SUPREME COURT OF NEW JERSEY
DOCKET NO. 65,564

BLANCA GONZALEZ, Appellant-Respondent, v. WILSHIRE CREDIT CORPORATION AND U.S. NATIONAL ASSOCIATION, as trustee Under the Pooling and Servicing Agreement dated March 14, 1997 for Cityscape Home Equity Loan Trust 1997-B, Inc., Respondent-Appellant.	:	Civil Action On Certification From a Final Judgment of the Superior Court of New Jersey, Appellate Division Sat Below: Hon.Mary Catherine Cuff,P.J.A.D. Hon. Edith K. Payne, J.A.D. Hon. Christine L. Miniman,J.A.D.

BRIEF AND APPENDIX ON BEHALF OF AMICUS CURIAE LEGAL SERVICES OF NEW JERSEY

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INTRODUCTION

Legal Services of New Jersey submits this brief in conjunction with its motion for leave to participate as amicus curiae to address an issue of public importance: whether the Consumer Fraud Act, N.J.S.A. 56:8-1 et seq., applies to abusive mortgage servicing and collection practices.

A mortgage creates an on-going consumer relationship between a mortgagor and mortgagee, one that by the terms of the contract can last for thirty years or more. The contract between the parties is not fully performed at the time of the extension of credit; the mortgagor makes ongoing payments and by necessity the mortgagee collects those payments and administers the mortgage account according to the terms of the contract, an activity commonly known as mortgage servicing. As such, mortgage servicing is the "subsequent performance" of the mortgage contract - performance and activity expressly governed by the New Jersey Consumer Fraud Act. Appellants' improper and abusive actions in the performance of the contract are the very type of behavior the Consumer Fraud Act seeks to redress. Appellants have charged Ms. Gonzalez illegitimate fees for actions and expenses, some of which never should have been incurred, and others of which may never have been incurred; overcharged her account; employed mathematically incorrect and

fallacious accounting practices; and provided contradictory and inaccurate statements of the sums and nature of amounts claimed to be due, all while continuously threatening to take Ms. Gonzalez's home *on a month by month basis* since 2003 -- even while she was current with her mortgage account, and had in fact overpaid. Throughout, appellants have been unable to lay out a straightforward account of whether anything is due on the mortgage account and if so how much and for what. Sadly, such conduct is not an isolated case of careless accounting, but a widespread and well-documented business practice inherent in the modern mortgage servicing industry. If left unredressed, this conduct will subject more families to unnecessary foreclosures, at severe societal cost.

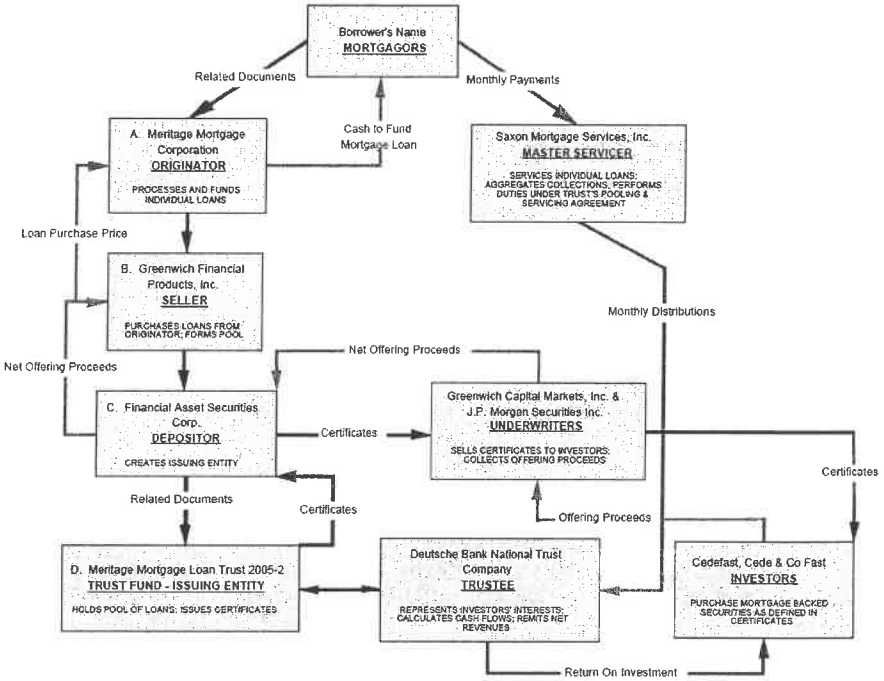
That appellants incorporated these abusive collection practices into subsequent "repayment agreements" does not somehow immunize them from the reach of the Consumer Fraud Act.

BACKGROUND ON THE MORTGAGE SERVICING INDUSTRY

Traditionally, mortgage lending allowed families to achieve the American dream of homeownership and simultaneously benefitted mortgage lenders when the homeowner repaid the loan with interest. From the application and underwriting process through discharge of the mortgage, the borrower and the lender had a unity of interests: both parties benefitted when the homeowner repaid the loan. A single lender performed all of the

SECURITIZATION FLOW CHART

Meritage Mortgage Loan Trust 2005-2, Asset-Backed Certificates, Series 2005-2



ARROW LEGEND: Purple - Mortgage Documents; Blue - Securities Certificates; Orange - Investor Funds; Green - Borrower Funds

Truth In Lending Audit & Recovery Services, LLC

The RMBS fundamentally alters the traditional lending model and the relationships between the parties. No longer do any of the parties involved (with the exception of the ultimate investors - often pension funds, insurance funds and the like) derive profit from the performance of the loan. In fact, as illustrated below, the servicer actually profits from default. Professor Kurt Eggert notes that:

> Securitization has accomplished what is known as the unbundling of the loan industry, disassembling the lending process into its constituent elements, and allowing a separate` entity to undertake each element. Traditionally, lenders performed all of the functions of a loan, finding the borrowers, preparing the documentation for the loan, funding the loan, holding the mortgage during the course of the loan, and

> servicing the loan throughout its life. Securitization has, in the words of Michael G. Jacobides, "atomized" this process. . . .

Held Up In Due Course: Predatory Lending, Securitization, And The Holder In Due Course Doctrine, 35 Creighton L. Rev. 503 at 552 (April, 2002) (footnotes omitted). Thus, most significantly for the case at hand, instead of administering its own mortgage account, the holder of the note and mortgage outsources collection and foreclosure duties to the mortgage servicer.

RMBS servicers' duties and compensation are set forth in a document called a "Pooling and Servicing" agreement (PSA). The servicer is hired to perform three related roles on behalf of the trust - roles that traditionally would have been retained by the lender: transaction processing for loans that are not in default (i.e., collecting and applying payments), default management (i.e., collections and activities related to taking defaulted loans through foreclosure) and loss mitigation. Written Testimony of Adam J. Levitin, Associate Professor of Law, Georgetown University Law Center, Before the House Financial Services Committee Subcommittee on Housing and Community Opportunity, Robo-Signing, Chain of Title, Loss Mitigation, and Other Issues in Mortgage Servicing" (November 18, 2010) at 6.

According to Professor Levitin, RMBS servicers are compensated in four ways:

> First, they receive a "servicing fee," which is a flat fee of 25-50 basis points (bps) and is a first priority payment in the RMBS trust. This is by far the greatest portion of servicer income. This fee is paid out proportionally across all loans regardless of servicer costs through the economic cycle.
>
> Second, servicers earn "float" income. Servicers generally collect mortgage payments at the beginning of the month, but are not required to remit the payments to the trust until the 25th of the month. In the interim, servicers invest the funds they have collected from the mortgagors, and they retain all investment income. Servicers can also obtain float income from escrow balances collected monthly from borrowers to pay taxes and insurance during the course of the year.
>
> Third, **servicers are generally permitted to retain all ancillary fees they can collect from mortgagors. This includes things like late fees and fees for balance checks or telephone payments. It also includes fees for expenses involved in handling defaulted mortgages, such as inspecting the property**. Finally, servicers hold securities themselves directly as investors, and often hold the junior-most, residual tranche in the securitization.

emphasis added).[2] Thus, servicers have a financial incentive to impose additional fees on consumers. Moreover, there is no

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[2] When a loan is in default, the servicer advances the missed payments of principal and interest to the trust and pays taxes and insurance on the property. However, "servicers recover these fees off the top from foreclosure sale proceeds before MBS investors are paid." Levitin, supra, at 15. Levitin further notes that, "[t]his reimbursement structure limits servicers' incentive to rein in costs and actually incentives them to pad the costs of foreclosure." Id. Moreover, this payment structure means that servicers recover their advances more quickly when a property is sold in foreclosure than if the loan

inherent market constraint to prevent overreaching - neither the homeowner nor the parties to the RMBS is in a position to deter servicing abuse. As far as homeowners are concerned, "servicers have few reputational or financial constraints pushing them to work to satisfy homeowners with their performance." Porter, Misbehavior and Mistake in Bankruptcy Mortgage Claims, 87 Tex. L. Rev. 121, 127(2008). "Borrowers cannot shop for a loan based on the quality of the servicing, and they have virtually no ability to change servicers if they are dissatisfied with the servicers' conduct. The only exit strategy for a dissatisfied borrower is refinancing the mortgage and, even then, the homeowner may find the new loan assigned to the prior servicer." Id.[3]

Similarly, "[i]nvestors are poorly suited to monitor servicer behavior because they do not have direct dealings with the servicer." Levitin, supra, at 8-9. Neither does the trustee monitor the servicer's performance because "[t]he trustee is not a common law trustee with general fiduciary duties. Instead, it is a limited purpose corporate trustee. . . . Trustees are generally entitled to rely on servicers' data reporting, and

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is modified and a payment plan is reached - unless the servicer can recover these expenses directly from the borrower.

[3] The actual pooling and servicing agreement is not part of the record or publically available, however a summary is available on the SEC public record website.

have little obligation to analyze it." Levitin, supra, at 9. Thus, without access to the courts - and in particular, access to effective consumer protection laws -- there is no effective mechanism to prevent such abuses.

Abusive mortgage collection practices are well-documented and widespread. Where courts have scrutinized mortgage claims, most often in the bankruptcy context, they frequently find evidence of abusive collection practices. Katherine Porter exhaustively details such notorious abusive servicing practices in her article, Misbehavior and Mistake in Bankruptcy Mortgage Claims, 87 Tex. L. Rev. 121 (2008), as does the National Consumer Law Center in Foreclosures: Defenses, Workouts and Mortgage Servicing (Third Ed. 2010). As set forth in the Statement of Facts, *infra*, virtually all of the abusive collection practices identified are present in the case at bar.

Such practices include the misapplication of payments; charging fees that are fabricated, unwarranted and/or not contracted for; and engaging in coercive collection practices. Homeowners' payments can be misapplied when servicers ignore grace periods, fail to apply payments in the order specified in the contract, or use of the wrong accounting method (e.g., charging simple daily interest instead of "scheduled loan" method). Payments can also be misapplied when servicers pyramid late fees, a practice prohibited by the Federal Trade

Commission's Credit Practices Rule. 16 C.F.R. § 444.4. Pyramiding involves deducting late fees from a homeowner's current mortgage payment, thereby leaving part of the scheduled payment overdue and resulting in imposition of another late fee.

Some examples of fabricated and unwarranted fees are:

- Repetitive property inspection fees. Courts have found that these fees are neither reasonable nor necessary, and that they violate the contract between the parties when the inspections are done without advance notice to the borrower[4] and especially when they are repeatedly charged on a monthly or even weekly basis. This is especially true when the servicer is in contact with the homeowner and knows the property is occupied. See, e.g., In re Stewart, 391 B.R. 327 (Bankr. E.D. La. 2008) (finding that automatically generated property inspections were conducted on the wrong property, and even when conducted on correct property were never reviewed by servicer); In re Jones, 266 B.R. 584 (Bankr. E.D. La. 2007), aff'd in relevant part and rev'd in part on other grounds, 391 B.R. 577 (E.D. La. 2008) (where servicer presented no

[4] These inspections are called "drive-bys," because the inspector doesn't enter the property. Unless an inspector informs the homeowner that s/he is visiting the property, the homeowner is not notified in any other way that an inspection is taking place. It is possible for a homeowner's mortgage account to be charged for an inspection that never actually occurred.

evidence concerning its policy guidelines on inspections and could not state any reasons why continuous monthly property inspections were necessary, particularly when inspection reports showed little or no change in the property's condition from month to month and gave lender no cause for concern, property inspections were unreasonable); Porter v. Fairbanks Capital Corp., 2003 WL 21210115 (N.D. Ill. May 21, 2003) (complaint sufficiently alleged claim under FDCPA that charges for property preservation services and broker price opinions were not permitted under mortgage clause covering costs to protect value of property).

- Broker Price Opinions: A Broker Price Opinion is a determination of the value of the property, and is done by the servicer not to preserve the property but to inform the servicer's business decision whether to proceed with foreclosure or enter into a repayment plan. At least one court has recognized that it does nothing to protect the value of the property, and therefore is not a fee legitimately borne by the homeowner. In re Zumner, 396 B.R. 265, 266 (Bankr. W.D.N.Y. 2009).
- Forced place insurance: Unnecessary force-placed insurance, which is admitted by the appellants in this case, is a particularly common and very expensive

mortgage servicing abuse to homeowners. The abuse is described in detail in a recent American Banker article, Ties to Insurers Could Land Mortgage Servicers in More Trouble (November 10, 2010) (available at http://www.americanbanker.com/issues/175 216/ties-to-insurers-servicers-in-trouble-1028474-1.html last visited January 10, 2011). The article notes that "[w]ith little regulatory oversight or even private investor awareness, force-placed insurance has helped make drawn-out foreclosures lucrative for servicers - far more so, in some cases, than helping a borrower return to performing status. As the intermediary between borrower and investor, servicers appear to be benefitting themselves at the expense of both." The article goes on to report that when insurance is force placed, it is ten times as costly as a regular homeowner's insurance policy. One explanation for this overcharge is that most major servicers receive commissions or reinsurance fees on the very same policies they purchase on investors' and borrowers' behalf, and therefore have a disincentive to select a competitively priced product.

Such abusive collection practices are insidious. The National Consumer Law Center notes that a servicer's "failure to properly apply even a single payment can have a snowballing

effect that leaves homeowners fighting foreclosure and struggling to repair their credit for months, or even years. In many cases, borrowers attempting to correct errors in their accounts are met with the servicer's callous indifference, compounding the effect of the problem." NATIONAL CONSUMER LAW CENTER FORECLOSURES 233 (3RD ed. 2010), citing Hukic v. Aurora Loan Servicing, 2006 WL 14547787 (N.D. Ill. May 22, 2006) (where homeowner was current with payments, but servicer improperly recorded homeowner's payment as $1135 instead of $1335, homeowner battled for five years to correct account and fend off foreclosure).

To make matters worse, "[m]ost families rely on their mortgage servicers to credit payments, calculate payoff balances, and apply fees only when justified. Most families do not and cannot separately verify the servicers' accounting." Porter, supra, at 178. As a result, "[p]oor mortgage servicing is an assault on America's policy of promoting sustainable homeownership. If families are hit with unreasonable fees and cannot understand what is owed on their mortgage loans, they are at risk of foreclosure." Id. at 179-180. "The rising foreclosure rate will only escalate the number of families who must struggle to understand the amounts of their arrearages and who are at risk of having to pay unreasonable default costs to save their homes." Id. at 180.

Mortgage servicing abuse also harms other creditors of homeowners by siphoning money that otherwise could have been used to pay them to the mortgage holder or its agent.

STATEMENT OF FACTS

This is a simple and straightforward story: Blanca Martinez and Monserate Diaz purchased their modest home at 197 Pulaski Avenue in Perth Amboy, New Jersey in 1994, took the mortgage at issue in 1997, and have been paying since then. Pa342.

Perth Amboy is largely a Hispanic community. According to data publicly available on the United States Census Bureau website, http://factfinder.census.gov/, of Perth Amboy's 47,345 people, 76.9% are Hispanic. Like the majority of Perth Amboy residents, Spanish is Ms. Gonzalez's first language. Pa343. Ms. Gonzalez's income approaches Perth Amboy's low median per capita of approximately $20,774 annually.

Ms. Gonzalez and Mr. Diaz refinanced their purchase money mortgage with the loan that is the subject of this litigation over ten years ago, in 1997. Pa1. The original lender was a company called Cityscape. Cityscape securitized its own originated loans into pools and sold certificates for the cash flow. In 1998, Cityscape itself encountered financial difficulties and sold off its servicing arm to fund a bankruptcy. Appellant Wilshire claims to have acquired those servicing rights and produced a limited power of attorney that

appears to be related to that transfer. Appellant U.S. Bank National Association, as trustee under the pooling and servicing agreement dated March 14, 1997 for Cityscape Home Equity Loan Trust 1977-B, apparently speaks for the investors in the trust. According to publicly available documents, however, Wilshire also acquired the retained interests in Cityscape's pooled mortgages (implying they are also investors), so the exact interest of each of the appellants is unclear.

According to the pooling and servicing agreement governing the identified Residential mortgage Backed Securities (RMBS) pool, the parties contracted with Wilshire's predecessor to perform the duties of master servicer.

Diaz died in 1999. Pa351. Gonzalez continued to pay the mortgage, and Wilshire accepted payments from her. Pa351-377. According to her attorneys, in 2001 she was laid off from her job at Mayfair Company, where she had been employed as a factory worker for 17 years. Pa332-333. After the layoff, she suffered a heart attack and other health difficulties, and applied for Social Security Disability, for which she was finally approved in 2003. Id.

Despite these difficulties, the record before the court does not clearly indicate whether and, if so, when Gonzalez defaulted in mortgage payments. All that is certain is that at some point, for reasons completely unclear from the record, fees

began accumulating on the mortgage account. It is entirely possible that Ms. Gonzalez made every payment of principal and interest due, but that the "default" consists of nothing more than an accumulation of fees tacked on to the mortgage balance.

Wilshire and U.S. Bank's joint pleadings provide conflicting information as to the date of default: the foreclosure complaint is silent, the notice of intention to foreclose implies that the default date was January, 2003 (i.e., the same month the foreclosure was filed), the joint answer filed in this matter indicates that the date of default was September, 2002, and defendants' statement of material facts indicates that the default began in June, 1999. (Compare Pa73-79 with Pa281, with Pa10 and with Pa48).[5] In any event, it is clear that Ms. Gonzalez attempted to make the January, 2003 payment as scheduled, but Wilshire refused it. Pa2; Pa10.

After Wilshire refused Ms. Gonzalez's January, 2003 payment, a foreclosure complaint was filed against her that same month by U.S. Bank National Association, F/K/A First Bank National Association, as Trustee Under the Pooling and Servicing Agreement Dated March 14, 1997 for Cityscape Home Equity Loan

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[5] The trial court decision incorrectly quotes the defendants' statement of material facts, "beginning in June of 1999, the loan went into default" (Pa22), but the record does not support this allegation.

Trust 1997-B as plaintiff.[6] Pa73-79. The complaint does not allege a default date, an amount due (much less an itemization), or a reinstatement figure.[7] Pa73-79. Wilshire was not a party to the foreclosure action.[8] Pa73-79

Represented by counsel, Gonzalez filed an answer, alleging that she was never served with a notice of intention to foreclose. Pa153. The court failed to dismiss the foreclosure, but instead ordered the plaintiff to serve her with the notice of intention to foreclose. DPa7, Pa166. This document, dated September 10, 2003, alleges that Gonzalez owes a total of $8,108.23 as follows:

> Your mortgage payments are past due which puts you In default of your loan agreement. As of September 10, 2003, you owe the following:
>
> 10 payments (1/3/03 - 10/3/03)
> X $699.31 per month $6,993.10
>
> Late charges (6/18/99 - 4/18/00)
> 11 X $34.97 ..... $384.67

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[6] The complaint recites an unrecorded assignment from Cityscape directly to the plaintiff. Pa76. An online public records search does not reveal any recorded assignment. No such assignment is provided in the record.

[7] The complaint inaccurately alleges the monthly payment includes escrow, but it does not. Pa74.

[8] The complaint is silent as to Wilshire's role or participation in the foreclosure action. Pa73-80. The Notice of intention to foreclose (ultimately served nine months after the complaint was filed, in September, 2003) implies that Wilshire outsourced the foreclosure to a default servicer, Lender Processing Services (LPS). Pa281-283.

Property Inspections $91.75

Force Placed Insurance Advances $353.00

Force Placed Advances Fee $60.00

BPOS $100.00

Interest-Escrow Advances $1251.71

Total Due $8,108.23

Pa281-Pa285.

The notice of intention to foreclose appears to demonstrate that no principal and interest payments were due at the time the foreclosure complaint was filed. Pa281-282. It states that the first missed payment was not until January, 2003 - the same month that Wilshire refused Ms. Gonzalez's mortgage payment, and the same month the foreclosure action was filed. Pa281. It also lists over a thousand dollars in fees, including late fees allegedly incurred between 1999 and 2000 and a variety of other miscellaneous fees with no date. Pa281.

Four months after serving the notice of intention to foreclose, Wilshire provided Ms. Gonzalez's counsel with a reinstatement letter Pa295-Pa296. The January 29, 2004 Reinstatement Letter indicates that Gonzalez owed $17,043.79 through February, 2004, an increase of $8,935.56 over and above the amount claimed due in the notice of intention to foreclose. Pa295-296. This amount includes attorneys fees of $4,087.60 "broken down as fees in the amount of $1,050, costs in the

amount of $1,694.80, and litigation $1,342.50." Pa295-296. As principal and interest for five months - including February - is only $699.31 x 5 = $3,496.55, the reinstatement amount includes an additional $1,351.41 in unaccounted for fees.

Thereafter, on April 16, 2004 final judgment entered in the amount of $80,454.71 plus interest and costs Pa85-Pa87. The certification supporting entry of judgment was not included in the record, and thus no breakdown of that amount is available.

On May 17, 2004, Ms. Gonzalez entered into a "Stipulation of Payment Arrangement" with Wilshire as "servicing agent" for the plaintiff. Pa92-97. The "arrangement" sets forth the total arrearages as of May 10, 2004, including foreclosure fees and costs as $17,612.84, but provides no breakdown of that amount. Pa93. Her current counsel surmises that the amount must consist of principal and interest of $11,888.27 (699.31 x 17) and the balance of $5,724.57 must therefore consist of fees. Pa167.

The repayment terms of this first "arrangement" are as follows:

1. Ms. Gonzalez must pay $11,000 on or before May 19, 2004, which she does; and

2. Ms. Gonzales must pay $1,150 per month through January 20, 2006 (an amount of time in excess of that mathematically required in order to pay off the balance of the arrears)[9].

[9] The regular monthly payment was $699.31. Pa168-169. Thus $450.69 of the $1150.00 payments went toward satisfaction of the arrears. There are 19 payments at $1150 called for in the

Pa93.

The total payments required by the "arrangement" exceed the amount due.[10] Although the "stipulation of payment arrangement" does not so state, payment of $11,000 toward a balance of $17,612.84 mathematically leaves a balance of $6,612.84 ($17,612.84 - $11,000.00). The "arrangement" is also silent as to what comprises the $1,150.00 monthly payment, but the parties apparently agree that it consists of the regular monthly payment of $699.31 plus $450.69 toward the arrears. Pa168-170.

By the end of September, 2005 - about sixteen months later - Ms. Gonzalez made all but three payments. DPa9. She tried to make the September, 2005 payment, but Wilshire refused it. Pa98-99, Dpa9.

In October 2005, a representative of the appellants contacted not Ms. Gonzalez' attorney but Ms. Gonzalez directly, even though they knew that (1) she was represented by Central Jersey Legal Services (CJLS) and (2) she doesn't speak English

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stipulation. Pa93. Thus, $8563.11 must be toward the arrears. Together with the $11,000 up front payment, that equals $19,563.11 or $1950.27 more than the stated total arrears of $17,612.84.

[10] The "arrangement" required Ms. Gonzalez to pay $1,050.00 per month through January 2006. Pa93. Had she done so, she would have paid a total of $8,563.11 in addition to the regular monthly payments. She only owed $6,612.84 - around $6,000.00 of which already consisted of exorbitant, uncontracted for and unwarranted fees.

well. (Appellants' phone log even contains comments about how difficult it is to negotiate because of the language barrier). Pa205, Pa173. Appellants required Ms. Gonzalez to sign a second repayment agreement in October 2005 or face sheriff's sale. DPa26.

By the time of the second, October 2005 repayment arrangement, Ms. Gonzalez had already paid $16,858.97 of the $17,612.84 due. Pa306. As such, she should have owed only $753.97 on the original "arrangement". Specifically, she had paid the initial $11,000.00, plus $5,858.97 ($450.69 X 13 months) = $16,858.97.[11] Nevertheless, the second "Stipulation of Payment Arrangement" presented to Ms. Gonzalez in October, 2005 required her to pay $10,858.18. Pa98-102. Because Wilshire had stopped accepting payments, Ms. Gonzalez now owed four months of mortgage payments, plus the October, 2005 payment which would become due on the 20th of the month ($699.31 x 5 months = $3,496.55). DPa25. All together, this is $4,250.42. Even including a late fee for each and every month of the repayment period (@ $34.97 x 17 (May 2004 - October 2005) = $594.49), she only would have owed $4,844.91. While the trial court made a

[11] A close inspection of the records reveals that both the appellants and the court miscalculated the amount due. Even Ms. Gonzalez's calculation of the amount due is generous to the appellants. The trial court concluded that she had paid a total of $24,800, which was $12,911.73 over and above her regular monthly principal and interest payments. DPa26.

factual finding that Ms. Gonzalez' total arrears at that time were $6,461.89, it is not clear how it arrived at that figure. DPa26. Thus the $10,858.18 demanded in the October 2005 repayment agreement was at least $4,000.00 more than Ms. Gonzalez actually owed.

After signing the October 2005 agreement Ms. Gonzalez overpaid: she paid $2,200.00 up front, reducing the balance appellants claimed due to $8,658.18. Pa98-103 Note Agreement dates: 11/20/05-10/20/06. She then paid $1,000.00 per month for almost two years (presumably $300.69 over her regular payment, although, identical to the first "arrangement," this second "arrangement" is not specific). Pa184-185.

Nevertheless, even when Ms. Gonzalez had paid more than the agreed upon amount, U.S. Bank still did not dismiss the foreclosure action, or even reduce the amount of the judgment. Instead, it threatened to proceed with sheriff's sale unless Ms. Gonzalez entered into a third repayment arrangement -- despite that Ms. Gonzalez had paid nearly $43,000 since the entry of the judgment (i.e., over half the judgment). In fact, after Ms. Gonzalez paid more than she owed, instead of dismissal or vacation of the judgment and writ of execution, Ms. Gonzalez received a letter from counsel for the appellants informing her that it was adjourning a sheriff's sale of her property to October 4, 2006. Pa 305. Then, Ms. Gonzalez received a letter

dated October 16, 2006 instructing her to contact Wilshire because the payment agreement was about to "expire" and she would have to enter a new one. Pa308. At this point, Ms. Gonzalez went back to Central Jersey Legal Services (CJLS) and her counsel learned for the first time what had been going on since the first stipulation of payment was entered in September 2004. CJLS wrote a letter advising the appellants that Ms. Gonzalez had in fact overpaid and they should enter a stipulation of dismissal. Pa306.

Unable to reach any agreement through CJLS's efforts, present counsel accepted Ms. Gonzalez' case on a referral from CJLS and brought a single count complaint alleging a violation of the Consumer Fraud Act.

Discovery was conducted in the consumer fraud action concerning the source and amount of the charges that the appellants sought under the October agreement. In response to Ms. Gonzalez' discovery requests appellants issued three sets of responses, each containing a different, conflicting attempt to explain the amount claimed due.[12] The best that can be said of

[12] Significantly, only through litigation does Ms. Gonzalez ever manage to get a breakdown of the amount claimed due, first when her counsel raises the issue of the missing notice of intention to foreclose in defense of foreclosure, and now in discovery in her CFA action. Had Ms. Gonzalez been unrepresented - like 94% of foreclosure defendants - she never would have received any breakdown at all.

the fees is that they largely appear to fall into these categories:

1. Legal Fees: somewhere between $7800 and $9000. Some of the fees appear to have been incurred prior to the initial payment agreement. Others are alleged to have been incurred after the initial repayment agreement, even though no legal work was performed during that time period.

2. Force placed insurance: $3,346.48. Because Ms. Gonzalez consistently maintained insurance on the property at all times and properly produced proof of same, these fees should not have been incurred at all.

3. Repeated property inspections and BPOs, and an Environmental Engineering Survey.

4. Sheriff's commission. No sheriff's commission was actually incurred because the property was not sold at sheriff's sale. Pa218-235; 238-24; 245-246.

Separate and apart from the amounts claimed due, the repayment arrangements - which were at best contracts of adhesion -- contain egregious terms.

1. The arrangements self-perpetuate. At best, they are poorly drafted and have unfathomable accounting. It is impossible to ascertain how payments are to be applied and when the account will be current. A late fee may be charged for every month until the loan is brought current. Because there is no breakdown, it is not clear whether the monthly payment includes the late charge.

2. The foreclosure judgment is not vacated or even reduced or credited with the payments and the foreclosure complaint is not dismissed. The Sheriff's sale is merely postponed on a month to month basis. Pa101 ¶ 14.

3. They require Ms. Gonzalez to waive all defenses.

4. They discourage Ms. Gonzalez from seeking the protection of the bankruptcy court. Pa101 ¶ 15

5. They require Ms. Gonzalez to waive the bankruptcy automatic stay: poa101 ¶ 16

6. They contain false statements. For example, they state they are "specifically negotiated," even though they weren't.

After extensive discovery the parties each brought simultaneous motions for summary judgment. The trial judge granted the appellants motion for summary judgment holding that there is no cause of action because the Consumer Fraud Act did not apply to mortgages or settlement agreements. The Appellate Division reversed the trial court's decision, and appellants were granted certification.

ARGUMENT

POINT I

THE CONSUMER FRAUD ACT APPLIES TO THE "SUBSEQUENT PERFORMANCE" OF CONSUMER CONTRACTS, WHICH IN AGREEMENTS FOR CONTINUING PAYMENTS SUCH AS MORTGAGES NECESSARILY INCLUDES ACCOUNTING AND COLLECTION ACTIVITIES (COMMONLY KNOWN AS MORTGAGE SERVICING), AND REACHES CONDUCT SUCH AS THE MISAPPLICATION OF PAYMENTS, IMPOSITION OF FICTITIOUS FEES, MISREPRESENTATIONS OF AMOUNTS DUE AND INFLATION OF THE SECURED OBLIGATION UNDER THREAT OF FORECLOSURE.

If the lender did not sub-contract out its accounting and collection activities, there could be no question that (1) its accounting and collection activities constitute the subsequent performance of its agreement under the note and mortgage, and (2) its conduct in administering the account here is egregious

and violates the Consumer Fraud Act. These same actions do not somehow travel out of the CFA's ambit merely because the lender has assigned its obligations under the contract to another entity.

Assignment of the subsequent performance of the contract to another party does not absolve the assignee of the contracted-for responsibilities of liability for its own unconscionable conduct. This was exactly the holding of the Appellate Division in Jefferson Loan v. Session, 397 N.J. Super. 520 (App. Div. 2008) aff'd. In Jefferson Loan, the primary question presented on appeal was whether an assignee of a Retail Installment Sales Contract (RISC) can be held liable under the CFA for the assignee's own unconscionable commercial practices related to the assignee's collection and repossession activities. Id. at 525. The Appellate Division concluded that that the assignee's conduct was its "subsequent performance" of the RISC, and subject to the Consumer Fraud Act. Id. at 539

Like a mortgage, a RISC is a financing agreement. Exactly as in the case at bar, in Jefferson Loan the original creditor on the RISC assigned its rights and responsibilities under the contract to another entity. That entity acted in a commercially unreasonable manner with regard to its collection and repossession activities. Id. at 543. This matter involves virtually identical claims concerning unconscionable activities

by the party who contracted for the right to enforce the financing agreement.

Significantly for the case at bar, the appellant in Jefferson Loan v. Session, supra, was Rubena Grandberry - a co-signor of the RISC and not the purchaser of the vehicle. Jefferson Loan at 526. Nevertheless, there was no question that Ms. Grandberry was a consumer protected by the New Jersey Consumer Fraud Act. Id. at 539.

Ms. Gonzalez is a person covered under the CFA because she is a person who suffered an ascertainable loss related to an extension of credit secured by a mortgage. That she did not execute the note underlying the mortgage is immaterial to her status as a person protected by the act.[13] Appellants' distinction between an obligor on a note and a mortgagor on a mortgage in this regard is without merit. First, and most important, by executing the mortgage, Ms. Gonzalez pledged her interest in the house as security for the debt. Presumably, the originator would not have agreed to extend credit and the transaction would not have taken place but for her agreement to do so. It cannot seriously be contended that Ms. Gonzalez's

[13] The fact that she is not on the note is indicative of consumer fraud in the origination of the loan. Why Ms. Gonzalez is not on the note is not part of this record. Often securitized trusts manipulate who the borrower is to improve the average credit score and make the pool more attractive. This is of absolutely no benefit to the borrowers where the loan is less than the value of the house.

agreement to subject her house to foreclosure if the note is not paid (including fees and extra charges not provided for in the note but allowed by the terms of the mortgage and which form an additional encumbrance against the property somehow does not constitute a consumer relationship.

Second, it is the mortgage agreement between the parties, not the note, that permits the mortgagee (a) to foreclose upon default and (b) to charge certain property preservation fees. The validity of these very fees and the legitimacy of using the threat of foreclosure to extort payment even where the fees imposed are unjustifiable are the central issues in this litigation.

A review of the note demonstrates that other than principal, interest (at a very high rate of 11.25%) and late charges, the note does not permit the mortgagee to impose any other fees.[14] (65z - 66a)

The right to collect other fees derives from the mortgage, not the note. The mortgage permits the mortgagee to expend sums necessary to protect the value of the property and the mortgagee's right to the property (67a - 72a). Specifically, paragraph 7 of the mortgage provides:

---

[14] Payments are due on the third day of the month. A late fee of 5% of the overdue payment becomes due if paid more than fifteen days from the due date. It is not clear from the record whether this term was properly implemented.

> 7. Protection of Lender's Rights in the Property. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, or condemnation or forfeiture or to enforce laws or regulations), then Lender may do and pay for whatever is **necessary to protect the value of the Property** and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.
>
> Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

(emphasis added).

The conduct of the appellants in charging fees beyond those permitted by this paragraph of the mortgage causes direct harm to Ms. Gonzalez as a mortgagor in two ways: (1) it increases the likelihood of foreclosure and the loss of her home, and (2) it dissipates her equity in the property - surplus equity that she would have been entitled to if the property were sold at sheriff's sale. As such, the lender's conduct in the

performance of the mortgage agreement - to which Ms. Gonzalez is a party -- has a direct affect on both the disposition of her home and her financial interest in the property completely independent of whether she signed the note.

POINT II

THE CFA APPLIES TO THE REPAYMENT ARRANGEMENTS AT ISSUE HERE BECAUSE ALTERNATIVELY THEY ARE PART AND PARCEL OF THE SUBSEQUENT PERFORMANCE OF THE MORTGAGE; THEY ARE OFFERED TO THE PUBLIC AND OTHERWISE MEET THE REQUIREMENTS OF THE CFA; OR THEY ARE NOT TRUE SETTLEMENT AGREEMENTS

The Consumer Fraud Act prohibits abusive practices employed "in connection with the sale or advertisement of any **merchandise** or real estate or with the **subsequent performance** of such person aforesaid. . . ." N.J.S.A. 56:8-2 (emphasis added). The Consumer Fraud Act applies to sales of merchandise. "Merchandise" is defined as:

> any objects, wares, goods, commodities, services or anything **offered, directly or indirectly to the public** for sale.

(emphasis added). As set forth below, settlement agreements in the consumer credit context -- such as the "repayment arrangements" at issue here -- are always subject to Consumer Fraud Act challenge because they are part and parcel of the subsequent performance of the extension of credit. In this case, the credit extended was secured by a mortgage. The collection of the loan, or the mortgage servicing itself, is a component of

the subsequent performance of the extension of credit. Moreover, these particular "arrangements" also meet the CFA definition of "merchandise" independently, and are thus subject to the CFA on that basis as well. However, where a settlement is not (1) part of the subsequent performance **or** (2) on its own, merchandise offered to the public, the CFA is inapplicable. As such, a ruling in favor of Ms. Gonzales does not jeopardize all settlement agreements generally.

As demonstrated above, appellants' liability arises from the mortgage contract between the parties and its requirements of subsequent performance. Where parties to a consumer contract with an on-going repayment obligation (such as a mortgage) have a dispute with reference to those obligations and agree to settle that dispute, there is no basis to conclude that the settlement agreement eviscerates the preexisting consumer protection. In other words, if the transaction was protected before the settlement, it remains protected through and after settlement.

Unlike the case at bar, settlement agreements typically are new, conclusive agreements between parties with no pre-existing contractual relationship. The "arrangements" here are different. Here, the "arrangements" are based upon and flow from the obligations in the original mortgage. The terms of the "arrangements" here not only reflect, but actually include, the

original terms of the agreement between the parties, such as the payment schedule. Similarly, these "arrangements" reflect a forbearance of a right under an existing CFA-covered agreement in which the lender retains all of the rights it already had; the same property that secured the original obligation continues to secure the modified payment obligation, with the same mortgage recorded against the property. Moreover, these arrangements do not conclude the pre-existing CFA-covered mortgagee-mortgagor relationship.

As such, a decision in favor of Ms. Gonzalez that the CFA covers abusive mortgage servicing even after foreclosure is started will not impede true and fair settlements and repayment agreements in the mortgage foreclosure context. This is so because the obligation and potential for liability already exists in the underlying agreement. To the contrary, a ruling in favor or Ms. Gonzalez will have the beneficial effect of deterring overreaching in mortgage settlements and therefore it will enable homeowners to pay their just debts and remain in their homes.

A second basis for Consumer Fraud Act protection exists where the "arrangement" itself is made available to the general public.

In the instant matter, the record demonstrates that the repayment arrangements are standard forms - at best, contracts

of adhesion drafted by the appellants - that on their face are intended to be used repeatedly. It is apparent that the "arrangements" are offered in substantially similar form to numerous counterparties and are thus themselves "offered, directly or indirectly to the public." Moreover, here, Wilshire contacted Ms. Gonzalez directly (despite that she was represented) and offered her these repeated "arrangements" through their mass loss mitigation facilities and using form letters. These "arrangements" were thus consumer transactions that are not special or unique to Ms. Gonzalez and are offered to the public.

Moreover, the contents of these "arrangements" are exactly the kind of practices the Consumer Fraud Act was designed to redress. As this Court has noted, "in enacting [the CFA] the legislative concern was over sharp practices and dealings in the marketing of merchandise and real estate whereby the consumer could be victimized by being lured into a purchase through fraudulent, deceptive or other similar kind of selling or advertising practices." Daaleman v. Elizabethtown Gas Co., 77 N.J. 267 (1978).

Here, the practices go beyond "luring" the consumer into the contract; the practices in the case at hand approach extortion. Through deceptive and abusive collection practices, appellants create or exacerbate a default, file a foreclosure

action, and then falsely present their abusive standard form "repayment arrangement" to Ms. Gonzalez as the way to save her home. It is difficult to imagine a factual scenario that better exemplifies the "sharp practices" underlying and motivating the enactment of the CFA.

Accordingly, this Court's recognition of the dire need for consumer protection in the realm of mortgage servicing (including loan modification and forbearance agreements) will not open the floodgates of litigation to CFA challenges to general settlements. This is so because, unlike the circumstances presented in this case, some settlement agreements do not meet the key definitional requirements for CFA applicability: they neither involve the subsequent performance of a pre-existing contract nor are offered to the public.

Appellants wrongly imply that the series of "repayment arrangements" they extracted in this matter are settlements of litigation that should be insulated from CFA liability. The repayment agreements at issue here are forbearance agreements, not true settlements.

It is axiomatic that a settlement is a compromise. See, e.g., Pascarella v. Bruck, 190 N.J. Super. 118 (App. Div. 1983). The "arrangements" at issue do not reflect a compromise. The appellants do not agree to accept less than the amount claimed due in these "arrangements." To the contrary, they require Ms.

Gonzalez to pay the full amount claimed due, and much more. A settlement of litigation "usually involves the payment of money by one party in consideration of the dismissal of a lawsuit by the other party." Thompson v. City of Atlantic City, 190 N.J. 359 (2007). None of the "repayment agreements" here called for dismissal of a lawsuit or satisfaction of the judgment. In fact, even when Ms. Gonzalez paid in excess of the sums demanded appellants did not dismiss the foreclosure action.

Such an "arrangement" is not entitled to the same level of deference as a true settlement agreement.

CONCLUSION

Legal Services of New Jersey respectfully requests permission to participate in this matter as amicus curiae, so that it may address the proper application of the New Jersey Consumer Fraud Act, N.J.S.A. 56:8-1 et seq., to claims of deceptive and unconscionable residential mortgage servicing. For the foregoing reasons, to be supplemented upon permission of the Court at oral argument, the decision of the Appellate Division finding the CFA applicable to such claims should be affirmed.

Respectfully submitted,
LEGAL SERVICES OF NEW JERSEY

By: _____
Rebecca Schore

Date: January 11, 2011

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STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

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STATE: CT
ZIP: 06830
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SERIAL COMPANY:

COMPANY DATA:
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CENTRAL INDEX KEY: 0001037678
STANDARD INDUSTRIAL CLASSIFICATION: ASSET-BACKED SECURITIES [6189]
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FISCAL YEAR END: 1231

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PROSPECTUS SUPPLEMENT
(To Prospectus dated April 4, 1997)

CITYSCAPE HOME EQUITY LOAN TRUST, SERIES 1997-B

$27,200,000	CLASS A-1	7.13%	PASS-THROUGH RATE
$24,200,000	CLASS A-2	6.95%	PASS-THROUGH RATE
$30,950,000	CLASS A-3	7.02%	PASS-THROUGH RATE
$18,350,000	CLASS A-4	7.16%	PASS-THROUGH RATE
$19,550,000	CLASS A-5	7.48%	PASS-THROUGH RATE
$11,550,000	CLASS A-6	7.91%	PASS-THROUGH RATE
$11,750,000	CLASS A-7	7.41%	PASS-THROUGH RATE
$25,469,000	CLASS A-8	VARIABLE	PASS-THROUGH RATE

$7,425,000	CLASS M-1F	7.73% PASS-THROUGH RATE
$8,250,000	CLASS M-2F	7.95% PASS-THROUGH RATE
$3,010,000	CLASS M-1A	VARIABLE PASS-THROUGH RATE
$1,872,000	CLASS M-2A	VARIABLE PASS-THROUGH RATE
$5,775,000	CLASS B-1F	8.28% PASS-THROUGH RATE
$2,196,812	CLASS B-1A	VARIABLE PASS-THROUGH RATE

Home Equity Loan Pass-Through Certificates
Distributions payable on the 25th day of each month, commencing in April 1997

FINANCIAL ASSET SECURITIES CORP.
Depositor

CITYSCAPE CORP.
Seller and Servicer

The Cityscape Home Equity Loan Trust, Series 1997-B Certificates consist of (i) the Class A-1 Certificates, Class A-2 Certificates, Class A-3 Certificates, Class A-4 Certificates, Class A-5 Certificates, Class A-6 Certificates and Class A-7 Certificates (collectively, the "Group I Senior Certificates"), (ii) the Class A-8 Certificates (the "Group II Senior Certificates"), (iii) the Class M-1F Certificates and the Class M-2F Certificates (collectively, the "Group I Mezzanine Certificates"), (iv) the Class M-1A Certificates and the Class M-2A Certificates (collectively, the "Group II Mezzanine Certificates"), (v) the Class B-1F Certificates (the "Group I Subordinate Certificates" and, together with the Group I Senior Certificates and the Group I Mezzanine Certificates, the "Group I Certificates"), (vi) the Class B-1A Certificates (the "Group II Subordinate Certificates" and, together with the Group II Senior Certificates and the Group II Mezzanine Certificates, the "Group II Certificates") and (vii) the Class R Certificates (the "Residual Certificates"). The Group I and Group II Senior Certificates are collectively referred to herein as the "Senior Certificates," the Group I and Group II Mezzanine Certificates are collectively referred to herein as the "Mezzanine Certificates," and the Group I and Group II Subordinate Certificates are collectively referred to herein as the "Subordinate Certificates." The Group I and Group II Certificates (collectively, the "Offered Certificates") and the Residual Certificates are collectively referred to herein as the "Certificates." Only the Offered Certificates are offered hereby.

(Continued on the following page)

FOR A DISCUSSION OF CERTAIN RISKS ASSOCIATED WITH AN INVESTMENT IN THE OFFERED CERTIFICATES, SEE THE INFORMATION UNDER "RISK FACTORS" ON PAGE S-15 HEREIN AND IN THE PROSPECTUS ON PAGE 11.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

GREENWICH CAPITAL
MARKETS, INC.

April 7, 1997

(continued from the preceding page)

The Certificates represent in the aggregate the entire beneficial ownership interest in a trust fund (the "Trust Fund") created pursuant to a Pooling and Servicing Agreement, dated as of March 14, 1997 (the "Pooling and Servicing Agreement"), among the Depositor, Cityscape Corp. ("Cityscape"), as seller and servicer (in such capacities, the "Seller" and the "Servicer,"

PAGES 3 TO 34 OMITTED

THE POOLING AND SERVICING AGREEMENT

ASSIGNMENT OF THE MORTGAGE LOANS

On the Closing Date, the Seller transferred ownership of the Initial Mortgage Loans to the Depositor. Immediately after such transfer, pursuant to the Pooling and Servicing Agreement, the Depositor sold, transferred, assigned, set over and otherwise conveyed without recourse to the Trustee in trust for the benefit of the holders of the Certificates all right, title and interest of the Depositor in and to each such Initial Mortgage Loan and all right, title and interest in and to all other assets included in the Trust Fund, including all principal collected by the Servicer with respect to such Mortgage Loans after the Initial Cut-Off Date (to the extent not applied in computing the Initial Cut-Off Date Principal Balance) and interest payments due after the Initial Cut-Off Date. On each Subsequent Transfer Date, the Seller will transfer ownership to the related Group I Subsequent Mortgage Loans to the Trustee in trust for the benefit of the holders of the Certificates, including all principal collected by the Servicer with respect to each such Group I Subsequent Mortgage Loan after the related Cut-Off Date (to the extent not applied in computing the related Cut-Off Date Principal Balance) and interest payments due after such Cut-Off Date.

In connection with such transfer and assignment, on the Closing Date the Depositor delivered, or caused to be delivered, the following documents (collectively constituting the "Trustee's Mortgage File") to the Trustee with respect to each Mortgage Loan: (i) the original Mortgage Note, endorsed in blank or to the order of the Trustee, with all prior and intervening endorsements showing a complete chain of endorsement from the originator of the Mortgage Loan to Cityscape; (ii) the original Mortgage with evidence of recording thereon (or, if the original Mortgage has not been returned from the applicable public recording office or is not otherwise available, a copy of the Mortgage certified by a Responsible Officer of Cityscape or by the closing attorney or by an officer of the title insurer or agent of the title insurer which issued the related title insurance policy or commitment therefor to be a true and complete copy of the original Mortgage submitted for recording); (iii) the original executed assignment of the Mortgage executed by Cityscape to the Trustee or in blank, acceptable for recording except with respect to any currently unavailable information; (iv) the original assignment and any intervening assignments of the Mortgage, showing a complete chain of assignment from the originator of the Mortgage Loan to Cityscape (or, if any such assignment has not been returned from the applicable public recording office or is not otherwise available, a copy of such assignment certified by a Responsible Officer of Cityscape or by the closing attorney or by an officer of the title insurer or agent of the title insurer which issued the related title insurance policy or commitment therefor to be a true and complete copy of such assignment submitted for recording); (v) the original, or a copy certified by Cityscape or the originator of the Mortgage Loan to be a true and complete copy of the original, of each assumption, modification, written assurance or substitution agreement, if any; (vi) an original, or a copy certified by Cityscape to be a true and complete copy of the original, of a lender's title insurance policy, or if a lender's title policy has not been issued as of the Closing Date a marked-up commitment (binder) (including any marked additions thereto or deletions therefrom) to issue such policy; (vii) either an original hazard insurance policy, a certificate of insurance issued by the related insurer or its agent as to such policy or an officer's certificate of Cityscape certifying that a hazard insurance policy is in effect as to the Mortgaged Property (in which case such officer's certificate shall be accompanied by a copy of such hazard insurance policy); and (viii) if required, either a flood insurance policy or a certificate of insurance issued by the related insurer or its agent as to such policy.

On each Subsequent Closing Date, the Depositor will deliver, or cause to be delivered, the Trustee's Mortgage File to the Trustee with respect to each Group I Subsequent Mortgage Loan to be conveyed to the Trustee on such date.

The Trustee reviewed the Mortgage Loan documents relating to the Initial Mortgage Loans on or prior to the Closing Date and will review the Mortgage Loans relating to the Group I Subsequent Mortgage Loans on or prior to the Subsequent Transfer Date, and will hold such documents in trust for the benefit of the holders of the Certificates. After the Closing Date, if any document is found to be missing or defective in any material respect, the Trustee is required to notify the Servicer, Cityscape and the Depositor in writing. If Cityscape cannot or does not cure such omission or defect within 90 days of its receipt of notice from the Trustee, Cityscape is required to repurchase the related Mortgage Loan from the Trust Fund at a price (the "Purchase Price") equal to 100% of the Loan Balance thereof plus accrued and unpaid interest thereon, calculated at a rate equal to the difference between the Mortgage Rate and the Servicing Fee Rate (the "Net Mortgage Rate") (or,

if Cityscape is no longer the Servicer, at the applicable Mortgage Rate) through the day before the Due Date in the calendar month in which such purchase occurs. Rather than repurchase the Mortgage Loan as provided above, Cityscape may remove such Mortgage Loan (a "Deleted Mortgage Loan") from the Trust Fund and substitute in its place another Mortgage Loan of like kind (a "Replacement Mortgage Loan"); however, such substitution is permitted only within two years after the Closing Date, and may not be made unless an opinion of counsel is provided to the effect that such substitution would not disqualify the Trust Fund as a REMIC or result in a prohibited transaction tax under the Code. Any Replacement Mortgage Loan generally will, on the date of substitution, among other characteristics set forth in the Pooling and Servicing Agreement, (i) have a Loan Balance, after deduction of the principal portion of the scheduled payment due in the month of substitution, not in excess of, and not substantially less than the Loan Balance of the Deleted Mortgage Loan (the amount of any shortfall to be deposited by Cityscape in the Collection Account not later than the succeeding Determination Date and held for distribution to the holders of the Certificates on the related Distribution Date), (ii) have a Mortgage Rate not less than (and not more than one percentage point greater than) the Mortgage Rate of the Deleted Mortgage Loan, (iii) have a Combined Loan-to-Value Ratio not higher than that of the Deleted Mortgage Loan, (iv) have a remaining term to maturity not greater than (and not more than one year less than) that of the Deleted Mortgage Loan, (v) have the same or lower credit risk, as measured by credit risk category under Cityscape underwriting guidelines and (vi) comply with all of the representations and warranties set forth in the Pooling and Servicing Agreement as of the date of substitution. This cure, repurchase or substitution obligation constitutes the sole remedy available to the holders of the Offered Certificates or the Trustee for omission of, or a material defect in, a Mortgage Loan document.

SERVICING COMPENSATION AND PAYMENT OF EXPENSES

The Servicer will be paid a monthly fee from interest collected with respect to each Mortgage Loan (as well as from any liquidation proceeds from a Liquidated Mortgage Loan that are applied to accrued and unpaid interest) equal to one-twelfth of the Loan Balance thereof multiplied by the Servicing Fee Rate (such product, the "Servicing Fee"). The Servicing Fee Rate for each Mortgage Loan will equal 0.50% per annum. The amount of the monthly Servicing Fee is subject to adjustment with respect to prepaid Mortgage Loans, as described herein under "--Adjustment to Servicing Fee in Connection with Certain Prepaid Mortgage Loans." The Servicer is also entitled to receive, as additional servicing compensation, amounts in respect of all late payment fees, assumption fees, prepayment penalties and other similar charges and all reinvestment income earned on amounts on deposit in the Collection Account, the Certificate Account and the Distribution Account. The Servicer is obligated to pay certain ongoing expenses associated with the Mortgage Loans and incurred by the Trustee in connection with its responsibilities under the Pooling and Servicing Agreement.

ADJUSTMENT TO SERVICING FEE IN CONNECTION WITH CERTAIN PREPAID MORTGAGE LOANS

When a borrower prepays all or a portion of a Mortgage Loan between scheduled monthly payment dates ("Due Dates"), the borrower pays interest on the amount prepaid only to the date of prepayment. In order to mitigate the effect of any such shortfall in interest distributions to holders of the Offered Certificates on any Distribution Date (a "Prepayment Interest Shortfall"), the amount of the Servicing Fee otherwise payable to the Servicer for such month shall, to the extent of such shortfall, be deposited by the Servicer in the Collection Account for distribution to holders of the Offered Certificates on such Distribution Date. However, any such reduction in the Servicing Fee will be made only to the extent of the Servicing Fee otherwise payable to the Servicer with respect to payments on the Mortgage Loans received during the Due Period to which such Distribution Date relates. Any such deposit by the Servicer will be reflected in the distributions to holders of the Offered Certificates made on the Distribution Date on which the Principal Prepayment received would be distributed. See "Description of the Certificates--Example of Distributions" herein.

ADVANCES

Subject to the following limitations, on the fifth business day prior to each Distribution Date (such fifth business day, the "Servicer Remittance Date"), the Servicer will in general be required to advance its own funds, or funds in the Collection Account that constitute amounts held for future distribution, in an amount equal to the amount necessary to make the amount then on deposit in the Collection Account with respect to interest collections received on the Mortgage Loans of each Mortgage Loan Group that were due during the immediately preceding Due Period equal to the Interest Remittance Amount for such Group with respect to such Due Period, after taking into account all amounts in respect of Prepayment Interest Shortfalls paid by the Servicer as described in the preceding paragraph (any

such advance, an "Advance").

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

DESCRIPTION OF THE CERTIFICATES

GENERAL

The Offered Certificates were issued pursuant to a Pooling and Servicing Agreement, dated as of March 14, 1997 (the "Pooling and Servicing Agreement"), among the Depositor, the Seller, the Servicer and the Trustee. Set forth below are summaries of the specific terms and provisions pursuant to which the Offered Certificates will be issued. 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 and Servicing Agreement. When particular provisions or terms used in the Pooling and Servicing Agreement are referred to, the actual provisions (including definitions of terms) are incorporated by reference.

Cityscape Home Equity Loan Trust, Series 1997-B will consist of the Class A-1 Certificates, Class A-2 Certificates, Class A-3 Certificates, Class A-4 Certificates, Class A-5 Certificates, Class A-6 Certificates and Class A-7 Certificates (the "Group I Senior Certificates"), (ii) the Class A-8 Certificates (the "Group II Senior Certificates"), (iii) the Class M-1F Certificates and the Class M-2F Certificates (the "Group I Mezzanine Certificates"), (iv) the Class M-1A Certificates and the Class M-2A Certificates (the "Group II Mezzanine Certificates"), (v) the Class B-1F Certificates (the "Group I Subordinate Certificates" and, together with the Group I Senior Certificates and the Group I Mezzanine Certificates, the "Group I Certificates"), (vi) the Class B-1A Certificates (the "Group II Subordinate Certificates" and, together with the Group II Senior Certificates and the Group II Mezzanine Certificates, the "Group II Certificates") and (vii) the Class R Certificates (the "Residual Certificates"), which do not have a principal balance and will evidence a residual interest in the Trust Fund. The Group I and Group II Certificates (collectively, the "Offered Certificates") and the Residual Certificates are collectively referred to herein as the "Certificates." Only the Offered Certificates are offered hereby.

The Class A-1, Class A-2, Class A-3, Class A-4, Class A-5, Class A-6, Class A-7, Class A-8, Class M-1F, Class M-2F, Class M-1A, Class M-2A, Class B-1F and Class B-1A Certificates will have Original Certificate Principal Balances specified on the cover hereof and, together with the Residual Certificates, will evidence the entire beneficial ownership interest in the Trust Fund. The aggregate of the Original Certificate Principal Balances of the Offered Certificates is $197,547,812.

The Offered Certificates have been issued in book-entry form as described below. The Offered Certificates will be issued in minimum dollar denominations of $100,000 and integral multiples of $1,000 in excess thereof (except that one certificate of each class may be issued in a denomination which is not an integral multiple thereof). The assumed final maturity dates for the classes of Offered Certificates are the applicable Distribution Dates set forth in the table below:

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Class <S>	Assumed Final Maturity Dates <C>
Class A-1	October 25, 2009
Class A-2	January 25, 2012
Class A-3	January 25, 2012

PAGES 38 TO 107 OMITTED

THE AGREEMENTS

Set forth below is a summary of certain provisions of each Agreement which are not described elsewhere in this Prospectus. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of each Agreement. Where particular provisions or terms used in the Agreements are referred to, such provisions or terms are as specified in the Agreements. Except as otherwise specified, the Agreement described herein contemplates a Trust Fund comprised of Loans. The provisions of an Agreement with respect to a Trust Fund which consists of or includes Private Asset Backed Securities may contain provisions similar to those described herein but will be more fully described in the related Prospectus Supplement.

ASSIGNMENT OF THE TRUST FUND ASSETS

Assignment of the Loans. At the time of issuance of the Securities of a Series, the Depositor will cause the Loans comprising the related Trust Fund to be assigned to the Trustee, together with all principal and interest received by or on behalf of the Depositor on or with respect to such Loans after the Cut-off Date, other than principal and interest due on or before the Cut-off Date and other than any Retained Interest specified in the related Prospectus Supplement. The Trustee will, concurrently with such assignment, deliver the Securities to the Depositor in exchange for the Loans. Each Loan will be identified in a schedule appearing as an exhibit to the related Agreement. Such schedule will include information as to the outstanding principal balance of each Loan after application of payments due on or before the Cut-off Date, as well as information regarding the Loan Rate or APR, the current scheduled monthly payment of principal and interest, the maturity of the Loan, the Combined Loan-to-Value Ratios at origination and certain other information.

Unless otherwise specified in the related Prospectus Supplement, the Depositor will as to each Home Improvement Contract, deliver or cause to be delivered to the Trustee the original Home Improvement Contract and copies of documents and instruments related to each Home Improvement Contract and, other than in the case of unsecured Home Improvement Contracts, the security interest in the Property securing such Home Improvement Contract. In order to give notice of the right, title and interest of Securityholders to the Home Improvement Contracts, the Depositor will cause a UCC-1 financing statement to be executed by the Depositor or the Seller identifying the Trustee as the secured party and identifying all Home Improvement Contracts as collateral. Unless otherwise specified in the related Prospectus Supplement, the Home Improvement Contracts will not be stamped or otherwise marked to reflect their assignment to the Trustee. Therefore, if, through negligence, fraud or otherwise, a subsequent purchaser were able to take physical possession of the Home Improvement Contracts without notice of such assignment, the interest of Securityholders in the Home Improvement Contracts could be defeated. See "Certain Legal Aspects of the Loans--The Home Improvement Contracts."

Unless otherwise specified in the related Prospectus Supplement, the Agreement will require that, within the time period specified therein, the Depositor will also deliver or cause to be delivered to the Trustee (or to the custodian hereinafter referred to) as to each Home Equity Loan, among other things, (i) the mortgage note or contract endorsed without recourse in blank or to the order of the Trustee, (ii) the mortgage, deed of trust or similar instrument (a "Mortgage") with evidence of recording indicated thereon (except for any Mortgage not returned from the public recording office, in which case the Depositor will deliver or cause to be delivered a copy of such Mortgage together with a certificate that the original of such Mortgage was delivered to such recording office), (iii) an assignment of the Mortgage to the Trustee, which assignment will be in recordable form in the case of a Mortgage assignment, and (iv) such other security documents, including those relating to any senior interests in the Property, as may be specified in the related Prospectus Supplement. Unless otherwise specified in the related Prospectus Supplement, the Depositor will promptly cause the assignments of the related Loans to be recorded in the appropriate public office for real property records, except in states in which, in the opinion of counsel acceptable to the Trustee, such recording is not required to protect the Trustee's interest in such Loans against the claim of any subsequent transferee or any successor to or creditor of the Depositor or the originator of such Loans.

The Trustee (or the custodian hereinafter referred to) will review such Loan documents within the time period specified in the related Prospectus Supplement after receipt thereof, and the Trustee will hold such documents in trust for the benefit of the Securityholders. Unless otherwise specified in the related Prospectus Supplement, if any such document is found to be

missing or defective in any material respect, the Trustee (or such custodian) will notify the Master Servicer and the Depositor, and the Master Servicer will notify the related Seller. If the Seller cannot cure the omission or defect within a specified number of days after receipt of such notice (or such other period as may be specified in the related Prospectus Supplement), the Seller will be obligated either (i) to purchase the related Loan from the Trust at the Purchase Price or (ii) to remove such Loan from the Trust Fund and substitute in its place one or more other Loans. There can be no assurance that a Seller will fulfill this purchase or substitution obligation. Although the Master Servicer may be obligated to enforce such obligation to the extent described above under "Loan Program-Representations by Sellers; Repurchases", neither the Master Servicer nor the Depositor will be obligated to purchase or replace such Loan if the Seller defaults on its obligation, unless such breach also constitutes a breach of the representations or warranties of the Master Servicer or the Depositor, as the case may be. Unless otherwise specified in the related Prospectus Supplement, this purchase obligation constitutes the sole remedy available to the Securityholders or the Trustee for omission of, or a material defect in, a constituent document.

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

The Master Servicer will make certain representations and warranties regarding its authority to enter into, and its ability to perform its obligations under, the Agreement. Upon a breach of any such representation of the Master Servicer which materially and adversely affects the interests of the Securityholders in a Loan, the Master Servicer will be obligated either to cure the breach in all material respects or to purchase or replace the Loan at the Purchase Price. Unless otherwise specified in the related Prospectus Supplement, this obligation to cure, purchase or substitute constitutes the sole remedy available to the Securityholders or the Trustee for such a breach of representation by the Master Servicer.

Assignment of Private Asset Backed Securities. The Depositor will cause Private Asset Backed Securities to be registered in the name of the Trustee. The Trustee (or the custodian) will have possession of any certificated Private Asset Backed Securities. Unless otherwise specified in the related Prospectus Supplement, the Trustee will not be in possession of or be assignee of record of any underlying assets for a Private Asset Backed Security. See "The Trust Fund-Private Asset Backed Securities" herein. Each Private Asset Backed Security will be identified in a schedule appearing as an exhibit to the related Agreement which will specify the original principal amount, outstanding principal balance as of the Cut-off Date, annual pass-through rate or interest rate and maturity date and certain other pertinent information for each Private Asset Backed Security conveyed to the Trustee.

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

PAYMENTS ON LOANS; DEPOSITS TO SECURITY ACCOUNT

Each Sub-Servicer servicing a Loan pursuant to a Sub-Servicing Agreement (as defined below under "-Sub-Servicing of Loans") will establish and maintain an account (the "Sub-Servicing Account") which meets the following requirements and is otherwise acceptable to the Master Servicer. A Sub-Servicing Account must be established with a Federal Home Loan Bank or with a depository institution (including the Sub-Servicer itself) whose accounts are insured by either the Bank Insurance Fund (the "BIF") of the FDIC or the Savings Association Insurance Fund (as successor to the Federal Savings and Loan Insurance Corporation ("SAIF")) of the FDIC. If a Sub-Servicing Account is maintained at an institution that is a Federal Home Loan Bank or an FDIC-insured institution and, in either case, the amount on deposit in the Sub-Servicing Account exceeds the FDIC insurance coverage amount, then such excess amount must be remitted to the Master Servicer within one business day of receipt. In addition, the Sub-Servicer must maintain a separate account for escrow and impound funds relating to the Loans. Each Sub-Servicer is required to deposit into its Sub-Servicing Account on a daily basis all amounts described below under "-Sub-Servicing of Loans" that are received by it in respect of the Loans, less its servicing or other compensation. On or before the date specified in the Sub-Servicing Agreement, the Sub-Servicer will remit or cause to be remitted to the Master Servicer or the Trustee all funds held in the Sub-Servicing Account with respect to Loans that are required to be so remitted. The Sub-Servicer may also be required to advance on the scheduled date of remittance an amount corresponding to any monthly installment of interest and/or principal, less its servicing or other compensation, on any Loan for which payment was not received from the mortgagor. Unless otherwise specified in the related Prospectus Supplement,

any such obligation of the Sub-Servicer to advance will continue up to and including the first of the month following the date on which the related Property is sold at a foreclosure sale or is acquired on behalf of the Securityholders by deed in lieu of foreclosure, or until the related Loan is liquidated.

The Master Servicer will establish and maintain or cause to be established and maintained with respect to the related Trust Fund a separate account or accounts for the collection of payments on the related Trust Fund Assets in the Trust Fund (the "Security Account") must be either (i) maintained with a depository institution the debt obligations of which (or in the case of a depository institution that is the principal subsidiary of a holding company, the obligations of which) are rated in one of the two highest rating categories by the Rating Agency or Rating Agencies that rated one or more classes of the related Series of Securities, (ii) an account or accounts the deposits in which are fully insured by either the BIF or SAIF, (iii) an account or accounts the deposits in which are insured by the BIF or SAIF (to the limits established by the FDIC), and the uninsured deposits in which are otherwise secured such that, as evidenced by an opinion of counsel, the Securityholders have a claim with respect to the funds in the Security Account or a perfected first priority security interest against any collateral securing such funds that is superior to the claims of any other depositors or general creditors of the depository institution with which the Security Account is maintained, or (iv) an account or accounts otherwise acceptable to each Rating Agency. The collateral eligible to secure amounts in the Security Account is limited to United States government securities and other high-quality investments ("Permitted Investments"). A Security Account may be maintained as an interest bearing account or the funds held therein may be invested pending each succeeding Distribution Date in Permitted Investments. Unless otherwise specified in the related Prospectus Supplement, the Master Servicer or its designee will be entitled to receive any such interest or other income earned on funds in the Security Account as additional compensation and will be obligated to deposit in the Security Account the amount of any loss immediately as realized. The Security Account may be maintained with the Master Servicer or with a depository institution that is an affiliate of the Master Servicer, provided it meets the standards set forth above.

The Master Servicer will deposit or cause to be deposited in the Security Account for each Trust Fund on a daily basis, to the extent applicable and provided in the Agreement, the following payments and collections received or advances made by or on behalf of it subsequent to the Cut-off Date (other than payments due on or before the Cut-off Date and exclusive of any amounts representing Retained Interest):

(i) all payments on account of principal, including Principal Prepayments and any applicable prepayment penalties, on the Loans;

(ii) all payments on account of interest on the Loans, net of applicable servicing compensation;

(iii) all proceeds (net of unreimbursed payments of property taxes, insurance premiums and similar items ("Insured Expenses") incurred, and unreimbursed advances made, by the related Sub-Servicer, if any) of the hazard insurance policies and any Primary Mortgage Insurance Policies, to the extent such proceeds are not applied to the restoration of the property or released to the Mortgagor in accordance with the Master Servicer's normal servicing procedures (collectively, "Insurance Proceeds") and all other cash amounts (net of unreimbursed expenses incurred in connection with liquidation or foreclosure ("Liquidation Expenses") and unreimbursed advances made, by the related Sub-Servicer, if any) received and retained in connection with the liquidation of defaulted Loans, by foreclosure or otherwise ("Liquidation Proceeds"), together with any net proceeds received on a monthly basis with respect to any properties acquired on behalf of the Securityholders by foreclosure or deed in lieu of foreclosure;

(iv) all proceeds of any Loan or property in respect thereof purchased by the Master Servicer, the Depositor, any Sub-Servicer or any Seller as described under "Loan Program-Representations by Sellers; Repurchases" or "-Assignment of Trust Fund Assets" above and all proceeds of any Loan repurchased as described under "-Termination; Optional Termination" below;

(v) all payments required to be deposited in the Security Account with respect to any deductible clause in any

blanket insurance policy described under "-Hazard Insurance" below;

(vi) any amount required to be deposited by the Master Servicer in connection with losses realized on investments for the benefit of the

Master Servicer of funds held in the Security Account; and

(vii) all other amounts required to be deposited in the Security Account pursuant to the Agreement.

PRE-FUNDING ACCOUNT

If so provided in the related Prospectus Supplement, the Master Servicer will establish and maintain a Pre-Funding Account, in the name of the related Trustee on behalf of the related Securityholders, into which the Depositor will deposit the Pre-Funded Amount on the related Closing Date. The Pre-Funded Amount will not exceed 25% of the initial aggregate principal amount of the Certificates and Notes of the related Series. The Pre-Funded Amount will be used by the related Trustee to purchase Subsequent Loans from the Depositor from time to time during the Funding Period. The Funding Period, if any, for a Trust Fund will begin on the related Closing Date and will end on the date specified in the related Prospectus Supplement, which in no event will be later than the date that is three months after the Closing Date. Any amounts remaining in the Pre-Funding Account at the end of the Funding Period will be distributed to the related Securityholders in the manner and priority specified in the related Prospectus Supplement, as a prepayment of principal of the related Securities.

SUB-SERVICING OF LOANS

Each Seller of a Loan or any other servicing entity may act as the Sub-Servicer for such Loan pursuant to an agreement (each, a "Sub-Servicing Agreement"), which will not contain any terms inconsistent with the related Agreement. While each Sub-Servicing Agreement will be a contract solely between the Master Servicer and the Sub-Servicer, the Agreement pursuant to which a Series of Securities is issued will provide that, if for any reason the Master Servicer for such Series of Securities is no longer the Master Servicer of the related Loans, the Trustee or any successor Master Servicer must recognize the Sub-Servicer's rights and obligations under such Sub-Servicing Agreement.

With the approval of the Master Servicer, a Sub-Servicer may delegate its servicing obligations to third-party servicers, but such Sub-Servicer will remain obligated under the related Sub-Servicing Agreement. Each Sub-Servicer will be required to perform the customary functions of a servicer of mortgage loans. Such functions generally include collecting payments from mortgagors or obligors and remitting such collections to the Master Servicer; maintaining hazard insurance policies as described herein and in any related Prospectus Supplement, and filing and settling claims thereunder, subject in certain cases to the right of the Master Servicer to approve in advance any such settlement; maintaining escrow or impoundment accounts of mortgagors or obligors for payment of taxes, insurance and other items required to be paid by the mortgagor or obligor pursuant to the related Loan; processing assumptions or substitutions, although, the Master Servicer is generally required to exercise due-on-sale clauses to the extent such exercise is permitted by law and would not adversely affect insurance coverage; attempting to cure delinquencies; supervising foreclosures; inspecting and managing Properties under certain circumstances; maintaining accounting records relating to the Loans; and, to the extent specified in the related Prospectus Supplement, maintaining additional insurance policies or credit support instruments and filing and settling claims thereunder. A Sub-Servicer will also be obligated to make advances in respect of delinquent installments of interest and/or principal on Loans, as described more fully above under "-Payments on Loans; Deposits to Security Account", and in respect of certain taxes and insurance premiums not paid on a timely basis by mortgagors or obligors.

As compensation for its servicing duties, each Sub-Servicer will be entitled to a monthly servicing fee (to the extent the scheduled payment on the related Loan has been collected) in the amount set forth in the related Prospectus Supplement. Each Sub-Servicer is also entitled to collect and retain, as part of its servicing compensation, any prepayment or late charges provided in the Mortgage Note or related instruments. Each Sub-Servicer will be reimbursed by the Master Servicer for certain expenditures which it makes, generally to the same extent the Master Servicer would be reimbursed under the Agreement. The Master Servicer may purchase the servicing of Loans if the Sub-Servicer elects to release the servicing of such Loans to the Master Servicer. See "-Servicing and Other Compensation and Payment of Expenses".

Each Sub-Servicer may be required to agree to indemnify the Master Servicer for any liability or obligation sustained by the Master Servicer in connection with any act or failure to act by the Sub-Servicer in its servicing capacity. Each Sub-Servicer will be required to maintain a fidelity bond and an errors and omissions policy with respect to its officers, employees and other persons acting on its behalf or on behalf of the Master Servicer.

Each Sub-Servicer will be required to service each Loan pursuant to the terms of the Sub-Servicing Agreement for the entire term of such Loan, unless the Sub-Servicing Agreement is earlier terminated by the Master Servicer or unless servicing is released to the Master Servicer. The Master Servicer may terminate a Sub-Servicing Agreement without cause, upon written notice to the Sub-Servicer in the manner specified in such Sub-Servicing Agreement.

The Master Servicer may agree with a Sub-Servicer to amend a Sub-Servicing Agreement or, upon termination of the Sub-Servicing Agreement, the Master Servicer may act as servicer of the related Loans or enter into new Sub-Servicing Agreements with other Sub-Servicers. If the Master Servicer acts as servicer, it will not assume liability for the representations and warranties of the Sub-Servicer which it replaces. Each Sub-Servicer must be a Seller or meet the standards for becoming a Seller or have such servicing experience as to be otherwise satisfactory to the Master Servicer and the Depositor. The Master Servicer will make reasonable efforts to have the new Sub-Servicer assume liability for the representations and warranties of the terminated Sub-Servicer, but no assurance can be given that such an assumption will occur. In the event of such an assumption, the Master Servicer may in the exercise of its business judgment release the terminated Sub-Servicer from liability in respect of such representations and warranties. Any amendments to a Sub-Servicing Agreement or new Sub-Servicing Agreements may contain provisions different from those which are in effect in the original Sub-Servicing Agreement. However, each Agreement will provide that any such amendment or new agreement may not be inconsistent with or violate such Agreement.

COLLECTION PROCEDURES

The Master Servicer, directly or through one or more Sub-Servicers, will make reasonable efforts to collect all payments called for under the Loans and will, consistent with each Agreement and any Pool Insurance Policy, Primary Mortgage Insurance Policy, FHA Insurance, VA Guaranty Policy and Bankruptcy Bond or alternative arrangements, follow such collection procedures as are customary with respect to loans that are comparable to the Loans. Consistent with the above, the Master Servicer may, in its discretion, (i) waive any assumption fee, late payment or other charge in connection with a Loan and (ii) to the extent not inconsistent with the coverage of such Loan by a Pool Insurance Policy, Primary Mortgage Insurance Policy, FHA Insurance, VA Guaranty or Bankruptcy Bond or alternative arrangements, if applicable, arrange with a borrower a schedule for the liquidation of delinquencies running for no more than 125 days after the applicable due date for each payment. Both the Sub-Servicer and the Master Servicer may be obligated to make Advances during any period of such an arrangement.

Except as otherwise specified in the related Prospectus Supplement, in any case in which property securing a Loan has been, or is about to be, conveyed by the mortgagor or obligor, the Master Servicer will, to the extent it has knowledge of such conveyance or proposed conveyance, exercise or cause to be exercised its rights to accelerate the maturity of such Loan under any due-on-sale clause applicable thereto, but only if the exercise of such rights is permitted by applicable law. If these conditions are not met or if the Master Servicer reasonably believes it is unable under applicable law to enforce such due-on-sale clause, or the Master Servicer will enter into or cause to be entered into an assumption and modification agreement with the person to whom such property has been or is about to be conveyed, pursuant to which such person becomes liable for repayment of the Loan and, to the extent permitted by applicable law, the mortgagor remains liable thereon. Any fee collected by or on behalf of the Master Servicer for entering into an assumption agreement will be retained by or on behalf of the Master Servicer as additional servicing compensation. See "Certain Legal Aspects of the Loans-Due-on-Sale Clauses". In connection with any such assumption, the terms of the related Loan may not be changed.

HAZARD INSURANCE

Except as otherwise specified in the related Prospectus Supplement, the Master Servicer will require the mortgagor or obligor on each Loan to maintain a hazard insurance policy providing for no less than the coverage of the standard form of fire insurance policy with extended coverage customary for the type of Property in the state in which such Property is located. All amounts collected by the Master Servicer under any hazard policy (except for amounts to be applied to the restoration or repair of the Property or released to the mortgagor or obligor in accordance with the Master Servicer's normal servicing procedures) will be deposited in the related Security Account. In the event that the Master Servicer maintains a blanket policy insuring against hazard losses on all the Loans comprising part of a Trust Fund, it will conclusively be deemed to have satisfied its obligation relating to the maintenance of hazard insurance. Such blanket policy may

contain a deductible clause, in which case the Master Servicer will be required to deposit from its own funds into the related Security Account the amounts which would have been deposited therein but for such clause.

In general, the standard form of fire and extended coverage policy covers physical damage to or destruction of the improvements securing a Loan by fire, lightning, explosion, smoke, windstorm and hail, riot, strike and civil commotion, subject to the conditions and exclusions particularized in each policy. Although the policies relating to the Loans may have been underwritten by different insurers under different state laws in accordance with different applicable forms and therefore may not contain identical terms and conditions, the basic terms thereof are dictated by respective state laws, and most such policies typically do not cover any physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement (including earthquakes, landslides and mud flows), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in certain cases, vandalism. The foregoing list is merely indicative of certain kinds of uninsured risks and is not intended to be all inclusive. If the Property securing a Loan is located in a federally designated special flood area at the time of origination, the Master Servicer will require the mortgagor or obligor to obtain and maintain flood insurance.

The hazard insurance policies covering properties securing the Loans typically contain a clause which in effect requires the insured at all time to carry insurance of a specified percentage of the full replacement value of the insured property in order to recover the full amount of any partial loss. If the insured's coverage falls below this specified percentage, then the insurer's liability in the event of partial loss will not exceed the larger of (i) the actual cash value (generally defined as replacement cost at the time and place of loss, less physical depreciation) of the improvements damaged or destroyed or (ii) such proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of such improvements. Since the amount of hazard insurance the Master Servicer may cause to be maintained on the improvements securing the Loans declines as the principal balances owing thereon decrease, and since improved real estate generally has appreciated in value over time in the past, the effect of this requirement in the event of partial loss may be that hazard insurance proceeds will be insufficient to restore fully the damaged property. If specified in the related Prospectus Supplement, a special hazard insurance policy will be obtained to insure against certain of the uninsured risks described above. See "Credit Enhancement-Special Hazard Insurance Policies".

If the Property securing a defaulted Loan is damaged and proceeds, if any, from the related hazard insurance policy are insufficient to restore the damaged Property, the Master Servicer is not required to expend its own funds to restore the damaged Property unless it determines (i) that such restoration will increase the proceeds to Securityholders on liquidation of the Loan after reimbursement of the Master Servicer for its expenses and (ii) that such expenses will be recoverable by it from related Insurance Proceeds or Liquidation Proceeds.

If recovery on a defaulted Loan under any related Insurance Policy is not available for the reasons set forth in the preceding paragraph, or if the defaulted Loan is not covered by an Insurance Policy, the Master Servicer will be obligated to follow or cause to be followed such normal practices and procedures as it deems necessary or advisable to realize upon the defaulted Loan. If the proceeds of any liquidation of the Property securing the defaulted Loan are less than the principal balance of such Loan plus interest accrued thereon that is payable to Securityholders, the Trust Fund will realize a loss in the amount of such difference plus the aggregate of expenses incurred by the Master Servicer in connection with such proceedings and which are reimbursable under the Agreement. In the unlikely event that any such proceedings result in a total recovery which is, after reimbursement to the Master Servicer of its expenses, in excess of the principal balance of such Loan plus interest accrued thereon that is payable to Securityholders, the Master Servicer will be entitled to withdraw or retain from the Security Account amounts representing its normal servicing compensation with respect to such Loan and, unless otherwise specified in the related Prospectus Supplement, amounts representing the balance of such excess, exclusive of any amount required by law to be forwarded to the related borrower, as additional servicing compensation.

Unless otherwise specified in the related Prospectus Supplement, if the Master Servicer or its designee recovers Insurance Proceeds which, when added to any related Liquidation Proceeds and after deduction of certain expenses reimbursable to the Master Servicer, exceed the principal balance of such Loan plus interest accrued thereon that is payable to Securityholders, the Master Servicer will be entitled to withdraw or retain from the Security Account amounts representing its normal servicing compensation with respect

to such Loan. In the event that the Master Servicer has expended its own funds to restore the damaged Property and such funds have not been reimbursed under the related hazard insurance policy, it will be entitled to withdraw from the Security Account out of related Liquidation Proceeds or Insurance Proceeds in an amount equal to such expenses incurred by it, in which event the Trust Fund may realize a loss up to the amount so charged. Since Insurance Proceeds cannot exceed deficiency claims and certain expenses incurred by the Master Servicer, no such payment or recovery will result in a recovery to the Trust Fund which exceeds the principal balance of the defaulted Loan together with accrued interest thereon. See "Credit Enhancement".

REALIZATION UPON DEFAULTED LOANS

Primary Mortgage Insurance Policies. The Master Servicer will maintain or cause each Sub-Servicer to maintain, as the case may be, in full force and effect, to the extent specified in the related Prospectus Supplement, a Primary Mortgage Insurance Policy with regard to each Loan for which such coverage is required. The Master Servicer will not cancel or refuse to renew any such Primary Mortgage Insurance Policy in effect at the time of the initial issuance of a Series of Securities that is required to be kept in force under the applicable Agreement unless the replacement Primary Mortgage Insurance Policy for such cancelled or nonrenewed policy is maintained with an insurer whose claims-paying ability is sufficient to maintain the current rating of the classes of Securities of such Series that have been rated.

Although the terms and conditions of primary mortgage insurance vary, the amount of a claim for benefits under a Primary Mortgage Insurance Policy covering a Loan will consist of the insured percentage of the unpaid principal amount of the covered Loan and accrued and unpaid interest thereon and reimbursement of certain expenses, less (i) all rents or other payments collected or received by the insured (other than the proceeds of hazard insurance) that are derived from or in any way related to the Property, (ii) hazard insurance proceeds in excess of the amount required to restore the Property and which have not been applied to the payment of the Loan, (iii) amounts expended but not approved by the issuer of the related Primary Mortgage Insurance Policy (the "Primary Insurer"), (iv) claim payments previously made by the Primary Insurer and (v) unpaid premiums.

Primary Mortgage Insurance Policies reimburse certain losses sustained by reason of defaults in payments by borrowers. Primary Mortgage Insurance Policies will not insure against, and exclude from coverage, a loss sustained by reason of a default arising from or involving certain matters, including (i) fraud or negligence in origination or servicing of the Loans, including misrepresentation by the originator, borrower or other persons involved in the origination of the Loans; (ii) failure to construct the Property subject to the Loan in accordance with specified plans; (iii) physical damage to the Property; and (iv) the related Master Servicer or Sub-servicer not being approved as a servicer by the Primary Insurer.

Recoveries Under a Primary Mortgage Insurance Policy. As conditions precedent to the filing of or payment of a claim under a Primary Mortgage Insurance Policy covering a Loan, the insured will be required to (i) advance or discharge (a) all hazard insurance policy premiums and (b) as necessary and approved in advance by the Primary Insurer, (1) real estate property taxes, (2) all expenses required to maintain the related Property in at least as good a condition as existed at the effective date of such Primary Mortgage Insurance Policy, ordinary wear and tear excepted, (3) Property sales expenses, (4) any outstanding liens (as defined in such Primary Mortgage Insurance Policy) on the Property and (5) foreclosure costs, including court costs and reasonable attorneys' fees; (ii) in the event of any physical loss or damage to the Property, to have the Property restored and repaired to at least as good a condition as existed at the effective date of such Primary Mortgage Insurance Policy, ordinary wear and tear excepted; and (iii) tender to the Primary Insurer good and merchantable title to and possession of the Property.

In those cases in which a Loan is serviced by a Sub-Servicer, the Sub-Servicer, on behalf of itself, the Trustee and Securityholders, will present claims to the Primary Insurer, and all collection thereunder will be deposited in the Sub-Servicing Account. In all other cases, the Master Servicer, on behalf of itself, the Trustee and the Securityholders, will present claims to the insurer under each Primary Mortgage Insurance Policy, and will take such reasonable steps as are necessary to receive payment or to permit recovery thereunder with respect to defaulted Loans. As set forth above, all collections by or on behalf of the Master Servicer under any Primary Mortgage Insurance Policy and, when the Property has not been restored, the hazard insurance policy, are to be deposited in the Security Account, subject to withdrawal as heretofore described.

If the Property securing a defaulted Loan is damaged and proceeds, if

any, from the related hazard insurance policy are insufficient to restore the damaged Property to a condition sufficient to permit recovery under the related Primary Mortgage Insurance Policy, if any, the Master Servicer is not required to expend its own funds to restore the damaged Property unless it determines (i) that such restoration will increase the proceeds to Securityholders on liquidation of the Loan after reimbursement of the Master Servicer for its expenses and (ii) that such expenses will be recoverable by it from related Insurance Proceeds or Liquidation Proceeds.

If recovery on a defaulted Loan under any related Primary Mortgage Insurance Policy is not available for the reasons set forth in the preceding paragraph, or if the defaulted Loan is not covered by a Primary Mortgage Insurance Policy, the Master Servicer will be obligated to follow or cause to be followed such normal practices and procedures as it deems necessary or advisable to realize upon the defaulted Loan. If the proceeds of any liquidation of the Property securing the defaulted Loan are less than the principal balance of such Loan plus interest accrued thereon that is payable to Securityholders, the Trust Fund will realize a loss in the amount of such difference plus the aggregate of expenses incurred by the Master Servicer in connection with such proceedings and which are reimbursable under the Agreement. In the unlikely event that any such proceedings result in a total recovery which is, after reimbursement to the Master Servicer of its expenses, in excess of the principal balance of such Loan plus interest accrued thereon that is payable to Securityholders, the Master Servicer will be entitled to withdraw or retain from the Security Account amounts representing its normal servicing compensation with respect to such Loan and, except as otherwise specified in the Prospectus Supplement, amounts representing the balance of such excess, exclusive of any amount required by law to be forwarded to the related borrower, as additional servicing compensation.

SERVICING AND OTHER COMPENSATION AND PAYMENT OF EXPENSES

Unless otherwise specified in the related Prospectus Supplement, the Master Servicer's primary servicing compensation with respect to a Series of Securities will come from the monthly payment to it, out of each interest payment on a Loan, of an amount equal to the percentage per annum specified in the related Prospectus Supplement of the outstanding principal balance thereof. Since the Master Servicer's primary compensation is a percentage of the outstanding principal balance of each Loan, such amounts will decrease as the Loans amortize. In addition to primary compensation, the Master Servicer or the Sub-Servicers may be entitled to retain all assumption fees and late payment charges, to the extent collected from borrowers, and, if so provided in the related Prospectus Supplement, any prepayment penalties and any interest or other income which may be earned on funds held in the Security Account or any Sub-Servicing Account. Unless otherwise specified in the related Prospectus Supplement, any Sub-Servicer will receive a portion of the Master Servicer's primary compensation as its sub-servicing compensation.

In addition to amounts payable to any Sub-Servicer, the Master Servicer will, unless otherwise specified in the related Prospectus Supplement, pay from its servicing compensation certain expenses incurred in connection with its servicing of the Loans, including, without limitation, payment of any premium for any insurance policy, guaranty, surety or other form of credit enhancement as specified in the related Prospectus Supplement, payment of the fees and disbursements of the Trustee and independent accountants, payment of expenses incurred in connection with distributions and reports to Securityholders, and payment of any other expenses described in the related Prospectus Supplement.

EVIDENCE AS TO COMPLIANCE

Each Agreement will provide that on or before a specified date in each year, a firm of independent public accountants will furnish a statement to the Trustee to the effect that, on the basis of the examination by such firm conducted substantially in compliance with the Uniform Single Audit Program for Mortgage Bankers or the Audit Program for Mortgages serviced for FHLMC, the servicing by or on behalf of the Master Servicer of mortgage loans or private asset backed securities, or under pooling and servicing agreements substantially similar to each other (including the related Agreement) was conducted in compliance with such agreements except for any significant exceptions or errors in records that, in the opinion of the firm, the Audit Program for Mortgages serviced for FHLMC, or the Uniform Single Audit Program for Mortgage Bankers, it is required to report. In rendering its statement such firm may rely, as to matters relating to the direct servicing of Loans or Private Asset Backed Securities by Sub-Servicers, upon comparable statements for examinations conducted substantially in compliance with the Uniform Single Audit Program for Mortgage Bankers or the Audit Program for Mortgages serviced for FHLMC (rendered within one year of such statement) of

firms of independent public accountants with respect to the related Sub-Servicer.

Each Agreement will also provide for delivery to the Trustee, on or before a specified date in each year, of an annual statement signed by two officers of the Master Servicer to the effect that the Master Servicer has fulfilled its obligations under the Agreement throughout the preceding year.

Copies of the annual accountants' statement and the statement of officers of the Master Servicer may be obtained by Securityholders of the related Series without charge upon written request to the Master Servicer at the address set forth in the related Prospectus Supplement.

CERTAIN MATTERS REGARDING THE MASTER SERVICER AND THE DEPOSITOR

The Master Servicer under each Agreement will be named in the related Prospectus Supplement. The entity serving as Master Servicer may have normal business relationships with the Depositor or the Depositor's affiliates.

Each Agreement will provide that the Master Servicer may not resign from its obligations and duties under the Agreement except upon a determination that its duties thereunder are no longer permissible under applicable law. The Master Servicer may, however, be removed from its obligations and duties as set forth in the Agreement. No such resignation will become effective until the Trustee or a successor servicer has assumed the Master Servicer's obligations and duties under the Agreement.

Each Agreement will further provide that neither the Master Servicer, the Depositor nor any director, officer, employee, or agent of the Master Servicer or the Depositor will be under any liability to the related Trust Fund or Securityholders for any action taken or for refraining from the taking of any action in good faith pursuant to the Agreement, or for errors in judgment; provided, however, that neither the Master Servicer, the Depositor nor any such person will be protected against any liability which would otherwise be imposed by reason of wilful misfeasance or gross negligence in the performance of duties thereunder or by reasons of reckless disregard of obligations and duties thereunder. To the extent provided in the related Agreement, the Master Servicer, the Depositor and any director, officer, employee or agent of the Master Servicer or the Depositor may be entitled to indemnification by the related Trust Fund and may be held harmless against any loss, liability or expense incurred in connection with any legal action relating to the Agreement or the Securities, other than any loss, liability or expense related to any specific Loan or Loans (except any such loss, liability or expense otherwise reimbursable pursuant to the Agreement) and any loss, liability or expense incurred by reason of willful misfeasance or gross negligence in the performance of duties thereunder or by reason of reckless disregard of obligations and duties thereunder. In addition, each Agreement will provide that neither the Master Servicer nor the Depositor will be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its respective responsibilities under the Agreement and which in its opinion may involve it in any expense or liability. The Master Servicer or the Depositor may, however, in its discretion undertake any such action which it may deem necessary or desirable with respect to the Agreement and the rights and duties of the parties thereto and the interests of the Securityholders thereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom will be expenses, costs and liabilities of the Trust Fund and the Master Servicer or the Depositor, as the case may be, will be entitled to be reimbursed therefor out of funds otherwise distributable to Securityholders.

Except as otherwise specified in the related Prospectus Supplement, any person into which the Master Servicer may be merged or consolidated, or any person resulting from any merger or consolidation to which the Master Servicer is a party, or any person succeeding to the business of the Master Servicer, will be the successor of the Master Servicer under each Agreement.

EVENTS OF DEFAULT; RIGHTS UPON EVENT OF DEFAULT

Pooling and Servicing Agreement; Servicing Agreement. Except as otherwise specified in the related Prospectus Supplement, Events of Default under each Agreement will consist of (i) any failure by the Master Servicer to distribute or cause to be distributed to Securityholders of any class any required payment (other than an Advance) which continues unremedied for five business days after the giving of written notice of such failure to the Master Servicer by the Trustee or the Depositor, or to the Master Servicer, the Depositor and the Trustee by the holders of Securities of such class evidencing not less than 25% of the aggregate Percentage Interests evidenced by such class; (ii) any failure by the Master Servicer to make an Advance as required under the Agreement, unless cured as specified therein; (iii) any failure by the Master Servicer duly to observe or perform in any material respect any of its other covenants or agreements in the Agreement which

continues unremedied for thirty days after the giving of written notice of such failure to the Master Servicer by the Trustee or the Depositor, or to the Master Servicer, the Depositor and the Trustee by the holders of Securities of any class evidencing not less than 25% of the aggregate Percentage Interests constituting such class; and (iv) certain events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceeding and certain actions by or on behalf of the Master Servicer indicating its insolvency, reorganization or inability to pay its obligations.

If specified in the related Prospectus Supplement, the Agreement will permit the Trustee to sell the Trust Fund Assets and the other assets of the Trust Fund in the event that payments in respect thereto are insufficient to make payments required in the Agreement. The assets of the Trust Fund will be sold only under the circumstances and in the manner specified in the related Prospectus Supplement.

So long as an Event of Default under an Agreement remains unremedied, the Depositor or the Trustee may, and at the direction of holders of Securities of any class evidencing not less than 51% of the aggregate Percentage Interests constituting such class and under such other circumstances as may be specified in such Agreement, the Trustee shall, terminate all of its rights and obligations of the Master Servicer under the Agreement relating to such Trust Fund and in and to the Trust Fund Assets, whereupon the Trustee will succeed to all of the responsibilities, duties and liabilities of the Master Servicer under the Agreement, including, if specified in the related Prospectus Supplement, the obligation to make advances, and will be entitled to similar compensation arrangements. In the event that the Trustee is unwilling or unable so to act, it may appoint, or petition a court of competent jurisdiction for the appointment of, a mortgage loan servicing institution with a net worth of a least $10,000,000 to act as successor to the Master Servicer under the Agreement. Pending such appointment, the Trustee is obligated to act in such capacity. The Trustee and any such successor may agree upon the servicing compensation to be paid, which in no event may be greater than the compensation payable to the Master Servicer under the Agreement.

No Securityholder, solely by virtue of such holder's status as a Securityholder, will have any right under any Agreement to institute any proceeding with respect to such Agreement, unless such holder previously has given to the Trustee written notice of default and unless the holders of Securities of any class of such Series evidencing not less than 25% of the aggregate Percentage Interests constituting such class have made written request upon the Trustee to institute such proceeding in its own name as Trustee thereunder and have offered to the Trustee reasonable indemnity, and the Trustee for 60 days has neglected or refused to institute any such proceeding.

Indenture. Except as otherwise specified in the related Prospectus Supplement, Events of Default under the Indenture for each Series of Notes include: (i) a default for thirty (30) days or more in the payment of any principal of or interest on any Note of such Series; (ii) failure to perform any other covenant of the Depositor or the Trust Fund in the Indenture which continues for a period of sixty (60) days after notice thereof is given in accordance with the procedures described in the related Prospectus Supplement; (iii) any representation or warranty made by the Depositor or the Trust Fund in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection therewith with respect to or affecting such Series having been incorrect in a material respect as of the time made, and such breach is not cured within sixty (60) days after notice thereof is given in accordance with the procedures described in the related Prospectus Supplement; (iv) certain events of bankruptcy, insolvency, receivership or liquidation of the Depositor or the Trust Fund; or (v) any other Event of Default provided with respect to Notes of that Series.

If an Event of Default with respect to the Notes of any Series at the time outstanding occurs and is continuing, either the Trustee or the holders of a majority of the then aggregate outstanding amount of the Notes of such Series may declare the principal amount (or, if the Notes of that Series have a Pass-Through Rate of 0%, such portion of the principal amount as may be specified in the terms of that Series, as provided in the related Prospectus Supplement) of all the Notes of such Series to be due and payable immediately. Such declaration may, under certain circumstances, be rescinded and annulled by the holders of more than 50% of the Percentage Interests of the Notes of such Series.

If, following an Event of Default with respect to any Series of Notes, the Notes of such Series have been declared to be due and payable, the Trustee may, in its discretion, notwithstanding such acceleration, elect to maintain possession of the collateral securing the Notes of such Series and to continue to apply distributions on such collateral as if there had been no

declaration of acceleration if such collateral continues to provide sufficient funds for the payment of principal of and interest on the Notes of such Series as they would have become due if there had not been such a declaration. In addition, the Trustee may not sell or otherwise liquidate the collateral securing the Notes of a Series following an Event of Default, other than a default in the payment of any principal or interest on any Note of such Series for thirty (30) days or more, unless (a) the holders of 100% of the Percentage Interests of the Notes of such Series consent to such sale, (b) the proceeds of such sale or liquidation are sufficient to pay in full the principal of and accrued interest, due and unpaid, on the outstanding Notes of such Series at the date of such sale or (c) the Trustee determines that such collateral would not be sufficient on an ongoing basis to make all payments on such Notes as such payments would have become due if such Notes had not been declared due and payable, and the Trustee obtains the consent of the holders of 662/3% of the Percentage Interests of the Notes of such Series.

In the event that the Trustee liquidates the collateral in connection with an Event of Default involving a default for thirty (30) days or more in the payment of principal of or interest on the Notes of a Series, the Indenture provides that the Trustee will have a prior lien on the proceeds of any such liquidation for unpaid fees and expenses. As a result, upon the occurrence of such an Event of Default, the amount available for distribution to the Noteholders would be less than would otherwise be the case. However, the Trustee may not institute a proceeding for the enforcement of its lien except in connection with a proceeding for the enforcement of the lien of the Indenture for the benefit of the Noteholders after the occurrence of such an Event of Default.

Except as otherwise specified in the related Prospectus Supplement, in the event the principal of the Notes of a Series is declared due and payable, as described above, the holders of any such Notes issued at a discount from par may be entitled to receive no more than an amount equal to the unpaid principal amount thereof less the amount of such discount which is unamortized.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing with respect to a Series of Notes, the Trustee shall be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of Notes of such Series, unless such holders offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in complying with such request or direction. Subject to such provisions for indemnification and certain limitations contained in the Indenture, the holders of a majority of the then aggregate outstanding amount of the Notes of such Series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes of such Series, and the holders of a majority of the then aggregate outstanding amount of the Notes of such Series may, in certain cases, waive any default with respect thereto, except a default in the payment of principal or interest or a default in respect of a covenant or provision of the Indenture that cannot be modified without the waiver or consent of all the holders of the outstanding Notes of such Series affected thereby.

AMENDMENT

Except as otherwise specified in the related Prospectus Supplement, each Agreement may be amended by the Depositor, the Master Servicer and the Trustee, without the consent of any of the Securityholders, (i) to cure any ambiguity; (ii) to correct or supplement any provision therein which may be defective or inconsistent with any other provision therein; or (iii) to make any other revisions with respect to matters or questions arising under the Agreement which are not inconsistent with the provisions thereof, provided that such action will not adversely affect in any material respect the interests of any Securityholder. In addition, to the extent provided in the related Agreement, an Agreement may be amended without the consent of any of the Securityholders, to change the manner in which the Security Account is maintained, provided that any such change does not adversely affect the then current rating on the class or classes of Securities of such Series that have been rated. In addition, if a REMIC election is made with respect to a Trust Fund, the related Agreement may be amended to modify, eliminate or add to any of its provisions to such extent as may be necessary to maintain the qualification of the related Trust Fund as a REMIC, provided that the Trustee has received an opinion of counsel to the effect that such action is necessary or helpful to maintain such qualification. Except as otherwise specified in the related Prospectus Supplement, each Agreement may also be amended by the Depositor, the Master Servicer and the Trustee with consent of holders of Securities of such Series evidencing not less than 66% of the

aggregate Percentage Interests of each class affected thereby for the purpose of adding any provisions to or changing in an manner or eliminating any of the provisions of the Agreement or of modifying in any manner the rights of the holders of the related Securities; provided, however, that no such amendment may (i) reduce in any manner the amount of or delay the timing of, payments received on Loans which are required to be distributed on any Security without the consent of the holder of such Security, or (ii) reduce the aforesaid percentage of Securities of any class of holders which are required to consent to any such amendment without the consent of the holders of all Securities of such class covered by such Agreement then outstanding. If a REMIC election is made with respect to a Trust Fund, the Trustee will not be entitled to consent to an amendment to the related Agreement without having first received an opinion of counsel to the effect that such amendment will not cause such Trust Fund to fail to qualify as a REMIC.

TERMINATIONS; OPTIONAL TERMINATION

Pooling and Servicing Agreement; Trust Agreement. Unless otherwise specified in the related Agreement, the obligations created by each Pooling and Servicing Agreement and Trust Agreement for each Series of Securities will terminate upon the payment to the related Securityholders of all amounts held in the Security Account or by the Master Servicer and required to be paid to them pursuant to such Agreement following the later of (i) the final payment of or other liquidation of the last of the Trust Fund Assets subject thereto or the disposition of all property acquired upon foreclosure of any such Trust Fund Assets remaining in the Trust Fund and (ii) the purchase by the Master Servicer or, if REMIC treatment has been elected and if specified in the related Prospectus Supplement, by the holder of the residual interest in the REMIC (see "Certain Material Federal Income Tax Consequences" below), from the related Trust Fund of all of the remaining Trust Fund Assets and all property acquired in respect of such Trust Fund Assets.

Unless otherwise specified by the related Prospectus Supplement, any such purchase of Trust Fund Assets and property acquired in respect of Trust Fund Assets evidenced by a Series of Securities will be made at the option of the Master Servicer or, if applicable, such holder of the REMIC residual interest, at a price, and in accordance with the procedures, specified in the related Prospectus Supplement. The exercise of such right will effect early retirement of the Securities of that Series, but the right of the Master Servicer or, if applicable, such holder of the REMIC residual interest, to so purchase is subject to the principal balance of the related Trust Fund Assets being less than the percentage specified in the related Prospectus Supplement of the aggregate principal balance of the Trust Fund Assets at the Cut-off Date for the Series. The foregoing is subject to the provision that if a REMIC election is made with respect to a Trust Fund, any repurchase pursuant to clause (ii) above will be made only in connection with a "qualified liquidation" of the REMIC within the meaning of Section 860F(g)(4) of the Code.

Indenture. The Indenture will be discharged with respect to a Series of Notes (except with respect to certain continuing rights specified in the Indenture) upon the delivery to the Trustee for cancellation of all the Notes of such Series or, with certain limitations, upon deposit with the Trustee of funds sufficient for the payment in full of all of the Notes of such Series.

In addition to such discharge with certain limitations, the Indenture will provide that, if so specified with respect to the Notes of any Series, the related Trust Fund will be discharged from any and all obligations in respect of the Notes of such Series (except for certain obligations relating to temporary Notes and exchange of Notes, to register the transfer of or exchange Notes of such Series, to replace stolen, lost or mutilated Notes of such Series, to maintain paying agencies and to hold monies for payment in trust) upon the deposit with the Trustee, in trust, of money and/or direct obligations of or obligations guaranteed by the United States of America which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of and each installment of interest on the Notes of such Series on the last scheduled Distribution Date for such Notes and any installment of interest on such Notes in accordance with the terms of the Indenture and the Notes of such Series. In the event of any such defeasance and discharge of Notes of such Series, holders of Notes of such Series would be able to look only to such money and/or direct obligations for payment of principal and interest, if any, on their Notes until maturity.

THE TRUSTEE

The Trustee under each Agreement will be named in the applicable Prospectus Supplement. The commercial bank or trust company serving as Trustee may have normal banking relationships with the Depositor, the Master Servicer and any of their respective affiliates.

CERTAIN LEGAL ASPECTS OF THE LOANS

The following discussion contains summaries, which are general in nature, of certain legal matters relating to the Loans. Because such legal aspects are governed primarily by applicable state law (which laws may differ substantially), the 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 Loans is situated. The summaries are qualified in their entirety by reference to the applicable federal laws and the appropriate laws of the states in which Loans may be originated.

GENERAL

The Loans for a Series may be secured by deeds of trust, mortgages, security deeds or deeds to secure debt, depending upon the prevailing practice in the state in which the property subject to the loan is located. A mortgage creates a lien upon the real property encumbered by the mortgage, which lien is generally not prior to the lien for real estate taxes and assessments. Priority between mortgages depends on their terms and generally on the order of recording with a state or county office. There are two parties to a mortgage, the mortgagor, who is the borrower and owner of the mortgaged property, and the mortgagee, who is the lender. Under the mortgage instrument, the mortgagor delivers to the mortgagee a note or bond and the mortgage. Although a deed of trust is similar to a mortgage, a deed of trust formally has three parties, the borrower-property owner called the trustor (similar to a mortgagor), a lender (similar to a mortgagee) called the beneficiary, and a third-party grantee called the trustee. Under a deed of trust, the borrower grants the property, irrevocably until the debt is paid, in trust, generally with a power of sale, to the trustee to secure payment of the obligation. A security deed and a deed to secure debt are special types of deeds which indicate on their face that they are granted to secure an underlying debt. By executing a security deed or deed to secure debt, the grantor conveys title to, as opposed to merely creating a lien upon, the subject property to the grantee until such time as the underlying debt is repaid. The trustee's authority under a deed of trust, the mortgagee's authority under a mortgage and the grantee's authority under a security deed or deed to secure debt are governed by law and, with respect to some deeds of trust, the directions of the beneficiary.

FORECLOSURE/REPOSSESSION

Foreclosure of a deed of trust is generally accomplished by a non-judicial sale under a specific provision in the deed of trust which authorizes the trustee to sell the property at public auction upon any default by the borrower under the terms of the note or deed of trust. In addition to any notice requirements contained in a deed of trust, in some states, the trustee must record a notice of default and send a copy to the borrower-trustor, to any person who has recorded a request for a copy of any notice of default and notice of sale, to any successor in interest to the borrower-trustor, to the beneficiary of any junior deed of trust and to certain other persons. In general, the borrower, or any other person having a junior encumbrance on the real estate, may, during a statutorily prescribed reinstatement period, cure a monetary default by paying the entire amount in arrears plus other designated costs and expenses incurred in enforcing the obligation. Generally, state law controls the amount of foreclosure expenses and costs, including attorney's fees, which may be recovered by a lender. After the reinstatement period has expired without the default having been cured, the borrower or junior lienholder no longer has the right to reinstate the loan and must pay the loan in full to prevent the scheduled foreclosure sale. If the deed of trust is not reinstated, 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, some state laws require that a copy of the notice of sale be posted on the property and sent to all parties having an interest in the real property.

Foreclosure of a mortgage is generally accomplished by judicial action. The action is initiated by the service of legal pleadings upon all parties having an interest in the real property. Delays in completion of the foreclosure may occasionally result from difficulties in locating necessary parties. Judicial foreclosure proceedings are often not contested by any of the parties. When the mortgagee's right to foreclosure is contested, the legal proceedings necessary to resolve the issue can be time consuming. After the completion of a judicial foreclosure proceeding, the court generally issues a judgment of foreclosure and appoints a referee or other court officer to conduct the sale of the property. In some states, mortgages may also be foreclosed by advertisement, pursuant to a power of sale provided in the mortgage.

Although foreclosure sales are typically public sales, frequently no third party purchaser bids in excess of the lender's lien because of the difficulty of determining the exact status of title to the property, the

possible deterioration of the property during the foreclosure proceedings and a requirement that the purchaser pay for the property in cash or by cashier's check. Thus the foreclosing lender often purchases the property from the trustee or referee for an amount equal to the principal amount outstanding under the loan, accrued and unpaid interest and the expenses of foreclosure in which event the mortgagor's debt will be extinguished or the lender may purchase for a lesser amount in order to preserve its right against a borrower to seek a deficiency judgment in states where such judgment is available. Thereafter, subject to the right of the borrower in some states to remain in possession during the redemption period, the lender will assume the burden of ownership, including obtaining hazard insurance and making such repairs at its own expense as are necessary to render the property suitable for sale. The lender will commonly obtain the services of a real estate broker and pay the broker's commission in connection with the sale of the property. Depending upon market conditions, the ultimate proceeds of the sale of the property may not equal the lender's investment in the property. Any loss may be reduced by the receipt of any mortgage guaranty insurance proceeds.

Courts have imposed general equitable principles upon foreclosure, which are generally designed to mitigate the legal consequences to the borrower of the borrower's defaults under the loan documents. Some courts have been faced with the issue of whether federal or state constitutional provisions reflecting due process concerns for fair notice require that borrowers under deeds of trust receive notice longer than that prescribed by statute. For the most part, these cases have upheld the notice provisions as being reasonable or have found that the sale by a trustee under a deed of trust does not involve sufficient state action to afford constitutional protection to the borrower.

When the beneficiary under a junior mortgage or deed of trust cures the default and reinstates or redeems by paying the full amount of the senior mortgage or deed of trust, the amount paid by the beneficiary so to cure or redeem becomes a part of the indebtedness secured by the junior mortgage or deed of trust. See "Junior Mortgages; Rights of Senior Mortgagees".

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. These include laws and regulations governing air pollutant emissions, hazardous and toxic substances, impacts to wetlands, leaks from underground storage tanks, and the management, removal and disposal of lead- and asbestos-containing materials. In certain circumstances, these laws and regulations impose obligations on the owners or operators of residential properties such as those subject to the Loans. The failure to comply with such laws and regulations may result in fines and penalties.

Moreover, under various federal, state and local laws and regulations, an owner or operator of real estate may be liable for the costs of addressing hazardous substances on, in or beneath such property and related costs. Such liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances, and could exceed the value of the property and the aggregate assets of the owner or operator. In addition, persons who transport or dispose of hazardous substances, or arrange for the transportation, disposal or treatment of hazardous substances, at off-site locations may also be held liable if there are releases or threatened releases of hazardous substances at such off-site locations.

In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), contamination of property may give rise to a lien on the property to assure the payment of the costs of clean-up. In several states, such a lien has priority over the lien of an existing mortgage against such property. Under CERCLA, such a lien is subordinate to pre-existing, perfected security interests.

Under the laws of some states, and under CERCLA, there is a possibility that a lender may be held liable as an "owner or operator" for costs of addressing releases or threatened releases of hazardous substances at a property, regardless of whether or not the environmental damage or threat was caused by a current or prior owner or operator. CERCLA and some state laws provide an exemption from the definition of "owner or operator" for a secured creditor who, without "participating in the management" of a facility, holds indicia of ownership primarily to protect its security interest in the facility. The Solid Waste Disposal Act ("SWDA") provides similar protection to secured creditors in connection with liability for releases of petroleum from certain underground storage tanks. However, if a lender "participates in the management" of the facility in question or is found not to have held its interest primarily to protect a security interest, the lender may forfeit

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 would defeat the title of any purchaser from the lender subsequent to foreclosure or sale under a deed of trust. Consequently, the practical effect of the redemption right is to force the lender to retain the property and pay the expenses of ownership until the redemption period has run. In some states, there is no right to redeem property after a trustee's sale under a deed of trust.

ANTI-DEFICIENCY LEGISLATION AND OTHER LIMITATIONS ON LENDERS

Certain states have adopted statutory prohibitions restricting the right of the beneficiary or mortgagee to obtain a deficiency judgment against borrowers financing the purchase of their residence or following sale under a deed of trust or certain other foreclosure proceedings. A deficiency judgment is a personal judgment against the borrower equal in most cases to the difference between the amount due to the lender and the fair market value of the real property sold at the foreclosure sale. 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. In certain other states, the lender has the option of bringing a personal action against the borrower on the debt without first exhausting such security; however, in some of these states, the lender, following judgment on such personal action, may be deemed to have elected a remedy and may be precluded from exercising remedies with respect to the security. Consequently, the practical effect of the election requirement, when applicable, is that lenders will usually proceed first against the security rather than bringing a personal action against the borrower. Finally, other statutory provisions limit any deficiency judgment against the former borrower following a foreclosure sale to the excess of the outstanding debt over the fair market value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary or a mortgagee from obtaining a large deficiency judgment against the former borrower as a result of low or no bids at the foreclosure sale.

In addition to anti-deficiency and related legislation, numerous other federal and state statutory provisions, including the federal bankruptcy laws, the federal Soldiers' and Sailors' Civil Relief Act of 1940 and state laws affording relief to debtors, may interfere with or affect the ability of the secured mortgage lender to realize upon its security. For example, in a proceeding under the federal Bankruptcy Code, a lender may not foreclose on the Property without the permission of the bankruptcy court. The rehabilitation plan proposed by the debtor may provide, if the Property is not the debtor's principal residence and the court determines that the value of the Property is less than the principal balance of the mortgage loan, for the reduction of the secured indebtedness to the value of the Property as of the date of the commencement of the bankruptcy, rendering the lender a general unsecured creditor for the difference, and also may reduce the monthly payments due under such mortgage loan, change the rate of interest and alter the mortgage loan repayment schedule. The effect of any such proceedings under the federal Bankruptcy Code, including but not limited to any automatic stay, could result in delays in receiving payments on the Loans underlying a Series of Securities and possible reductions in the aggregate amount of such payments.

The federal tax laws provide priority to certain tax liens over the lien of a mortgage or secured party. Numerous federal and state consumer protection laws impose substantive requirements upon mortgage lenders in connection with the origination, servicing and enforcement of loans secured by Single Family Properties. These laws include the federal Truth-in-Lending Act, Real Estate Settlement Procedures Act, Equal Credit Opportunity Act, Fair Credit Billing Act, Fair Credit Reporting Act and related statutes and regulations. These federal and state laws impose specific statutory liabilities upon lenders who fail to comply with the provisions of the law. In some cases, this liability may affect assignees of the loans or contracts.

DUE-ON-SALE CLAUSES

Unless otherwise specified in the related Prospectus Supplement, each conventional Loan will contain a due-on-sale clause which will provide that if the mortgagor or obligor sells, transfers or conveys the Property, the loan or contract may be accelerated by the mortgagee or secured party. The Garn-St. Germain Depository Institutions Act of 1982 (the "Garn-St. Germain Act"), subject to certain exceptions, preempts state constitutional, statutory and case law prohibiting the enforcement of due-on-sale clauses. As a result, due-on-sale clauses have become generally enforceable except in those states whose legislatures exercised their authority to regulate the enforceability of such clauses with respect to mortgage loans that were (i)

originated or assumed during the "window period" under the Garn-St. Germain Act which ended in all cases not later than October 15, 1982, and (ii) originated by lenders other than national banks, federal savings institutions and federal credit unions. FHLMC has taken the position in its published mortgage servicing standards that, out of a total of eleven "window period states," five states (Arizona, Michigan, Minnesota, New Mexico and Utah) have enacted statutes extending, on various terms and for varying periods, the prohibition on enforcement of due-on-sale clauses with respect to certain categories of window period loans. Also, the Garn-St. Germain Act does "encourage" lenders to permit assumption of loans at the original rate of interest or at some other rate less than the average of the original rate and the market rate.

As to loans secured by an owner-occupied residence, the Garn-St. Germain Act sets forth nine specific instances in which a mortgagee covered by the Act may not exercise its rights under a due-on-sale clause, notwithstanding the fact that a transfer of the property may have occurred. The inability to enforce a due-on-sale clause may result in transfer of the related Property to an uncreditworthy person, which could increase the likelihood of default or may result in a mortgage bearing an interest rate below the current market rate being assumed by a new home buyer, which may affect the average life of the Loans and the number of Loans which may extend to maturity.

In addition, under federal bankruptcy law, due-on-sale clauses may not be enforceable in bankruptcy proceedings and may, under certain circumstances, be eliminated in any modified mortgage resulting from such bankruptcy proceeding.

ENFORCEABILITY OF PREPAYMENT AND LATE PAYMENT FEES

Forms of notes, mortgages and deeds of trust used by lenders may contain provisions obligating the borrower to pay a late charge if payments are not

timely made, and in some circumstances may provide for prepayment fees or penalties if the obligation is paid prior to maturity. In certain states, there are or may be specific limitations upon the late charges which a lender may collect from a borrower for delinquent payments. Certain states also limit the amounts that a lender may collect from a borrower as an additional charge if the loan is prepaid. Late charges and prepayment fees are typically retained by servicers as additional servicing compensation.

EQUITABLE LIMITATIONS ON REMEDIES

In connection with lenders' attempts to realize upon their security, courts have invoked general equitable principles. The equitable principles are generally designed to relieve the borrower from the legal effect of his 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 of the borrower's default and the likelihood that the borrower will be able to reinstate the loan. In some 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 realize upon his security if the default under the security agreement is not monetary, such as the borrower's failure to adequately maintain the property or the borrower's execution of secondary financing affecting the property. Finally, some 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 security agreements 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, in some cases involving the sale by a trustee under a deed of trust or by a mortgagee under a mortgage having a power of sale, there is insufficient state action to afford constitutional protections to the borrower.

Most conventional single-family mortgage loans may be prepaid in full or in part without penalty. The regulations of the Federal Home Loan Bank Board (the "FHLBB") prohibit the imposition of a prepayment penalty or equivalent fee 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. The absence of a restraint on prepayment, particularly with respect to Loans having higher mortgage rates, may increase the likelihood of refinancing or other early retirements of the Loans.

APPLICABILITY OF USURY LAWS

Title V of the Depository Institutions Deregulation and Monetary Control

Act of 1980, enacted in March 1980 ("Title V") provides that state usury limitations shall not apply to certain types of residential first mortgage loans originated by certain lenders after March 31, 1980. The Office of Thrift Supervision, as successor to the Federal Home Loan Bank Board, is authorized to issue rules and regulations and to publish interpretations governing implementation of Title V. The statute authorized the states to reimpose interest rate limits by adopting, before April 1, 1983, a law or constitutional provision which expressly rejects an application of the federal law. Fifteen states adopted such a law prior to the April 1, 1993 deadline. In addition, even where Title V is not so rejected, any state is authorized by the law to adopt a provision limiting discount points or other charges on mortgage loans covered by Title V. Certain states have taken action to reimpose interest rate limits and/or to limit discount points or other charges.

THE HOME IMPROVEMENT CONTRACTS

General. The Home Improvement Contracts, other than those Home Improvement Contracts that are unsecured or secured by mortgages on real estate (such Home Improvement Contracts are hereinafter referred to in this section as "contracts") generally are "chattel paper" or constitute "purchase money security interests" each as defined in the Uniform Commercial Code (the "UCC"). Pursuant to the UCC, the sale of chattel paper is treated in a manner similar to perfection of a security interest in chattel paper. Under the related Agreement, the Depositor will transfer physical possession of the contracts to the Trustee or a designated custodian or may retain possession of the contracts as custodian for the Trustee. In addition, the Depositor will make an appropriate filing of a UCC-1 financing statement in the appropriate states to give notice of the Trustee's ownership of the contracts. Unless otherwise specified in the related Prospectus Supplement, the contracts will not be stamped or otherwise marked to reflect their assignment from the Depositor to the Trustee. Therefore, if through negligence, fraud or otherwise, a subsequent purchaser were able to take physical possession of the contracts without notice of such assignment, the Trustee's interest in the contracts could be defeated.

Security Interests in Home Improvements. The contracts that are secured by the Home Improvements financed thereby grant to the originator of such contracts a purchase money security interest in such Home Improvements to secure all or part of the purchase price of such Home Improvements and related services. A financing statement generally is not required to be filed to perfect a purchase money security interest in consumer goods. Such purchase money security interests are assignable. In general, a purchase money security interest grants to the holder a security interest that has priority over a conflicting security interest in the same collateral and the proceeds of such collateral. However, to the extent that the collateral subject to a purchase money security interest becomes a fixture, in order for the related purchase money security interest to take priority over a conflicting interest in the fixture, the holder's interest in such Home Improvement must generally be perfected by a timely fixture filing. In general, a security interest does not exist under the UCC in ordinary building material incorporated into an improvement on land. Home Improvement Contracts that finance lumber, bricks, other types of ordinary building material or other goods that are deemed to lose such characterization upon incorporation of such materials into the related property, will not be secured by a purchase money security interest in the Home Improvement being financed.

Enforcement of Security Interest in Home Improvements. So long as the Home Improvement has not become subject to the real estate law, a creditor can repossess a Home Improvement securing a contract by voluntary surrender, by "self-help" repossession that is "peaceful" (i.e., without breach of the peace) or, in the absence of voluntary surrender and the ability to repossess without breach of the peace, by judicial process. The holder of a contract must give the debtor a number of days' notice, which varies from 10 to 30 days depending on the state, prior to commencement of any repossession. The UCC and consumer protection laws in most states place restrictions on repossession sales, including requiring prior notice to the debtor and commercial reasonableness in effecting such a sale. The law in most states also requires that the debtor be given notice of any sale prior to resale of the unit that the debtor may redeem at or before such resale.

Under the laws applicable in most states, a creditor is entitled to obtain a deficiency judgment from a debtor for any deficiency on repossession and resale of the property securing the debtor's loan. However, some states impose prohibitions or limitations on deficiency judgments, and in many cases the defaulting borrower would have no assets with which to pay a judgment.

Certain other statutory provisions, including federal and state bankruptcy and insolvency laws and general equitable principles, may limit or delay the ability of a lender to repossess and resell collateral or enforce a

deficiency judgment.

Consumer Protection Laws. The so-called "Holder-in-Due Course" rule of the Federal Trade Commission is intended to defeat the ability of the transferor of a consumer credit contract which is the seller of goods which gave rise to the transaction (and certain related lenders and assignees) to transfer such contract free of notice of claims by the debtor thereunder. The effect of this rule is to subject the assignee of such a contract to all claims and defenses which the debtor could assert against the seller of goods. Liability under this rule is limited to amounts paid under a contract; however, the obligor also may be able to assert the rule to set off remaining amounts due as a defense against a claim brought by the Trustee against such obligor. Numerous other federal and state consumer protection laws impose requirements applicable to the origination and lending pursuant to the contracts, including the Truth in Lending Act, the Federal Trade Commission Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act and the Uniform Consumer Credit Code. In the case of some of these laws, the failure to comply with their provisions may affect the enforceability of the related contract.

Applicability of Usury Laws. Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980, as amended ("Title V"), provides that, subject to the following conditions, state usury limitations shall not apply to any contract which is secured by a first lien on certain kinds of consumer goods. The contracts would be covered if they satisfy certain conditions, among other things, governing the terms of any prepayments, late charges and deferral fees and requiring a 30-day notice period prior to instituting any action leading to repossession of the related unit.

Title V authorized any state to reimpose limitations on interest rates and finance charges by adopting before April 1, 1983 a law or constitutional provision which expressly rejects application of the federal law. Fifteen states adopted such a law prior to the April 1, 1983 deadline. In addition, even where Title V was not so rejected, any state is authorized by the law to adopt a provision limiting discount points or other charges on loans covered by Title V.

INSTALLMENT CONTRACTS

The Loans may also consist of installment contracts. Under an installment contract ("Installment Contract") the seller (hereinafter referred to in this section as the "lender") retains legal title to the property and enters into an agreement with the purchaser hereinafter referred to in this section as the "borrower") for the payment of the purchase price, plus interest, over the term of such contract. Only after full performance by the borrower of the contract is the lender obligated to convey title to the property to the purchaser. As with mortgage or deed of trust financing, during the effective period of the Installment Contract, the borrower is generally responsible for maintaining the property in good condition and for paying real estate taxes, assessments and hazard insurance premiums associated with the property.

The method of enforcing the rights of the lender under an Installment Contract varies on a state-by-state basis depending upon the extent to which state courts are willing, or able pursuant to state statute, to enforce the contract strictly according to the terms. The terms of Installment Contracts generally provide that upon a default by the borrower, the borrower loses his or her right to occupy the property, the entire indebtedness is accelerated, and the buyer's equitable interest in the property is forfeited. The lender in such a situation does not have to foreclose in order to obtain title to the property, although in some cases a quiet title action is in order if the borrower has filed the Installment Contract in local land records and an ejectment action may be necessary to recover possession. In a few states, particularly in cases of borrower default during the early years of an Installment Contract, the courts will permit ejectment of the buyer and a forfeiture of his or her interest in the property. However, most state legislatures have enacted provisions by analogy to mortgage law protecting borrowers under Installment Contracts from the harsh consequences of forfeiture. Under such statutes, a judicial or nonjudicial foreclosure may be required, the lender may be required to give notice of default and the borrower may be granted some grace period during which the Installment Contract may be reinstated upon full payment of the default amount and the borrower may have a post-foreclosure statutory redemption right. In other states, courts in equity may permit a borrower with significant investment in the property under an Installment Contract for the sale of real estate to share in the proceeds of sale of the property after the indebtedness is repaid or may otherwise refuse to enforce the forfeiture clause. Nevertheless, generally speaking, the lender's procedures for obtaining possession and clear title under an Installment Contract in a given state are

simpler and less time-consuming and costly than are the procedures for foreclosing and obtaining clear title to a property subject to one or more liens.

SOLDIERS' AND SAILORS' CIVIL RELIEF ACT

Generally, under the terms of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended (the "Relief Act"), a borrower who enters military service after the origination of such borrower's Loan (including a borrower who is a member of the National Guard or is in reserve status at the time of the origination of the Loan and is later called to active duty) may not be charged interest above an annual rate of 6% during the period of such borrower's active duty status, unless a court orders otherwise upon application of the lender. It is possible that such interest rate limitation could have an effect, for an indeterminate period of time, on the ability of the Master Servicer to collect full amounts of interest on certain of the Loans. Any shortfall in interest collections resulting from the application of the Relief Act could result in losses to the Securityholders. The Relief Act also imposes limitations which would impair the ability of the Master Servicer to foreclose on an affected Loan during the borrower's period of active duty status. Moreover, the Relief Act permits the extension of a Loan's maturity and the re-adjustment of its payment schedule beyond the completion of military service. Thus, in the event that such a Loan goes into default, there may be delays and losses occasioned by the inability to realize upon the Property in a timely fashion.

JUNIOR MORTGAGES; RIGHTS OF SENIOR MORTGAGEES

To the extent that the Loans comprising the Trust Fund for a Series are secured by mortgages which are junior to other mortgages held by other lenders or institutional investors, the rights of the Trust Fund (and therefore the Securityholders), as mortgagee under any such junior mortgage, are subordinate to those of any mortgagee under any senior mortgage. The senior mortgagee has the right to receive hazard insurance and condemnation proceeds and to cause the property securing the Loan to be sold upon default of the mortgagor, thereby extinguishing the junior mortgagee's lien unless the junior mortgagee asserts its subordinate interest in the property in foreclosure litigation and, possibly, satisfies the defaulted senior mortgage. A junior mortgagee may satisfy a defaulted senior loan in full and, in some states, may cure such default and bring the senior loan current, in either event adding the amounts expended to the balance due on the junior loan. In most states, absent a provision in the mortgage or deed of trust, no notice of default is required to be given to a junior mortgagee.

The standard form of the mortgage used by most institutional lenders confers on the mortgagee the right both to receive all proceeds collected under any hazard insurance policy and all awards made in connection with condemnation proceedings, and to apply such proceeds and awards to any indebtedness secured by the mortgage, in such order as the mortgagee may determine. Thus, in the event improvements on the property are damaged or destroyed by fire or other casualty, or in the event the property is taken by condemnation, the mortgagee or beneficiary under underlying senior mortgages will have the prior right to collect any insurance proceeds payable under a hazard insurance policy and any award of damages in connection with the condemnation and to apply the same to the indebtedness secured by the senior mortgages. Proceeds in excess of the amount of senior mortgage indebtedness, in most cases, may be applied to the indebtedness of a junior mortgage.

Another provision sometimes found in the form of the mortgage or deed of trust used by institutional lenders obligates the mortgagor to pay before delinquency all taxes and assessments on the property and, when due, all encumbrances, charges and liens on the property which appear prior to the mortgage or deed of trust, to provide and maintain fire insurance on the property, to maintain and repair the property and not to commit or permit any waste thereof, and to appear in and defend any action or proceeding purporting to affect the property or the rights of the mortgagee under the mortgage. Upon a failure of the mortgagor to perform any of these obligations, the mortgagee is given the right under certain mortgages to perform the obligation itself, at its election, with the mortgagor agreeing to reimburse the mortgagee for any sums expended by the mortgagee on behalf of the mortgagor. All sums so expended by the mortgagee become part of the indebtedness secured by the mortgage.

The form of credit line trust deed or mortgage generally used by most institutional lenders which make Revolving Credit Line Loans typically contains a "future advance" clause, which provides, in essence, that additional amounts advanced to or on behalf of the borrower by the beneficiary or lender are to be secured by the deed of trust or mortgage. Any amounts so advanced after the Cut-off Date with respect to any mortgage will not be included in the Trust Fund. The priority of the lien securing any advance made under the clause may depend in most states on whether the

deed of trust or mortgage is called and recorded as a credit line deed of trust or mortgage. If the beneficiary or lender advances additional amounts, the advance is entitled to receive the same priority as amounts initially advanced under the trust deed or mortgage, notwithstanding the fact that there may be junior trust deeds or mortgages and other liens which intervene between the date of recording of the trust deed or mortgage and the date of the future advance, and notwithstanding that the beneficiary or lender had actual knowledge of such intervening junior trust deeds or mortgages and other liens at the time of the advance. In most states, the trust deed or mortgage lien securing mortgage loans of the type which includes home equity credit lines applies retroactively to the date of the original recording of the trust deed or mortgage, provided that the total amount of advances under the home equity credit line does not exceed the maximum specified principal amount of the recorded trust deed or mortgage, except as to advances made after receipt by the lender of a written notice of lien from a judgment lien creditor of the trustor.

THE TITLE I PROGRAM

General. Certain of the Loans contained in a Trust Fund may be loans insured under the FHA Title I Credit Insurance program created pursuant to Sections 1 and 2(a) of the National Housing Act of 1934 (the "Title I Program"). Under the Title I Program, the FHA is authorized and empowered to insure qualified lending institutions against losses on eligible loans. The Title I Program operates as a coinsurance program in which the FHA insures up to 90% of certain losses incurred on an individual insured loan, including the unpaid principal balance of the loan, but only to the extent of the insurance coverage available in the lender's FHA insurance coverage reserve account. The owner of the loan bears the uninsured loss on each loan.

The types of loans which are eligible for insurance by the FHA under the Title I Program include property improvement loans ("Property Improvement Loans" or "Title I Loans"). A Property Improvement Loan or Title I Loan means a loan made to finance actions or items that substantially protect or improve the basic livability or utility of a property and includes single family improvement loans.

There are two basic methods of lending or originating such loans which include a "direct loan" or a "dealer loan". With respect to a direct loan, the borrower makes application directly to a lender without any assistance from a dealer, which application may be filled out by the borrower or by a person acting at the direction of the borrower who does not have a financial interest in the loan transaction, and the lender may disburse the loan proceeds solely to the borrower or jointly to the borrower and other parties to the transaction. With respect to a dealer loan, the dealer, who has a direct or indirect financial interest in the loan transaction, assists the borrower in preparing the loan application or otherwise assists the borrower in obtaining the loan from the lender. The lender may disburse proceeds solely to the dealer or the borrower or jointly to the borrower and the dealer or other parties to the transaction. With respect to a dealer Title I Loan, a dealer may include a seller, a contractor or supplier of goods or services.

Loans insured under the Title I Program are required to have fixed interest rates and generally provide for equal installment payments due weekly, biweekly, semi-monthly or monthly, except that a loan may be payable quarterly or semi-annually where a borrower has an irregular flow of income. The first or last payments (or both) may vary in amount but may not exceed 150% of the regular installment payment, and the first payment may be due no later than two months from the date of the loan. The note must contain a provision permitting full or partial prepayment of the loan. The interest rate must be negotiated and agreed to by the borrower and the lender and must be fixed for the term of the loan and recited in the note. Interest on an insured loan must accrue from the date of the loan and be calculated according to the actuarial method. The lender must assure that the note and all other documents evidencing the loan are in compliance with applicable federal, state and local laws.

Each insured lender is required to use prudent lending standards in underwriting individual loans and to satisfy the applicable loan underwriting requirements under the Title I Program prior to its approval of the loan and disbursement of loan proceeds. Generally, the lender must exercise prudence and diligence to determine whether the borrower and any co-maker is solvent and an acceptable credit risk, with a reasonable ability to make payments on the loan obligation. The lender's credit application and review must determine whether the borrower's income will be adequate to meet the periodic payments required by the loan, as well as the borrower's other housing and recurring expenses, which determination must be made in accordance with the expense-to-income ratios published by the Secretary of HUD unless the lender determines and documents in the loan file the existence of compensating factors concerning the borrower's creditworthiness which support approval of

the loan.

Under the Title I Program, the FHA does not review or approve for qualification for insurance the individual loans insured thereunder at the time of approval by the lending institution (as is typically the case with other federal loan programs). If, after a loan has been made and reported for insurance under the Title I Program, the lender discovers any material misstatement of fact or that the loan proceeds have been misused by the borrower, dealer or any other party, it shall promptly report this to the FHA. In such case, provided that the validity of any lien on the property has not been impaired, the insurance of the loan under the Title I Program will not be affected unless such material misstatements of fact or misuse of loan proceeds was caused by (or was knowingly sanctioned by) the lender or its employees.

Requirements for Title I Loans. The maximum principal amount for Title I Loans must not exceed the actual cost of the project plus any applicable fees and charges allowed under the Title I Program; provided that such maximum amount does not exceed $25,000 (or the current applicable amount) for a single family property improvement loan. Generally, the term of a Title I Loan may not be less than six months nor greater than 20 years and 32 days. A borrower may obtain multiple Title I Loans with respect to multiple properties, and a borrower may obtain more than one Title I Loan with respect to a single property, in each case as long as the total outstanding balance of all Title I Loans in the same property does not exceed the maximum loan amount for the type of Title I Loan thereon having the highest permissible loan amount.

Borrower eligibility for a Title I Loan requires that the borrower have at least a one-half interest in either fee simple title to the real property, a lease thereof for a term expiring at least six months after the final maturity of the Title I Loan or a recorded land installment contract for the purchase of the real property. In the case of a Title I Loan with a total principal balance in excess of $15,000, if the property is not occupied by the owner, the borrower must have equity in the property being improved at least equal to the principal amount of the loan, as demonstrated by a current appraisal. Any Title I Loan in excess of $7,500 must be secured by a recorded lien on the improved property which is evidenced by a mortgage or deed of trust executed by the borrower and all other owners in fee simple.

The proceeds from a Title I Loan may be used only to finance property improvements which substantially protect or improve the basic livability or utility of the property as disclosed in the loan application. The Secretary of HUD has published a list of items and activities which cannot be financed with proceeds from any Title I Loan and from time to time the Secretary of HUD may amend such list of items and activities. With respect to any dealer Title I Loan, before the lender may disburse funds, the lender must have in its possession a completion certificate on a HUD approved form, signed by the borrower and the dealer. With respect to any direct Title I Loan, the lender is required to obtain, promptly upon completion of the improvements but not later than 6 months after disbursement of the loan proceeds with one 6 month extension if necessary, a completion certificate, signed by the borrower. The lender is required to conduct an on-site inspection on any Title I Loan where the principal obligation is $7,500 or more, and on any direct Title I Loan where the borrower fails to submit a completion certificate.

FHA Insurance Coverage. Under the Title I Program the FHA establishes an insurance coverage reserve account for each lender which has been granted a Title I insurance contract. The amount of insurance coverage in this account is a maximum of 10% of the amount disbursed, advanced or expended by the lender in originating or purchasing eligible loans registered with FHA for Title I insurance, with certain adjustments. The balance in the insurance coverage reserve account is the maximum amount of insurance claims the FHA is required to pay. Loans to be insured under the Title I Program will be registered for insurance by the FHA and the insurance coverage attributable to such loans will be included in the insurance coverage reserve account for the originating or purchasing lender following the receipt and acknowledgment by the FHA of a loan report on the prescribed form pursuant to the Title I regulations. The FHA charges a fee of 0.50% per annum of the net proceeds (the original balance) of any eligible loan so reported and acknowledged for insurance by the originating lender. The FHA bills the lender for the insurance premium on each insured loan annually, on approximately the anniversary date of the loan's origination. If an insured loan is prepaid during the year, FHA will not refund or abate the insurance premium.

Under the Title I Program the FHA will reduce the insurance coverage available in the lender's FHA insurance coverage reserve account with respect to loans insured under the lender's contract of insurance by (i) the amount of the FHA insurance claims approved for payment relating to such insured loans and (ii) the amount of insurance coverage attributable to insured loans

sold by the lender, and such insurance coverage may be reduced for any FHA insurance claims rejected by the FHA. The balance of the lender's FHA insurance coverage reserve account will be further adjusted as required under Title I or by the FHA, and the insurance coverage therein may be earmarked with respect to each or any eligible loans insured thereunder, if a determination is made by the Secretary of HUD that it is in its interest to do so. Originations and acquisitions of new eligible loans will continue to increase a lender's insurance coverage reserve account balance by 10% of the amount disbursed, advanced or expended in originating or acquiring such eligible loans registered with the FHA for insurance under the Title I Program. The Secretary of HUD may transfer insurance coverage between insurance coverage reserve accounts with earmarking with respect to a particular insured loan or group of insured loans when a determination is made that it is in the Secretary's interest to do so.

The lender may transfer (except as collateral in a bona fide transaction) insured loans and loans reported for insurance only to another qualified lender under a valid Title I contract of insurance. Unless an insured loan is transferred with recourse or with a guaranty or repurchase agreement, the FHA, upon receipt of written notification of the transfer of such loan in accordance with the Title I regulations, will transfer from the transferor's insurance coverage reserve account to the transferee's insurance coverage reserve account an amount, if available, equal to 10% of the actual purchase price or the net unpaid principal balance of such loan (whichever is less). However, under the Title I Program not more than $5,000 in insurance coverage shall be transferred to or from a lender's insurance coverage reserve account during any October 1 to September 30 period without the prior approval of the Secretary of HUD.

Claims Procedures Under Title I. Under the Title I Program the lender may accelerate an insured loan following a default on such loan only after the lender or its agent has contacted the borrower in a face-to-face meeting or by telephone to discuss the reasons for the default and to seek its cure. If the borrower does not cure the default or agree to a modification agreement or repayment plan, the lender will notify the borrower in writing that, unless within 30 days the default is cured or the borrower enters into a modification agreement or repayment plan, the loan will be accelerated and that, if the default persists, the lender will report the default to an appropriate credit agency. The lender may rescind the acceleration of maturity after full payment is due and reinstate the loan only if the borrower brings the loan current, executes a modification agreement or agrees to an acceptable repayment plan.

Following acceleration of maturity upon a secured Title I Loan, the lender may either (a) proceed against the property under any security instrument, or (b) make a claim under the lender's contract of insurance. If the lender chooses to proceed against the property under a security instrument (or if it accepts a voluntary conveyance or surrender of the property), the lender may file an insurance claim only with the prior approval of the Secretary of HUD.

When a lender files an insurance claim with the FHA under the Title I Program, the FHA reviews the claim, the complete loan file and documentation of the lender's efforts to obtain recourse against any dealer who has agreed thereto, certification of compliance with applicable state and local laws in carrying out any foreclosure or repossession, and evidence that the lender has properly filed proofs of claims, where the borrower is bankrupt or deceased. Generally, a claim for reimbursement for loss on any Title I Loan must be filed with the FHA no later than 9 months after the date of default of such loan. Concurrently with filing the insurance claim, the lender shall assign to the United States of America the lender's entire interest in the loan note (or a judgment in lien of the note), in any security held and in any claim filed in any legal proceedings. If, at the time the note is assigned to the United States, the Secretary has reason to believe that the note is not valid or enforceable against the borrower, the FHA may deny the claim and reassign the note to the lender. If either such defect is discovered after the FHA has paid a claim, the FHA may require the lender to repurchase the paid claim and to accept a reassignment of the loan note. If the lender subsequently obtains a valid and enforceable judgment against the borrower, the lender may resubmit a new insurance claim with an assignment of the judgment. Although the FHA may contest any insurance claim and make a demand for repurchase of the loan at any time up to two years from the date the claim was certified for payment and may do so thereafter in the event of fraud or misrepresentation on the part of the lender, the FHA has expressed an intention to limit the period of time within which it will take such action to one year from the date the claim was certified for payment.

Under the Title I Program the amount of an FHA insurance claim payment, when made, is equal to the Claimable Amount, up to the amount of insurance coverage in the lender's insurance coverage reserve account. For the

purposes hereof, the "Claimable Amount" means an amount equal to 90% of the sum of: (a) the unpaid loan obligation (net unpaid principal and the uncollected interest earned to the date of default) with adjustments thereto if the lender has proceeded against property securing such loan; (b) the interest on the unpaid amount of the loan obligation from the date of default to the date of the claim's initial submission for payment plus 15 calendar days (but not to exceed 9 months from the date of default), calculated at the rate of 7% per annum; (c) the uncollected court costs; (d) the attorney's fees not to exceed $500; and (e) the expenses for recording the assignment of the security to the United States.

OTHER LEGAL CONSIDERATIONS

The Loans are also subject to federal laws, including: (i) Regulation Z, which requires certain disclosures to the borrowers regarding the terms of the Loans; (ii) the Equal 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 (iii) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience. Violations of certain provisions of these federal laws may limit the ability of the Sellers to collect all or part of the principal of or interest on the Loans and in addition could subject the Sellers to damages and administrative enforcement.

CERTAIN MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

GENERAL

The following is a summary of certain anticipated material federal income tax consequences of the purchase, ownership, and disposition of the Securities and is based on the opinion of Brown & Wood LLP, special counsel to the Depositor (in such capacity, "Tax Counsel"). The summary is based upon the provisions of the Code, the regulations promulgated thereunder, including, where applicable, proposed regulations, and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The statutory provisions, regulations, and interpretations on which this interpretation is based are subject to change, and such a change could apply retroactively.

The summary does not purport to deal with all aspects of federal income taxation that may affect particular investors in light of their individual circumstances. This summary focuses primarily upon investors who will hold Securities as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. Prospective investors may wish to consult their own tax advisers concerning the federal, state, local and any other tax consequences as relates specifically to such investors in connection with the purchase, ownership and disposition of the Securities.

The federal income tax consequences to holders will vary depending on whether (i) the Securities of a Series are classified as indebtedness; (ii) an election is made to treat the Trust Fund relating to a particular Series of Securities as a real estate mortgage investment conduit ("REMIC") under the Internal Revenue Code of 1986, as amended (the "Code"); (iii) the Securities represent an ownership interest in some or all of the assets included in the Trust Fund for a Series; or (iv) an election is made to treat the Trust Fund relating to a particular Series of Certificates as a partnership. The Prospectus Supplement for each Series of Securities will specify how the Securities will be treated for federal income tax purposes and will discuss whether a REMIC election, if any, will be made with respect to such Series.

TAXATION OF DEBT SECURITIES

Status as Real Property Loans. Except to the extent otherwise provided in the related Prospectus Supplement, if the Securities are regular interests in a REMIC ("Regular Interest Securities") or represent interests in a grantor trust, Tax Counsel is of the opinion that: (i) Securities held by a domestic building and loan association will constitute "loans... secured by an interest in real property" within the meaning of Code section 7701(a)(19)(C)(v); and (ii) Securities held by a real estate investment trust will constitute "real estate assets" within the meaning of Code section 856(c)(5)(A) and interest on Securities will be considered "interest on obligations secured by mortgages on real property or on interests in real property" within the meaning of Code section 856(c)(3)(B).

Interest and Acquisition Discount. In the opinion of Tax Counsel, Regular Interest Securities are generally taxable to holders in the same manner as evidences of indebtedness issued by the REMIC. Stated interest on the Regular Interest Securities will be taxable as ordinary income and taken

PAGES 132 TO 154 OMITTED

7.41% PASS-THROUGH RATE

$25,469,000 CLASS A-8
VARIABLE PASS-THROUGH RATE

$7,425,000 CLASS M-1F
7.73% PASS-THROUGH RATE

$8,250,000 CLASS M-2F
7.95% PASS-THROUGH RATE

$3,010,000 CLASS M-1A
VARIABLE PASS-THROUGH RATE

$1,872,000 CLASS M-2A
VARIABLE PASS-THROUGH RATE

$5,775,000 CLASS B-1F
8.28% PASS-THROUGH RATE

$2,196,812 CLASS B-1A
VARIABLE PASS-THROUGH RATE

FINANCIAL ASSET SECURITIES CORP.
(DEPOSITOR)

PROSPECTUS SUPPLEMENT

GREENWICH CAPITAL
MARKETS, INC.

April 7, 1997

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