faith, oppressive or unconscionable conduct warranting a court of equity to refuse affirmative relief to the mortgagee. A court of equity may relieve the mortgagor from an entirely technical default where the default was not willful.

A foreclosure action or sale in accordance with a power of sale is subject to most of the delays and expenses of other lawsuits if defenses or counterclaims are interposed, sometimes requiring up to several years to complete. Moreover, recent judicial decisions suggest that a non-collusive, regularly conducted foreclosure sale or sale in accordance with a power of sale may be challenged as a fraudulent conveyance, regardless of the parties' intent, if a court determines that the sale was for less than fair consideration and the sale occurred while the mortgagor was insolvent and within one year, or within the state statute of limitations if the trustee in bankruptcy elects to proceed under state fraudulent conveyance law, of the filing of bankruptcy. Similarly, a suit against the debtor on the mortgage note may take several years.

In case of foreclosure under either a mortgage or a deed of trust, the sale by the referee or other designated officer or by the trustee is a public sale. However, because of the difficulty potential third party purchasers at the sale have in determining the exact status of title and because the physical condition of the property may have deteriorated during the foreclosure proceedings, it is uncommon for a third party to purchase the property at the foreclosure sale. Rather, it is common for the lender to purchase the property from the trustee or referee for an amount equal to the principal amount of the mortgage or deed of trust plus accrued and unpaid interest and the expenses of foreclosure. Thereafter, the lender will assume the burdens of ownership, including obtaining casualty insurance, paying taxes and making repairs at its own expense as are necessary to render the property suitable for sale. 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 insurance proceeds.

A junior mortgagee may not foreclose on the property securing a junior mortgage unless it forecloses subject to the senior mortgages, in which case it must either pay the entire amount due on the senior mortgages to the senior mortgagees prior to or at the time of the foreclosure sale or undertake the obligation to make payments on the senior mortgages if the mortgagor is in default thereunder. In either event the amounts expended will be added to the balance due on the junior loan, and may be subrogated to the rights of the senior mortgagees. In addition, if the foreclosure of a junior mortgage triggers the enforcement of a due-on-sale clause in a senior mortgage, the junior mortgagee may be required to pay the full amount of the senior mortgages to the senior mortgagees. Accordingly, with respect to those mortgage loans which are junior mortgage loans, if the lender purchases the property, the lender's title will be subject to all senior liens and claims and some governmental liens. The proceeds received by the referee or trustee from the sale are applied first to the costs, fees and expenses of sale, real estate taxes and then in satisfaction of the indebtedness secured by the mortgage or deed of trust under which the sale was conducted. Any remaining proceeds are generally payable to the holders of junior mortgages or deeds of trust and other liens and claims in order of their priority, whether or not the borrower is in default. Any additional proceeds are generally payable to the mortgagor or trustor. The payment of the proceeds to the holders of junior mortgages may occur in the foreclosure action of the senior mortgagee or may require the institution of separate legal proceedings.

If the Master Servicer were to foreclose on any junior lien it would do so subject to any related senior lien. In order for the debt related to the junior Mortgage Loan to be paid in full at the sale, a bidder at the foreclosure sale of the junior Mortgage Loan would have to bid an amount sufficient to pay off all sums due under the junior Mortgage Loan and the senior lien or purchase the mortgaged property subject to the senior lien. If proceeds from a foreclosure or similar sale of the mortgaged property are insufficient to satisfy all senior liens and the junior Mortgage Loan in the aggregate, the trust fund as the holder of the junior lien and, accordingly, holders of one or more classes of related securities bear (1) the risk of delay in distributions while a deficiency judgment against the borrower is obtained and (2) the risk of loss if the deficiency judgment is not realized upon. Moreover, deficiency judgments may not be available in a jurisdiction. In addition, liquidation expenses with respect to defaulted junior Mortgage Loans do not vary directly with the outstanding principal balance of the loans at the time of default. Therefore, assuming that the Master Servicer took the same steps in realizing upon a defaulted junior Mortgage Loan having a small remaining principal balance as it would in the case of a defaulted junior Mortgage Loan having a large remaining principal balance, the amount realized after expenses of liquidation would be smaller as a percentage of the outstanding principal balance of the small junior Mortgage Loan than would be the case with the defaulted junior Mortgage Loan having a large remaining principal balance.

In foreclosure, courts have imposed general equitable principles. The equitable principles are generally designed to relieve the borrower from the legal effect of its defaults under the loan documents. Examples of judicial remedies that have been fashioned include judicial requirements that the lender undertake affirmative and expensive actions to determine the causes for the borrower's default and the likelihood that the borrower will be able to reinstate

the loan. In a few cases, courts have substituted their judgment for the lender's judgment and have required that lenders reinstate loans or recast payment schedules in order to accommodate borrowers who are suffering from temporary financial disability. In other cases, courts have limited the right of a lender to foreclose if the default under the mortgage instrument is not monetary, for example, the borrower's failure to adequately maintain the property or the borrower's execution of a second mortgage or deed of trust affecting the property. Finally, a few courts have been faced with the issue of whether or not federal or state constitutional provisions reflecting due process concerns for adequate notice require that borrowers under deeds of trust or mortgages receive notices in addition to the statutorily-prescribed minimums. 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, or under a mortgage having a power of sale, does not involve sufficient state action to afford constitutional protection to the borrower.

### **Rights of Redemption**

In several states, after sale in accordance with a deed of trust or foreclosure of a mortgage, the trustor or mortgagor and foreclosed junior lienors are given a statutory period in which to redeem the property from the foreclosure sale. The right of redemption should be distinguished from the equity of redemption, which is a nonstatutory right that must be exercised prior to the foreclosure sale. In several states, redemption may occur only upon payment of the entire principal balance of the loan, accrued interest and expenses of foreclosure. 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 right of redemption would defeat the title of any purchaser acquired at a public sale. Consequently, the practical effect of a right of redemption is to force the lender to retain the property and pay the expenses of ownership and maintenance of the property until the redemption period has expired. In several 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**

Several states have imposed statutory prohibitions that limit the remedies of a beneficiary under a deed of trust or a mortgagee under a mortgage. In several states, statutes limit the right of the beneficiary or mortgagee to obtain a deficiency judgment against the borrower following foreclosure or sale under a deed of trust. A deficiency judgment is a personal judgment against the former borrower equal in most cases to the difference between the net amount realized upon the public sale of the real property and the amount due to the lender. Other 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. Finally, other statutory provisions limit any deficiency judgment against the former borrower following a judicial 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 judicial sale.

In addition to laws limiting or prohibiting deficiency judgments, numerous other 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 collateral or enforce a deficiency judgment. For example, with respect to federal bankruptcy law, the filing of a petition acts as a stay against the enforcement of remedies of collection of a debt. Moreover, a court with federal bankruptcy jurisdiction may permit a debtor through his or her Chapter 13 rehabilitative plan to cure a monetary default with respect to a mortgage loan on a debtor's residence by paying arrearages within a reasonable time period and reinstating the original mortgage loan payment schedule even though the lender accelerated the mortgage loan and final judgment of foreclosure had been entered in state court (provided no sale of the property had yet occurred) prior to the filing of the debtor's Chapter 13 petition. Several courts with federal bankruptcy jurisdiction have approved plans, based on the particular facts of the reorganization case, that effected the curing of a mortgage loan default by paying arrearages over a number of years.

Courts with federal bankruptcy jurisdiction have also indicated that the terms of a mortgage loan secured by property of the debtor may be modified if the borrower has filed a petition under Chapter 13. These courts have suggested that the modifications may include reducing the amount of each monthly payment, changing the rate of interest, altering the repayment schedule and reducing the lender's security interest to the value of the residence, thus leaving the lender a general unsecured creditor for the difference between the value of the residence and the outstanding balance of the loan. Federal bankruptcy law and limited case law indicate that the foregoing modifications could not be



applied to the terms of a loan secured by property that is the principal residence of the debtor. In all cases, the secured creditor is entitled to the value of its security plus post-petition interest, attorneys' fees and costs to the extent the value of the security exceeds the debt.

The Bankruptcy Reform Act of 1994 established the National Bankruptcy Review Commission for purposes of analyzing the nation's bankruptcy laws and making recommendations to Congress for legislative changes to the bankruptcy laws. A similar commission was involved in developing the Bankruptcy Code. The NBRC delivered its report to Congress, the President of the United States and the Chief Justice of the Supreme Court on October 20, 1997. Among other topics, high leverage loans were addressed in the NBRC's report. Despite several ambiguities, the NBRC's report appears to recommend that Congress amend Bankruptcy Code Section 1322(b)(2) by treating a claim secured only by a junior security interest in a debtor's principal residence as protected only to the extent that the claim was secured when the security interest was made if the value of the property securing the junior security interest is less than that amount. However, the express language of the report implies that a claim secured only by a junior security interest in a debtor's principal residence may not be modified to reduce the claim below the appraised value of the property at the time the security interest was made. A strong dissent by some members of the NBRC recommends that the protections of Bankruptcy Code Section 1322(b)(2) be extended to creditors principally secured by the debtor's principal residence. Additionally, the NBRC's report recommends that a creditor's secured claim in real property should be determined by the property's fair market value, less hypothetical costs of sale. The standard advocated by this recommendation would not apply to mortgages on the primary residence of a Chapter 11 or 13 debtor who retains the residence if the mortgages are protected from modification such as those senior mortgages not subject to modification under Bankruptcy Code Sections 1322(b)(2) and 1123(b)(5). The final NBRC report may ultimately lead to substantive changes to the existing Bankruptcy Code, such as reducing outstanding loan balances to the appraised value of a debtor's principal residence at the time the security interest in the property was taken, which could affect the mortgage loans included in a trust fund and the enforcement of rights therein.

Several tax liens arising under the Code may provide priority over the lien of a mortgage or deed of trust. In addition, substantive requirements are imposed upon mortgage lenders in connection with the origination and the servicing of single-family mortgage loans by numerous federal and state consumer protection laws. These laws include the Federal Truth-in-Lending Act, Regulation Z, Real Estate Settlement Procedures Act, Regulation X, Equal Credit Opportunity Act, Regulation B, Fair Credit Billing Act, Fair Housing Act, Fair Credit Reporting Act and related statutes. These federal laws impose specific statutory liabilities upon lenders who originate mortgage loans and who fail to comply with the provisions of the law. This liability may affect assignees of the mortgage loans. In particular, the originators' failure to comply with requirements of the Federal Truth-in-Lending Act, as implemented by Regulation Z, could subject both originators and assignees of the obligations to monetary penalties and could result in obligors' rescinding loans against either originators or assignees.

In addition, mortgage loans may also be subject to the Home Ownership and Equity Protection Act of 1994, if the mortgage loans were originated on or after October 1, 1995, are not mortgage loans made to finance the purchase of the mortgaged property and have interest rates or origination costs in excess of prescribed levels. The Homeownership Act requires additional disclosures, specifies the timing of the disclosures and limits or prohibits inclusion of specific provisions in mortgages subject to the Homeownership Act. Remedies available to the mortgagor include monetary penalties, as well as rescission rights if the appropriate disclosures were not given as required or if the particular mortgage includes provisions prohibited by law. The Homeownership Act also provides that any purchaser or assignee of a mortgage covered by the Homeownership Act is subject to all of the claims and defenses to loan payment, whether under the Federal Truth-in-Lending Act, as amended by the Homeownership Act or other law, which the borrower could assert against the original lender unless the purchaser or assignee did not know and could not with reasonable diligence have determined that the mortgage loan was subject to the provisions of the Homeownership Act. The maximum damages that may be recovered under the Homeownership Act from an assignee is the remaining amount of indebtedness plus the total amount paid by the borrower in connection with the mortgage loan. The Seller will represent and warrant, on the Closing Date, that the Mortgage Loans are not subject to the Homeownership Act.

### **Junior Mortgages**

The Group II Mortgage Loans may be secured by junior mortgages or deeds of trust, which are junior to senior mortgages or deeds of trust which are not part of the trust fund. The rights of the securityholders as the holders of a junior deed of trust or a junior mortgage are subordinate in lien priority and in payment priority to those of the holder of

the senior mortgage or deed of trust, including the prior rights of the senior mortgagee or beneficiary to receive and apply hazard insurance and condemnation proceeds and, upon default of the mortgagor, to cause a foreclosure on the property. Upon completion of the foreclosure proceedings by the holder of the senior mortgage or the sale in accordance with the deed of trust, the junior mortgagee's or junior beneficiary's lien will be extinguished unless the junior lienholder satisfies the defaulted senior loan or asserts its subordinate interest in a property in foreclosure proceedings. *See "Foreclosure."*

Furthermore, the terms of the junior mortgage or deed of trust are subordinate to the terms of the senior mortgage or deed of trust. If there is a conflict between the terms of the senior mortgage or deed of trust and the junior mortgage or deed of trust, the terms of the senior mortgage or deed of trust will govern generally. Upon a failure of the mortgagor or trustor to perform any of its obligations, the senior mortgagee or beneficiary, subject to the terms of the senior mortgage or deed of trust, may have the right to perform the obligation itself. Generally, all sums so expended by the mortgagee or beneficiary become part of the indebtedness secured by the mortgage or deed of trust. To the extent a senior mortgagee expends sums, these sums will generally have priority over all sums due under the junior mortgage.

### **Other Limitations**

In addition to the laws limiting or prohibiting deficiency judgments, numerous other statutory provisions including federal bankruptcy laws and related state laws may interfere with or affect the ability of a lender to realize upon collateral or enforce a deficiency judgment. For example, in a Chapter 13 proceeding under the federal bankruptcy law, a court may prevent a lender from repossessing a home, and as part of the rehabilitation plan reduce the amount of the secured indebtedness to the market value of the home at the time of bankruptcy, as determined by the court, leaving the party providing financing as a general unsecured creditor for the remainder of the indebtedness. A bankruptcy court may also reduce the monthly payments due under a contract or change the rate of interest and time of repayment of the indebtedness.

### **Enforceability of Provisions**

The Mortgage Loans in the Trust will in most cases contain due-on-sale clauses. These clauses permit the lender to accelerate the maturity of the loan if the borrower sells, transfers, or conveys the property without the prior consent of the lender. The enforceability of these clauses has been impaired in various ways in several states by statute or decisional law. The ability of lenders and their assignees and transferees to enforce due-on-sale clauses was addressed by the Garn-St. Germain Depository Institutions Act of 1982. This legislation, subject to exceptions, preempts state constitutional, statutory and case law that prohibits the enforcement of due-on-sale clauses. The Garn-St. Germain Act does encourage lenders to permit assumptions of loans at the original rate of interest or at another rate less than the average of the original rate and the market rate.

The Garn-St Germain Act also sets forth nine specific instances in which a mortgage lender covered by the Garn-St Germain Act, including federal savings and loan associations and federal savings banks, may not exercise a due-on-sale clause, even though a transfer of the property may have occurred. These include intra-family transfers, some transfers by operation of law, leases of fewer than three years and the creation of a junior encumbrance. Regulations promulgated under the Garn-St Germain Act also prohibit the imposition of a prepayment penalty upon the acceleration of a loan in accordance with a due-on-sale clause.

The inability to enforce a due-on-sale clause may result in a Mortgage Loan bearing an interest rate below the current market rate being assumed by a new home buyer rather than being paid off, which may have an impact upon the average life of the Mortgage Loans related to a series and the number of Mortgage Loans that may be outstanding until maturity.

The regulations of the Federal Home Loan Bank Board, predecessor to the Office of Thrift Supervision, prohibit the imposition of a prepayment penalty or equivalent fee for or in connection with the acceleration of a loan by exercise of a due-on-sale clause. A mortgagee to whom a prepayment in full has been tendered may be compelled to give either a release of the mortgage or an instrument assigning the existing mortgage to a refinancing lender.

## **Subordinate Financing**

When the mortgagor encumbers mortgaged property with one or more junior liens, the senior lender is subjected to additional risk. First, the mortgagor may have difficulty servicing and repaying multiple loans. In addition, if the junior loan permits recourse to the mortgagor, as junior loans often do, and the senior loan does not, a mortgagor may be more likely to repay sums due on the junior loan than those on the senior loan. Second, acts of the senior lender that prejudice the junior lender or impair the junior lender's security may create a superior equity in favor of the junior lender. For example, if the mortgagor and the senior lender agree to an increase in the principal amount of or the interest rate payable on the senior loan, the senior lender may lose its priority to the extent an existing junior lender is harmed or the mortgagor is additionally burdened. Third, if the mortgagor defaults on the senior loan or any junior loan, or both, the existence of junior loans and actions taken by junior lenders can impair the security available to the senior lender and can interfere with or delay the taking of action by the senior lender. Moreover, the bankruptcy of a junior lender may operate to stay foreclosure or similar proceeds by the senior lender.

## **Applicability of Usury Laws**

Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980 provides that state usury limitations shall not apply to certain types of residential first mortgage loans originated by certain lenders after March 31, 1980. A similar federal statute was in effect with respect to mortgage loans made during the first three months of 1980. The statute authorized any state to reimpose interest rate limits by adopting before April 1, 1983 a law or constitutional provision that expressly rejects application of the federal law. 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. Several states have taken action to reimpose interest rate limits or to limit discount points or other charges.

## **Alternative Mortgage Instruments**

Adjustable-rate mortgage loans and home equity revolving credit loans originated by non-federally chartered lenders have historically been subject to a variety of restrictions. These restrictions differed from state to state, resulting in difficulties in determining whether a particular alternative mortgage instrument originated by a state-chartered lender complied with applicable law. These difficulties were simplified substantially as a result of the enactment of Title VIII of the Garn-St. Germain Act. Title VIII provides that, notwithstanding any state law to the contrary,

- state-chartered banks may originate alternative mortgage instruments, including adjustable-rate mortgage loans, in accordance with regulations promulgated by the Comptroller of the Currency with respect to origination of alternative mortgage instruments by national banks,
- state-chartered credit unions may originate alternative mortgage instruments in accordance with regulations promulgated by the National Credit Union Administration with respect to origination of alternative mortgage instruments by federal credit unions, and
- all other non-federally chartered housing creditors, including, without limitation, state-chartered savings and loan associations, savings banks and mutual savings banks and mortgage banking companies may originate alternative mortgage instruments in accordance with the regulations promulgated by the Federal Home Loan Bank Board, predecessor to the OTS with respect to origination of alternative mortgage instruments by federal savings and loan associations.

Title VIII further provides that any state may reject applicability of the provisions of Title VIII by adopting prior to October 15, 1985 a law or constitutional provision expressly rejecting the applicability of these provisions. Several states have taken this type of action.

## **Soldiers' and Sailors' Civil Relief Act of 1940**

Under the terms of the Relief Act, a borrower who enters military service after the origination of that borrower's mortgage loan, including a borrower who was in reserve status and is called to active duty after origination of the mortgage loan, may not be charged interest, including fees and charges, above an annual rate of 6% during the period

of that borrower's active duty status unless a court orders otherwise upon application of the lender. The Relief Act applies to borrowers who are members of the Army, Navy, Air Force, Marines, National Guard, Reserves, Coast Guard, and officers of the U.S. Public Health Service assigned to duty with the military. Because the Relief Act applies to borrowers who enter military service, including reservists who are called to active duty, after origination of the related mortgage loan no information can be provided as to the number of loans that may be affected by the Relief Act. Application of the Relief Act would adversely affect, for an indeterminate period of time, the ability of the Master Servicer to collect full amounts of interest on the applicable mortgage loans. Any shortfalls in interest collections resulting from the application of the Relief Act could result in losses to the Certificateholders. However, the Fannie Mae Guaranty will cover such shortfalls. The Relief Act also imposes limitations that would impair the ability of the Master Servicer to foreclose on an affected Mortgage Loan, cooperative loan or enforce rights under a manufactured housing contract during the borrower's period of active duty status, and, sometimes, during an additional three month period thereafter. Thus, if the Relief Act applies to any Mortgage Loan that goes into default, there may be delays in payment and losses occasioned by the inability to realize upon the mortgaged property in a timely fashion.

## **Environmental Risks**

Under the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, and under several state laws, a secured party which takes a deed-in-lieu of foreclosure, purchases a mortgaged property at a foreclosure sale, or operates a mortgaged property may become liable for the costs of cleaning up hazardous substances regardless of whether they have contaminated the property. CERCLA imposes strict as well as joint and several liability on several classes of potentially responsible parties, including current owners and operators of the property who did not cause or contribute to the contamination. Furthermore, liability under CERCLA is not limited to the original or unamortized principal balance of a loan or to the value of the property securing a loan. Lenders may be held liable under CERCLA as owners or operators unless they qualify for the secured creditor exemption to CERCLA. This exemption exempts from the definition of owners and operators those who, without participating in the management of a facility, hold indicia of ownership primarily to protect a security interest in the facility. What constitutes sufficient participation in the management of a property securing a loan or the business of a borrower to render the exemption unavailable to a lender has been a matter of interpretation by the courts. CERCLA has been interpreted to impose liability on a secured party even absent foreclosure where the party participated in the financial management of the borrower's business to a degree indicating a capacity to influence waste disposal decisions. However, court interpretations of the secured creditor exemption have been inconsistent. In addition, when lenders foreclose and become owners of collateral property, courts are inconsistent as to whether that ownership renders the secured creditor exemption unavailable. Other federal and state laws may impose liability on a secured party which takes a deed-in-lieu of foreclosure, purchases a mortgaged property at a foreclosure sale, or operates a mortgaged property on which contaminants other than CERCLA hazardous substances are present, including petroleum, agricultural chemicals, hazardous wastes, asbestos, radon, and lead-based paint. Environmental cleanup costs may be substantial. It is possible that the cleanup costs could become a liability of the Trust fund and reduce the amounts otherwise distributable to the Certificateholders. Moreover, there are federal statutes and state statutes that impose an environmental lien for any cleanup costs incurred by the state on the property that is the subject of the cleanup costs. All subsequent liens on a property generally are subordinated to an environmental lien and in some states even prior recorded liens are subordinated to environmental liens. In the latter states, the security interest of the trust fund in a related parcel of real property that is subject to an environmental lien could be adversely affected.

Traditionally, many residential mortgage lenders have not taken steps to evaluate whether contaminants are present with respect to any mortgaged property prior to the origination of the mortgage loan or prior to foreclosure or accepting a deed-in-lieu of foreclosure. Accordingly, the Seller has not made and will not make these kinds of evaluations prior to the origination of the mortgage loans. Neither the Master Servicer nor any replacement servicer will be required by any servicing agreement to undertake any environmental evaluations prior to foreclosure or accepting a deed-in-lieu of foreclosure. The Master Servicer will not make any representations or warranties or assume any liability with respect to the absence or effect of contaminants on any related real property or any casualty resulting from the presence or effect of contaminants. The Master Servicer will not be obligated to foreclose on related real property or accept a deed-in-lieu of foreclosure if it knows or reasonably believes that there are material contaminated conditions on a property. A failure so to foreclose may reduce the amounts otherwise available to Certificateholders.

### **Forfeitures in Drug and RICO Proceedings**

Federal law provides that property owned by persons convicted of drug-related crimes or of criminal violations of the Racketeer Influenced and Corrupt Organizations statute can be seized by the government if the property was used in or purchased with the proceeds of these crimes. Under procedures contained in the Comprehensive Crime Control Act of 1984 the government may seize the property even before conviction. The government must publish notice of the forfeiture proceeding and may give notice to all parties “known to have an alleged interest in the property,” including the holders of mortgage loans.

A lender may avoid forfeiture of its interest in the property if it establishes that: (1) its mortgage was executed and recorded before commission of the crime upon which the forfeiture is based, or (2) the lender was at the time of execution of the mortgage “reasonably without cause to believe” that the property was used in or purchased with the proceeds of illegal drug or RICO activities.

### **LEGAL MATTERS**

Certain legal matters with respect to the Offered Certificates will be passed upon for the Seller, the Master Servicer and the Depositor by Heller Ehrman White & McAuliffe LLP, New York, New York.

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## ANNEX I

<b>Distribution Date</b>	<b>Group I Scheduled Notional Amount</b>	<b>Group II Scheduled Notional Amount</b>
March 25, 2003 .....	\$1,150,542,000.00	\$768,723,000.00
April 25, 2003 .....	1,124,660,000.00	752,959,000.00
May 25, 2003 .....	1,098,942,000.00	737,103,000.00
June 25, 2003 .....	1,073,378,000.00	721,152,000.00
July 25, 2003 .....	1,047,961,000.00	705,107,000.00
August 25, 2003 .....	1,022,685,000.00	688,968,000.00
September 25, 2003.....	997,548,000.00	672,740,000.00
October 25, 2003.....	972,550,000.00	656,430,000.00
November 25, 2003.....	947,693,000.00	640,044,000.00
December 25, 2003 .....	922,980,000.00	623,597,000.00
January 25, 2004 .....	898,891,000.00	607,559,000.00
February 25, 2004 .....	875,413,000.00	591,921,000.00
March 25, 2004 .....	852,531,000.00	576,674,000.00
April 25, 2004 .....	830,230,000.00	561,806,000.00
May 25, 2004 .....	808,494,000.00	547,309,000.00
June 25, 2004 .....	787,310,000.00	533,174,000.00
July 25, 2004 .....	766,664,000.00	519,391,000.00
August 25, 2004 .....	746,541,000.00	505,952,000.00
September 25, 2004.....	726,929,000.00	492,848,000.00
October 25, 2004.....	707,815,000.00	480,070,000.00
November 25, 2004.....	689,186,000.00	467,612,000.00
December 25, 2004 .....	671,030,000.00	455,464,000.00
January 25, 2005 .....	653,335,000.00	443,619,000.00
February 25, 2005 .....	0.00	0.00



## SCHEDULE A

<b>Distribution Date</b>	<b>Class S-1 Notional Amount</b>	<b>Class S-1 Pass-Through Rate</b>	<b>Class S-2 Notional Amount</b>	<b>Class S-2 Pass Through Rate</b>
March 25, 2003 .....	\$240,000,000	4.25%	\$160,000,000	4.25%
April 25, 2003 .....	240,000,000	4.25	160,000,000	4.25
May 25, 2003 .....	240,000,000	4.25	160,000,000	4.25
June 25, 2003 .....	240,000,000	4.25	160,000,000	4.25
July 25, 2003 .....	240,000,000	4.25	160,000,000	4.25
August 25, 2003 .....	240,000,000	4.25	160,000,000	4.25
September 25, 2003 .....	216,000,000	4.00	144,000,000	4.00
October 25, 2003 .....	216,000,000	4.00	144,000,000	4.00
November 25, 2003 .....	216,000,000	4.00	144,000,000	4.00
December 25, 2003 .....	216,000,000	4.00	144,000,000	4.00
January 25, 2004 .....	216,000,000	4.00	144,000,000	4.00
February 25, 2004 .....	216,000,000	4.00	144,000,000	4.00
March 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
April 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
May 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
June 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
July 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
August 25, 2004 .....	198,000,000	3.75	132,000,000	3.75
September 25, 2004 .....	168,000,000	3.50	112,000,000	3.50
October 25, 2004 .....	168,000,000	3.50	112,000,000	3.50
November 25, 2004 .....	168,000,000	3.50	112,000,000	3.50

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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.

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**\$1,044,000,000**  
**( Approximate )**



**Guaranteed  
Grantor Trust  
Pass-Through  
Certificates**

**Fannie Mae Grantor Trust 2003-T2**

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*PROSPECTUS*

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**DEUTSCHE BANK SECURITIES  
LEHMAN BROTHERS**

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**BANCONE CAPITAL MARKETS  
CREDIT SUISSE FIRST BOSTON  
MORGAN STANLEY  
RBS GREENWICH CAPITAL  
UBS WARBURG  
WAMU CAPITAL CORP.**

**January 13, 2003**

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