CEAGO ABS CDO 2007-1, Ltd.
CEAGO ABS CDO 2007-1, LLC

U.S.$850,000,000 Class A-1 Floating Rate Notes Due 2047
U.S.$6,227,000 Class S Floating Rate Notes Due 2017
U.S.$106,000,000 Class A-2 Floating Rate Notes Due 2047
U.S.$21,000,000 Class B Floating Rate Notes Due 2047
U.S.$11,500,000 Class C Floating Rate Deferrable Notes Due 2047
U.S.$2,500,000 Class D Floating Rate Deferrable Notes Due 2047
9,000 Preference Shares with a par value of U.S.$0.01 per share

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Backed by a Diversified Portfolio of Investment-Grade Asset-Backed Securities

Ceago ABS CDO 2007-1, Ltd., a newly formed exempted company incorporated under the laws of the Cayman Islands (the "Issuer"), and Ceago ABS CDO 2007-1, LLC, a newly formed Delaware limited liability company (the "Co-Issuer" and, together with the Issuer, the "Co-Issuers"), will issue U.S.$850,000,000 aggregate principal amount of Class A-1 Floating Rate Notes due 2047 (the "Class A-1 Notes"), U.S.$6,227,000 aggregate principal amount of Class S Floating Rate Notes due 2017 (the "Class S Notes"), U.S.$106,000,000 aggregate principal amount of Class A-2 Floating Rate Notes due 2047 (the "Class A-2 Notes" and, together with the Class A-1 Notes, the "Class A Notes"), U.S.$21,000,000 aggregate principal amount of Class B Floating Rate Notes due 2047 (the "Class B Notes"), U.S.$11,500,000 aggregate principal amount of Class C Floating Rate Deferrable Notes due 2047 (the "Class C Notes") and U.S.$2,500,000 aggregate principal amount of Class D Floating Rate Deferrable Notes due 2047 (the "Class D Notes" and, together with the Class A Notes, the Class S Notes, the Class B Notes and the Class C Notes, the "Notes"). The Issuer will also issue Preference Shares, with a par value of U.S.$0.01 per share (the "Preference Shares"). The Notes are being offered by the Notes Offering Memorandum of the Co-Issuers. The Preference Shares are being offered by the Preference Shares Offering Memorandum of the Issuer. The Notes and the Preference Shares offered hereby are referred to herein as the "Offered Securities."

The Notes will be co-issued on a limited recourse basis by the Issuer and on a non-recourse basis by the Co-Issuer. The Preference Shares will constitute unsecured limited recourse obligations of the Issuer. The Collateral (as defined herein) securing the Notes will be managed, to the extent described herein, by Lehman Brothers Asset Management LLC, a Delaware limited liability company ("LBAM" or the "Collateral Manager").

Investing in the Offered Securities involves risks. See the section entitled "*Risk Factors*" for a discussion of certain risks arising from investing in the Offered Securities.

It is a condition to the issuance of the Offered Securities that the Notes be assigned the ratings set forth in the table below.

Securities	Interest Rate	Standard & Poor's / Moody's Ratings
Class A-1 Notes	3-month LIBOR + 0.40%	"AAA" / "Aaa"
Class S Notes	3-month LIBOR + 0.40%	"AAA" / "Aaa"
Class A-2 Notes	3-month LIBOR + 2.25%	"AAA" / "Aaa"
Class B Notes	3-month LIBOR + 3.50%	"AA" / "Aa2"
Class C Notes	3-month LIBOR + 7.00%	"A" / "A2"
Class D Notes	3-month LIBOR + 9.00%	"BBB+" / "Baa2"
Preference Shares	Residual	NR / NR

The Notes are offered by Lehman Brothers Inc. and Lehman Brothers International (Europe) (collectively, in such capacity, the "Initial Purchasers") and the Preference Shares are offered through the Initial Purchasers, as placement agents, subject to prior sale, when, as and if issued, through privately negotiated transactions at varying prices to be determined at the time of sale. The Initial Purchasers reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Offered Securities being offered hereby will be delivered on or about August 16, 2007 (the "Closing Date") in New York, New York against payment therefor in immediately available funds.

Application is expected to be made to the Irish Stock Exchange to admit the Notes to the Daily Official List in accordance with the Irish Stock Exchange Listing Rules for Asset-Backed Securities. There can be no assurance that such admission will be granted. The issuance and settlement of the Offered Securities on the Closing Date are not conditioned on the listing of the Offered Securities on the Irish Stock Exchange.

LEHMAN BROTHERS

The date of this Offering Memorandum is August 16, 2007

NOTICE TO PREFERENCE SHARE INVESTORS

INVESTORS SHOULD BE AWARE THAT THE OFFERING MEMORANDUM PREPARED FOR DISTRIBUTION TO POTENTIAL INVESTORS IN THE PREFERENCE SHARES WILL BE SUPPLEMENTED BY AN ADDITIONAL SCHEDULE SETTING FORTH CERTAIN ADDITIONAL INFORMATION REGARDING THE PREFERENCE SHARES. SUCH INFORMATION PRINCIPALLY INCLUDES THE HYPOTHETICAL YIELDS ON THE PREFERENCE SHARES BASED ON CERTAIN ASSUMPTIONS DESCRIBED SCHEDULE G. ANY POTENTIAL INVESTOR IN THE PREFERENCE SHARES WHO RECEIVES A FINAL OFFERING MEMORANDUM WITHOUT SUCH SCHEDULE SHOULD IMMEDIATELY CONTACT THE ISSUER, IN CARE OF LEHMAN BROTHERS INC., 745 SEVENTH AVENUE, NEW YORK, NEW YORK 10019, ATTENTION: COLLATERALIZED DEBT OBLIGATIONS GROUP, RE: CEAGO ABS CDO 2007-1, LTD. OR LEHMAN BROTHERS INTERNATIONAL (EUROPE), 25 BANK STREET, LONDON, E14 5LE, ENGLAND, ATTENTION: COLLATERALIZED DEBT OBLIGATIONS GROUP, RE: CEAGO ABS CDO 2007-1, LTD. FOR A COPY OF SUCH OFFERING MEMORANDUM WITH SUCH SCHEDULE AFFIXED. PURCHASES OF THE PREFERENCE SHARES SHOULD NOT, AND MAY NOT, BE MADE WITHOUT REVIEWING SUCH OFFERING MEMORANDUM, INCLUDING SUCH SCHEDULE.

The Offered Securities have not been and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**"), under applicable state securities laws or under the laws of any other jurisdiction. None of the Issuer, the Co-Issuer or the pool of Collateral has been registered under the Investment Company Act of 1940, as amended, and the rules thereunder (the "**Investment Company Act**"), in reliance on the exemption provided by Section 3(c)(7) thereof. The Offered Securities are being offered only (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to (i) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and (ii) in the case of the Preference Shares, to a limited number of "Institutional Accredited Investors" (within the meaning of Section 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act), in each case, who are also "qualified purchasers" (as defined in Section 2(a)(51)(a) of the Investment Company Act) and (b) outside the United States in compliance with Regulation S under the Securities Act ("**Regulation S**") to persons who are not "U.S. Persons" (as defined in Regulation S). Each original purchaser of a Note will be deemed, and each original purchaser of a Preference Share will be required in a subscription agreement, to make certain acknowledgments, representations and agreements. See "*Purchase and Transfer Restrictions*."

Interest on the Notes is payable quarterly on the sixth day of each January, April, July and October (each, together with the Accelerated Distribution Date, a "**Distribution Date**"), beginning on the Distribution Date occurring in January 2008; *provided* that if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day. The Notes (other than the Class S Notes) will mature on the Distribution Date occurring in October 2047, and the Class S Notes will mature on the Distribution Date occurring in October 2017. Holders of the Preference Shares will not be entitled to any interest payments or distributions at a set rate but will be entitled to certain distributions of amounts in accordance with the Priority of Payments. The Preference Shares are scheduled to be redeemed on the Distribution Date occurring in October 2047, but may be redeemed prior to such date as set forth herein. The Notes are redeemable as described under the captions "*Description of the Notes—Mandatory Redemption*," "*—Auction Call Redemption*," "*—Optional Redemption and Tax Redemption*" and "*—Clean-up Redemption*," and the Preference Shares are redeemable as described under the caption "*Description of the Preference Shares—Distributions*."

NO PERSON IS AUTHORIZED IN CONNECTION WITH ANY OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CO-ISSUERS, THE INITIAL PURCHASERS, THE HEDGE COUNTERPARTIES (OR THEIR GUARANTORS), THE CREDIT DEFAULT SWAP COUNTERPARTY, THE TRUSTEE OR THE COLLATERAL MANAGER. THIS OFFERING MEMORANDUM WILL NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE OFFERED SECURITIES OFFERED THEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY HEREOF NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE CO-ISSUER HAS OCCURRED OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF. THE CO-ISSUERS AND THE INITIAL PURCHASERS RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE IN WHOLE OR IN PART, FOR ANY REASON, OR TO SELL LESS THAN THE MINIMUM DENOMINATION OF ANY CLASS OF NOTES OR THE PREFERENCE SHARES OFFERED HEREBY.

THIS DOCUMENT COMPRISES LISTING PARTICULARS FOR THE PURPOSE OF LISTING THE NOTES ON THE IRISH STOCK EXCHANGE. A COPY OF THESE LISTING PARTICULARS SHALL BE FILED WITH THE IRISH STOCK EXCHANGE AND SHALL BE ON DISPLAY AT THE OFFICES OF THE IRISH PAYING AGENT IN DUBLIN, IRELAND IF AND FOR SO LONG AS ANY NOTES ARE LISTED ON THE IRISH STOCK EXCHANGE. COPIES OF THESE LISTING PARTICULARS ARE AVAILABLE FREE OF CHARGE FROM THE IRISH STOCK EXCHANGE AND THE IRISH PAYING AGENT.

Neither of the Co-Issuers nor the pool of Collateral has been registered under the Investment Company Act of 1940, as amended, and the rules thereunder (the "**Investment Company Act**"). Each purchaser of the Offered Securities represented by an interest in a Global Security will be deemed to have represented and agreed that the purchaser is acquiring the Offered Securities for its own account or for one or more accounts as to each of which the purchaser exercises sole investment discretion and in a principal amount of not less than U.S.$500,000 and multiples of U.S.$1,000 in excess thereof in the case of the Notes and lots of 100 and increments of one in excess thereof in the case of the Preference Shares. Each purchaser of the Offered Securities represented by an interest in a Restricted Global Note and each such account will also be deemed to have represented and agreed that it is a qualified purchaser as defined in, and for purposes of the Investment Company Act. See "*Transfer Restrictions*."

This Offering Memorandum (this "**Offering Memorandum**") has been prepared by the Co-Issuers solely for use in connection with the offering (the "**Offering**") and the listing of the Offered Securities described herein. The Co-Issuers accept responsibility for the information contained in this document except with respect to the information set forth in the section entitled "*The Collateral Manager*" (other than information set forth under the subheading "*General*" contained therein). To the best of the knowledge and belief of the Co-Issuers the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No representation or warranty, express or implied, is made by the Initial Purchasers, the Trustee, the Hedge Counterparties (or their guarantors), the Credit Default Swap Counterparty or the Collateral Manager (except (i) in the case of the Collateral Manager, with respect to the information set forth in the section entitled "*The Collateral Manager*" (other than information set forth under the subheading "*General*" contained therein), (ii) in the case of the Credit Default Swap Counterparty, with respect to the information set forth in the section entitled "*The Credit Default Swap Counterparty*" and (iii) in the case of the initial Interest Rate Hedge Counterparty, with respect to the information set forth in the section entitled "*Security for Notes—The Initial Hedge Counterparty*") as to the accuracy or completeness of the information set forth herein, and nothing contained herein is, or will be relied upon as, a promise or representation as to the past or the future. None of the Initial Purchasers, the Credit Default Swap Counterparty, the Hedge Counterparties (or their guarantors) or the Collateral Manager (except (i) in the case of the Collateral Manager, with respect to the information set forth in the section entitled "*The Collateral Manager*" (other than information set forth under the subheading "*General*" contained therein), (ii) in the case of the Credit Default Swap Counterparty, with respect to the information set forth in the section entitled "*The Credit Default Swap Counterparty*" and (iii) in the case of the initial Interest Rate Hedge Counterparty, with respect to the information set forth in the section entitled "*Security for the Notes—The Initial Hedge Counterparty*") has independently verified any such information or assumes responsibility for its accuracy or completeness.

In this Offering Memorandum, references to "U.S. Dollar," "Dollars" and "U.S.$" are to United States dollars.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Offered Securities in any jurisdiction in which such offer or solicitation is unlawful.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CO-ISSUERS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE OFFERED SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Notwithstanding anything to the contrary contained in this Offering Memorandum, all persons may disclose to any and all persons, without limitation of any kind, the U.S. federal, state and local tax treatment of the Offered Securities and the Issuer, any fact that may be relevant to understanding the U.S. federal, state and local tax treatment of the Offered Securities and the Issuer, and all materials of any kind (including opinions or other tax

analyses) relating to such U.S. federal, state and local tax treatment and that may be relevant to understanding such tax treatment.

IRS CIRCULAR 230 LEGEND.

THIS OFFERING MEMORANDUM WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE, OR LOCAL TAX PENALTIES. THIS OFFERING MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE INITIAL PURCHASERS OF THE OFFERED SECURITIES ADDRESSED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

INFORMATION AS TO PLACEMENT WITHIN THE UNITED STATES

This Offering Memorandum is highly confidential and has been prepared by the Co-Issuers solely for use in connection with the Offering. This Offering Memorandum is personal to each offeree to whom it has been delivered by the Co-Issuers, the Initial Purchasers or any affiliate thereof and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Offered Securities. Distribution of this Offering Memorandum to any persons other than the offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized and any disclosure of any of its contents, without the prior written consent of the Co-Issuers, is prohibited. Each prospective purchaser in the United States, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents related hereto and, if the offeree does not purchase the Offered Securities or the Offering is terminated, to return this Offering Memorandum and all documents attached hereto to the Initial Purchasers at the address set forth under "*Plan of Distribution*."

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER NEW HAMPSHIRE REVISED STATUTES ANNOTATED, CHAPTER 421-B ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT AN OFFERED SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR AN OFFERED SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, OFFERED SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO FLORIDA RESIDENTS

Where sales are made to five or more persons in Florida (excluding Qualified Institutional Buyers within the meaning of Rule 144A and certain other institutional purchasers described in Section 517.061(7) of the Florida Securities and Investor Protection Act (the "**Florida Act**")), any such sale made pursuant to Section 517.061(11) of

the Florida Act shall be voidable by the purchaser within three days after (A) receipt of this Offering Memorandum, or (B) the first payment of money or other consideration to the Issuer, an agent of the Issuer, or an escrow agent, whichever occurs later.

NOTICE TO RESIDENTS OF AUSTRIA

THE OFFERED SECURITIES MAY ONLY BE OFFERED IN THE REPUBLIC OF AUSTRIA IN COMPLIANCE WITH THE PROVISIONS OF THE AUSTRIAN CAPITAL MARKET ACT AND OTHER LAWS APPLICABLE IN THE REPUBLIC OF AUSTRIA GOVERNING THE OFFER AND SALE OF THE OFFERED SECURITIES IN THE REPUBLIC OF AUSTRIA. THE OFFERED SECURITIES ARE NOT REGISTERED OR OTHERWISE AUTHORISED FOR PUBLIC OFFER UNDER EITHER THE CAPITAL MARKET ACT OR THE INVESTMENT FUND ACT. THE RECIPIENTS OF THIS OFFERING MEMORANDUM AND OTHER SELLING MATERIAL WITH RESPECT TO THE OFFERED SECURITIES HAVE BEEN INDIVIDUALLY SELECTED AND IDENTIFIED BEFORE THE OFFER BEING MADE AND ARE TARGETED EXCLUSIVELY ON THE BASIS OF A PRIVATE PLACEMENT. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE, AND ARE NOT BEING, OFFERED OR ADVERTISED PUBLICLY OR OFFERED SIMILARLY UNDER EITHER THE CAPITAL MARKET ACT OR THE INVESTMENT FUND ACT. NO OFFER WILL BE MADE TO ANY PERSONS OTHER THAN THE RECIPIENTS TO WHOM THIS OFFERING MEMORANDUM IS PERSONALLY ADDRESSED.

NOTICE TO RESIDENTS OF BELGIUM

THE ISSUER AND THE CO-ISSUER HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE BELGIAN BANKING, FINANCE AND INSURANCE COMMISSION ("*COMMISSIE VOOR HET BANK-, FINANCIE-EN ASSURANTIEWEZEN*" / *"COMMISSION BANCAIRE, FINANCIÈRE ET DES ASSURANCES"*) AS FOREIGN COLLECTIVE INVESTMENT INSTITUTIONS UNDER ARTICLE 127 OF THE BELGIAN LAW OF 20 JULY 2004 ON CERTAIN FORMS OF COLLECTIVE MANAGEMENT OF INVESTMENT PORTFOLIOS. THE OFFERING IN BELGIUM HAS NOT BEEN AND WILL NOT BE NOTIFIED TO THE BELGIAN BANKING, FINANCE AND INSURANCE COMMISSION, NOR HAS THIS DOCUMENT BEEN NOR WILL IT BE APPROVED BY THE BELGIAN BANKING, FINANCE AND INSURANCE COMMISSION.

ACCORDINGLY, THE OFFERED SECURITIES SHALL, WHETHER DIRECTLY OR INDIRECTLY, ONLY BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN BELGIUM TO INDIVIDUALS OR LEGAL ENTITIES (I) WHO ARE BOTH "QUALIFIED INVESTORS" IN THE SENSE OF ARTICLE 10 OF THE BELGIAN LAW OF 16 JUNE 2006 ON THE PUBLIC OFFER OF PLACEMENT INSTRUMENTS AND THE ADMISSION TO TRADING OF PLACEMENT INSTRUMENTS ON REGULATED MARKETS (AS AMENDED FROM TIME TO TIME), AND "PROFESSIONAL OR INSTITUTIONAL INVESTORS" IN THE SENSE OF ARTICLE 5 § 3 OF THE BELGIAN LAW OF 20 JULY 2004 ON CERTAIN FORMS OF COLLECTIVE MANAGEMENT OF INVESTMENT PORTFOLIOS (AS AMENDED FROM TIME TO TIME), ACTING ON THEIR OWN BEHALF, OR (II) INVESTING AT LEAST €50,000 (OR ITS EQUIVALENT IN OTHER CURRENCIES) PER TRANSACTION.

THIS DOCUMENT HAS BEEN ISSUED TO YOU FOR YOUR PERSONAL USE ONLY AND EXCLUSIVELY FOR THE PURPOSES OF THE OFFERING. ACCORDINGLY, THIS DOCUMENT MAY NOT BE USED FOR ANY OTHER PURPOSE NOR PASSED ON TO ANY OTHER PERSON IN BELGIUM.

NOTICE TO RESIDENTS OF DENMARK

THIS OFFERING MEMORANDUM HAS NOT BEEN FILED WITH OR APPROVED BY THE DANISH FINANCIAL SUPERVISORY AUTHORITY OR ANY OTHER REGULATORY AUTHORITY IN THE KINGDOM OF DENMARK. THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN DENMARK, NOR MAY THIS OFFERING MEMORANDUM BE MARKETED OR DISTRIBUTED IN DENMARK EXCEPT (I) TO "QUALIFIED INVESTORS" AS DEFINED IN THE PROSPECTUS DIRECTIVE; (II) TO INVESTORS WHO ACQUIRE OFFERED SECURITIES OF A SINGLE

ISSUE FOR A TOTAL CONSIDERATION OF AT LEAST €50,000; OR (III) IF IT IS OTHERWISE IN COMPLIANCE WITH THE DANISH SECURITIES TRADING ACT AND ANY EXECUTIVE ORDERS ISSUED THEREUNDER, INCLUDING EXECUTIVE ORDER NO. 306 OF 28 APRIL 2005 ON THE FIRST PUBLIC OFFER OF CERTAIN SECURITIES, EACH AS AMENDED OR REPLACED FROM TIME TO TIME.

NOTICE TO RESIDENTS OF FINLAND

THIS OFFERING MEMORANDUM HAS BEEN PREPARED FOR PRIVATE INFORMATION PURPOSES OF INTERESTED INVESTORS ONLY. IT MAY NOT BE USED FOR AND SHALL NOT BE DEEMED A PUBLIC OFFERING OF THE OFFERED SECURITIES. THE FINNISH FINANCIAL SUPERVISION AUTHORITY (*RAHOITUSTARKASTUS*) HAS NOT AUTHORISED ANY OFFERING OF THE SUBSCRIPTION OF THE OFFERED SECURITIES. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD IN FINLAND OR TO RESIDENTS THEREOF EXCEPT AS PERMITTED BY FINNISH LAW. THIS OFFERING MEMORANDUM IS STRICTLY FOR PRIVATE USE BY ITS HOLDER AND MAY NOT BE PASSED ON TO THIRD PARTIES.

NOTICE TO RESIDENTS OF FRANCE

THE OFFERED SECURITIES HAVE NOT BEEN OFFERED OR SOLD AND WILL NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, BY WAY OF A PUBLIC OFFERING IN FRANCE (*APPEL PUBLIC À L'ÉPARGNE*, AS DEFINED IN ARTICLES L. 411-1, L. 411-2, D. 411-1 AND D. 411-2 OF THE *CODE MONÉTAIRE ET FINANCIER*). THE OFFERED SECURITIES MAY ONLY BE SUBSCRIBED FOR OR HELD BY QUALIFIED INVESTORS (*INVESTISSEURS QUALIFIÉS*), AS DEFINED BY ARTICLES L. 411-1, L. 411-2 AND D. 411-1 OF THE *CODE MONÉTAIRE ET FINANCIER*, OR NON-FRENCH RESIDENTS.

THIS OFFERING MEMORANDUM IS FURNISHED TO POTENTIAL INVESTORS SOLELY FOR THEIR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. IT IS STRICTLY CONFIDENTIAL AND IS SOLELY DESTINED FOR PERSONS OR INSTITUTIONS TO WHICH IT WAS INITIALLY SUPPLIED. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SUBSCRIBE FOR OR TO PURCHASE ANY SECURITIES AND NEITHER THIS OFFERING MEMORANDUM NOR ANYTHING HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

THIS OFFERING MEMORANDUM OR ANY OTHER MATERIAL RELATING TO THE OFFERED SECURITIES MAY NOT BE DISTRIBUTED TO THE PUBLIC IN FRANCE OR USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF SECURITIES IN FRANCE OTHER THAN IN ACCORDANCE WITH ARTICLES L. 411-1, L. 411-2, D. 411-1 AND D. 411-2 OF THE CODE *MONÉTAIRE ET FINANCIER*. THIS OFFERING MEMORANDUM HAS NOT BEEN SUBMITTED TO THE "*AUTORITÉ DES MARCHÉS FINANCIERS*" FOR APPROVAL AND DOES NOT CONSTITUTE AN OFFER FOR SALE OR SUBSCRIPTION OF SECURITIES. ANY CONTACT WITH POTENTIAL INVESTORS IN FRANCE DOES NOT AND WILL NOT CONSTITUTE FINANCIAL AND BANKING SOLICITATION (*DÉMARCHAGE BANCAIRE ET FINANCIER*) AS DEFINED IN ARTICLES L. 341-1 *ET SEQ*. OF THE CODE *MONÉTAIRE ET FINANCIER*.

NOTICE TO RESIDENTS OF GERMANY

THE OFFERED SECURITIES WILL NOT BE OFFERED OR SOLD IN GERMANY, OTHER THAN IN COMPLIANCE WITH THE RESTRICTIONS CONTAINED IN THE GERMAN SECURITIES PROSPECTUS ACT (*WERTPAPIERPROSPEKTGESETZ*) AND THE GERMAN INVESTMENT ACT (*INVESTMENTGESETZ*), RESPECTIVELY, AND ANY OTHER LAWS AND REGULATIONS APPLICABLE IN THE FEDERAL REPUBLIC OF GERMANY GOVERNING THE ISSUE, THE OFFERING AND THE SALE OF SECURITIES.

THE OFFERED SECURITIES ARE NOT AND ARE NOT INTENDED TO BE DISTRIBUTED BY WAY OF PUBLIC OFFERING, PUBLIC ADVERTISEMENT OR IN A SIMILAR MANNER WITHIN THE

MEANING OF THE GERMAN SECURITIES PROSPECTUS ACT AND THE GERMAN INVESTMENT ACT NOR SHALL THE DISTRIBUTION OF THIS OFFERING MEMORANDUM CONSTITUTE SUCH PUBLIC OFFER. THE OFFERED SECURITIES WILL ONLY BE SOLD TO PERMITTED INSTITUTIONAL INVESTORS IN THE FEDERAL REPUBLIC OF GERMANY AND THIS OFFERING MEMORANDUM MAY NOT BE PASSED ON TO ANY OTHER PERSON OR ENTITY IN THE FEDERAL REPUBLIC OF GERMANY. FURTHERMORE, EACH SUBSEQUENT TRANSFEREE/PURCHASER OF THE OFFERED SECURITIES WILL BE DEEMED TO REPRESENT THAT IF IT IS A PERSON OR ENTITY IN THE FEDERAL REPUBLIC OF GERMANY IT IS AN INSTITUTIONAL INVESTOR AND TO AGREE NOT TO OFFER, SELL OR ADVERTISE THE OFFERED SECURITIES TO ANY PERSON OR ENTITY IN THE FEDERAL REPUBLIC OF GERMANY WHO IS NOT AN INSTITUTIONAL INVESTOR.

THE ISSUE OF THE OFFERED SECURITIES HAS NOT BEEN NOTIFIED AND THE OFFERED SECURITIES ARE NOT REGISTERED OR AUTHORISED FOR PUBLIC DISTRIBUTION IN THE FEDERAL REPUBLIC OF GERMANY UNDER THE GERMAN INVESTMENT ACT. THIS OFFERING MEMORANDUM HAS NOT BEEN FILED OR DEPOSITED WITH THE GERMAN FEDERAL SUPERVISORY AGENCY.

NOTICE TO RESIDENTS OF HONG KONG

THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS IN THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

IN HONG KONG THIS DOCUMENT MAY ONLY BE ISSUED, CIRCULATED OR DISTRIBUTED AND THE OFFERED SECURITIES MAY ONLY BE OFFERED FOR SUBSCRIPTION OR PURCHASE: (1) TO PERSONS WHO ARE "PROFESSIONAL INVESTORS" AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571) OF HONG KONG AND ANY RULES MADE UNDER THE ORDINANCE; OR (2) IN OTHER CIRCUMSTANCES: (A) WHICH DO NOT RESULT IN THIS DOCUMENT BEING A "PROSPECTUS" AS DEFINED IN THE COMPANIES ORDINANCE (CHAPTER 32) OF HONG KONG OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THAT ORDINANCE; AND (B) IN WHICH THE ISSUE OR POSSESSION OF THIS DOCUMENT DOES NOT CONSTITUTE AN OFFENCE UNDER SECTION 103(1) OF THE SECURITIES AND FUTURES ORDINANCE.

NOTICE TO RESIDENTS OF JAPAN

THE OFFERED SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN (THE "SECURITIES AND EXCHANGE LAW"). ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO A RESIDENT OF JAPAN EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH THE SECURITIES AND EXCHANGE LAW AND OTHER RELEVANT LAWS AND REGULATIONS OF JAPAN. AS USED IN THIS PARAGRAPH, "RESIDENT OF JAPAN" MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY OFFICE LOCATED IN JAPAN OF ANY CORPORATION ORGANIZED UNDER THE LAWS OF JAPAN OR OTHERWISE.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE OFFERED SECURITIES HAVE NOT AND WILL NOT BE OFFERED TO THE PUBLIC IN THE NETHERLANDS OTHER THAN AN OFFER TO THE PUBLIC IN THE NETHERLANDS:

1. IN THE PERIOD BEGINNING ON THE DATE OF THIS OFFERING MEMORANDUM WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THE NETHERLANDS OR, WHERE APPROPRIATE, APPROVED IN ANOTHER MEMBER STATE AND NOTIFIED TO THE

COMPETENT AUTHORITY IN THAT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE AND ENDING ON THE DATE WHICH IS 12 MONTHS AFTER THE DATE OF THIS OFFERING MEMORANDUM;

2. AT ANY TIME IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS PURSUANT TO SECTION 5:3 OF THE ACT ON THE FINANCIAL SUPERVISION (*WET OP HET FINANCIEEL TOEZICHT*) OR PURSUANT TO SECTION 53 THROUGH 55 OF THE EXEMPTION REGULATION PURSUANT TO THE ACT ON THE FINANCIAL SUPERVISION (*VRIJSTELLINGSREGELING WET HET FINANCIEEL TOEZICHT*).

NOTICE TO RESIDENTS OF SINGAPORE

THIS OFFERING MEMORANDUM HAS NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE UNDER THE SECURITIES AND FUTURES ACT (CAP. 289) OF SINGAPORE (THE "SECURITIES AND FUTURES ACT"). ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD OR MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE NOR MAY THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE OR INVITATION FOR SUBSCRIPTION OR PURCHASE OF ANY OFFERED SECURITIES BE CIRCULATED OR DISTRIBUTED, WHETHER DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN (A) TO AN INSTITUTIONAL INVESTOR PURSUANT TO SECTION 274 OF THE SECURITIES AND FUTURES ACT, (B) TO A RELEVANT PERSON, OR ANY PERSON PURSUANT TO SECTION 275 OF THE SECURITIES AND FUTURES ACT, AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SECURITIES AND FUTURES ACT OR (C) OTHERWISE THAN PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE EXEMPTION OF THE SECURITIES AND FUTURES ACT.

INVESTORS SHOULD NOTE THAT ANY SUBSEQUENT SALE OF THE OFFERED SECURITIES ACQUIRED PURSUANT TO THE OFFER IN THIS OFFERING MEMORANDUM WITHIN A PERIOD OF SIX MONTHS FROM THE DATE OF INITIAL ACQUISITION IS RESTRICTED TO (A) INSTITUTIONAL INVESTORS, (B) RELEVANT PERSONS AS DEFINED IN SECTION 275(2) OF THE SECURITIES AND FUTURES ACT, AND (C) PERSONS PURSUANT TO AN OFFER REFERRED TO IN SECTION 275(1A) OF THE SECURITIES AND FUTURES ACT.

THE ISSUER, THE CO-ISSUER AND THE INITIAL PURCHASER AGREE TO NOTIFY (WHETHER THROUGH THE DISTRIBUTION OF THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE OR INVITATION FOR SUBSCRIPTION OR PURCHASE OF ANY OFFERED SECURITIES OR OTHERWISE) EACH OF THE FOLLOWING RELEVANT PERSONS SPECIFIED IN SECTION 276 OF THE SECURITIES AND FUTURES ACT WHICH HAS SUBSCRIBED OR PURCHASED OFFERED SECURITIES FROM AND THROUGH ISSUER, THE CO-ISSUER OR THE INITIAL PURCHASER, NAMELY A PERSON WHO IS:

(i) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(ii) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY IS AN ACCREDITED INVESTOR,

THAT SHARES, DEBENTURES AND UNITS OF SHARES AND DEBENTURES OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST IN THE TRUST SHALL NOT BE TRANSFERABLE FOR SIX MONTHS AFTER THAT CORPORATION OR TRUST HAS ACQUIRED THE OFFERED SECURITIES UNDER SECTION 275 OF THE SECURITIES AND FUTURES ACT EXCEPT: (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT OR TO A RELEVANT PERSON, OR ANY PERSON PURSUANT TO SECTION 275 OF THE SECURITIES AND FUTURES ACT, AND IN ACCORDANCE WITH THE CONDITIONS, SPECIFIED IN SECTION 275 OF THE

SECURITIES AND FUTURES ACT; (II) WHERE NO CONSIDERATION IS GIVEN FOR THE TRANSFER; OR (III) BY OPERATION OF LAW.

NOTICE TO RESIDENTS OF SWITZERLAND

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE A "PROSPECTUS" WITHIN THE MEANING OF ART. 652A AND/OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR WITHIN THE MEANING OF ART. 5 OR ART. 120 OF THE SWISS COLLECTIVE INVESTMENT SCHEMES ACT. THE OFFERED SECURITIES MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY IN OR OUT OF SWITZERLAND OR TO SWISS BASED POTENTIAL INVESTORS, EXCEPT IN CIRCUMSTANCES WHICH WILL NOT RESULT IN THE OFFER OF THE OFFERED SECURITIES BEING A PUBLIC OFFERING OR ADVERTISING IN OR OUT OF SWITZERLAND WITHIN THE MEANING OF THE SWISS CODE OF OBLIGATIONS, THE SWISS COLLECTIVE INVESTMENT SCHEMES ACT AND ALL OTHER APPLICABLE LAWS AND REGULATIONS OF SWITZERLAND.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT PREPARED IN CONNECTION WITH THE OFFERING AND ISSUANCE OF THE OFFERED SECURITIES MAY ONLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED IN THE UNITED KINGDOM TO A PERSON IN CIRCUMSTANCES SPECIFIED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY TO THE ISSUER.

INFORMATION AS TO PLACEMENT WITHIN THE CAYMAN ISLANDS

The Offered Securities may not be offered to members of the public in the Cayman Islands pursuant to S. 194 of The Companies Law (2007 Revision) of the Cayman Islands.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act ("**Rule 144A**") in connection with the sale of the Offered Securities, the Co-Issuers (or, in the case of the Preference Shares, the Issuer) will be required under the Indenture to furnish upon request of a holder of an Offered Security to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Co-Issuers are not reporting companies under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or are exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Neither the Issuer nor the Co-Issuer is expected to become a reporting company or to be exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

LANGUAGE OF DOCUMENTS / *LANGAGE DES DOCUMENTS*

By accepting this Offering Memorandum, the purchaser acknowledges that it is its express wish that all documents evidencing or relating in any way to the sale of the Offered Securities be drawn up in the English language only. *Par son acceptation de ce document, l'acheteur reconnait par les présentes que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés en anglais seulement*.

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SUMMARY OF TERMS

The following summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Memorandum. An index of defined terms appears at the back of this Offering Memorandum.

Securities Offered: .....

U.S.$850,000,000 Class A-1 Floating Rate Notes due 2047 (the "**Class A-1 Notes**").

U.S.$6,227,000 Class S Floating Rate Notes due 2017 (the "**Class S Notes**").

U.S.$106,000,000 Class A-2 Floating Rate Notes due 2047 (the "**Class A-2 Notes**" and, together with the Class A-1 Notes, the "**Class A Notes**").

U.S.$21,000,000 Class B Floating Rate Notes due 2047 (the "**Class B Notes**").

U.S.$11,500,000 Class C Floating Rate Deferrable Notes due 2047 (the "**Class C Notes**").

U.S.$2,500,000 Class D Floating Rate Deferrable Notes due 2047 (the "**Class D Notes**" and, together with the Class A Notes, the Class S Notes, the Class B Notes and the Class C Notes, the "**Notes**").

9,000 Preference Shares, with a par value of U.S.$0.01 per share (the "**Preference Shares**").

The Notes are being offered by the Notes Offering Memorandum of the Co-Issuers. The Preference Shares are being offered by the Preference Shares Offering Memorandum of the Issuer. The Notes and the Preference Shares offered hereby are referred to herein as the "**Offered Securities**."

Each of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes is herein referred to as a "**Class**."

Lehman Brothers Inc. and Lehman Brothers International (Europe) (collectively, in such capacity, the "**Initial Purchasers**") expect to deliver the Offered Securities to purchasers (the "**Original Purchasers**") on or about August 16, 2007 (the "**Closing Date**"). The Initial Purchasers may resell the Offered Securities in individually-negotiated transactions.

The Notes will be issued and secured pursuant to an Indenture, dated as of the Closing Date (the "**Indenture**"), among the Issuer, the Co-Issuer and LaSalle Bank National Association, as trustee (in such capacity, together with its successors in such capacity, the "**Trustee**"). The Hedge Counterparties, the Credit Default Swap Counterparty, the Collateral Manager and the Preference Share Paying Agent will each be express third party beneficiaries of the Indenture. See "*Description of the Notes—Status and Security*" and "*—The Indenture.*" The Notes will be limited-recourse debt obligations of the Issuer and non-recourse debt obligations of the Co-Issuer secured solely by a pledge of the

Collateral by the Issuer to the Trustee pursuant to the Indenture for the benefit of the holders from time to time of the Notes, the Trustee, the Collateral Manager, the Credit Default Swap Counterparty, each Synthetic Security Counterparty (but only to the extent of assets credited to the Synthetic Security Counterparty Account for the benefit of such Synthetic Security Counterparty), the Total Return Swap Counterparty and each Hedge Counterparty (collectively, the "**Secured Parties**"). See "*Description of the Notes—Status and Security*."

The Preference Shares will be issued pursuant to the Memorandum and Articles of Association and certain resolutions of the Directors of the Issuer passed prior to the Closing Date (together, the "**Issuer Charter**"). Distributions on the Preference Shares will also be subject to the provisions of a Preference Share Paying Agency Agreement dated as of the Closing Date (the "**Preference Share Paying Agency Agreement**" and, together with the Indenture, the Issuer Charter and written resolutions of the Issuer, the "**Preference Share Documents**") among the Issuer, LaSalle Bank National Association, as transfer agent and paying agent on the Preference Shares (in such capacity, the "**Preference Share Paying Agent**") and Deutsche Bank (Cayman) Limited as preference share registrar (the "**Preference Share Registrar**"). The Trustee will also act as paying agent for the Notes, as calculation agent and transfer agent for the Notes and as LIBOR calculation agent under the Indenture.

All of the Class A-1 Notes are entitled to receive payments *pari passu* among themselves, all of the Class S Notes are entitled to receive payments *pari passu* among themselves, all of the Class A-2 Notes are entitled to receive payments *pari passu* among themselves, all of the Class B Notes are entitled to receive payments *pari passu* among themselves, all of the Class C Notes are entitled to receive payments *pari passu* among themselves and all of the Class D Notes are entitled to receive payments *pari passu* among themselves.

With respect to Interest Proceeds, the relative order of Seniority of payment of each Class of Notes is, subject to the Priority of Payments, as follows: *first*, the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *second*, the Class A-2 Notes, *third*, the Class B Notes, *fourth*, the Class C Notes and *fifth*, the Class D Notes with (a) each Class of Notes (other than the Class D Notes) in such list being "Senior" or in "Seniority" to each Class of Notes that follows such Class in such list and (b) each Class of Notes (other than the Class A-1 Notes and Class S Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full.

With respect to Principal Proceeds, the relative order of Seniority of payment of each Class of Notes is as follows: *first*, the Class A-1 Notes and the Class S Principal Payment, on a *pari passu* basis, *second*, the remaining balance of the Class S Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and *sixth*, the Class D Notes; *provided* that Principal Proceeds will be applied on each Distribution Date if (A) no Coverage Test has been breached on the applicable or any prior Determination Date and (B) the Pro Rata

	Payment Conditions are satisfied, to pay principal of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, *pro rata*, and, otherwise, to the payment of principal of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, sequentially, as described in the Principal Proceeds Waterfall. The amount and frequency of principal payments of a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest received with respect to the Collateral Debt Securities. See "*Description of the Notes—Priority of Payments*."
The Co-Issuers:	Ceago ABS CDO 2007-1, Ltd. (the "**Issuer**") is an exempted company with limited liability that was incorporated on June 14, 2007 under The Companies Law (2007 Revision) of the Cayman Islands (as the same may be amended, supplemented or revised from time to time) pursuant to the Issuer Charter. The entire share capital of the Issuer consists of 250 ordinary shares, par value U.S.$1.00 per share, each of which is and will be held in trust for charitable purposes in the Cayman Islands by Deutsche Bank (Cayman) Limited (the "**Share Trustee**") under the terms of a declaration of trust. The Indenture will provide that the activities of the Issuer are limited to (1) issuing and selling the ordinary shares and the Notes pursuant to the Indenture and the Preference Shares pursuant to the Preference Share Paying Agency Agreement, (2) acquiring, holding, pledging, disposing and selling, solely for its own account, Collateral Debt Securities and other Collateral described in the Indenture, the collateral described in the Preference Share Paying Agency Agreement, and the limited liability membership interests of the Co-Issuer, (3) entering into, and performing obligations under, the Indenture, the Interest Rate Hedge Agreement, the Basis Swap Agreement, the Credit Default Swap Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Administration Agreement, the Subscription Agreements and the Preference Share Paying Agency Agreement, as applicable, and (4) other activities incidental to the foregoing. Ceago ABS CDO 2007-1, LLC, a Delaware limited liability company (the "**Co-Issuer**" and, together with the Issuer, the "**Co-Issuers**"), was organized for the sole purpose of co-issuing the Notes. The entire authorized share capital of the Co-Issuer is owned by the Issuer. The Issuer will not have any material assets other than the Collateral and its equity interest in the Co-Issuer. The Co-Issuer will not have any assets (other than the proceeds of its shares, being U.S.$250) and will not pledge any assets to secure the Notes. The Co-Issuer will not have any interest in the Collateral Debt Securities held by the Issuer.
Collateral Manager:	Lehman Brothers Asset Management LLC, a limited liability company organized under the laws of the State of Delaware ("**LBAM**" or the "**Collateral Manager**"), a wholly-owned subsidiary of Lehman Brothers Holdings, Inc. ("**LBHI**"), will select and manage the Collateral under a collateral management agreement to be entered into between the Issuer and the Collateral Manager (the "**Collateral Management Agreement**"). Pursuant to the Collateral Management Agreement and in accordance with the Indenture, the Collateral

	Manager will manage the selection, acquisition and disposition of the Collateral Debt Securities, including the entry into and termination or assignment of CDS Agreement Transactions and other Synthetic Securities, on behalf of the Issuer (including exercising rights and remedies associated with the Collateral Debt Securities) based on the restrictions set forth in the Indenture (including the Eligibility Criteria described herein) and on the Collateral Manager's research, credit analysis and judgment (subject to the standard of care set forth in the Collateral Management Agreement). The Collateral Manager will also monitor the Hedge Agreements and the Credit Default Swap Agreement on behalf of the Issuer. The Collateral Manager will receive certain fees for such management functions on each Distribution Date (to the extent funds are available therefor pursuant to the Priority of Payments set forth in the Indenture and described herein). For a summary of the provisions of the Collateral Management Agreement and certain other information concerning the Collateral Manager and key individuals associated therewith who will be managing the Issuer's portfolio, see "*Risk Factors—Certain Conflicts of Interest—The Collateral Manager,*" "*The Collateral Manager*" and "*The Collateral Management Agreement*."
Use of Proceeds:	The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$1,005,327,000. The net proceeds from the issuance and sale of the Offered Securities are expected to be approximately U.S.$992,343,361, which reflects the payment from such gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchasers, the Trustee, the Hedge Counterparties, the Credit Default Swap Counterparty and the Collateral Manager and the fees and expenses payable in connection with the ratings of the Notes), the expenses related to the offering of the Offered Securities (including fees payable to the Initial Purchasers in connection with the underwriting and placement of the Offered Securities), expenses related to the Hedge Agreements, the Credit Default Swap Agreement and the initial deposits into the Expense Account, the Closing Date Expense Account, the Interest Reserve Account and the Periodic Interest Reserve Account, among others. Such net proceeds will be used by the Issuer to purchase interests in the Collateral Debt Securities and accrued interest thereon. See "*Security for the Notes*" and "*Use of Proceeds*."
Interest Payments on the Notes:	The Class A-1 Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) *plus* 0.40%. The Class S Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) *plus* 0.40%. The Class A-2 Notes will bear interest at a floating rate per annum equal to LIBOR (determined as described herein) *plus* 2.25%. The Class B Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 3.50%. The Class C Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 7.00%. The Class D Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 9.00%.

Interest on the Notes and interest on Defaulted Interest and Deferred Interest in respect thereof will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest on the Notes will accrue from the Closing Date. Accrued and unpaid interest will be payable quarterly in arrears on each Distribution Date, if and to the extent that funds are available on such Distribution Date in accordance with the Priority of Payments set forth herein. See "*Description of the Notes—Interest*."

So long as any Classes of Notes remain outstanding that are senior to any of the Class C Notes or Class D Notes, the failure on any Distribution Date to make payment in respect of interest on the Class C Notes or Class D Notes, as the case may be, by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes or Class D Notes that is not paid when due by operation of the Priority of Payments will be deferred (such interest being referred to herein as "**Class C Deferred Interest**" and "**Class D Deferred Interest**," respectively, and collectively as "**Deferred Interest**"). Any Deferred Interest will not be added to the Aggregate Outstanding Amount of the related Class of Notes but interest will accrue on such Deferred Interest at the rate applicable to such Class until such Deferred Interest is paid in full.

So long as any Class A Notes or Class B Notes remain outstanding, if any Class AB Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of interest on the Class C Notes, the Class D Notes and the Preference Shares among other things, may be used instead to redeem each Class of Notes Senior to the Class C Notes (in accordance with the Priority of Payments).

So long as any Class A Notes, Class B Notes or Class C Notes remain outstanding, if any Class C Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of interest on the Class D Notes among other things, may be used instead to redeem each Class of Notes Senior to the Class D Notes (in accordance with the Priority of Payments).

So long as any Class A Notes, Class B Notes, Class C Notes or Class D Notes remain outstanding, if the Class D Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of the Preference Shares among other things, may be used instead to redeem each Class of Notes Senior to the Preference Shares (in accordance with the Priority of Payments).

Ramp-Up Period:..... During the period from, and including, the Closing Date to, and including, the Ramp-Up Completion Date (such period, the "**Ramp-Up Period**"), the Collateral Manager, on behalf of the Issuer, may direct the Trustee to apply Principal Proceeds and Uninvested Proceeds to purchase Collateral Debt Securities for inclusion in the Collateral.

The Issuer, or the Collateral Manager on its behalf, will notify the Trustee, each of the Rating Agencies and each Hedge Counterparty in

writing of the occurrence of the Ramp-Up Completion Date (such notice, the "**Ramp-Up Notice**") within five Business Days (as defined herein) following the Ramp-Up Completion Date, and request that Standard & Poor's (and Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) confirm in writing within 30 days after the delivery of the Ramp-Up Notice that it has not reduced or withdrawn any Initial Rating assigned by it on the Closing Date to any Class of the Notes (such notification, a "**Rating Confirmation**"); *provided* that if the Ramp-Up Completion Date occurs on the Closing Date, then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date will constitute a Rating Confirmation and no further action will be required in connection with the Ramp-Up Completion Date. If Standard & Poor's (or Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) does not provide such written confirmation prior to the Determination Date immediately following the date that is 30 days after the delivery of the Ramp-Up Notice, a "**Ratings Confirmation Failure**" will occur. In the event of a Ratings Confirmation Failure, and provided a Proposed Plan cannot be agreed to between the Collateral Manager, on behalf of the Issuer, and the Rating Agencies, the Issuer will be required on the Distribution Date relating to such Determination Date to apply, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes in accordance with the Priority of Payments and as and to the extent necessary for each Rating Agency to confirm, or to confirm that it has restored, as applicable, each such Initial Rating assigned by it to each such Class of Notes on the Closing Date. See "*Description of the Notes—Priority of Payments*" and "*Security for the Notes—Proposed Plan*."

Maturity; Average Life:..... The stated maturity of each Class of Notes (other than the Class S Notes) is the Distribution Date occurring in October 2047 (with respect to each Class of Notes other than the Class S Notes, the "**Stated Maturity**"), and the stated maturity of the Class S Notes is the Distribution Date occurring in October 2017 (with respect to the Class S Notes, the "**Stated Maturity**"). Each Class of Notes will mature at its Stated Maturity unless redeemed or repaid prior thereto. The average life of each Class of Notes may be less than the number of years until the Stated Maturity of the related Notes. See "*Risk Factors—Projections, Forecasts and Estimates*."

"**Maturity**" means, with respect to any Note, the date on which all outstanding unpaid principal of such Note becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

Principal Repayment of the Notes:	Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes, with principal of a Class of Notes being paid prior to the payment of principal of each other Class of Notes then outstanding that is Subordinate to the Class of Notes being paid, provided that the Class A-1 Notes and the Class S Principal Payment will be paid on a *pari passu* basis; *provided* that Principal Proceeds will be applied on each Distribution Date if (A) no Coverage Test has been breached on the applicable or any prior Determination Date and (B) the Pro Rata Payment Conditions are satisfied, to pay principal of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, *pro rata*, and, otherwise, to pay principal of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, sequentially, as described in the Principal Proceeds Waterfall. The amount and frequency of principal payments of a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest received with respect to the Collateral Debt Securities. The Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor on any Distribution Date under the circumstances described in "*Description of the Notes—Optional Redemption and Tax Redemption*," and "*—Priority of Payments—Principal Proceeds*" and, on and after the Note Acceleration Date, under the circumstances described in "*Description of the Notes—Auction Call Redemption*" and "*—Clean-Up Call Redemption*." "**Pro Rata Payment Conditions**" means conditions that will be satisfied, as of any Distribution Date, if (a) on the related Determination Date, the Net Outstanding Portfolio Collateral Balance is equal to or greater than 50% of the Aggregate Ramp-Up Par Amount and has not previously fallen below 50% of the Aggregate Ramp-Up Par Amount, (b) the Class AB Pro Rata Test is satisfied on the related Determination Date and has not previously failed to be met, (c) no Event of Default has occurred and is continuing as of the related Determination Date, (d) no Classes of Rated Notes have been downgraded by any Rating Agency and (e) none of the Class A Notes, Class B Notes or Class C Notes have been put on negative watch. "**Class AB Pro Rata Test**" means a test that is satisfied on any Measurement Date if the Net Outstanding Portfolio Collateral Balance *divided* by the sum of (x) the Aggregate Outstanding Amount of the Class A-1 Notes, (y) the Aggregate Outstanding Amount of the Class A-2 Notes and (z) the Aggregate Outstanding Amount of the Class B Notes is equal to or greater than 100.35%.
Principal Repayment of the Preference Shares:	Until the Notes have been paid in full, Principal Proceeds will not be available to pay principal of the Preference Shares. After the Notes have been paid in full, Principal Proceeds remaining after all other applications under the Priority of Payments will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders on each Distribution Date. Distributions will

be made in cash (except certain liquidating distributions). See "*Description of the Preference Shares—Distributions*."

There can be no assurance that the Principal Proceeds available after the Notes and certain expenses have been paid in full will be sufficient to repay the principal amount of the Preference Shares. Failure to pay the full principal amount of the Preference Shares will in no event constitute an Event of Default. An Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption may be consummated even if the principal amount of the Preference Shares will not be repaid; *provided* that under certain circumstances described in "*Description of the Notes—Auction Call Redemption*," the Preference Shareholders may need to have received a certain Internal Rate of Return with respect to the Preference Shares in order for an Auction Call Redemption to proceed.

The Trustee will remit funds to the Preference Share Paying Agent in accordance with the Priority of Payments for payment on behalf of the Issuer to the holders of the Preference Shares in respect of dividends and other distributions thereon subject to the provisions of the Preference Share Paying Agency Agreement. Dividends and other distributions on the Preference Shares will be payable on each Distribution Date to the extent funds are available therefor in accordance with the Priority of Payments, continuing through (but excluding) the Distribution Date occurring in October 2047 (the "**Scheduled Preference Shares Redemption Date**") or such earlier date on which the Preference Shares are redeemed, including in connection with an optional redemption (such date, the "**Final Preference Shares Redemption Date**").

The holders of the Preference Shares will not be entitled (whether at redemption or otherwise) to any return of capital and will receive payments only to the extent that dividends or other distributions on the Preference Shares are made in accordance with the Priority of Payments subject to the provisions of the Preference Share Paying Agency Agreement. If the Issuer does not have sufficient profits and/or share premium under Cayman Islands law to pay a dividend for which it has funds available in accordance with the Priority of Payments, no dividend will be paid until sufficient profits and/or share premium become available. Such amounts, however, will be released from the lien granted to the Noteholders and other Secured Parties under the Indenture and will not be available to make future payments of principal of and interest on the Notes, make payments to the Credit Default Swap Counterparty or Hedge Counterparties, or to pay fees and expenses of the Co-Issuers.

Following the liquidation of the Collateral and the distribution of any available remaining funds following a redemption of the Notes or an Event of Default under the Indenture or otherwise (whether before, on or after the Scheduled Preference Shares Redemption Date), the Preference Shares, subject to Cayman Islands law, will be redeemed at a redemption price calculated based on the amounts remaining, if any, after payment of senior amounts under the Priority of Payments, the return of U.S.$250 of capital to the owner of the Issuer's ordinary shares and the payment of a U.S.$250 profit fee to the owner of the Issuer's ordinary shares and interest thereon. The Preference Shares

	will be redeemed by the Issuer on the Final Preference Shares Redemption Date, whether or not any amounts are available to the Issuer for distribution to the holders of the Preference Shares in connection with such redemption.
Mandatory Redemption:	Each Class of Notes will, on any Distribution Date, be subject to mandatory redemption (a "**Mandatory Redemption**"), in the event that any Coverage Test applicable to such Class of Notes or any Class of Notes which is subordinate to such Class of Notes is not satisfied on the related Determination Date. Any such redemption will be effected, *first*, from Interest Proceeds and, *second* (to the extent that the application of Interest Proceeds pursuant to the Priority of Payments would be insufficient to cause such tests to be satisfied), from Principal Proceeds, in each case, to the extent necessary to cause each applicable Coverage Test to be satisfied. Any such redemption will be applied to the repayment of the Notes (sequentially in direct descending order of Seniority) in accordance with the Priority of Payments. In the event of a Ratings Confirmation Failure, as described under "*Description of the Notes—Mandatory Redemption*," the Issuer will be required to apply on the Distribution Date relating to the Determination Date as of which such failure occurs, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes (sequentially in direct descending order of Seniority) in accordance with the Priority of Payments and as and to the extent necessary to obtain a Rating Confirmation. On the Note Acceleration Date and on each Distribution Date thereafter, if the Notes are not redeemed in full prior to such date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders as interest on the Preference Shares will be applied to pay principal of the Notes sequentially in reverse order of Seniority until each Class of Notes has been paid in full. See "*Description of the Notes—Mandatory Redemption*" and "*—Priority of Payments—Interest Proceeds*."
Optional Redemption and Tax Redemption of the Notes:.....	Subject to certain conditions described herein, on any Distribution Date occurring on or after the Distribution Date occurring in October 2008, the Issuer may redeem the Notes (such redemption, an "**Optional Redemption**"), in whole but not in part, at the direction of a Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor. See "*Description of the Notes—Optional Redemption and Tax Redemption*." In addition, upon the occurrence of a Tax Event, the Issuer may redeem the Notes (such redemption, a "**Tax Redemption**"), in whole but not in part (i) at the direction of the holders of a Majority of any Class of Notes that, as a result of the occurrence of such Tax Event, has not received 100% of the aggregate amount of principal and interest payable to such Class on any Distribution Date (each such Class, an "**Affected Class**") or (ii) at the direction of a Majority-in-Interest of the Preference Shareholders. Any such redemption of the Notes may only be effected on a Distribution Date and only from (a) the sale proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Interest

Reserve Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account and the Payment Account on the relevant Distribution Date, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all sale proceeds under clause (a) above are used to make such a Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to redeem all of the Notes simultaneously and to pay certain other amounts (including any fees and expenses incurred by the Trustee and the Collateral Manager in connection with the sale of Collateral Debt Securities payable by the Issuer) in accordance with the procedures set forth in the Indenture and (iii) the Tax Materiality Condition is satisfied.

In the event of an Optional Redemption or a Tax Redemption as described above, the Notes will be redeemed at their Redemption Prices. In connection with any Optional Redemption occurring prior to the Distribution Date in October 2011, holders of the Class A-1 Notes will be entitled to receive the Class A-1 Make-Whole Amount.

See "*Description of the Notes—Optional Redemption and Tax Redemption*."

Auction Call Redemption: ..... In addition, if the Notes have not been (or will not be) redeemed in full, prior to, or on, the Note Acceleration Date, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer and the Issuer will request the Credit Default Swap Counterparty and each other Synthetic Security Counterparty to determine the termination or assignment payment that will be due to it or the Issuer, as the case may be, if the CDS Agreement Transactions and Synthetic Securities are terminated or assigned and, provided that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on the Note Acceleration Date. If such conditions are not satisfied and the auction is not successfully conducted on the Note Acceleration Date, the Trustee will conduct auctions on a quarterly basis until the Notes are redeemed in full. The Auction will be conducted not later than 10 Business Days prior to (1) the Note Acceleration Date and (2) if the Notes are not redeemed in full on the related Distribution Date, each Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "**Auction Date**").

Notwithstanding the foregoing, the Trustee will not conduct an Auction on an Auction Date if (i) from (and including) the Distribution Date in October 2012 to (and including) the Distribution Date in October 2013 there would be insufficient funds to provide the Preference Shareholders with a combined internal rate of return from the Closing Date of at least 5% or, following the Distribution Date in October 2013, there would be insufficient funds to provide the Preference Shareholders with a combined internal rate of return from the Closing Date of at least 0%, unless the Preference Shareholders waive such requirement by vote of 100% of the Preference Shareholders, or (ii) an unsuccessful Auction was conducted on the preceding Auction Date and the Collateral Manager notifies the Trustee that, due to market conditions, an Auction on such Auction Date is unlikely to be successful. See "*Description of the Notes—Auction Call Redemption*."

Optional Redemption of the Preference Shares:	Subject to certain conditions described herein, on any Distribution Date on or after the Distribution Date on which the Notes have been paid in full, the Preference Shares may be redeemed, in whole but not in part, at the direction of a Majority-in-Interest of Preference Shareholders, at the redemption price therefor. See "*Description of the Preference Shares—Optional Redemption*."
Clean-Up Call Redemption:	Subject to certain conditions described herein, at the direction of the Collateral Manager, the Notes will be subject to redemption by the Issuer (a "**Clean-Up Call Redemption**"), in whole but not in part, at the applicable Redemption Price therefor, on any Distribution Date selected by the Collateral Manager on or after the Distribution Date on which the Aggregate Outstanding Amount of the Notes is less than or equal to 10% of the original Aggregate Outstanding Amount of such Notes. See "*Description of the Notes—Clean-Up Call Redemption*."
Security for the Notes and the Preference Shares:	Pursuant to the Indenture, the Notes, together with the Issuer's obligations to the Collateral Manager, the Trustee, the Credit Default Swap Counterparty under the Credit Default Swap Agreement and the Hedge Counterparties under the Hedge Agreements, will be secured by: (i) the Collateral Debt Securities and Equity Securities; (ii) the rights of the Issuer under the Hedge Agreements; (iii) the Payment Account, the Interest Collection Account, the Interest Reserve Account, the Principal Collection Account, each Synthetic Security Counterparty Account (but with respect to any Synthetic Security Counterparty Account, subject to the prior lien of the applicable Synthetic Security Counterparty or Asset Hedge Counterparty (as applicable) with respect to which each such account (or sub-account thereof) relates), the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account, the Custodial Account, any Issuer Collateral Account and each Hedge Counterparty Collateral Account and Eligible Investments purchased with funds on deposit in such accounts and all income from the investment of funds therein; (iv) for the benefit of the Credit Default Swap Counterparty (to the extent necessary to secure the Issuer's obligations under the Credit Default Swap Agreement), the Issuer's security interest in the Synthetic Security Counterparty Account; (v) the Issuer's right to any investment income in any Synthetic Security Counterparty Account; (vi) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Credit Default Swap Agreement and the Subscription Agreements; (vii) all cash delivered to the Trustee; and (viii) all proceeds of the foregoing (collectively, the "**Collateral**"). In the event of any realization on the Collateral, proceeds will be allocated to the payment of each Class of Notes in accordance with the respective priorities established by the Priority of Payments. None of the Preference Shares will be secured by the Collateral.
Acquisitions and Dispositions of Collateral:	On the Closing Date, the Issuer will have purchased (or entered into agreements to purchase for settlement following the Closing Date) Collateral Debt Securities and entered into CDS Agreement Transactions or other Synthetic Securities having an Aggregate

Principal Balance of not less than U.S.$900,000,000 of the Aggregate Ramp-Up Par Amount. The Issuer expects that, no later than the Ramp-Up Completion Date, it will have purchased (or entered into commitments to purchase) Collateral Debt Securities (including amounts standing to the credit of the Principal Collection Account) (and entered into additional CDS Agreement Transactions or other Synthetic Securities), having an Aggregate Principal Balance of at least U.S.$1,010,000,000 (the "**Aggregate Ramp-Up Par Amount**").

The Collateral Debt Securities purchased by the Issuer will, on the date of purchase, have the characteristics and satisfy the criteria set forth herein under "*Security for the Notes—Collateral Debt Securities*" and "*—Eligibility Criteria.*" Although the Issuer expects that the Collateral Debt Securities purchased by it will, on the Ramp-Up Completion Date, satisfy the Collateral Quality Tests, the Class AB Pro Rata Test and the Coverage Tests (if applicable), described herein, there is no assurance that such tests will be satisfied on such date. Failure to satisfy such tests following the Closing Date may result in, among other things, the repayment or redemption of a portion of the Notes (according to the priority specified in the Priority of Payments). See "*Description of the Notes—Mandatory Redemption*."

No investment will be made in Collateral Debt Securities after the Ramp-Up Completion Date.

The Collateral Quality Tests and certain of the Eligibility Criteria are summarized below. Required percentages, unless otherwise indicated, are specified as a percentage of the Net Outstanding Portfolio Collateral Balance as of the related Measurement Date, *provided* that the Eligibility Criteria are not applicable after the Ramp-Up Completion Date; *provided further* that the Net Outstanding Portfolio Collateral Balance will equal $1,010,000,000 for purposes of calculating the Eligibility Criteria.

There can be no assurance that any of the Collateral Quality Tests and the Eligibility Criteria will remain satisfied after the Ramp-Up Completion Date.

Collateral Quality Tests	Required
Moody's Asset Correlation Factor[(1)]	Max 23%
Moody's Weighted Average Rating Factor	Max 50
Moody's Weighted Average Recovery Rate	Min 45.5%
Weighted Average Life (years)	Max 5.3
S&P Weighted Average Recovery Rate—Class A	Min 53.5%
S&P Weighted Average Recovery Rate—Class S	Min 53.5%
S&P Weighted Average Recovery Rate—Class B	Min 61.0%
S&P Weighted Average Recovery Rate—Class C	Min 69.0%
S&P Weighted Average Recovery Rate—Class D	Min 75.0%
Weighted Average Coupon	Min 5.85%
Weighted Average Spread	Min 1.19%

(1) For purposes of the calculation of the Moody's Asset Correlation Factor the number of assets is equal to 130.

Eligibility Criteria	Required
Non-U.S. securities	None Permitted
Non-U.S.$ denominated securities	None Permitted
Excluded Securities, Credit Risk Securities, Defaulted Securities, Deferred Interest PIK Bonds, Index Securities, Interest-Only Securities, PIK Bonds, Principal-Only Securities and Written-Down Securities	None Permitted
Average Life per Collateral Debt Security greater than 8 years	Max 40.0%
Average Life per Collateral Debt Security (years)	Max 13.0
Long-Dated Securities	Max 10.0%
Moody's / S&P Rating of "Aaa" / "AAA"	Min 20.0%
Moody's / S&P Rating below "Aa3" / "AA-" but at least "A3" / "A-"	Max 35.0%
Moody's / S&P public rating of "A3" / "A-"	Max 7.5%
Moody's / S&P Rating below "A3" / "A-"	None Permitted
Downgraded Securities	None Permitted
Fixed Rate Securities (other than Deemed Floating Collateral Debt Securities)	Max 8.4%
Deemed Floating Collateral Debt Securities	Max 10.0%
Single issuer concentration	
Moody's / S&P Rating "Aaa" / "AAA", with 2 exceptions up to 2.5%	Max 2.0%
Moody's / S&P Rating "Aa1" / "AA+", "Aa2" / "AA" or "Aa3" / "AA-", with 2 exceptions up to 1.75%	Max 1.5%
Moody's / S&P Rating "A1" / "A+" or "A2" / "A", with 2 exceptions up to 1.5%, provided that no more than 1 of the 2 exceptions may be a Sub-Prime RMBS Security	Max 1.25%
Moody's / S&P Rating "A3" / "A-"	Max 1.0%
Single RMBS Servicer concentration	
Ranked "Strong" by S&P (or, if not ranked, with an S&P public rating of "AA" or higher), with exceptions for up to 2 Servicers, each up to 25.0%	Max 20.0%
Ranked "Above Average" by S&P (or, if not ranked, with an S&P public rating of "A-" or higher but lower than "AA")	Max 15.0%
Any other RMBS Servicer	Max 7.5%
Synthetic Securities (including credit default swaps on Asset-Backed Securities)[1]	Max 25.0%
CMBS Securities and RMBS Securities	Min 85.0%

Eligibility Criteria	Required
CMBS Securities, RMBS Securities, Credit Card Securities and Structured Finance CDO Securities	Min 100%
RMBS Securities	Max 85.0%
Prime RMBS Securities	Max 7.0%
Mid-Prime RMBS Securities	Max 65.0%
Sub-Prime RMBS Securities	Max 40.0%
Sub-Prime RMBS Securities with Moody's / S&P public rating of "A1" / "A+" or lower	Max 20.0%
Negative Amortization Securities (Moody's / S&P Rating of "Aa3" / "AA-" or higher)	Max 5.0%
Negative Amortization Securities issued within a six-month period (Moody's / S&P Rating of "Aa3" / "AA-" or higher)	Max 2.3%
Credit Card Securities ("prime" only) with Moody's / S&P Rating of "Aa3" / "AA-" or higher	Max 2.0%
Monoline Guaranteed Securities guaranteed by a single monoline (with Moody's / S&P Rating of "Aaa" / "AAA" only)	Max 5.0%
CMBS Securities	Max 20.0%
CMBS Credit Tenant Lease Securities and CMBS Single Property Securities (with Moody's / S&P Rating of "Aaa" / "AAA" only)	Max 1.0%
CMBS Conduit Securities with Moody's / S&P Rating of "Aa3" / "AA-" or higher with the exception of 1.0% with Moody's / S&P Rating below "Aa3" / "AA-" but higher than "A3" / "A-"	Max 10.0%
Commercial Real Estate CDO Securities with Moody's / S&P Rating of "Aa3" / "AA-" or higher	Max 10.0%
CMBS Large Loan Securities with Moody's / S&P Rating of "Aa3" / "AA-" or higher	Max 10.0%
Structured Finance CDO Securities	Max 10.0%
Structured Finance CDO Securities with Moody's / S&P Rating below "Aa3" / "AA-"	None Permitted
Structured Finance CDO Securities and Commercial Real Estate CDO Securities	Max 15.0%
CDO single manager concentration	Max 2.75%
CDO Securities managed by Collateral Manager	None Permitted
Agency Mortgage-Backed Securities	Max 5.0%
Collateral Debt Securities that pay interest less frequently than semi-annually	None Permitted
Collateral Debt Securities that pay interest less frequently than quarterly	Max 2.0%
Collateral Debt Securities that pay interest less frequently than monthly	Max 20.0%

Eligibility Criteria	Required
Step-Up Securities	Max 5.0%
Step-Down Securities	Max 5.0%
Number of obligors	Min 85
Discount Securities	Max 5.0%

(1) All ABS Synthetic Securities will be in the form of Pay-As-You-Go Credit Default Swaps with Fixed Cap.

Liquidation of Collateral Debt Securities: ..... On the Stated Maturity of the Notes, or in connection with any Optional Redemption, Tax Redemption, Auction Call Redemption or the Accelerated Distribution Date, the Collateral Debt Securities, U.S. Agency Securities, Eligible Investments and other Collateral will be liquidated and the Synthetic Securities, including the CDS Agreement Transactions, will be terminated or assigned. All net proceeds from such liquidation or assignment and all available cash will be applied to the payment, in the order of priorities set forth under "*Description of the Notes—Priority of Payments*," of (i) all fees, (ii) all expenses (including certain amounts due to the Hedge Counterparties and the Credit Default Swap Counterparty) and (iii) principal of and interest (including any Defaulted Interest, interest on Defaulted Interest, any Class S Shortfall Amount and any Deferred Interest and any interest thereon) on the Notes. Net proceeds from such liquidation or assignment and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate outstanding amount of the Preference Shares, the return of U.S.$250 of capital to the owner of the Issuer's ordinary shares and the payment of a U.S.$250 profit fee to the owner of the Issuer's ordinary shares and interest thereon will be distributed to the Preference Shareholders.

The Issuer will be dissolved on the earliest to occur of (i) at any time on or after the date one year and two days after the Stated Maturity of the Notes, upon the shareholders' determination to wind-up the Issuer, (ii) at any time after the sale or other disposition of all of the Issuer's assets, upon the shareholders' determination to wind-up the Issuer, (iii) at any time after the Notes are paid in full, upon the shareholders' determination to wind-up the Issuer and (iv) on the date of a dissolution pursuant to the provisions of or as contemplated by Cayman Islands law.

The Directors of the Issuer currently intend, in the event that the Preference Shares are not redeemed at the option of a Majority-in-Interest of Preference Shareholders following the repayment in full of the Notes, to liquidate all of the Issuer's remaining investments in an orderly manner and distribute the proceeds of such liquidation to the Preference Shareholders.

The Credit Default Swap Agreement: ..... On or prior to the Closing Date, the Issuer will enter into an ISDA Master Agreement (Multicurrency—Cross Border) (together with the

schedule and any confirmations thereto, the "**Credit Default Swap Agreement**") with Lehman Brothers Special Financing Inc. (in such capacity, along with any successor, assignee or supplemental party, the "**Credit Default Swap Counterparty**"), for the purpose of entering into Synthetic Securities in the form of credit default swap transactions (each, a "**CDS Agreement Transaction**") under which the Issuer will, as seller of protection, acquire synthetic exposure to the related Reference Obligations. The short-term unsecured and unguaranteed debt obligations of the guarantor of the Credit Default Swap Counterparty are currently rated "A-1" by Standard & Poor's and "P-1" by Moody's. The long-term, unsecured, unsubordinated and unguaranteed debt obligations of the guarantor of the Credit Default Swap Counterparty are currently rated "A+" by Standard & Poor's and "A1" by Moody's.

Each CDS Agreement Transaction will be entered into under a confirmation referencing CDO Securities or a confirmation referencing RMBS Securities or CMBS Securities, and the terms of such CDS Agreement Transaction will be reflected in the relevant confirmation and its Annex A. Accordingly, a sale or other disposition in whole or in part of a CDS Agreement Transaction will result in an amendment of the Annex A to the relevant confirmation.

It is currently expected that the aggregate Notional Amount of CDS Agreement Transactions will be approximately equal to U.S.$200,000,000 as of the Closing Date and that the Issuer will act as seller of protection under all such CDS Agreement Transactions. All of the CDS Agreement Transactions will be subject to the Collateral Quality Tests and the Eligibility Criteria to the extent described herein.

All CDS Agreement Transactions will be documented by a "Form-Approved Synthetic Security" that is substantially in the form of the most recent version of the "Credit Derivative Transaction on Collateralized Debt Obligation with Pay-As-You-Go or Physical Settlement (Dealer Form)" or the "Credit Derivative Transaction on Mortgage-Backed Security With Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)" confirmation template published by ISDA prior to the Closing Date, with the elections described under "*The Credit Default Swap Agreement*."

The Credit Events applicable to each CDS Agreement Transaction may be Failure to Pay Principal, Writedown, Distressed Ratings Downgrade and, in the case of CDO Securities, Failure to Pay Interest. The CDS Agreement Transaction requires the protection seller to pay floating amounts to the protection buyer in amounts equal to (subject to any adjustments set forth in the relevant confirmation to reflect any applicable percentage or reference price) any principal shortfalls, written down amounts and interest shortfalls under the Reference Obligation (calculated, in the case of principal shortfalls and interest shortfalls, as the expected amount less the actual amount received) upon the occurrence of, respectively, a Principal Shortfall, Writedown or Interest Shortfall (any such payment, a "**Floating Payment**"). The protection buyer will be required to reimburse all or part of such floating amounts to the protection seller if they are ultimately paid by the Reference Obligor to holders of the Reference Obligation, within one year (for RMBS Securities and CMBS Securities) or three years

	(for CDO Securities), as applicable, after termination of the applicable CDS Agreement Transaction. A Credit Event in respect of a Reference Obligation will allow the protection buyer to deliver a Credit Event Notice under the related CDS Agreement Transaction. With respect to each CDS Agreement Transaction, the parties to the Credit Default Swap will elect to cap the interest shortfall risk being transferred to the protection seller by limiting amounts to be paid by the protection seller to the protection buyer to the amount of premium payable by the protection buyer under the Synthetic Security on the first premium payment date immediately following the Reference Obligation payment date on which the relevant interest shortfall occurred. An intermediation fee will be subtracted from the premium payable by the Credit Default Swap Counterparty to the Issuer. See "*The Credit Default Swap Agreement*." The Issuer will be obligated to pay the Credit Default Swap Counterparty irrespective of whether the Credit Default Swap Counterparty suffers a loss on a Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the CDS Agreement Transactions.
The Offering:	The Offered Securities are being offered only (a) in the United States in reliance upon an exemption from the registration requirements of the Securities Act to (i) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act, "**Qualified Institutional Buyers**") and (ii) in the case of the Preference Shares, to a limited number of "Institutional Accredited Investors" within the meaning of Section 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act (each, an "**Institutional Accredited Investor**"), in each case, who are also Qualified Purchasers and (b) outside the United States in compliance with Regulation S under the Securities Act ("**Regulation S**") to persons who are not U.S. Persons (as defined in Regulation S). A "**Qualified Purchaser**" means (i) a "qualified purchaser" as defined in Section 2(a)(51)(a) of the Investment Company Act, (ii) a "knowledgeable employee" with respect to the issuer as specified in Rule 3c-5 promulgated under the Investment Company Act, (iii) a company each of whose beneficial owners is a qualified purchaser or a knowledgeable employee, or (iv) a company owned exclusively by qualified purchasers and knowledgeable employees. Each Original Purchaser of a Note will be deemed, and each Original Purchaser of a Preference Share will be required in a subscription agreement (a "**Subscription Agreement**"), to make certain acknowledgments, representations and agreements.
Ratings:	It is a condition to the issuance of the Notes that each of the Class A-1 Notes, the Class S Notes and the Class A-2 Notes be rated "Aaa" by Moody's Investors Service, Inc. ("**Moody's**") and "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" or "**S&P**"), that the Class B Notes be rated at least "Aa2" by Moody's and at least "AA" by Standard & Poor's, that the Class C Notes be rated at least "A2" by Moody's and at least "A" by Standard & Poor's, and that the Class D Notes be rated at least "Baa2" by Moody's and at least "BBB+" by Standard & Poor's. The Preference Shares will not be rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Minimum Denominations:	The Notes will be issuable in a minimum denomination of U.S.$500,000 and will be offered only in such minimum denomination and integral multiples of U.S.$1,000 in excess thereof. The Preference Shares will be issued in minimum lots of 100 shares and increments of one share in excess thereof. After issuance, a Note may fail to be in compliance with the minimum denomination requirement stated above as a result of the repayment of principal thereof in accordance with the Priority of Payments.
Form of the Offered Securities:	Offered Securities that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by (i) in the case of a Note, one or more permanent global notes (each a "**Regulation S Global Note**") and (ii) in the case of a Preference Share, one or more permanent global shares (each a "**Regulation S Global Preference Share**" and, together with the Regulation S Global Notes, the "**Regulation S Global Securities**"), in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, The Depository Trust Company ("**DTC**"), a New York Corporation, or its nominee. Notes that are sold or transferred to a U.S. Person or in the United States in reliance upon an exemption from the registration requirements of the Securities Act under Section 4(2) under the Securities Act ("**Section 4(2)**") or Rule 144A will be represented by one or more permanent global notes ("**Restricted Global Notes**" ") and Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon Rule 144A will be represented by one or more permanent global notes (each a "**Restricted Global Preference Share**" and, collectively with the Restricted Global Notes, the "**Restricted Global Securities**" and, collectively with the Regulation S Global Securities, the "**Global Securities**") in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. The Regulation S Global Preference Shares and the Restricted Global Preference Shares are collectively referred to herein as "**Global Preference Shares**". Under certain limited circumstances described herein, definitive registered Preference Shares may be issued in exchange for Global Preference Shares.
Listing:	There is currently no market for the Offered Securities and there can be no assurance that such a market will develop. See "*Risk Factors—Offered Securities—Limited Liquidity and Restrictions on Transfer*." Application may be made by the Issuer to admit any or all of the Notes on a stock exchange of the Issuer's choice, if practicable. The issuance and settlement of the Offered Securities on the Closing Date are not conditioned on the listing of the Offered Securities on any such stock exchange. No assurance can be given that following the Closing Date the listing of the Offered Securities on such stock exchange will be obtained or, if it is obtained, will be maintained for the entire period that the Offered Securities are outstanding. See "*Listing and General Information*."
Governing Law:	The Notes, the Indenture, the Subscription Agreements, the Collateral Management Agreement, each Hedge Agreement, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Credit Default Swap Agreement and the Securities

Purchase Agreement will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter and the Preference Shares will be governed by, and construed in accordance with, the laws of the Cayman Islands.

Tax Matters: ..... See "*Certain U.S. Federal Income Tax Considerations*."

Benefit Plan Investors:..... See "*Certain ERISA Considerations.*"

CUSIP, Common Code and ISIN ..... The CUSIP, Common Code and International Securities Identification Number (ISIN) assigned to each Class of Offered Securities are as follows:

Security	CUSIP	Common Code	ISIN
Class A-1 Notes			
Rule 144A	14984X AA6	031676100	US14984XAA63
Regulation S	G1990M AA2	031661714	USG1990MAA20
Class S Notes			
Rule 144A	14984X AB4	031676444	US14984XAB47
Regulation S	G1990M AB0	031661773	USG1990MAB03
Class A-2 Notes			
Rule 144A	14984X AC2	031676703	US14984XAC20
Regulation S	G1990M AC8	031661722	USG1990MAC85
Class B Notes			
Rule 144A	14984X AD0	031677114	US14984XAD03
Regulation S	G1990M AD6	031661749	USG1990MAD68
Class C Notes			
Rule 144A	14984X AE8	031677602	US14984XAE85
Regulation S	G1990M AE4	031661757	USG1990MAE42
Class D Notes			
Rule 144A	14984X AF5	031682347	US14984XAF50
Regulation S	G1990M AF1	031661765	USG1990MAF17
Preference Shares			
Rule 144A	14984Y 106	031705894	US14984Y1064
Institutional Accredited Investors	14984Y 205	N/A	US14984Y2054
Regulation S	G1991L 105	031705908	KYG1991L1059

RISK FACTORS

An investment in the Offered Securities involves certain risks. Prospective investors should carefully consider the following factors, in addition to the matters set forth elsewhere in this Offering Memorandum, prior to investing in the Offered Securities.

Risk Factors Relating to the Terms of the Offered Securities

Investor Suitability. An investment in the Offered Securities will not be appropriate for all investors. Structured investment products, like the Offered Securities, are complex instruments, and typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. Any investor interested in purchasing Offered Securities should conduct its own investigation and analysis of the product and consult its own professional advisers as to the risks involved in making such a purchase.

Limited Liquidity and Restrictions on Transfer. There is currently no market for the Offered Securities. Although either of the Initial Purchasers may from time to time make a market in any Class of Notes or the Preference Shares, as the case may be, none of the Initial Purchasers are under any obligation to do so. In the event that either of the Initial Purchasers commences any market making, it may discontinue the same at any time without notice. There can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that such market will provide the holders of such Offered Securities with liquidity of investment or that it will continue for the life of the Offered Securities. In addition, the complexity of modeling for expected returns and the infrequency of rating agency review render it difficult to estimate the market value of the Offered Securities at any given time. Consequently, an investor in the Offered Securities must be prepared to hold its Offered Securities for an indefinite period of time or until the Stated Maturity of the Notes or the Scheduled Preference Shares Redemption Date, as applicable. In addition, no sale, assignment, participation, pledge or transfer of the Offered Securities may be effected if, among other things, it would require any of the Issuer, the Co-Issuer or any of their officers or directors to register under, or otherwise be subject to the provisions of, the Investment Company Act or any other similar legislation or regulatory action. Furthermore, the Offered Securities will not be registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, and the Issuer has no plans, and is under no obligation, to register the Offered Securities under the Securities Act or under the laws of any other jurisdictions. The Offered Securities are subject to certain transfer restrictions and can only be transferred to certain transferees as described under "*Transfer Restrictions*." Such restrictions on the transfer of the Offered Securities may further limit their liquidity. Application is expected to be made to list the Notes on the Irish Stock Exchange, but there can be no assurance that such application will be approved. See "*Listing and General Information*."

Limited Recourse Obligations; Limited Source of Funds. The Notes are limited-recourse debt obligations of the Issuer and non-recourse debt obligations of the Co-Issuer, payable solely from the Collateral Debt Securities, Eligible Investments and other Collateral pledged by the Issuer. The Preference Shares represent an equity interest in the Issuer and will not benefit from the security interest in the Collateral pledged to secure the Noteholders and the other Secured Parties. The Notes are payable solely from the Collateral Debt Securities and other Collateral pledged by the Issuer to secure the Notes pledged by the Issuer to secure the Notes. Amounts available to the Trustee for the making of scheduled payments on the Notes and Preference Shares are payable solely from the Collateral Debt Securities, Eligible Investments and other Collateral pledged by the Issuer to secure the Notes in accordance with the Priority of Payments. None of the security holders, members, officers, directors, managers or incorporators of the Issuer, the Co-Issuer, the Trustee, the Administrator, either Rating Agency, the Share Trustee, the Collateral Manager, the Hedge Counterparties, the Credit Default Swap Counterparty, the Initial Purchasers, any of their respective Affiliates and any other person or entity will be obligated to make payments on the Notes or Preference Shares. Consequently, the Noteholders and Preference Shareholders must rely solely on amounts received in respect of the Collateral Debt Securities, Eligible Investments and other Collateral pledged to secure the Notes for the payment of principal thereof and interest thereon and for payment of dividends and other distributions on the Preference Shares.

There can be no assurance that the distributions on the Collateral Debt Securities, Eligible Investments and other Collateral pledged by the Issuer to secure the Notes will be sufficient to make payments on any Class of Notes, in particular after making payments on more Senior Classes of Notes and certain other required amounts ranking Senior to such Class (including payments to the Hedge Counterparty under the Hedge Agreement and certain termination payments under the Credit Default Swap Agreement) or to make any payment to Preference Shareholders. The Issuer's ability to make payments in respect of any Class of Notes or Preference Shares will be constrained by the terms of the Notes of Classes more Senior to such Class or Preference Shares, the Credit Default Swap Agreement, the Hedge Agreement and the Indenture. If distributions on the Collateral are insufficient to make payments on the Notes or Preference Shares, no other assets will be available for payment of the deficiency with respect to the Notes or to make any payment to Preference Shareholders and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay such deficiencies or to make any payment to Preference Shareholders with respect to the Notes will be extinguished and will not thereafter revive. Other than amounts the Co-Issuers may be entitled to receive pursuant to certain limited indemnities, amounts received in respect of the Collateral Debt Securities and other Collateral pledged to secure the Notes are the only source for payments of the expenses of the Co-Issuers, including any expenses incurred by the Co-Issuers in connection with any litigation. Amounts received in respect of the Collateral will be the only source for payment of the Issuer's obligations under the Credit Default Swap Agreement and any Hedge Agreement.

Subordination of the Notes. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remain outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full, provided that the Class A-1 Notes and the Class S Principal Payment will be paid on a *pari passu* basis; *provided* that (i) Principal Proceeds will be applied on each Distribution Date if (A) no Coverage Test has been breached on the applicable or any prior Determination Date and (B) the Pro Rata Payment Conditions are satisfied, to pay, *pro rata*, principal of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, and, otherwise, to pay principal of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, sequentially, as described in the Principal Proceeds Waterfall, (ii) after the Note Acceleration Date, Interest Proceeds will be applied on each Distribution Date after payment of interest on the Notes and certain fees and expenses and hedge payments to pay principal of the Notes, sequentially in reverse order of Seniority, until each Class of Notes has been paid in full and (iii) Interest Proceeds may be applied to the payment of principal of the Notes in accordance with Priority of Payments with respect to Interest Proceeds. See "*Description of the Notes—Priority of Payments*."

If an Event of Default occurs, so long as any Notes are outstanding, the holders of the Controlling Class of Notes or Preference Shares will be entitled to determine the remedies to be exercised under the Indenture. So long as any Class A Notes, Class S Notes or Class B Notes are outstanding, the failure on any Distribution Date to make payments in respect of interest on the Class C Notes or the Class D Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes or the Class D Notes that is not paid when due by operation of the Priority of Payments will be deferred and will accrue interest. In the event of any realization on the Collateral, proceeds will be allocated to the Notes and to payment of other amounts in accordance with the Priority of Payments prior to any distributions to the Preference Shareholders. See "*Description of the Notes—The Indenture*" and "*—Priority of Payments*." Remedies pursued by the holders of the Class or Classes of Notes entitled to determine the exercise of such remedies could be adverse to the interests of the holders of the other Classes of Notes and to the holders of the Preference Shares. To the extent that any losses are suffered by any of the holders of any Offered Securities except as otherwise described above and set forth in the Priority of Payments, such losses will be borne, *first*, by the holders of the Preference Shares, *second*, by the holders of the Class D Notes, *third*, by the holders of the Class C Notes, *fourth*, by the holders of the Class B Notes, *fifth*, by the holders of the Class A-2 Notes and *sixth*, by the holders of the Class S Notes and the Class A-1 Notes, on a *pari passu* basis.

Payments in Respect of the Preference Shares. There can be no assurance that, after payment of amounts owing to principal of and interest on and other fees and expenses of the Co-Issuers due and payable in accordance with the Priority of Payments, the Issuer will have funds remaining to make distributions in respect of the Preference Shares. There can be no assurance that the Issuer will have sufficient funds to make distributions in respect of the Preference Shares. The failure to make distributions in respect of the Preference Shares on or prior to the Final Preference

Shares Redemption Date will not be an Event of Default. The rights of the Preference Shareholders to receive payments will rank behind the rights of the Credit Default Swap Counterparty, the holders of each Class of Notes, any Hedge Counterparties and other creditors of the Issuer. The Issuer, pursuant to the Indenture, has pledged substantially all of its assets to secure its obligations under or pursuant to the Notes and certain other obligations of the Issuer. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released from the lien of the Indenture in accordance with the Priority of Payments and subject to the provisions of the Preference Share Paying Agency Agreement. See "*Description of the Notes—Priority of Payments*." Cayman Islands law provides that dividends on the Preference Shares may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and out of the Issuer's share premium account (which includes subscription monies in excess of the par value of each share less any subscription, placement or underwriting fees); *provided* that the Issuer is and will remain solvent (which term will, when used in this context throughout this document, mean able to pay its debts as and when they fall due and in the ordinary course of business) immediately prior to, and after giving effect to such payment. Any amounts that are released from the lien of the Indenture for distribution to the Preference Shareholders in accordance with the Priority of Payments on any Distribution Date will not be available to make payments in respect of the Notes on any subsequent Distribution Date.

Any amounts paid by the Preference Share Paying Agent as dividends or other distributions on the Preference Shares in accordance with the Priority of Payments will be payable only to the extent of the Issuer's distributable profits and/or share premium (determined in accordance with Cayman Islands law). In addition, such distributions will be payable only to the extent that the Issuer is solvent on the applicable Distribution Date and the Issuer will not be insolvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they fall due in the ordinary course of business.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the holders of the Preference Shares will be retained by the Issuer until, in the case of any payments by way of dividend, the next succeeding Distribution Date or (in the case of any payment which would otherwise be payable on a redemption date of the Preference Shares) the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met and, in the case of any payments by way of redemption of the Preference Share, the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts so retained by the Issuer for payment to holders of the Preference Shares will not be available to pay amounts due to the holders of the Notes, the Trustee, the Credit Default Swap Counterparty, the Hedge Counterparties, or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, such amounts may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral. The Issuer does not expect to have any significant full recourse liabilities that would be payable out of any such amounts. The Indenture will limit the Issuer's activities to those described in "*The Co-Issuers—General*."

Yield Considerations. The yield to each Holder of the Notes will be a function of the purchase price paid by such Holder for the Notes and the timing and amount of distributions made in respect of the Notes during the term of the transaction. Each prospective purchaser of the Notes should make its own evaluation of the yield that it expects to receive on the Notes. Prospective investors should be aware that the timing and amount of distributions will be affected by, among other things, the performance of the Collateral Debt Securities. Each prospective investor should consider the risk that an Event of Default will result in a lower yield on the Notes than that anticipated by the investor. Each prospective purchaser should consider that any such adverse developments could result in its failure to recover fully its investment in the Notes.

Volatility of the Preference Shares. The Preference Shares represent a leveraged investment in the underlying Collateral. Therefore, it is expected that changes in the value of the Preference Shares will be greater than the change in the value of the underlying Collateral Debt Securities, which themselves are subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the Issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the Issuer's opportunities for gain and risk of loss. Any losses will be borne first by the Preference Shares.

Preference Share Voting Rights. The holders of the Preference Shares have a variety of voting rights under the Preference Share Paying Agency Agreement and the Indenture and as described in the Subscription Agreements, including the right to direct an Optional Redemption or Tax Redemption, the exercise of which may materially and adversely affect the rights of the Noteholders. See "*Description of the Notes—Optional Redemption and Tax Redemption*."

Mandatory Repayment of the Notes. If any Coverage Test applicable to a Class of Notes is not met, Interest Proceeds and, after application of Interest Proceeds, Principal Proceeds (but only in the case of the failure of a Coverage Test) will be used, to the extent that funds are available in accordance with the Priority of Payments and to the extent necessary to restore the relevant Coverage Test(s) to certain minimum required levels, to repay principal of one or more Classes of Notes. See "*Description of the Notes—Mandatory Redemption*." In addition, in the event of a Ratings Confirmation Failure, the Issuer will be required on the Distribution Date relating to the Determination Date as of which such failure occurs to apply, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes in accordance with the Priority of Payments and as and to the extent necessary to obtain a Rating Confirmation from each Rating Agency. The foregoing could result in an elimination, deferral or reduction in the payments in respect of interest or the principal repayments made to the holders of one or more Classes of Notes that are Subordinate to any other outstanding Class of Notes, which could adversely impact the returns of such holders. To the extent the failure to satisfy a Coverage Test (if applicable), or a Ratings Confirmation Failure does not result in there being insufficient funds to pay interest on the Notes on the applicable Distribution Date, there may, nevertheless, be less Interest Proceeds available to make a distribution in respect of the Preference Shares or, on and after the Note Acceleration Date, redeem the Notes. To the extent Principal Proceeds are required to be used to redeem Notes due to the failure to satisfy a Coverage Test (if applicable), or a Ratings Confirmation Failure, there may be less funds available to purchase Collateral Debt Securities or, at the Collateral Manager's discretion, to redeem Notes. See "*Description of the Notes—Principal*," "*—Mandatory Redemption*" and "*—Priority of Payments*."

On the Note Acceleration Date and on each Distribution Date thereafter, if the Notes are not redeemed in full prior to such date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay principal of the Notes sequentially in reverse order of Seniority until each Class of Notes has been paid in full. See "*Description of the Notes —Mandatory Redemption*" and "*—Priority of Payments—Interest Proceeds*."

The notional amount of the Interest Rate Hedge Agreement may be reduced in connection with a redemption of Notes on any such Distribution Date by an amount proportionately equal to the principal amount of Notes so redeemed. In such an event, a termination payment may be due by the Issuer to the applicable Hedge Counterparty.

Auction Call Redemption. If the Notes have not been (or will not be) redeemed in full prior to (or on) the Note Acceleration Date, then an auction of the Collateral Debt Securities will be conducted by the Trustee on behalf of the Issuer and the Issuer will request the Credit Default Swap Counterparty and each other Synthetic Security Counterparty to determine the termination payment that will be due to it or the Issuer, as the case may be, if the CDS Agreement Transactions and Synthetic Securities are terminated and, provided that certain conditions are satisfied, the Collateral Debt Securities will be sold and the Notes will be redeemed on the Note Acceleration Date. If such conditions are not satisfied and the auction is not successfully conducted prior to the Note Acceleration Date, the Trustee will conduct auctions on a quarterly basis until the Notes are redeemed in full. The Auction Call Redemption may be consummated even if the principal amount of the Preference Shares will not be repaid; *provided* that under certain circumstances described in "*Description of the Notes—Auction Call Redemption*," the Preference Shareholders may need to have received a certain Internal Rate of Return with respect to the Preference Shares in order for an Auction Call Redemption to proceed. See "*Description of the Notes—Redemption Price*" and "*—Auction Call Redemption*." Each Hedge Agreement and the Credit Default Swap Agreement will terminate upon any Auction Call Redemption.

Optional Redemption. Subject to satisfaction of certain conditions, a Majority-in-Interest of Preference Shareholders may require that the Notes be redeemed, in whole but not in part, as described under "*Description of the Notes—Optional Redemption and Tax Redemption*," provided that no such Optional Redemption may occur prior to the Distribution Date occurring in October 2008.

In addition, on and after the Note Acceleration Date, Interest Proceeds that would otherwise be released from the lien of the Indenture and distributed to the Preference Shareholders will be applied to redeem the Notes (sequentially in reverse order of Seniority). Because such redemption of the Notes will eliminate the payment of interest to Preference Shareholders on and after the Note Acceleration Date, until the Notes are paid in full, the Preference Shareholders will have a strong incentive to require that the Notes be redeemed prior to the Note Acceleration Date.

The Optional Redemption may be consummated even if the principal amount of the Preference Shares will not be repaid. Each Hedge Agreement and the Credit Default Swap Agreement will terminate upon the occurrence of the Optional Redemption and a termination payment may be due by the Issuer to any Hedge Counterparty and the Credit Default Swap Counterparty. See "*Description of the Notes—Optional Redemption and Tax Redemption*."

Tax Redemption. Subject to satisfaction of certain conditions, upon the occurrence of a Tax Event, the Issuer may redeem the Notes, in whole but not in part, on a Distribution Date and only from (a) the sale proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Interest Reserve Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account and the Payment Account on such Distribution Date, at the direction of (i) holders of a Majority of any Affected Class (as defined herein) of Notes or (ii) a Majority-in-Interest of the Preference Shareholders, at the applicable Redemption Price. No Tax Redemption may be effected, however, unless (i) all sale proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to redeem the Notes and pay any other amounts accrued and unpaid or otherwise owed to the Hedge Counterparties and the Credit Default Swap Counterparty simultaneously and to pay certain other amounts in accordance with the procedures set forth in the Indenture and (iii) the Tax Materiality Condition is satisfied.

The Tax Redemption may be consummated even if the principal amount of the Preference Shares will not be repaid. Each Hedge Agreement and the Credit Default Swap Agreement will terminate upon the occurrence of the Tax Redemption and a termination payment may be due by the Issuer to any Hedge Counterparty and the Credit Default Swap Counterparty. See "*Description of the Notes—Optional Redemption and Tax Redemption*."

Clean-Up Call Redemption. Subject to the satisfaction of certain conditions, at the direction of the Collateral Manager, the Issuer may redeem the Notes, in whole but not in part, at the applicable Redemption Price therefor, on any Distribution Date selected by the Collateral Manager on or after the Distribution Date on which the Aggregate Outstanding Amount of the Notes is less than or equal to 10% of the original Aggregate Outstanding Amount of such Notes. Each Hedge Agreement and the Credit Default Swap Agreement will terminate upon any Clean-Up Call Redemption. See "*Description of the Notes—Clean-Up Call Redemption*."

Average Life of the Notes and Prepayment Considerations. The average life of each Class of Notes is expected to be shorter than the number of years until the Stated Maturity thereof. The average life of each Class of Notes will be affected by the financial condition of the obligors on or issuers of the Collateral Debt Securities and the characteristics of the Collateral Debt Securities, including the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the prevailing level of interest rates, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Collateral Debt Securities and any sales of Collateral Debt Securities and any dividends or other distributions received in respect of Equity Securities, as well as the risks unique to investments in obligations of foreign issuers described above.

Distributions on the Preference Shares; Investment Term; Non-Petition Agreement. Prior to the payment in full of the Notes and all other amounts owing under the Indenture, Preference Shareholders will be entitled to receive distributions from Interest Proceeds and Principal Proceeds released from the lien of the Indenture only to the extent permissible under the Indenture pursuant to the Priority of Payments set forth therein. The timing and amount of distributions payable to Preference Shareholders and the duration of the Preference Shareholders' investment in the Issuer therefore will be affected by the average life of the Notes. See "*—Average Life of the Notes and Prepayment Considerations*" above. Each original purchaser of Preference Shares will be required to covenant in a Subscription Agreement, dated on or prior to the Closing Date (a "**Subscription Agreement**") between each purchaser of Preference Shares and either Initial Purchaser (and each transferee of Preference Shares will be required (or deemed, as the case may be) to covenant in a transfer certificate) that it will not cause the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the

applicable preference period then in effect. If such provision failed to be effective to preclude the filing of a petition under applicable bankruptcy laws, then the filing of such a petition could result in one or more payments on the Notes made during the period prior to such filing being deemed to be preferential transfers subject to avoidance by the bankruptcy trustee or similar official exercising authority with respect to the Issuer's bankruptcy estate.

Risk Factors Relating to the Collateral Debt Securities

Subordination of Collateral Debt Securities. It is expected that a significant portion of the Collateral Debt Securities will generally be subordinated to one or more other classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying assets. In addition, in the case of certain ABS Type Residential Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the more senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and write-downs than senior classes.

Payments to Specified Secured Parties Not Subject to the Priority of Payments. Certain payments that will be made by the Issuer are not subject to the Priority of Payments, and therefore generally are senior to all Classes of Notes. The Synthetic Security Counterparty Account will be held in the name of the Trustee in trust solely for the benefit of the related Synthetic Security Counterparty (or the Credit Default Swap Counterparty, as applicable). The Issuer Collateral Account will be held in the name of the Trustee in trust solely for the benefit of the Secured Parties. All deposits into, and payments made out of, the Synthetic Security Counterparty Account and Issuer Collateral Account will be made without regard to the Priority of Payments or the occurrence of any Event of Default. See "*Security for the Notes—The Accounts—Synthetic Security Counterparty Accounts*."

Ramp-Up Period Purchases. The amount of Collateral Debt Securities purchased (or, in the case of Synthetic Securities including CDS Agreement Transactions, entered into) by the Issuer on the Closing Date and the amount and timing of the purchase of (or, in the case of Synthetic Securities including CDS Agreement Transactions, entry into) additional Collateral Debt Securities prior to the Ramp-Up Completion Date will affect the return to holders of, and cashflows available to make payments on, the Securities.

In addition, the timing of the purchase of Collateral Debt Securities prior to the Ramp-Up Completion Date, the amount of any purchased accrued interest, the scheduled interest payment dates of the Collateral Debt Securities and the amount of the net proceeds associated with the offering of the Securities invested in the lower-yielding Eligible Investments until reinvested in Collateral Debt Securities, may have a material impact on the amount of Interest Proceeds collected, which could adversely affect interest payments on Notes and distributions on Preference Shares.

Insolvency Considerations with Respect to Issuers of Collateral Debt Securities. Various laws enacted for the protection of creditors may apply to the Collateral Debt Securities issued by U.S. issuers (each, a "**U.S. Collateral Debt Security**"). The Collateral Debt Securities consisting of obligations of non-U.S. issuers may be subject to various laws enacted in the home countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located and may differ depending on whether the issuer is a non-sovereign or a sovereign entity.

An issuer of Asset-Backed Securities generally is structured as a bankruptcy remote entity without creditors (other than the holders of securities thereof and service providers, including hedge counterparties and insurers, with respect to such securities) distinct from the originator, the depositor or the servicer to reduce the likelihood that it will become subject to bankruptcy proceedings in the event the originator, the depositor or the servicer is the subject of a bankruptcy proceeding. The structural and legal risks of Asset-Backed Securities include the possibility that, in a bankruptcy or similar proceeding involving the originator, the depositor or the servicer (often the same entity or affiliates), the assets of the issuer of the Asset-Backed Security could be treated as never having been truly sold by the originator and could be substantively consolidated with those of the originator or the transfer of such assets to the issuer of the Asset-Backed Security could be voided as a fraudulent transfer. Challenges based on such doctrines could result also in cash flow delays and reductions. Other similar risks relate to the degree to which cash flows on the assets of the issuer of the Asset-Backed Security may be commingled with those on the originator's other assets.

If a court in which a lawsuit is brought by an unpaid creditor or representative of creditors of an issuer of a U.S. Collateral Debt Security, such as a trustee in bankruptcy, were to find the issuer did not receive fair consideration or

reasonably equivalent value for incurring the indebtedness constituting the Collateral Debt Security and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts were greater than all of its property at a fair valuation or if the present fair saleable value of its assets were less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness constituting the U.S. Collateral Debt Security or that, regardless of the method of valuation, a court would not determine that the issuer was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of a U.S. Collateral Debt Security, payments made on such U.S. Collateral Debt Security could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year before insolvency).

In general, if payments on a U.S. Collateral Debt Security are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the holders of Notes). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne in the first instance by the holders of the Preference Shares, then by the holders of the Notes in the reverse order of priority. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a Noteholder only to the extent that such court has jurisdiction over such holder or its assets.

The Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance, preference, equitable subordination or any similar claim arising out of bankruptcy or insolvency. There can be no assurance, however, that such a successful cause of action against the Issuer will not occur, or as to whether any Servicer or institution or other investor from which the Issuer acquired the Collateral Debt Securities engaged in any such conduct (or any other conduct that would subject the Collateral Debt Securities and the Issuer to insolvency laws) and, if it did, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against the Issuer.

Lender Liability Considerations; Equitable Subordination. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Although it would be a novel application of the lender liability theories, the Issuer may be subject to allegations of lender liability. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Because of the nature of the Collateral Debt Securities, the Issuer may be subject to claims from creditors of an obligor that Collateral Debt Securities issued by such obligor that are held by the Issuer should be equitably subordinated. However, the Issuer does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine.

The preceding discussion is based upon principles of United States federal and state law. Insofar as Collateral Debt Securities that are obligations of non-United States obligors are concerned, the laws of certain foreign

jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state law.

Nature of Collateral. The Collateral is subject to various types of risks, including credit, liquidity and interest rate risk. In addition, up to 10% of the Collateral may be acquired by the Issuer after the Closing Date, and, accordingly, the financial performance of the Issuer may be affected by the price and availability of Collateral to be purchased. The amount and nature of the collateral securing the Notes have been established to withstand certain assumed deficiencies in payment occasioned by defaults in respect of the Collateral Debt Securities. If any deficiencies exceed such assumed levels, however, payment of the Notes and the distributions on the Preference Shares could be adversely affected. To the extent that a default occurs with respect to any Collateral Debt Security securing the Notes and the Issuer (upon the advice of the Collateral Manager) sells or otherwise disposes of such Collateral Debt Security, it is not likely that the proceeds of such sale or disposition will be equal to the amount of principal and interest owing to the Issuer in respect of such Collateral Debt Security.

The market value of the Collateral Debt Securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Collateral Debt Securities or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. In the event that interest rate spreads widen after the Closing Date from the levels at which Collateral Debt Securities were purchased, the market value of the Collateral Debt Securities is likely to decline and, in the case of a substantial spread widening, could decline by a substantial amount.

Although the Issuer is permitted to invest in Asset-Backed Securities, CDO Securities, CMBS Securities, RMBS Securities and related Synthetic Securities, among others, the Issuer may find that, as a practical matter, these investment opportunities are not available to it for a variety of reasons such as the limitations imposed by the Eligibility Criteria and requirements with respect to Synthetic Securities that the Issuer receive confirmation of the Notes' ratings from both Rating Agencies. At any time there may be a limited universe of investments that would satisfy the Eligibility Criteria given the other investments in the Issuer's portfolio. As a result, the Issuer may at times find it difficult to purchase suitable investments. See "*Security for the Notes—Collateral Debt Securities*" and "*—Eligibility Criteria*." If the Issuer is unable to purchase sufficient suitable investments and a Ratings Confirmation Failure occurs, principal of all or a portion of the Notes will be repaid on the Distribution Date relating to the Determination Date as of which such failure occurs. See "*Description of the Notes—Mandatory Redemption*."

The actual default rates of the Collateral Debt Securities or of Reference Obligations may exceed any hypothetical default rates assumed by investors in determining whether to purchase the Notes. An increased perception of defaults and potential defaults among investors may reduce the demand for securities such as the Collateral Debt Securities, or for instruments such as the Synthetic Securities, any of which could have a material adverse effect on the ability to sell or terminate any Collateral Debt Securities. The market value of the Collateral Debt Securities may fluctuate from time to time. None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Collateral Administrator or the Initial Purchasers will be under any obligation to maintain the market value of the Collateral Debt Securities at any particular level and none of them will have any liability to the Noteholders as to the amount or value of, or any decrease in the value of, the Collateral Debt Securities from time to time.

Under the Indenture, the Collateral Manager may only direct the disposition of Collateral Debt Securities, including the termination or assignment of CDS Agreement Transactions or other Synthetic Securities, under certain limited circumstances. Notwithstanding such restrictions and satisfaction of the conditions set forth in the Indenture, sales of Collateral Debt Securities could result in losses by the Issuer, which losses could affect the timing and amount of payments in respect of the Notes and Preference Shares or result in the reduction in or withdrawal of the rating of any or all of the Notes by one or more of the Rating Agencies. On the other hand, circumstances may exist under which the Collateral Manager may believe that it is in the best interests of the Issuer to dispose of Collateral, but will not be permitted to do so under the restrictions and conditions of the Indenture.

Asset-Backed Securities. Most of the Collateral Debt Securities will consist of Asset-Backed Securities or Synthetic Securities (including CDS Agreement Transactions) with respect to which the Reference Obligations are Asset-Backed Securities. "**Asset-Backed Securities**" are securities that entitle the holders thereof to receive

payments that depend primarily on the cashflow from, or market value of, a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. See "*Security for the Notes—Asset-Backed Securities*."

Asset-Backed Securities include, but are not limited to, securities for which the underlying collateral consists of assets such as home equity loans, leases, residential mortgage loans, commercial mortgage loans, auto finance receivables, credit card receivables and other debt obligations. Sponsors of issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries and non-financial corporations or specialized originators such as credit card lenders.

Asset-Backed Securities carry coupons that can be fixed or floating. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cash flows emanating from the securitized assets.

Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because the issuer is normally a special purpose entity engaged primarily in the business of holding debt obligations as collateral and issuing structured securities that will be paid solely from the cash flow from such debt obligations. Asset-Backed Securities are subject to the significant credit risks inherent in the underlying collateral and the risk that the related servicer fails to perform. Accordingly, such securities generally include one or more credit enhancements, which are designed to raise the overall credit quality of the security above that of the underlying collateral. The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such Asset-Backed Securities, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such Asset-Backed Securities. In addition, concentrations of Asset-Backed Securities of particular types, as well as concentrations of Asset-Backed Securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, or secured by properties of the same type, may subject the Asset-Backed Securities to additional risks.

Holders of Asset-Backed Securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. See "*Security for the Notes—Asset-Backed Securities*" below.

A significant portion of the Collateral will consist of Asset-Backed Securities (or Synthetic Securities (including CDS Agreement Transactions) with respect to which the Reference Obligations are Asset-Backed Securities) that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates. Additionally, as a result of cashflow being diverted to payments of principal on more senior classes, the average life of such securities may lengthen. For example, in the case of certain ABS Type Residential Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the more senior classes of securities have been reduced to zero. Subordinate Asset-Backed Securities generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full. As a result, a shortfall in payments to subordinate investors in Asset-Backed Securities will generally not result in a default being declared on the transaction and the transaction will not be restructured or unwound. Furthermore, because subordinate Asset-Backed Securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may be substantial to the holders of such subordinate security.

Concentration Risk. Although the Issuer will have the ability to invest in different sectors of Asset-Backed Securities or Synthetic Securities referencing Asset-Backed Securities, it is currently anticipated that a significant portion of the Collateral Debt Securities will be comprised of RMBS Securities or Synthetic Securities referencing RMBS Securities at the Closing Date. The concentration of the portfolio in RMBS Securities could subject the Notes to risk with respect to adverse factors affecting underlying residential mortgages, including downturns in the residential real estate market and in the economy in general. In addition, concentrations of RMBS Securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the Collateral Debt Securities to additional risks. These risks can be mitigated to some degree by the Issuer's ability to invest in other types of assets prior to the Ramp-Up Completion Date.

CDO Securities. Approximately 4% of the Collateral Debt Securities (by outstanding principal balance) acquired by the Issuer, as of the Closing Date, will consist of CDO Securities (including Synthetic CDO Securities). In addition, a portion of the Reference Obligations under the Synthetic Securities (including the CDS Agreement Transactions) may consist of CDO Securities.

"**CDO Securities**" are Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a portfolio (each such portfolio, an "**Underlying Portfolio**") of other asset-backed securities (other than loans secured primarily by commercial real estate), generally having the following characteristics: (1) the debt securities have varying contractual maturities; (2) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (3) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional debt securities.

CDO Securities generally have underlying risks similar to many of the risks set forth in these Risk Factors, such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO Security, however, will involve risks specific to the particular CDO Security and its Underlying Portfolio. The value of the CDO Securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the Underlying Portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDO Securities are usually limited-recourse obligations of the issuer thereof payable solely from the Underlying Portfolios of such issuer or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the Underlying Portfolio or proceeds thereof for payment in respect thereof. If distributions on the Underlying Portfolio are insufficient to make payments on the CDO Security, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligation of such issuer to pay such deficiency will be extinguished. As a result, the amount and timing of interest and principal payments will depend on the performance and characteristics of the related Underlying Portfolios.

Some of the CDO Securities included in the Collateral may have Underlying Portfolios that hold or invest in some of the same assets as the Collateral pledged to secure the Notes or held in the Underlying Portfolios of other CDO Securities pledged as Collateral. The concentration in any particular asset may adversely affect the Issuer's ability to make payments on the Securities. In addition, the Underlying Portfolios of the CDO Securities may be actively traded.

CDO Securities are subject to interest rate risk. The Underlying Portfolio of an issue of CDO Securities may bear interest at a fixed or floating rate while the CDO Securities issued by such issuer may bear interest at a floating or fixed rate. As a result, there could be a floating/fixed rate or basis mismatch between such CDO Securities and Underlying Portfolios, and there may be a timing mismatch between the CDO Securities and Underlying Portfolios that bear interest at a floating rate as the interest rate on such floating rate Underlying Portfolios may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rates on the CDO Securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO Securities.

CDO Securities may be subordinated to other classes of securities issued by each respective issuer thereof. CDO Securities that are not part of the most senior tranche(s) of the securities issued by the issuer thereof may allow for the deferral of the payment of interest on such CDO Securities. The deferral of interest by the issuer of CDO Securities forming part of the Collateral could result in a reduction in the amounts available to make payments to the holders of the Notes or in the deferral of interest on the Class C Notes and the Class D Notes. The CDO Securities that the Collateral Manager anticipates will form part of the Collateral may include both senior and mezzanine debt issued by the related CDO Security issuers. The CDO Securities that are mezzanine debt will have payments of interest and principal that are subordinated to one or more classes of notes that are more senior in the related issuer's capital structure, and generally will allow for the deferral of interest subject to the related issuer's priority of payments. To the extent that any losses are incurred by the issuer thereof in respect of its CDO Securities, such losses will be borne by holders of the mezzanine tranches before any losses are borne by the holders of senior tranches. In addition, if an event of default occurs under the applicable indenture, as long as any senior tranche of CDO Securities is outstanding, the holders of the senior tranche thereof generally will be entitled to determine the remedies to be exercised under the indenture, which could be adverse to the interests of the holders of the mezzanine tranches (including the Issuer).

In order to purchase and hold CDO Securities, the Issuer must satisfy at all times the investor qualifications in the applicable Underlying Instruments and applicable securities laws. Such Underlying Instruments generally require that the Issuer either be a Qualified Institutional Buyer that is also a Qualified Purchaser or a non-U.S. Person, and may require that other criteria be satisfied. In the event that the Issuer does not satisfy the requirements applicable to investors in a CDO Security, it will not be able to purchase such CDO Security. In addition, if it does not satisfy such requirements at any time after it purchases such CDO Security, the applicable Underlying Instruments may permit the issuer of such CDO Security to force the Issuer to sell such CDO Security, which sale by the Issuer could be made at a loss.

Commercial Mortgage-Backed Securities. Approximately 11% of the Collateral Debt Securities (by outstanding principal balance) acquired by the Issuer, as of the Closing Date, will consist of commercial mortgage-backed securities meeting the Eligibility Criteria described herein. In addition, a portion of the Reference Obligations under the Synthetic Securities (including CDS Agreement Transactions) may consist of commercial mortgage-backed securities.

CMBS Securities will be affected by payments, prepayments, extensions, defaults, delinquencies and losses on the underlying mortgage loan or loans, as well as other types of risks affecting the underlying mortgage loans. In addition, to the extent the principal balance of a mortgage loan underlying a CMBS Security is substantially higher than the average principal balance of the other mortgage loans in the underlying pool, which often is the case, losses may be more severe (or have more significant effects on yield, in the event of prepayment) relative to the aggregate size of the CMBS Security, than would be the case if the aggregate principal balance of such mortgage loans were relatively smaller and more evenly distributed. In general, the level of any geographic concentration with respect to the mortgaged properties securing the mortgage loans underlying a CMBS Security increases exposure to any adverse economic or other developments, including earthquakes, hurricanes and other natural disasters, that may occur in the applicable regions. Mortgaged property may not be insured for earthquake risk. Additionally, in general, the level of any concentration of any mortgaged properties securing a mortgage loan underlying a CMBS Security in any industry group or economic sector (such as the hotel, retail, hospital or nursing home sectors) increases exposure to any adverse economic or other developments affecting such industry or sector.

Commercial mortgage loans underlying CMBS Securities are generally secured by multi-family or commercial property and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by single family residential property. Commercial mortgage loans are generally non-recourse loans and in the event of a default there will generally only be recourse against the specific properties and other assets that have been pledged to secure such loans. Even if a commercial mortgage loan provides for recourse to a mortgagor or its affiliates, the lender is unlikely to recover any amounts in excess of the value of the mortgaged property. Therefore, the ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan may be impaired. Net operating income of an income producing

property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property.

The value of an income-producing property is directly related to the net operating income derived from such property. Furthermore, the value of any commercial property may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial property, the issuer, the depositor, the indenture trustee, the master servicer or the special servicer may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances.

Additional risks may be presented by the type and use of a particular commercial property. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements.

The pooling and servicing agreement or other agreement governing the securitizations in which CMBS Securities are created generally provide for a servicer ("**Servicer**") and a special servicer ("**Special Servicer**") with respect to the related commercial or multifamily loan. Unlike other types of asset-backed transactions, however, the power to appoint the operating advisor is normally given to a specified percentage of the most subordinate outstanding class of security holders. Such security holders may have interests which conflict with more senior classes of security holders. Depending on the size of the Issuer's investment in a CMBS Securities transaction and the particular security in which the Issuer invests, the Issuer may not be permitted to appoint the operating advisor in the underlying CMBS Securities transaction. The rights and obligations of the operating advisor to consult with the Servicer or Special Servicer and to approve certain actions is generally subject to an override by the applicable Servicer if such Servicer determines such action would violate such Servicer's servicing standard.

Additionally, CMBS Securities may be subject to operations risk arising from the potential for misrepresentation of loan quality or terms, misrepresentation of the nature and current value of the assets and inadequate controls over disbursements and receipts. Legal risk can arise as a result of the procedures followed in connection with the origination or servicing of the mortgage loans. Structural risks and related legal risks can arise from issues related to the characterization of the transfer of such mortgage loans to the issuer of CMBS Securities, the issuance of CMBS Securities and the tax status of such CMBS Securities and such issuer.

Further, CMBS Securities normally provide for principal and interest advances by the Servicer or Special Servicer which are reimbursed with accrued interest from the total pool of the collateral which makes up the securitization prior to any payments being made on the CMBS Securities. Advances are generally only permitted if they are determined by the advancing party to be recoverable from the mortgage loan with respect to which the advance is made. If such determinations are not properly made by the advancing party, payments to the most subordinated class of securities in such transactions could be adversely affected.

Furthermore, a commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.

Residential Mortgage-Backed Securities. Approximately 85% of the Collateral Debt Securities (by outstanding principal balance) acquired by the Issuer, as of the Closing Date, will consist of RMBS Securities. RMBS Securities are, generally, ownership or participation interests in pools of mortgage loans secured by one-to-four family residential properties. RMBS Securities are subject to various risks, including credit, market, interest rate, structural and legal risks.

Credit risk arises from losses due to defaults by the borrowers in the underlying collateral and the servicer's failure to perform. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. Moreover, if the servicer becomes subject to financial difficulty or otherwise ceases to be able to carry out its function, it may be difficult to find other acceptable substitute servicers, which may also result in cash-flow disruptions or losses. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. At any one time, a portfolio of RMBS Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. In general, the level of any geographic concentration with respect to residential mortgage loans increases exposure to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such a portfolio of RMBS Securities may experience increased losses.

Junior mortgages (*e.g.*, in connection with home equity loans) on properties securing the residential mortgage loans that secure RMBS Securities may also affect defaults on those loans and foreclosures on those properties. When a borrower encumbers his property with one or more junior liens in addition to a first priority mortgage, the owner of the senior mortgage is subjected to additional risk. First, the borrower may have difficulty repaying multiple loans. In addition, if the junior loan permits recourse to the borrower (as many junior loans do) and the senior loan does not, a borrower may be more likely to repay amounts due on the junior loan than those on the senior loan. Second, acts of the senior lender that prejudice the junior lender or impair the junior lender's security may create a superior equity in favor of the junior lender. For example, if the borrower and the senior lender agree to an increase in the principal amount of, or interest rate on, a senior loan, the senior lender may lose its priority to the extent any junior lender is harmed or if the borrower is additionally burdened. Third, if the borrower defaults on the senior loan and/or a junior loan or loans, the existence of junior lenders can impair the security available to the senior lender and can delay or interfere with the taking of action by the senior lender.

Some of the underlying residential mortgage loans in an issue of RMBS Securities may have a balloon payment due on its maturity date. Balloon mortgage loans involve a greater risk to a lender than fully-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS Securities may experience losses.

The underlying mortgage loans may be prepaid at any time. Prepayments on the underlying residential mortgage loans in an issue of RMBS Securities will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS Securities. If the Issuer acquires RMBS

Securities at a discount, a slower than anticipated rate of principal payments on the underlying mortgage loans will result in an actual yield that is lower than its expected yield. Conversely, if the Issuer acquires RMBS Securities at a premium, a faster than anticipated rate of principal payments on the underlying mortgage loans will result in an actual yield that is lower than its expected yield. RMBS Securities are particularly susceptible to prepayment risks as the underlying residential mortgage loans generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS Securities, resulting in a reduction in yield to maturity for holders of such securities.

Some of the mortgage loans may have an initial interest-only period, which may result in increased delinquencies and losses on the RMBS Securities. During the interest-only period, the payment made by the related mortgagor will be less than it would be if the principal of the mortgage loan was required to amortize. In addition, the mortgage loan principal balance will not be reduced because there will be no scheduled monthly payments of principal during this period. As a result, no principal payments will be made on the RMBS Securities with respect to these mortgage loans during their interest-only period unless there is a principal prepayment. After the initial interest-only period, the scheduled monthly payment on these mortgage loans will increase, which may result in increased delinquencies by the related mortgagors, particularly if interest rates have increased and the mortgagor is unable to refinance. In addition, losses may be greater on these mortgage loans as a result of there being no principal amortization during the early years of these mortgage loans. Although the amount of principal included in each scheduled monthly payment for a traditional mortgage loan is relatively small during the first few years after the origination of a mortgage loan, in the aggregate the amount can be significant. Any resulting delinquencies and losses, to the extent not covered by credit enhancement, will be borne by the Notes. Mortgage loans with an initial interest-only period are relatively new in the sub-prime mortgage marketplace. The performance of these mortgage loans may be significantly different from mortgage loans that amortize from origination. In particular, there may be a greater expectation by these mortgagors of refinancing their mortgage loans with a new mortgage loan, specifically, one with an initial interest-only period, which may result in higher or lower prepayment speeds than would otherwise be the case. In addition, the failure by the related mortgagor to build equity in the property may affect the delinquency, loss and prepayment experience with respect to these mortgage loans.

Legal risks can arise as a result of the procedures followed in connection with the origination of the mortgage loans or the servicing thereof which may be subject to various federal and state laws (including, without limitation, predatory lending laws), public policies and principles of equity regulating interest rates and other charges, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and may limit the servicer's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it or subject the servicer to damages and sanctions. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing RMBS Securities. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of an RMBS Security to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement. The mortgage loans backing an RMBS Security are also subject to federal laws, including: (1) the federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, (2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, (3) the Americans with Disabilities Act, (4) the Fair Credit Reporting Act, (5) the Home Ownership and Equity Protection Act of 1994, (6) the Depository Institutions Deregulation and Monetary Control Act of 1980 and (7) the Alternative Mortgage Transaction Parity Act of 1982.

Transfers of mortgage loans by the originator or seller will be characterized in the applicable sale agreement as a sale transaction. Nevertheless, structural and legal risks of RMBS Securities include the possibility that, in the event of a bankruptcy of the originator or seller, the trustee in bankruptcy could attempt to recharacterize the sale of the mortgage loans as a borrowing secured by a pledge of the mortgage loans. If such attempt were successful, the trustee in bankruptcy could prevent the trustee for the RMBS Securities from exercising any of the rights of the owner of the mortgage loans and also could elect to liquidate the mortgage loans. Investors may suffer a loss to the extent that the proceeds of the liquidation of the underlying mortgage loans would not be sufficient to pay amounts

owed in respect of their investments. If this occurs, investors would lose the right to future payments of interest and may fail to recover their initial investment. Regardless of whether a trustee elects to foreclose on the underlying mortgage loan pool, delays in payments on their investments and possible reductions in the amount of these payments could occur. Other similar risks relate to the degree to which cashflows on the assets of the issuer may be commingled with those on the originator's other assets or those on the other assets serviced by the servicer. Furthermore, payments made under residential mortgage loans may be subject to avoidance in the event of a bankruptcy of the borrower.

It is not expected that the RMBS Securities will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on the RMBS Securities will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

It is expected that the RMBS Securities owned by the Issuer will be subordinated to one or more other senior classes of securities of the same series for purposes of, among other things, offsetting losses and other shortfalls with respect to the related underlying mortgage loans. In addition, in the case of certain RMBS Securities, no distributions of principal will generally be made with respect to any class until the aggregate principal balances of the corresponding senior classes of securities have been reduced to zero. As a result, the subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

RMBS Securities may have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS Securities may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors (including hard caps and lifetime caps). The RMBS Securities which the Issuer will acquire are expected to be subject to such available funds caps or other caps on the interest rate payable to holders of such securities. The effect of such caps is to reduce the rate at which interest is paid to the holders of such securities (including the Issuer), which would have an adverse effect on the Issuer's ability to pay interest on the Notes.

The Servicemembers' Civil Relief Act of 2003, as amended (the "**Relief Act**"), and certain similar state laws provide relief to mortgagors who enter into active military service and who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor's active duty, the rate of interest that may be charged on such mortgagor's loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of current United States involvement in Iraq and Afghanistan, a number of mortgage loans in the mortgage pools underlying RMBS Securities may become subject to the Relief Act. As a result, the weighted average interest rate on RMBS Securities may be reduced. If such RMBS Securities are subject to weighted average net coupon caps, investors' return on their investment in such RMBS Securities will be similarly affected.

Failure to comply with state and federal consumer protection laws and related statutes could subject the lenders under the mortgage loans backing a RMBS Security to specific statutory liabilities, and may limit the ability of an issuer of a RMBS Security to collect all or part of the principal of or interest on the related underlying mortgage loans or subject such issuer to damages and administrative enforcement.

In some cases, liability of a lender under a mortgage loan may affect subsequent assignees of such obligations, including the issuer of a RMBS Security. In particular, a lender's failure to comply with the Truth in Lending Act could subject such lender and its assignees to monetary penalties and could result in rescission. Numerous class action lawsuits have been filed in multiple states alleging violations of these statutes and seeking damages, rescission and other remedies. These suits have named the originators and current and former holders, including the issuers of related RMBS Securities. If an issuer of RMBS Securities included in the Collateral were to be named as a defendant in a class action lawsuit, the costs of defending or settling such lawsuit or a judgment could reduce the amount available for distribution on the related RMBS Security. In such event, the Issuer, as holder of such RMBS Security, could suffer a loss.

In addition to the laws described above, a number of legislative proposals have been introduced at both the federal, state and municipal level that are designed to discourage predatory lending practices. Some states have

enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Home Ownership and Equity Protection Act. An originator's failure to comply with these laws could subject the issuer of a RMBS Security to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS Security.

Some of the mortgage loans backing a RMBS Security may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such RMBS Security and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous federal and state statutory provisions, including the federal bankruptcy laws, the Relief Act and state debtor relief laws, may also adversely affect the ability of an issuer of a RMBS Security to collect the principal of or interest on the loans, and holders of the affected RMBS Securities may suffer a loss if the applicable laws result in these loans becoming uncollectible.

Certain Risks Related to Sub-Prime Mortgage Loans. The mortgage loans underlying Mid-Prime RMBS Securities and Sub-Prime RMBS Securities are, and some of the mortgage loans underlying Prime RMBS Securities may be, of sub-prime credit quality (*i.e.*, do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make sub-prime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with sub-prime mortgage loans than with mortgage loans that satisfy customary credit standards. In the event mortgage loans in a mortgage pool related to a residential security become delinquent or subject to liquidation, the Issuer may experience delays in receiving payment on such Collateral Debt Securities and may suffer losses if the related credit enhancements, if any, are insufficient to cover the delays and losses associated with such Collateral Debt Securities.

In recent years, borrowers have increasingly financed their homes with new mortgage loan products, which in many cases have allowed them to purchase homes that they might otherwise have been unable to afford. Many of these new products feature low monthly payments during the initial years of the loan that can increase (in some cases, significantly) over the loan term. There is little historical data with respect to these new mortgage loan products especially during a period of increased delinquencies or defaults for such mortgage loan products. Consequently, as borrowers face potentially higher monthly payments for the remaining terms of their loans, it is possible that, combined with other economic conditions such as increasing interest rates and deterioration of home values, borrower delinquencies and defaults could exceed levels anticipated.

The residential mortgage market has recently encountered difficulties which may adversely affect the performance or market value of the Notes. In recent months, delinquencies, defaults and foreclosures on residential mortgage loans generally have increased and may continue to increase, particularly in the case of sub-prime loans that support or secure Residential B/C Mortgage Securities and Home Equity Loan Securities. In addition, in recent months, residential property values in many states have remained stable or declined, after extended periods during which those values appreciated. A continued lack of increase or decline in those values may result in additional increases in delinquencies and losses on residential mortgage loans generally, especially with respect to second homes and investor properties, and with respect to any residential mortgage loans where the aggregate loan amounts (including any subordinate loans) are close to or greater than the related property values. Declines in residential property values may have a particularly adverse effect on sub-prime mortgage loans. Because sub-prime mortgage loans generally have higher loan-to-value ratios, recoveries on defaulted mortgage loans are more likely not to result in payment in full of amounts owed under such mortgage loans, resulting in higher net losses than would have been the case had property values remained the same or increased. A decline in property values will also particularly impact recoveries on second lien mortgage loans that may be included in the mortgage pools backing Residential B/C Mortgage Securities.

Another factor that may be contributing to, and may in the future result in, higher delinquency rates is that market interest rates have been increasing, which has led to increases in monthly payments on adjustable rate mortgage loans. Any increase in prevailing market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans. Moreover, in recent years, borrowers have increasingly financed their homes with new mortgage loan products including interest-only loans and negative amortization loans, which in many cases have allowed them to purchase homes that they might otherwise have been unable to afford. Many of these new products feature low monthly payments during the initial years of the loan that can increase (in some cases, significantly) over the loan term. With respect to hybrid mortgage loans and mortgage loans having an initial teaser rate (after their initial fixed rate period) and other so-called option adjustable rate mortgages, interest only mortgage loans and mortgage loans with a negative amortization feature which reach their negative amortization cap, borrowers may experience a substantial increase in their minimum monthly payment even without an increase in prevailing market interest rates. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance and, in addition, many mortgage loans have prepayment premiums that inhibit refinancing. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed periods on their mortgage loans may find that they cannot sell their homes for an amount equal to or greater than the unpaid balance of their loans. These events, alone or in combination, may contribute to higher delinquency and default rates.

Moreover, general trends in consumer borrowing and mortgage lending over the past decade may have increased the sensitivity of the subprime market to changes in economic conditions. Certain mortgage lenders loosened their credit criteria, including by increasing lending to first-time buyers and borrowers with lower credit scores, by making loans made with limited- or no-document income verification and by making loans with higher loan-to-value ratios. Equity contributions by borrowers required in order to obtain financing may also have decreased over the past decade. In addition, certain borrowers may have financed their equity contributions with "piggy-back" loans, resulting in little to no equity with respect to their mortgage loan financing. As property values rose during the last decade, consumers may in addition have been borrowing against their properties to cover other expenses, such as investments in home remodeling and education costs, resulting in an increase in debt service as a percentage of income. Although not generally characteristic of the subprime market, an increase may also have occurred with respect to mortgage loans entered into to finance investment properties, which generally have a higher tendency to become delinquent and to default than mortgage loans made to finance primary residences. Also, some mortgage loans may include prepayment premiums that would further inhibit refinancing. These trends in the mortgage loan industry and in consumer behavior increase the likelihood of defaults, delinquencies and losses on mortgage loan portfolios, in particular as market interest rates increase and property values stabilize or decline.

The rise in the rate of foreclosures of properties backing sub-prime loans in certain states may prompt legislators, regulators and attorneys general in such states to try to prevent certain foreclosures and bring lawsuits against participants in the financing of sub-prime loans in their states, including issuers and underwriters of RMBS Securities backed by such loans and investors in such RMBS Securities, including the Issuer.

Recently, the rating agencies have placed on credit watch with negative implications or downgraded the ratings previously assigned to a large number of Residential B/C Mortgage Securities, and it is possible that similar unfavorable actions may be taken by the rating agencies with respect to the ratings of CDO Securities backed by such Residential B/C Securities, some of which CDO Securities have recently been placed on credit watch with negative implications by the rating agencies.

Sub-prime mortgage loans that were originated by certain originators at the end of 2005 and in 2006 have experienced unusually high levels of delinquencies and are likely to experience default and loss levels that are substantially higher than those suggested by historical default and loss data. Since the delinquency rates of these sub-prime loans are continuing to rise, it is unclear what the ultimate default and loss experience on these loans will be. Residential B/C Mortgage Securities that were issued in 2006 and early 2007 and CDO Securities backed by such Residential B/C Mortgage Securities may have significant exposure to such sub-prime mortgage loans and any such security will likely experience loss levels that may substantially exceed losses that were expected of such security based on historical default and loss data regarding the underlying sub-prime mortgage loans. As of the Closing Date, approximately 73% of the Collateral Debt Securities consists of such Residential B/C Mortgage Securities.

In addition, a number of originators and servicers of sub-prime mortgage loans have experienced serious financial difficulties and, in some cases, bankruptcy. Certain originators have ceased operations as a result of such financial difficulties. These difficulties have resulted in part from delinquencies and defaults by borrowers on their residential mortgage loans, and from declining markets for their mortgage loans, as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase of loans in the event of early payment defaults and for breaches of other representations regarding loan quality. Higher delinquencies and defaults may reduce the value of mortgage loan portfolios, requiring originators to sell their portfolios at greater discounts to par. In addition, the costs of servicing an increasingly delinquent mortgage loan portfolio may be rising without a corresponding increase in servicing compensation. The value of any residual interests retained by sellers of mortgage loans in the securitization market may also be declining in these market conditions. Furthermore, any regulatory oversight, proposed legislation and/or governmental intervention designed to protect consumers, in response to recent developments in the sub-prime market, may have an adverse impact on originators and servicers. These factors, among others, may have the overall effect of increasing costs and expenses, while simultaneously decreasing revenues, of originators and servicers. As a result of such financial difficulties, affected originators that sell residential mortgage loans into securitizations may be unable to repurchase such loans in the event of early payment defaults and other loan representation breaches. Such inability to perform those obligations may adversely affect the performance of any of the RMBS Securities backed by those loans.

If an originator experiencing such financial difficulties is also the servicer of residential mortgage loans backing RMBS Securities, the inability of such servicer to continue to perform its servicing obligations may have additional adverse effects on the performance of those loans and, therefore, the performance of those securities. Such difficulties may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. If a servicer of residential mortgage loans backing RMBS Securities becomes unable to service those loans in accordance with their respective terms, normal and customary industry servicing standards, applicable law, and other terms of the related securitization, increases in delinquencies and defaults on the loans, decreases in recoveries on defaulted loans, and other cash-flow disruptions adversely affecting the loans and, thus, the securities may result. Servicer performance has an even greater impact on the performance of subprime mortgage products than other mortgage products due to the higher rate of delinquencies and the fact that returning delinquent loans to performing status is generally preferred to foreclosure. Also, RMBS Securities may provide that the servicer is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations or obligations that they may have to other parties with respect to transactions involving these securities. Like originators, these entities are very highly leveraged. Such difficulties may cause defaults under their financing arrangements. In certain cases, such entities may be forced to seek bankruptcy protection. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans or declining value of the related mortgaged properties. Moreover, servicers may over-advance against a particular mortgage loan or charge too many costs related to resolution or foreclosure of a mortgage loan to securitization vehicles which could increase the potential losses to holders of RMBS Securities. In such transactions, a servicer's obligation to make such advances may also be limited to the amount of its servicing fee.

Under certain circumstances, including a failure to perform its servicing obligations and in some cases, certain loss and/or delinquency triggers being exceeded, investors may be entitled to remove and replace the existing servicer. There is no guarantee, however, that a suitable servicer could be found to assume the obligations of the existing servicer, and the transition of servicing responsibilities to a replacement servicer could have an adverse effect on performance of servicing functions during or following a transition period and a resulting increase in delinquencies and losses and decreases in recoveries.

These adverse changes in market conditions may reduce the cashflow that the Issuer receives from RMBS Securities and CDO Securities held by the Issuer (or CDS Agreement Transactions that reference RMBS Securities and CDO Securities), decrease the market value of such RMBS Securities and CDO Securities and increase the incidence and severity of Credit Events and Floating Amount Events under the CDS Agreement Transactions.

On the Closing Date, a portion of the Issuer's Collateral Debt Securities will consist of Residential B/C Mortgage Securities that are backed by underlying mortgage loans that were originated or are serviced (or both) by subprime mortgage companies that are currently in bankruptcy proceedings or that are experiencing financial difficulties or regulatory enforcement actions that have restricted the ability of the applicable lender or its affiliates to originate mortgage loans and may affect its ability to service or subservice mortgage loans. These include, without limitation, the following:

The Issuer estimates that less than 3% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans that are serviced by New Century Financial Corporation ("**NCFC"**), which percentage may be higher if NCFC is a subservicer for any Collateral Debt Securities for which a different entity is the master servicer. In addition, the Issuer estimates that approximately 7% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans originated by NCFC. On April 2, 2007, NCFC issued a press release announcing that it has filed, in the United States Bankruptcy Court for the District of Delaware, a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. In that press release, NCFC further announced that, in connection with its Chapter 11 filing, it intended to reduce its workforce by approximately 3,200 employees, or 54%. NCFC also stated in the press release that it had entered into an agreement to sell its servicing assets and servicing platform to Carrington Capital Management, LLC and an affiliate thereof, subject to the approval of the Bankruptcy Court. Previously, on March 13, 2007, NCFC issued a press release announcing that its common stock, Series A Cumulative Redeemable Preferred Stock and Series B Cumulative Redeemable Preferred Stock were no longer suitable for trading on the New York Stock Exchange ("**NYSE"**) and would be suspended from trading on the NYSE. Moreover, published reports regarding NCFC indicated that NCFC is the subject of a federal criminal inquiry under federal securities laws in connection with trading in the company's securities as well as accounting errors about its allowance for repurchase losses.

The Issuer estimates that approximately 1% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans originated by Fremont Investment & Loan ("**Fremont"**). In March 2007, Freemont and its corporate parents entered into an agreement, designated as a cease-and-desist order, with the Federal Deposit Insurance Corporation, under which Fremont was required to revise certain of its mortgage lending practices. Pursuant to the cease-and-desist order, Fremont was ordered to cease and desist from, among other things, operating Fremont without effective risk management policies and procedures in place in relation to Fremont's brokered subprime mortgage lending business and marketing and extending adjustable-rate mortgage products in an unsafe and unsound manner that greatly increases the risk of borrower default on the loans. Also in March 2007, Fremont announced its intent to sell or exit its subprime residential real estate loan origination operations. On April 16, 2007, Fremont announced that it has entered into negotiations to sell most of its residential real estate business and assets to another party.

The Issuer estimates that approximately 1% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans originated by ResMae Mortgage Corp. ("**ResMae"**). On February 11, 2007, ResMae filed, in the United States Bankruptcy Court for the District of Delaware, a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. In March 2006, ResMae, which remains subject to Chapter 11 bankruptcy protection, was acquired by Citidel Investment Group.

The Issuer estimates that approximately 0% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans originated by People's Choice Home Loan Inc. ("**People's Choice"**). In March 2007, People's Choice filed, in the United States Bankruptcy Court in Santa Ana, California, a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code.

The Issuer estimates that approximately 1% of the Collateral Debt Securities included in the Collateral on the Closing Date will consist of Collateral Debt Securities that are backed in part or in whole by mortgage loans originated by Mortgage Lenders Network USA Inc. ("**Mortgage Lenders"**). In February 2007, Mortgage Lenders filed, in the United States Bankruptcy Court in Wilmington, Delaware, a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code.

These events may affect the performance of the Collateral Debt Securities (or Reference Obligations) backed by loans originated or serviced by the above-mentioned entities, which may affect the ability of the Issuer to make payments with respect to the Notes. Moreover, the foregoing is not an exclusive list of servicers or originators of residential mortgage loans backing the Collateral Debt Securities (or Reference Obligations) that have been adversely affected by recent developments in the residential mortgage loan market. Other servicers or originators of residential mortgage loans backing the Collateral Debt Securities (or Reference Obligations) may also have, or may in the future, entered or enter bankruptcy proceedings, become subject to regulatory actions or experienced or experience financial difficulties, which may affect the performance of such Collateral Debt Securities (or Reference Obligations), and which may therefore similarly affect the ability of the Issuer to make payments with respect to the Notes. Prospective investors should make their own evaluation of the foregoing when considering the merits and risks of an investment in the Notes.

The Ratings Assigned to the Notes and the Collateral are Subject to Downgrade or Withdrawal by the Rating Agencies or may not be Confirmed. On July 11, 2007, Moody's put 184 tranches of 91 CDO Securities backed primarily by residential mortgage-backed securities, including RMBS Securities, on review for possible downgrade. Such rating actions affect securities with an original face value of approximately U.S.$5,000,000,000, representing roughly 0.5% of the total CDO Securities that Moody's rates. In addition, Standard & Poor's recently announced (x) that it was reviewing CDO Securities with exposure to sub-prime residential mortgage-backed securities, including RMBS Securities, following its placement on negative credit watch of 612 rated RMBS Securities tranches and (y) that it was changing its ratings methodology, increasing the severity of the surveillance assumptions used to evaluate the ongoing creditworthiness for transactions under review.

The Collateral Debt Securities are expected to consist of certain RMBS Securities. In addition, all or most of the Reference Obligations under the CDS Agreement Transactions, if any, are expected to consist of RMBS Securities. The ratings of such RMBS Securities (a) may already be downgraded, withdrawn or not confirmed, (b) may be in the process of being downgraded, withdrawn or not confirmed or (c) may be subject to future ratings downgrades, withdrawals or confirmation failures. In addition, because the Notes are similar to those of CDO Securities that the Rating Agencies have either placed on review for possible downgrade or could place on negative credit watch at any time, there can be no assurance that (i) the ratings of the Notes, at any time following their issuance, will not be reviewed for downgrade, downgraded or withdrawn or (ii) a Ratings Confirmation Failure will not occur if a Rating Confirmation is not obtained on the Closing Date.

The use of a modified methodology that adopts a more conservative approach in the context of loss severity analysis by Standard & Poor's to rate securities like the Notes may cause the ratings of securities to be downgraded, withdrawn or not confirmed in scenarios in which such securities would not have otherwise been downgraded, withdrawn or not confirmed.

Any such ratings downgrade, withdrawal, confirmation failure or placement on credit watch may reduce the market value of the Collateral Debt Securities. Any decreases in market value would adversely affect the sale proceeds that the Issuer would realize upon any disposition of the Collateral (due to any redemption or exercise of remedies after an Event of Default). Any such reduction in sale proceeds would, in turn, reduce the amount available to make payments in respect of the Notes following any such disposition.

Negative Amortization Securities. A portion of the Collateral Debt Securities may be comprised of Negative Amortization Securities that are secured by mortgage loans with negative amortization features. Because the rate at which interest accrues may change more frequently than payment adjustments on an adjustable mortgage loan, and because that adjustment of monthly payments may be subject to limitations, the amount of interest accruing on the remaining principal balance of such an adjustable rate mortgage loan at the applicable mortgage rate may exceed the amount of the monthly payment. Negative amortization occurs if the resulting excess is added to the unpaid principal balance of the related adjustable rate mortgage loan. For certain mortgage loans having a negative amortization feature, the required monthly payment is increased in order to fully amortize the mortgage loan by the end of its original term. Other such mortgage loans limit the amount by which the monthly payment can be increased, which results in a larger monthly payment at maturity. As a result, these negatively amortizing mortgage loans have performance characteristics similar to those of balloon loans. Negative amortization may result in increases in delinquencies and defaults on mortgage loans having a negative amortization feature, which may result in payment delays and losses on such Collateral Debt Securities.

Acquisition of Collateral Debt Securities On or Prior to the Closing Date. On the Closing Date, the Issuer will purchase from Lehman Brothers Inc. (pursuant to a Forward Sale Agreement, dated as of July 16, 2007 (the "**Forward Sale Agreement**"), between the Issuer and Lehman Brothers Inc.) or enter into (or enter into commitments to purchase or enter into for settlement following the Closing Date) Collateral Debt Securities having an Aggregate Principal Balance of not less than U.S.$900,000,000 of the Aggregate Ramp-Up Par Amount. Such Collateral Debt Securities were selected by the Collateral Manager, acting on behalf of the Issuer, pursuant to a Warehousing Agreement, dated as of July 16, 2007, among the Issuer, Lehman Brothers Inc. and the Collateral Manager (the "**Warehousing Agreement**"). The value of such Collateral Debt Securities will be based on the value on the date such Collateral Debt Securities were acquired or entered into by Lehman Brothers Inc.

Market Value of Collateral Debt Securities in the Aggregate is Materially Lower than the Closing Date Purchase Price. Pursuant to the Warehousing Agreement, the Issuer is obligated to purchase such Collateral Debt Securities on the Closing Date at prices equal to their respective values (net of any hedging costs and expenses) as of the date such Collateral Debt Securities were originally acquired by Lehman Brothers Inc., even though a material decline in the market value of certain Collateral Debt Securities has occurred since the date they were acquired by Lehman Brothers Inc. The market value of such Collateral Debt Securities may never recover, or may continue to decline, which may result in potentially significant losses to the Issuer if it is required to liquidate such Collateral Debt Securities while their market values are impaired, reducing its ability to make payments on the Notes.

Redemption of Notes and the Preference Shares; Potential Illiquidity and Volatility of Collateral Market Value. An Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption is a potential source of liquidity for the Notes and the Preference Shares. There can be no assurance, however, that the Issuer's rights to an Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption will be exercised or that the conditions for any such redemption will be met. A Majority-in-Interest of Preference Shares have the right to direct an Optional Redemption, which may materially adversely affect the rights of one or more Classes of Noteholders, however there is no assurance that such Majority will exercise this right or that, if exercised, the conditions for such redemption will be met. See "*Description of the Notes—Optional Redemption and Tax Redemption*."

An Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption would result in a liquidation and sale of the Collateral Debt Securities into then-existing markets. The market value of the Collateral Debt Securities will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry and the financial condition of the underlying obligors on or issuers of the Collateral Debt Securities (or, in the case of Synthetic Securities, including Synthetic Securities entered into under the Credit Default Swap Agreement, the financial condition of the Reference Obligors). Lower ratings of Collateral Debt Securities reflect a greater possibility that adverse changes in the financial condition of an issuer or obligor or in general economic conditions or both may impair the ability of such underlying issuers or obligors to make payments of principal, interest and premium. Any termination or assignment payments paid by the Issuer under any CDS Agreement Transaction or other Synthetic Security terminated in connection with such redemption may have an adverse effect on the (i) amounts payable in connection with any Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption and (ii) proceeds received from the sale or liquidation of Collateral following an Event of Default. In addition, future periods of uncertainty in the United States economy and the economies of other countries in which issuers or obligors of Collateral Debt Securities are domiciled and the possibility of increased volatility and default rates in certain financial markets may also adversely affect the price and liquidity of the Collateral Debt Securities.

A decrease in the market value of the Collateral Debt Securities would adversely affect the Sale Proceeds that could be obtained upon the sale or other disposition of the Collateral Debt Securities and ultimately the ability of the Co-Issuers to pay in full or redeem the Notes.

A decrease in the market value of the Collateral Debt Securities would adversely affect the Sale Proceeds which could be obtained upon the sale or other disposition of Collateral Debt Securities and be available for distributions on the Preference Shares. Therefore, there can be no assurance that, upon any Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption, the Sale Proceeds realized would equal at least the Total Redemption Amount (in the case of a Clean-Up Call Redemption or a Tax Redemption), the Auction Call Redemption Amount (in the case of an Auction Call Redemption) or the Optional Redemption Amount (in the

case of an Optional Redemption), thus permitting such a redemption. In any redemption, there is no assurance that the holders of the Preference Shares would receive their initial investment.

Illiquidity of Collateral Debt Securities. Some of the Collateral Debt Securities purchased by the Issuer will have no, or only a limited, trading market. The Issuer's investment in illiquid Collateral Debt Securities may restrict its ability to dispose of investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities, although the Issuer is generally prohibited by the Indenture from selling Collateral Debt Securities except under certain limited circumstances described under "*Security for the Notes—Dispositions of Collateral Debt Securities*." Illiquid Collateral Debt Securities may trade at a discount from comparable, more liquid investments. In addition, the Issuer may invest in privately placed Collateral Debt Securities that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale, and even if such privately placed Collateral Debt Securities are transferable, the prices realized from their sale could be less than those originally paid by the Issuer or less than what may be considered the fair value of such securities.

Violations of Consumer Protection Laws May Result in Losses on Consumer Protected Securities. Applicable state laws generally regulate interest rates and other charges require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing Prime RMBS Securities, Mid-Prime RMBS Securities, Sub-Prime RMBS Securities, Home Equity Loan Securities, Residential A Mortgage Securities, Residential B/C Mortgage Securities and Manufactured Housing Securities (collectively, "**Consumer Protected Securities**"). Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a Consumer Protected Security to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

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

(1) the Federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;

(2) the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

(3) the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;

(4) the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;

(5) the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;

(6) the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and

(7) the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of particular provisions of these federal laws may limit the ability of the issuer of a Consumer Protected Security to collect all or part of the principal of or interest on the loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the Issuer, as a holder of the Consumer Protected Security, may suffer a loss.

Some of the mortgages loans backing a Consumer Protected Security may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such Consumer Protected Security and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous federal and state statutory provisions, including the federal bankruptcy laws, the Relief Act and state debtor relief laws, may also adversely affect the ability of an issuer of a Consumer Protected Security to collect the principal of or interest on the loans, and holders of the affected Consumer Protected Securities may suffer a loss if the applicable laws result in these loans becoming uncollectible.

Ratings Confirmation Failure; Mandatory Redemption. No later than five Business Days after the Ramp-Up Completion Date, the Issuer, or the Collateral Manager on its behalf, will notify the Trustee, each of the Rating Agencies and each Hedge Counterparty of the occurrence of the Ramp-Up Completion Date (such notice, the "**Ramp-Up Notice**") and submit a request in writing that Standard & Poor's (and Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) confirm in writing within 30 days after the delivery of the Ramp-Up Notice that it has not reduced or withdrawn any Initial Rating assigned by it on the Closing Date to any Class of the Notes (such notification, a "**Rating Confirmation**"); *provided* that if the Ramp-Up Completion Date occurs on the Closing Date, then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date will constitute a Rating Confirmation and no further action will be required in connection with the Ramp-Up Completion Date. If Standard & Poor's (or Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) does not provide such written confirmation prior to the Determination Date immediately following the date that is 30 days after the delivery of the Ramp-Up Notice, a "**Ratings Confirmation Failure**" will occur. In the event of a Ratings Confirmation Failure, and provided a Proposed Plan cannot be agreed to between the Collateral Manager, on behalf of the Issuer, and the Rating Agencies, the Issuer will be required on the Distribution Date relating to such Determination Date to apply, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes in accordance with the Priority of Payments and as and to the extent necessary for each Rating Agency to confirm, or to confirm that it has restored, as applicable, each such Initial Rating assigned by it to each such Class of Notes on the Closing Date. See "*Description of the Notes—Mandatory Redemption*" and "*—Priority of Payments*." The notional amount of the Interest Rate Hedge Agreement may be reduced in connection with a redemption of the Notes on any such Distribution Date by reason of any Ratings Confirmation Failure by an amount proportionately equal to the principal amount of Notes so redeemed. In such an event, a termination payment may be due by the Issuer to the applicable Hedge Counterparty. In connection with obtaining a Rating Confirmation on the Ramp-Up Completion Date, the Collateral Manager, on behalf of the Issuer, may provide a Proposed Plan to the Rating Agencies prior to the Ramp-Up Completion Date. See "*Description of the Notes—Priority of Payments*" and "*Security for the Notes—Proposed Plan*."

Credit Ratings. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, therefore, they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Collateral Debt Securities will be used by the Collateral Manager only as a preliminary indicator of investment quality.

International Investing. A limited portion of the Collateral Debt Securities may consist of obligations of an issuer located in a Special Purpose Vehicle Jurisdiction. Moreover, subject to compliance with certain of the Eligibility Criteria described herein, collateral securing Asset-Backed Securities may consist of obligations of

issuers or borrowers organized under the laws of various jurisdictions other than the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks may include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws therein; (iv) risks of economic dislocations in such other country; and (v) less data on historic default and recovery rates for the Collateral Debt Securities. Moreover, many foreign companies are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

In addition, there generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries than there is in the United States. For example, there may be no comparable provisions under certain foreign laws with respect to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Issuer are uninvested and no return is earned thereon. The inability of the Issuer to make intended Collateral Debt Security purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Issuer to miss investment opportunities. The inability to dispose of a Collateral Debt Security due to settlement problems could result either in losses to the Issuer due to subsequent declines in the value of such Collateral Debt Security or, if the Issuer has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the Issuer, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the Issuer's investments in such foreign countries. The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Risk Factors Relating to Synthetic Securities

Counterparty Risk. Synthetic Securities and Hedge Agreements generally involve the Issuer entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to the Issuer under certain circumstances as described therein. The Issuer will be exposed to the credit risk of the counterparty with respect to such payments.

Acquisition and Disposition of, and Credit Risk under, Synthetic Securities. On the Closing Date, the aggregate Notional Amount of CDS Agreement Transactions will be approximately U.S.$200,000,000, all of which will be CDS Agreement Transactions under which the Issuer acts as seller of protection. After the Closing Date and prior to the Ramp-Up Completion Date, the Issuer may enter into additional Synthetic Securities, including additional CDS Agreement Transactions. The Collateral Manager may only acquire or dispose of Synthetic Securities in accordance with the requirements of the Indenture and Collateral Management Agreement and will only have the authority to enter into or terminate CDS Agreement Transactions with the consent of the Credit Default Swap Counterparty (which consent will not be unreasonably withheld); *provided* that (i) with respect to any entry by the Issuer into new CDS Agreement Transactions, the parties agree on the pricing and the Credit Default Swap Counterparty arranges an offsetting transaction with a dealer acceptable to it and (ii) with respect to any termination or assignment of a CDS Agreement Transaction, the Issuer pays any termination or assignment payment which the Credit Default Swap Counterparty will calculate based substantially upon general replacement transaction valuation methodology. Such acquisitions or dispositions may have an adverse effect on the value of the Collateral and the ability of the Issuer to make payments on the Notes. Any termination or assignment payments paid by the Issuer in respect of any CDS

Agreement Transaction may have an adverse effect on the (i) amounts payable in connection with any Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption and (ii) proceeds received from the sale or liquidation of Collateral following an Event of Default, which could adversely affect returns on the Notes. The customary terms in the credit default swap market are likely to change in the future, in which event the Rating Condition will need to be satisfied with respect to the entry by the Issuer into credit default swaps on such changed terms. Accordingly, there can be no assurance that the Issuer will be able to acquire Synthetic Securities to the extent or in the manner anticipated on the Closing Date. If the Rating Condition is satisfied with respect to such changed terms, then the terms of such credit default swap transactions (including the Credit Events thereunder) may be materially different from the terms of the transactions entered into under the Credit Default Swap Agreement as in effect on the Closing Date. If the Rating Condition is not satisfied with respect to such changed terms, the Issuer may not be able to acquire Synthetic Securities on the terms prevailing in the market and may as a result face increased difficulty and/or costs in remaining invested in Synthetic Securities to the full extent anticipated on the Closing Date. Furthermore, any change in customary terms available in the credit default swap market may result in the Issuer facing additional difficulty and/or cost in effecting the disposition of Synthetic Securities which utilize terms which have ceased to reflect the market standard. If the Issuer is not invested at all times in Synthetic Securities to the full extent anticipated on the Closing Date, or if it cannot acquire or dispose of Synthetic Securities, the Collateral may be less diversified than would otherwise be the case, Interest Proceeds or Principal Proceeds (as applicable) may be reduced and payments of interest or principal (including deferred interest) on the Notes may not be made in full, with the result that investors in the Notes may suffer a loss.

The obligation of the Issuer to make payments to the Credit Default Swap Counterparty in respect of CDS Agreement Transactions and to other Synthetic Security Counterparties under other Synthetic Securities creates exposure to the credit default risk of the related Reference Obligations (as well as the default risk of the Credit Default Swap Counterparty and other Synthetic Security Counterparties; see "*—Reliance on Creditworthiness of the Credit Default Swap Counterparty and other Synthetic Security Counterparties*" below). The amount of funds available to make payments in respect of principal of and interest on the Notes is dependent upon whether and to what extent net amounts in respect of losses incurred under the Reference Obligations are due and payable by the Issuer (where it is acting as seller of protection) to the Credit Default Swap Counterparty in respect of CDS Agreement Transactions or to other Synthetic Security Counterparties under other Synthetic Securities. Any net amount due and owing to the Credit Default Swap Counterparty or other Synthetic Security Counterparties will reduce the amount available to pay the obligations of the Issuer to the Noteholders in reverse order of seniority. Accordingly, the holders of the Preference Shareholders in the first instance and thereafter the holders of the Notes in reverse order of priority may lose all or a portion of their investment.

With respect to a CDS Agreement Transaction under which the Issuer is the seller of protection and the Credit Default Swap Counterparty is the buyer of protection, following the occurrence of a "credit event" with respect to a Reference Obligation under and as defined in the Credit Default Swap Agreement or any other Underlying Instruments relating to a Synthetic Security (a "**Credit Event**") (and subject to the satisfaction of applicable conditions to settlement), the Issuer will be required to pay to the Credit Default Swap Counterparty or other Synthetic Security Counterparty an amount equal to the relevant Physical Settlement Amount or otherwise satisfy its settlement obligations in respect thereof. All or some of the Reference Obligations may fall below investment grade (or the equivalent credit quality) in which case it will be more likely that the Issuer, as the seller of protection, will be required to make payment of a Physical Settlement Amount. The payment of any Physical Settlement Amount will be funded by the Issuer, in the case of a Defeased Synthetic Security, by drawing out of amounts standing to the credit of the related Synthetic Security Counterparty Account without regard to either Priority of Payments. Payments to the Credit Default Swap Counterparty in respect of any CDS Agreement Transactions (including trading termination or assignment payments payable upon the termination or assignment of an individual CDS Agreement Transaction but excluding any termination payments payable upon the termination in full of the Credit Default Swap Agreement which will only be payable on a Distribution Date subject to and in accordance with the Priority of Payments) will be funded by the Issuer applying amounts standing to the credit of the Synthetic Security Counterparty Account. As a result, the Issuer may have insufficient funds available to make payments of interest and/or principal, as the case may be, on the Notes when due and payable. Termination or assignment payments payable by the Issuer in respect of any CDS Agreement Transactions or other Synthetic Securities will include the market value to the Credit Default Swap Counterparty or other Synthetic Security Counterparty of such terminated Synthetic Security, which may expose the Issuer to deterioration in the credit of the Reference Obligations and result in losses to the Issuer, even where no Credit Event has occurred. Any such payments of Physical Settlement

Amounts and termination and assignment payments by the Issuer will reduce the amount that is available to make payments on the Notes and consequently the Notes could be adversely affected thereby.

In addition, each CDS Agreement Transaction under which the Issuer is the seller of protection and the Credit Default Swap Counterparty is the buyer of protection will require (and other Synthetic Securities may require) the Issuer to pay floating amounts to the Credit Default Swap Counterparty (or Synthetic Security Counterparty) in amounts equal to any principal shortfalls, written down amounts and interest shortfalls under the Reference Obligation (any such payment, a "**Floating Payment**"). Although Floating Payments by the Issuer in respect of CDS Agreement Transactions are (and, in the case of other Synthetic Securities, may be) contingent, even if the Credit Default Swap Counterparty (or other Synthetic Security Counterparty), in its capacity as protection buyer, reimburses all or part of such Floating Payments to the Issuer if the related shortfalls are ultimately paid to holders of the Reference Obligations or if the related Reference Obligations are written up, the ability of the Issuer to make payments in respect of the Notes may be adversely affected during the period from and including the date of payment by the Issuer of the relevant Floating Payment to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) to the date on which the Issuer receives such reimbursement from the Credit Default Swap Counterparty (or other Synthetic Security Counterparty). There is no guarantee that a reimbursement of payments in respect of such Floating Payment Event will occur or that reimbursement will fully compensate the Issuer, particularly because the Synthetic Security Counterparty generally will not pay interest on such amount to the Issuer. This will reduce the Interest Proceeds available to pay expenses of the Issuer and interest on the Notes on each Distribution Date.

Whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Payment Event has occurred under a CDS Agreement Transaction under which the Issuer is the seller of protection will be in the sole discretion of the Credit Default Swap Counterparty, and none of the Credit Default Swap Counterparty or any of its Affiliates will have any liability to any Noteholder or any other person as a result of giving (or not giving) any such notice under any CDS Agreement Transaction. If a "Writedown," "Failure to Pay Principal" or (solely with respect to a Credit Event under a CDS Agreement Transaction with respect to which the Reference Obligation is a CDO Security) "Failure to Pay Interest" occurs, the Credit Default Swap Counterparty may elect to require the Issuer to pay the Floating Payment or to treat it as a Credit Event and require the Issuer to pay the Physical Settlement Amount under such CDS Agreement Transaction. There is no guarantee as to the ability of the Issuer to sell or the timing of the sale of Deliverable Obligations delivered to the Issuer under a CDS Agreement Transaction under which the Issuer is the seller of protection, or whether the amount of Sale Proceeds received by the Issuer upon the sale of such Deliverable Obligations will equal the Physical Settlement Amounts paid by the Issuer following the occurrence of the related Credit Events. Principal Proceeds available to pay the principal amount of the Notes on any Redemption Date, at Stated Maturity or on the Note Acceleration Date also will be reduced by each Floating Payment (other than in respect of an Interest Shortfall) and each Physical Settlement Amount paid by the Issuer under such CDS Agreement Transactions.

Limited Information with Respect to Reference Obligations. Although a list of the Reference Obligations relating to the Synthetic Securities acquired by the Issuer will be included in the monthly reports delivered by the Trustee on behalf of the Issuer to the holders of the Notes, such holders will not otherwise have the right to obtain from the Issuer, the Trustee, the Preference Share Paying Agent, the Credit Default Swap Counterparty, any other Synthetic Security Counterparty, the Initial Purchasers, the Collateral Administrator or the Collateral Manager (the "**Relevant Parties**") any other information regarding the Reference Obligations, the obligors relating thereto or information regarding any other obligations of such obligors. The Credit Default Swap Counterparty may also not have access to such information or servicing reports relating to the Reference Obligation and thus the parties to the transaction may not have timely information with respect to such matters as whether a Floating Payment Event has occurred or whether the applicable shortfall has been reimbursed to holders of the Reference Obligation. Neither the Credit Default Swap Counterparty nor any other Synthetic Security Counterparty will have any obligation to keep the Issuer, the Trustee, the Preference Share Paying Agent, the Collateral Manager or the holders of the Notes informed as to matters arising in relation to any Reference Obligation or Reference Obligor thereon, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event, and such parties may or may not have knowledge of such circumstances at any time. Further, the Issuer will have no right to get such information from the Servicer, the Trustee, the underwriter or any other involved party of the Reference Obligation. In fact, such parties may have a legal obligation not to disclose such information, and/or the Relevant Parties may have conflicts in disclosing such information.

None of the Issuer, the Trustee, the Preference Share Paying Agent, the Collateral Manager or the holders of the Notes will have the right to inspect any records of the Credit Default Swap Counterparty or any other Synthetic Security Counterparty or the Reference Obligations, and the Credit Default Swap Counterparty and other Synthetic Security Counterparties will be under no obligation to disclose any further information or evidence regarding the existence or terms of any obligation of any Reference Obligation or any matters arising in relation thereto or otherwise regarding any Reference Obligation, any guarantor or any other person, unless and until a Credit Event has occurred and the Credit Default Swap Counterparty or other Synthetic Security Counterparty provides a Notice of Publicly Available Information to the Issuer evidencing the occurrence of such Credit Event as required under the terms of the related CDS Agreement Transaction or other Synthetic Security.

Under any CDS Agreement Transaction under which the Issuer acts as protection seller, the Issuer will be required (and, under other Synthetic Securities, the Issuer may be required) to (a) pay Floating Payments to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) and (b) in the event that a Credit Event occurs in respect of the related Reference Obligation, pay the Physical Settlement Amount in respect of such Reference Obligation to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty).

Settlement Risk. To the extent the Issuer acquires Synthetic Securities, the Issuer will bear the risk of settlement default, particularly since the terms of such Synthetic Securities may (and, in the case of CDS Agreement Transactions, will) require physical settlement by the relevant Synthetic Security Counterparty (including the Credit Default Swap Counterparty) following the occurrence of a Credit Event and satisfaction of the conditions to settlement thereunder; *provided*, *however*, that where the buyer of protection has delivered a notice of physical settlement but does not deliver in full the Deliverable Obligations (including, without limitation, as a result of the illegality or impossibility of physical settlement) on or prior to the physical settlement date, then such notice of physical settlement will be deemed not to have been delivered. In no event will full or partial cash settlement apply. Settlement risk will arise if the Issuer meets its payment obligation under such Synthetic Security before the Synthetic Security Counterparty meets its corresponding payment or delivery obligations thereunder. A failure to perform by a Synthetic Security Counterparty (including the Credit Default Swap Counterparty) under any such Synthetic Security may be due to Synthetic Security Counterparty default, operational or administrative error or legal impediments. In particular, the Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions, and its ability to physically settle CDS Agreement Transactions under which it is acting as protection buyer may be dependent on whether or not the counterparties to such back-to-back hedging transactions perform their delivery obligations. Such risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily mark-to-market and settlement of positions, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections, and expose the parties to the risk of counterparty default. Furthermore, there may be practical or timing problems associated with enforcing the Issuer's rights to its assets in the case of an insolvency of any such Synthetic Security Counterparty (including the Credit Default Swap Counterparty).

No Legal or Beneficial Interest in Reference Obligations. Under Synthetic Securities entered into by the Issuer, the Issuer will have a contractual relationship only with the Synthetic Security Counterparty. Consequently, a Synthetic Security does not constitute a purchase or other acquisition or assignment of any interest in any Reference Obligation. The Issuer will not directly benefit from the collateral supporting any Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of any such Reference Obligation. In the event of the insolvency of the Synthetic Security Counterparty, the Issuer will be treated as a general creditor of such counterparty, and will not have any claim with respect to any Reference Obligation. The Issuer and the Trustee, therefore, will have rights solely against the Synthetic Security Counterparty in accordance with the Synthetic Security and will have no right directly to enforce compliance by any Reference Obligor with the terms of any Reference Obligation nor any rights of set-off against any Reference Obligor. Given that all or a large portion of the Synthetic Securities entered into by the Issuer will consist of CDS Agreement Transactions, the Issuer will have significant exposure to the Credit Default Swap Counterparty in the event that the Credit Default Swap Counterparty becomes insolvent.

In addition, neither any Synthetic Security Counterparty nor its affiliates (including the Credit Default Swap Counterparty and its affiliates) will be (or be deemed to be acting as) the agent or trustee of the Issuer or the

Noteholders in connection with the exercise of, or the failure to exercise, any of the rights or powers (including, without limitation, voting rights) of the Synthetic Security Counterparty and/or its affiliates arising under or in connection with their respective holding of any Reference Obligation.

A Synthetic Security Counterparty (including the Credit Default Swap Counterparty) will have only the duties and responsibilities expressly agreed to by it under the applicable Synthetic Security and will not, by reason of its or any of its affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to any higher standard of care than that set forth in the applicable Synthetic Security or imposed by law. In no event will a Synthetic Security Counterparty be deemed to have any fiduciary obligations to the Noteholders or any other person or entity by reason of acting in such capacity. A Synthetic Security Counterparty's actions may be inconsistent with or adverse to the interests of the Noteholders.

In taking any action with respect to a Synthetic Security (including declaring or exercising its remedies in respect of a Credit Event or any other default under or termination of the Synthetic Security), the Synthetic Security Counterparty may take such actions as it determines to be in its own commercial interests and not as agent, fiduciary or in any other capacity on behalf of the Issuer or the holders of the Notes. A Synthetic Security Counterparty (including the Credit Default Swap Counterparty) or one of its affiliates may act as a dealer for purposes of obtaining quotations with respect to a Reference Obligation.

A Synthetic Security Counterparty (or any of its affiliates) will not be required to own or have any exposure to a Reference Obligation. If a Synthetic Security Counterparty (or one of its affiliates) does own a Reference Obligation, it is likely to seek to eliminate any credit exposure to the Reference Obligations by entering into back-to-back hedging transactions. As a result, the Physical Settlement Amount owed by the Issuer in respect of the settlement of any Synthetic Security under which the Issuer is acting as seller of protection *minus* the market value of any deliverable obligations received by the Issuer upon such settlement may be less than the actual loss, if any, incurred by the Synthetic Security Counterparty upon such settlement and the settlement of any related back-to-back hedging transactions.

A Synthetic Security Counterparty and its affiliates (including the Credit Default Swap Counterparty and its affiliates), may (but are not required to) hold other obligations or securities of any issuer of a Reference Obligation, may deal in any such obligations or securities, may enter into other credit derivatives involving reference entities or reference obligations that may include the Reference Obligations (including credit derivatives relating to Reference Obligations), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any issuer of a Reference Obligation, any affiliate of any issuer of a Reference Obligation or any other person or other entity having obligations relating to any issuer of a Reference Obligation, and may act with respect to such business in the same manner as if the Synthetic Security did not exist, regardless of whether any such relationship or action might have an adverse effect on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a Credit Event) or on the position of the Issuer, the Noteholders or any other party to the transactions described herein or otherwise. In addition, a Synthetic Security Counterparty and/or its affiliates may from time to time possess interests in the issuers of Reference Obligations and/or Reference Obligations allowing the Synthetic Security Counterparty or its affiliates, as applicable (or any investment manager or adviser acting on its or their behalf), to exercise voting or consent rights with respect thereto, and such rights may be exercised in a manner that may be adverse to the interests of the holders of the Notes or that may affect the market value of Reference Obligations and/or the amounts payable thereunder. A Synthetic Security Counterparty and its affiliates may, whether by reason of the types of relationships described herein or otherwise, at the date hereof or any time hereafter, be in possession of information in relation to any issuer of a Reference Obligation or Reference Obligation that is or may be material and that may or may not be publicly available or known to the Issuer, the Trustee or the holders of the Notes and which information the Synthetic Security Counterparty or such affiliates will not disclose to the Issuer, the Collateral Manager, the Trustee or the holders of the Notes.

A Synthetic Security Counterparty and its affiliates (including the Credit Default Swap Counterparty and its affiliates), the Hedge Counterparty and the Initial Purchasers may act as underwriter, initial purchaser or placement agent for entities having investment objectives similar to those of the Issuer and other similar entities in the future. A Synthetic Security Counterparty (or an affiliate thereof) may be advising or distributing securities on behalf of an issuer or providing banking or other services to an issuer at the same time at which the Collateral Manager is

determining whether to enter into, terminate or assign a CDS Agreement Transaction relating to a particular Reference Obligation under the Credit Default Swap Agreement.

Reliance on Creditworthiness of the Credit Default Swap Counterparty and other Synthetic Security Counterparties. The ability of the Issuer to meet its obligations under the Notes will be partially dependent on its receipt of payments from the Credit Default Swap Counterparty under the Credit Default Swap Agreement under which the Issuer is the seller of protection and payments from other Synthetic Security Counterparties under other Synthetic Securities. Consequently, the Issuer is relying not only on the performance of the Reference Obligations, but also on the creditworthiness of the Credit Default Swap Counterparty and other Synthetic Security Counterparties with respect to such payments. Because it is anticipated that the Issuer will enter into most of its Synthetic Securities (as measured by Notional Amount) with the Credit Default Swap Counterparty, there will be a degree of concentration risk with respect to the credit risk in relation to the Credit Default Swap Counterparty. Similar concentration risk would apply to any other Synthetic Security Counterparty which is the obligor under multiple Synthetic Securities comprising a large portion of the Collateral.

Neither the Issuer nor the Collateral Manager on its behalf will perform an independent credit analysis of the Credit Default Swap Counterparty or any other Synthetic Security Counterparty. However, the Credit Default Swap Counterparty will agree to specific rating downgrade provisions acceptable to the Rating Agencies as a condition to entering into the Credit Default Swap Agreement with the Issuer (and other Synthetic Security Counterparties may agree to similar provisions under the related Synthetic Securities). A failure by the Credit Default Swap Counterparty to comply with these requirements may result in the termination in full of the Credit Default Swap Agreement (or, in the case of another Synthetic Security Counterparty, the Synthetic Securities entered into with such Synthetic Security Counterparty). In the event of any such termination, the Issuer may be required to make a termination payment to the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) and the amounts payable by the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) will cease to be payable to the Issuer. As a result, there will be less funds available to the Issuer to discharge its obligation to make payments in respect of the Notes. The Issuer is therefore relying in part on the creditworthiness of the Credit Default Swap Counterparty (or other Synthetic Security Counterparty) with respect to the Credit Default Swap Counterparty's performance of its obligations to make payments to the Issuer. There can be no assurance that the Issuer would be able to locate a replacement Credit Default Swap Counterparty following termination of the CDS Agreement Transactions (or other replacement Synthetic Securities following the termination of other Synthetic Securities), particularly since the Issuer is a special purpose vehicle. The Credit Default Swap Counterparty will be required to transfer cash collateral to the Issuer in respect of its obligations under the Credit Default Swap Agreement pursuant to a collateral arrangement based on the form of the ISDA Credit Support Annex (the "**Credit Support Annex**") if it fails to comply with certain rating downgrade provisions set forth in the Credit Default Swap Agreement required by the Rating Agencies, thereby reducing the Issuer's exposure to the credit risk of the Credit Default Swap Counterparty. A failure by the Credit Default Swap Counterparty to post collateral or replace itself as required by the Credit Default Swap Agreement could expose the Issuer to a higher degree of credit risk of the Credit Default Swap Counterparty and possibly result in there being less funds available to the Issuer to discharge its obligations to make payments in respect of the Notes and distributions on the Preference Shares. See "*The Credit Default Swap Counterparty*." Similar provisions may apply in respect of other Synthetic Securities.

Intermediation Fee. If the Credit Default Swap Counterparty agrees to enter into a CDS Agreement Transaction, it may agree to do so at the quoted premium minus an intermediation fee. An intermediation fee will be subtracted from the premium payable by the Credit Default Swap Counterparty to the Issuer.

Calculation Agency Function of Credit Default Swap Counterparty. The calculation agent under the Credit Default Swap Agreement will determine the amount of any Floating Payments and Physical Settlement Amount(s) for each Credit Event payable by the Issuer in respect of CDS Agreement Transactions. The Credit Default Swap Counterparty will act as the calculation agent under the Credit Default Swap Agreement. See "*The Credit Default Swap Agreement*." Other Synthetic Securities may provide that the Synthetic Security Counterparty is appointed by the Issuer as the calculation agent with respect to such transactions. The performance by the Credit Default Swap Counterparty or any other Synthetic Security Counterparty of its duties as calculation agent may result in potential and actual conflicts of interest between its role as calculation agent of the Issuer and its own economic interests as a party to the relevant transaction.

Physical Settlement. In the event that the applicable conditions to settlement have been met after the occurrence of a Credit Event, the Issuer, if it is acting as seller of protection, will be obligated to pay the Physical Settlement Amount with respect to the related Reference Obligation, which will be based on the principal amount or certificate balance of the Reference Obligation and the Credit Default Swap Counterparty or other Synthetic Security Counterparty, and in the case it is acting as buyer of protection, will be obligated to deliver one or more Deliverable Obligations.

Pursuant to the definition thereof, Deliverable Obligations are required to (a) satisfy the criteria set forth in paragraphs (1) through (4) and (6) through (29), (31) and (32) of the Eligibility Criteria at the time such debt obligation is delivered or (b) satisfy the criteria set forth in paragraphs (6), (7) and (8) of the Eligibility Criteria and the Rating Condition. The Collateral Manager is entitled to sell or otherwise dispose of any Deliverable Obligations in accordance with the procedures described in "*Security for the Notes—Dispositions of Collateral Debt Securities*." There is, however, no guarantee that the Collateral Manager will succeed in selling any Deliverable Obligation, and the time required to sell a Deliverable Obligation cannot be predicted. If a Deliverable Obligation is sold, there is no guarantee that the Sale Proceeds of the Deliverable Obligation will result in proceeds to the Issuer in respect of the related Credit Event equivalent to the Physical Settlement Amount. The market value of the Deliverable Obligation delivered by the Credit Default Swap Counterparty or other Synthetic Security Counterparty in connection with a physical settlement will likely be less than the Physical Settlement Amount, and there is no guarantee that the Issuer will be able to sell a Deliverable Obligation at a price which the Collateral Manager believes in its commercially reasonable business judgment (based on the facts or circumstances at such time) accurately reflects its recovery value. The market value of a Deliverable Obligation will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry, the performance of the assets backing the Deliverable Obligation, the financial condition of the portfolio of the related Reference Obligor, and the terms of the Deliverable Obligation. A Deliverable Obligation may be in default at the time it is delivered to the Issuer, and the related Reference Obligor may be insolvent. These factors may adversely impact the price and liquidity of the Deliverable Obligations. This may adversely affect payments on the Notes and distributions in respect of the Preference Shares.

Payments to Credit Default Swap Counterparty Outside of the Priority of Payments. Payments of Credit Protection Amounts, Physical Settlement Amounts and payments owed by the Issuer on assignment or termination of an individual CDS Agreement Transaction (other than a Defaulted Synthetic Termination Payment) will be paid directly to the Credit Default Swap Counterparty out of the Synthetic Security Counterparty Account, and will not be subject to the Priority of Payments.

Termination of the Credit Default Swap Agreement. In the circumstances specified in the Credit Default Swap Agreement, the Issuer or the Credit Default Swap Counterparty may terminate the Credit Default Swap Agreement (and all of the CDS Agreement Transactions). The Credit Default Swap Agreement is subject to early termination by the Issuer in the event of an "Event of Default" by the Credit Default Swap Counterparty or a "Termination Event" (as such terms are defined in the Credit Default Swap Agreement) affecting the Credit Default Swap Counterparty under the Credit Default Swap Agreement. The Credit Default Swap Agreement is subject to early termination by the Credit Default Swap Counterparty in the event of an "Event of Default" by the Issuer or a "Termination Event" affecting the Issuer under the Credit Default Swap Agreement. See "*The Credit Default Swap Agreement—Early Termination of the Credit Default Swap Agreement*."

In addition, the Credit Default Swap Agreement is subject to early termination (as more fully described in "*The Credit Default Swap Agreement*") if (i) certain tax events or a change in tax law take place that affect the Issuer or the Credit Default Swap Counterparty; (ii) a Credit Default Swap Ratings Event occurs and is continuing; (iii) an Auction Call Redemption, Optional Redemption, Tax Redemption or Clean-Up Call Redemption occurs; (iv) an Event of Default occurs under the Indenture and is continuing and the Collateral has been liquidated in full; (v) the Indenture is amended without the consent of the Credit Default Swap Counterparty or (vi) the Issuer fails to comply with certain collateral requirements; *provided* that in lieu of terminating all the CDS Agreement Transactions as a result of such failure under this clause (vii), the Credit Default Swap Counterparty may elect to terminate a *pro rata* portion of each of the CDS Agreement Transactions such that the Remaining Exposure (after such partial termination) of all CDS Agreement Transactions under the Credit Default Swap Agreement does not exceed the balance standing to the credit of the Synthetic Security Counterparty Account.

Under the Credit Default Swap Agreement, with respect to an "Event of Default" or a "Termination Event," the non-defaulting party or the non-affected party will designate the "Early Termination Date" and will determine the "Termination Payment" (as such terms are defined in the Credit Default Swap Agreement) with respect to all the CDS Agreement Transactions that are payable to or by the Issuer, or as applicable, to or by the Credit Default Swap Counterparty. Any termination payment payable by the Issuer to the Credit Default Swap Counterparty in connection with the termination in full of the Credit Default Swap Agreement will (i) be payable on a Distribution Date subject to and in accordance with the Priority of Payments, (ii) other than in the case of any Defaulted Synthetic Termination Payment, rank senior in the Priority of Payments to all payments in respect of the Notes and (iii) reduce the Interest Proceeds and Principal Proceeds available to make payments on the Notes and Preference Shares, and may result in an Event of Default under the Indenture and a loss to the holders of the Notes and holders of the Preference Shares, which loss could be substantial. Such an early termination of the Credit Default Swap Agreement following an "Event of Default" or "Termination Event" will not by itself, however, constitute an Event of Default under the Indenture. Following the effective designation of an early termination date, no further payments, other than the termination payment and "Unpaid Amounts" (as such term is defined in the Credit Default Swap Agreement) will be required to be made by either the Issuer or the Credit Default Swap Counterparty under the Credit Default Swap Agreement. The Issuer will retain the Deliverable Obligations but will no longer receive payments of premium amounts from the Credit Default Swap Counterparty, which will reduce the Interest Proceeds available to make payments on the Notes and Preference Shares.

The termination payment due from the Issuer to the Credit Default Swap Counterparty in connection with the termination of the Credit Default Swap Agreement (or from the Credit Default Swap Counterparty to the Issuer) will be determined by the Credit Default Swap Counterparty and be payable on the next succeeding Distribution Date in accordance with the Priority of Payments. If a termination payment would be due from the Issuer to the Credit Default Swap Counterparty the Issuer may not be able to consummate an Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption and may not be able to meet one or more of the required conditions to liquidate the Collateral following an Event of Default.

Illiquidity of Credit Default Swaps; Effect of Credit Spreads on Termination Payment. The market for credit default swaps on Asset-Backed Securities has only existed for a few years and is relatively illiquid (compared to the market for credit default swaps on investment grade corporate reference entities). Credit default swaps with "pay-as-you-go" credit events have only recently been introduced into the market, and the terms have not yet been standardized and may change significantly after the Closing Date (which will make it more difficult for the Issuer to liquidate or value a credit default swap upon a termination or assignment). In the event that spreads over LIBOR on Asset-Backed Securities widen or the prevailing credit premiums on credit default swaps on Asset-Backed Securities increase after the Closing Date, the amount of a termination or assignment payment upon a termination or assignment of a CDS Agreement Transaction due from the Issuer to the Credit Default Swap Counterparty could increase by a substantial amount. For the avoidance of doubt, CDS Agreement Transactions will be documented by a confirmation that is substantially in the form of the most recent version of the "Credit Derivative Transaction on Mortgage-Backed Security With Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)" or the "Credit Derivative Transaction on Collateralized Debt Obligation With Pay-As-You-Go or Physical Settlement (Dealer Form)" template published by ISDA prior to the Closing Date.

Amendment of Credit Default Swap Agreement; Credit Derivatives Definitions. The Credit Default Swap Agreement provides (and other Synthetic Securities may provide) that no material amendment, modification or waiver in respect thereof may be entered into by the Issuer and the Credit Default Swap Counterparty (or Synthetic Security Counterparty) unless (i) a copy of such proposed amendment, modification or waiver has been delivered to the Trustee and the Collateral Manager no less than 10 Business Days prior to the proposed effective date thereof and (ii) such material amendment, modification or waiver satisfies the Rating Condition. In addition, the Credit Default Swap Agreement will not be amended if such amendment would materially adversely affect any Class of Notes unless (A) notice of such amendment has been delivered by the Issuer (or the Trustee on behalf of the Issuer) to the Noteholders of each such Class materially adversely affected thereby and (B) a Majority of the Noteholders of each such Class has not, within the period specified in the Credit Default Swap Agreement after receipt of such notice, informed the Issuer that such Class objects to such amendment.

However, the foregoing does not apply to amendments to the Credit Derivatives Definitions effected by ISDA after the Closing Date. Each of the CDS Agreement Transactions will (and other Synthetic Securities may)

incorporate the Credit Derivatives Definitions to the extent agreed upon by the Issuer and the Credit Default Swap Counterparty and may include any amendment, modification or supplement thereto effected after the effective date of the relevant Synthetic Security if the parties so agree. The credit default swap market is expected to change and the Credit Derivatives Definitions and terms applied to credit derivatives are subject to interpretation and further evolution. Such amendments, modifications or supplements may therefore materially affect in a manner that is adverse to the interests of the Issuer and the Noteholders the material terms of a Synthetic Security negotiated by the Collateral Manager on behalf of the Issuer prior to the entry by the Issuer into such Synthetic Security.

Past events have shown that the views of market participants may differ as to how the Credit Derivatives Definitions operate or should operate. There can be no assurances that changes to the Credit Derivatives Definitions and other terms applicable to credit derivatives generally will be predictable or favorable to the Issuer. Markets in different jurisdictions have also already adopted and may continue to adopt different practices with respect to the Credit Derivative Definitions. The Credit Derivatives Definitions may contain ambiguous provisions that are subject to interpretation and may result in consequences that are adverse to the Issuer. Therefore, in addition to the credit risk of the Reference Obligations and the credit risk of the Synthetic Security Counterparties, the Issuer is also subject to the risk that the Credit Derivatives Definitions could be interpreted in a manner that would be adverse to the Issuer or that the credit derivatives market generally may evolve in a manner that would be adverse to the Issuer.

Defeased Synthetic Securities. If the terms of any Defeased Synthetic Security require the Issuer to secure its obligations with respect to such Synthetic Security, funds will be deposited into a Synthetic Security Counterparty Account. In accordance with the terms of the applicable Defeased Synthetic Security, funds deposited in the related Synthetic Security Counterparty Account will be invested in Eligible Investments or other Synthetic Security Collateral for the purpose of securing the Issuer's obligations under such Defeased Synthetic Security. After payment of all amounts owing by the Issuer to the relevant Synthetic Security Counterparty or a default which entitles the Issuer to terminate its obligations under such Defeased Synthetic Security, all funds and other property standing to the credit of the Synthetic Security Counterparty Account related to such Defeased Synthetic Security will be credited to the Principal Collection Account (in the case of cash and Eligible Investments) and the Custodial Account (in the case of Collateral Debt Securities and other financial assets). Such items of Synthetic Security Collateral that are credited to the Custodial Account may not satisfy certain Eligibility Criteria when they are credited to the Custodial Account.

Additional Limitations on the Issuer. The Issuer will observe certain limitations on its ability to purchase Synthetic Securities in order to ensure that it is not treated as a "dealer in securities" or otherwise treated as engaged in a trade or business in the United States for U.S. federal income tax purposes.

Risk Factors Relating to Conflicts of Interest and Dependence on the Collateral Manager

Certain Conflicts of Interest. The activities of the Collateral Manager, the Initial Purchasers and their respective affiliates may result in certain conflicts of interest.

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the overall management, advisory, investment and other activities of the Collateral Manager, its Affiliates (as defined below) or any funds managed by them and their respective clients and employees. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

Notwithstanding the internal policies of the Collateral Manager that are intended to reduce the possibility of, or effect of, conflicts of interest, the size and scope of activities of the Collateral Manager create various potential and actual conflicts of interest that may arise from the advisory, investment and other activities of the Collateral Manager, its Affiliates and their respective clients and employees. For purposes hereof, "**Affiliate**" means, with respect to the Collateral Manager, (i) any other person who, directly or indirectly, is in control of, or controlled by, or is under common control with, the Collateral Manager or (ii) any other person who is a director, member, officer, employee or general partner of (a) the Collateral Manager or (b) any such other person described in clause (i) above. For the purposes of the foregoing definition, control of a person means the power, direct or indirect, to (x) vote more than 50% of the securities having ordinary voting power for the election of directors of such person or (y) direct or cause the direction of the management and policies of such person whether by contract or otherwise. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its Affiliates for their own accounts or for the accounts of others.

The Collateral Manager and its Affiliates may invest for their own accounts or for the accounts of others in debt obligations that would be appropriate investments for the Issuer and they have no duty, in making such investments, to act in a way that is favorable to the Issuer, the Noteholders or the Preference Shareholders. Such investments may be different from those made on behalf of the Issuer. The Collateral Manager and/or its Affiliates have no affirmative obligation to offer any investment to the Issuer, or to inform the Issuer of any investment opportunity before offering such investment to other funds or accounts that the Collateral Manager or its Affiliates may manage or advise. The Collateral Manager and its Affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the Issuer may invest. In particular, such persons may make and/or hold an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made and/or held by the Issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its Affiliates may in their discretion (except as provided below under "*Security for the Notes—Dispositions of Collateral Debt Securities*") make investment recommendations and decisions that may be the same as or different from those made with respect to the Issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the Issuer as the Collateral Manager deems appropriate, the principals and employees may have conflicts in allocating their time and services among the Issuer and other accounts now or hereafter advised by the Collateral Manager and/or its Affiliates. The policies of the Collateral Manager are such that certain employees of the Collateral Manager may have or obtain information that, by virtue of the Collateral Manager's internal policies relating to confidential communications, cannot or may not be used by the Collateral Manager on behalf of the Issuer. In addition, the Collateral Manager and its Affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to buy securities for inclusion in the Collateral or sell securities which are part of the Collateral, and the Collateral Manager is subject to compliance with such restrictions. Accordingly, during certain periods or in certain specified circumstances, the Issuer may be unable to buy or sell securities or to take other actions that the Collateral Manager might consider in the best interest of the Issuer and the Noteholders.

The Collateral Manager and any of its Affiliates may engage in any other business and furnish investment management and advisory services to others, which may include, without limitation, serving as collateral manager or investment manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized bond or debt obligations secured by securities such as the Collateral Debt Securities and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable investments for the Issuer. The Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the Issuer, and the Collateral Manager may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Manager with respect to the Issuer and who may own securities of the same class, or which are the same type as, the Collateral Debt Securities.

The Collateral Manager and its Affiliates may enter into, for their own account, or for other accounts for which they have investment discretion, credit swap agreements relating to entities that are issuers of Collateral Debt Securities. The Collateral Manager and its Affiliates and clients may also have equity and other investments in and may be lenders to, and may have other ongoing relationships with such entities. As a result, officers or Affiliates of the Collateral Manager may possess information relating to the Collateral Debt Securities that is not known to the individuals at the Collateral Manager responsible for monitoring the Collateral Debt Securities and performing other obligations under the Collateral Management Agreement. In addition, Affiliates and clients of the Collateral Manager may invest in securities (or make loans) that are included among, rank *pari passu* with or senior to Collateral Debt Securities, or have interests different from or adverse to those of the Issuer.

The Collateral Manager or an Affiliate of the Collateral Manager may serve as a general partner and/or manager of special purpose entities organized to issue collateralized debt obligations secured by debt obligations. The Collateral Manager and its Affiliates may make investment decisions for their own account or for the accounts of others, including other special purpose entities organized to issue collateralized debt obligations, that may be different from those that will be made by the Collateral Manager on behalf of the Issuer. The Collateral Manager or an Affiliate of the Collateral Manager may at certain times simultaneously seek to purchase (or sell) investments from the Issuer and sell (or purchase) the same investment for a similar entity, including other collateralized debt obligation vehicles, for which it serves as manager now or in the future, or for other clients or Affiliates. In the course of managing the Collateral Debt Securities held by the Issuer, the Collateral Manager may consider its relationships with other clients (including companies the securities of which are pledged to secure the Notes) and its Affiliates. The Collateral Manager may decline to make a particular investment for the Issuer in view of such relationships. The effects of some of the actions described in this section may have an adverse impact on the market from which the Collateral Manager seeks to buy, or to which the Collateral Manager seeks to sell securities on behalf of the Issuer. The Collateral Manager may also at certain times simultaneously seek to purchase investments for the Issuer and/or similar entities, including other collateralized debt obligation vehicles for which it serves as manager now or in the future, or for other clients or Affiliates. In addition, amounts invested in Eligible Investments may be invested in bonds or funds managed or administered by the Collateral Manager or an Affiliate. In the event that Eligible Investments are invested in funds managed or administered by the Collateral Manager, in addition to the Collateral Management Fee earned by the Collateral Manager (as described under "*The Collateral Management Agreement*"), the Collateral Manager will receive fees from such funds. Such ownership and such other relationships may result in securities laws restrictions on transactions in such securities by the Issuer and create other potential conflicts of interest with respect to the Collateral Manager.

All of the Collateral Debt Securities purchased by the Issuer on the Closing Date were selected by the Collateral Manager in contemplation of the offering of the Offered Securities and originally acquired by Lehman Brothers Inc. at the direction of the Collateral Manager pursuant to the Warehousing Agreement. Lehman Brothers Inc. is both an Initial Purchaser and an affiliate of the Collateral Manager. Lehman Brothers Inc. and its affiliate Lehman Brothers International (Europe) are the Initial Purchasers. On the Closing Date, the Issuer will purchase these Collateral Debt Securities from Lehman Brothers Inc. consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. A portion of the Collateral Debt Securities purchased by the Issuer consists of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as underwriter, agent, placement agent, initial purchaser or dealer or for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as lender or provided other commercial or investment banking services. Each Original Purchaser, by accepting delivery of this Offering Memorandum, will be deemed to have consented to the purchase of assets by the Issuer from Lehman Brothers Inc. on or prior to the Closing Date and the purchase price paid (or to be paid) for such assets. The effective purchase price that the Issuer will pay for such Collateral Debt Securities reflects the adjusted cost of such Collateral Debt Securities at the time of purchase under the Warehouse Agreement, and, therefore, may differ from the market value of such Collateral Debt Securities on the Closing Date.

The Issuer, acting through the Collateral Manager, may engage in securities transactions with the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager. Subject to the requirements that (a) such purchases are made at fair market value and otherwise on arm's length terms and (b) the Collateral Manager determines that such purchases are consistent with the Eligibility Criteria, the investment guidelines and the objectives of the Issuer, the restrictions contained in the Indenture and applicable law, the Collateral Manager will be permitted, under the Indenture, to acquire a security or obligation on behalf of the Issuer to be included in the Collateral Debt Securities from the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or agent, or to sell an obligation to the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or agent; *provided* that any such acquisition or sale of an obligation after the Closing Date by or to the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or as agent, will be made only upon disclosure to and the prior consent of the Board of Directors of the Issuer (the "**Board of Directors**"). The Board of Directors of the Issuer will be authorized to approve or decline to approve securities transactions involving the Issuer, the Initial Purchasers or affiliates or Affiliates of the Collateral Manager that the Collateral Manager has determined should be presented to the Issuer for its approval either for the purpose of compliance with the United States Investment Advisers Act of 1940, as amended (the "**Advisers Act**"), or otherwise where a potential conflict of interest may arise by reason of the involvement of the Collateral Manager, Affiliates of

the Collateral Manager, the Initial Purchasers or affiliates, including but not limited to purchases of Collateral Debt Securities for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as underwriter, agent, placement agent, initial purchaser or dealer or for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as lender or provided other commercial or investment banking services. The Collateral Manager, the Initial Purchasers and affiliates may have potentially conflicting division of loyalties and responsibilities regarding both parties in the transaction. The Collateral Manager, the Initial Purchasers and affiliates may have potentially conflicting division of loyalties and responsibilities regarding both parties in the transaction. If an affiliate of the Collateral Manager or the Initial Purchasers acts as a broker in an agency cross transaction, such person may receive commissions from one or both of the parties in the transaction. While the Collateral Manager and the Initial Purchasers anticipate that any such commissions charged will be at competitive market rates, the Collateral Manager and the Initial Purchasers may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commissions.

The Collateral Manager, its Affiliates and client accounts for which the Collateral Manager or its Affiliates act as collateral manager may at times own Offered Securities. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or, to the Collateral Manager's knowledge, any Affiliate thereof acts as collateral manager (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Officer), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Offered Securities held by them and by such accounts with respect to all other matters. The investment in a portion of the Preference Shares by its Affiliate may give the Collateral Manager an incentive to take actions that vary from the interests of the holders of the Notes.

No provision in the Collateral Management Agreement prevents the Collateral Manager or any of its Affiliates from rendering services of any kind to any person or entity, including the issuer of any obligation included in the Collateral or any of its Affiliates, the Trustee, the holders of the Offered Securities, the Credit Default Swap Counterparty or any Hedge Counterparty. Without limiting the generality of the foregoing, the Collateral Manager, its Affiliates and their respective member managers, directors, officers, employees and agents may, among other things: (a) serve as directors, partners, officers, employees, agents, nominees or signatories for any issuer of any obligation included in the Collateral; (b) receive fees for services to be rendered to the issuer of any obligation included in the Collateral or any Affiliate thereof; (c) be retained to provide services unrelated to the Collateral Management Agreement to the Issuer or its Affiliates and be paid therefor; (d) be a secured or unsecured creditor of, or hold an equity interest in, any issuer of any obligation included in the Collateral; and (e) serve as a member of any "creditors board" with respect to any obligation included in the Collateral which has become or may become a Defaulted Security. Services of this kind may lead to conflicts of interest with the Collateral Manager, and may lead individual officers or employees of the Collateral Manager to act in a manner adverse to the Issuer.

Although the Collateral Manager or one of its Affiliates may at times be a holder of the Offered Securities, its interests and incentives will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any particular Class of Notes or of the Preference Shares).

It should not be assumed that the funds or accounts for which the Collateral Manager or its Affiliates act as a collateral manager and that purchase the Preference Shares on the Closing Date will continue to hold the Preference Shares. In the selection of brokers and dealers, the Collateral Manager will use commercially reasonable business efforts in accordance with standard business practices and applicable law to obtain the best combination of net prices and execution for all orders placed with respect to the Collateral, considering all circumstances that are relevant in its reasonable determination. Subject to the objective of obtaining the best combination of net prices and execution, the Collateral Manager may take into consideration research and other brokerage services furnished to the Collateral Manager or its Affiliates by brokers and dealers that are not Affiliates of the Collateral Manager. Such services may be used by the Collateral Manager or its Affiliates in connection with its other advisory activities or investment operations. The Collateral Manager may aggregate sales and purchase orders of securities placed with respect to the Collateral with similar orders being made simultaneously for other accounts managed by the Collateral Manager or

with accounts of the Affiliates of the Collateral Manager if in the Collateral Manager's judgment such aggregation will result in an overall economic benefit to the Issuer, taking into consideration such factors as the Collateral Manager deems relevant, including but not limited to any advantageous selling or purchase price, brokerage commission and other expenses and improved execution. In the event that a sale or purchase of a Collateral Debt Security occurs as part of any aggregate sale or purchase order, the objective of the Collateral Manager (and any of its Affiliates involved in such transactions) will be to allocate the executions among the relevant accounts in a manner that is equitable and non-prejudicial over time (taking into account constraints imposed by the Eligibility Criteria).

The Collateral Manager or any of its affiliates will have the right, but not the obligation, to bid in any auction of the Collateral Debt Securities. If the Collateral Manager or any of its affiliates decides to bid in an auction, its decision will be based entirely on its own investment policy, guidelines and strategy and will only reflect its own assessment of the expected risks and returns with respect to each asset that is subject to such a bid. In particular, in the case of an auction of non-performing or credit-impaired assets, purchasers of the Notes and the Preference Shares should not expect that the Collateral Manager or any of its affiliates will take part in any such auction.

Conflicts of Interest Involving the Initial Purchasers. Certain of the Collateral Debt Securities acquired by the Issuer may consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as underwriter, agent, placement agent, initial purchaser or dealer or for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as lender or provided other commercial or investment banking services. The Initial Purchasers or one or more of its affiliates may also act as counterparty with respect to one or more Synthetic Securities. In addition, an affiliate of the Initial Purchasers may act as the Hedge Counterparty under one or more Hedge Agreements. The Initial Purchasers or an affiliate thereof may purchase Offered Securities and may exercise its rights as a holder of Offered Securities without considering the effect of its exercise of such rights on the other holders of the Offered Securities.

All of the Collateral Debt Securities purchased by the Issuer on the Closing Date were selected by the Collateral Manager in contemplation of the offering of the Offered Securities and originally acquired by Lehman Brothers Inc. at the direction of the Collateral Manager pursuant to the Warehousing Agreement. Lehman Brothers Inc. is both an Initial Purchaser and an affiliate of the Collateral Manager. Lehman Brothers Inc. and its affiliate Lehman Brothers International (Europe) are the Initial Purchasers. On the Closing Date, the Issuer will purchase these Collateral Debt Securities from Lehman Brothers Inc. consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. A portion of the Collateral Debt Securities purchased by the Issuer consists of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as underwriter, agent, placement agent, initial purchaser or dealer or for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as lender or provided other commercial or investment banking services. Each Original Purchaser, by accepting delivery of this Offering Memorandum, will be deemed to have consented to the purchase of assets by the Issuer from Lehman Brothers Inc. on or prior to the Closing Date and the purchase price paid (or to be paid) for such assets. The effective purchase price that the Issuer will pay for such Collateral Debt Securities reflects the adjusted cost of such Collateral Debt Securities at the time of purchase under the Warehouse Agreement, and, therefore, may differ from the market value of such Collateral Debt Securities on the Closing Date.

The Issuer, acting through the Collateral Manager, may engage in securities transactions with the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager. Subject to the requirements that (a) such purchases are made at fair market value and otherwise on arm's length terms and (b) the Collateral Manager determines that such purchases are consistent with the Eligibility Criteria, the investment guidelines and the objectives of the Issuer, the restrictions contained in the Indenture and applicable law, the Collateral Manager will be permitted, under the Indenture, to acquire a security or obligation on behalf of the Issuer to be included in the Collateral Debt Securities from the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or agent, or to sell an obligation to the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or agent; *provided* that any such acquisition or sale of an obligation after the Closing Date by or to the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager as principal or as agent, will be made only upon disclosure to and the prior consent of the Board of Directors of the Issuer. The Board of Directors of the Issuer will be authorized to approve or decline to approve securities transactions involving the Issuer, the Initial Purchasers or affiliates or Affiliates of the Collateral Manager that the Collateral Manager has determined

should be presented to the Issuer for its approval either for the purpose of compliance with the Advisers Act, or otherwise where a potential conflict of interest may arise by reason of the involvement of the Collateral Manager, Affiliates of the Collateral Manager, the Initial Purchasers or affiliates, including but not limited to purchases of Collateral Debt Securities for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as underwriter, agent, placement agent, initial purchaser or dealer or for which the Initial Purchasers or an affiliate of the Initial Purchasers has acted as lender or provided other commercial or investment banking services. The Collateral Manager, the Initial Purchasers and affiliates may have potentially conflicting division of loyalties and responsibilities regarding both parties in the transaction. The Collateral Manager, the Initial Purchasers and affiliates may have potentially conflicting division of loyalties and responsibilities regarding both parties in the transaction. If an affiliate of the Collateral Manager or the Initial Purchasers act as a broker in an agency cross transaction, such person may receive commissions from one or both of the parties in the transaction. While the Collateral Manager and the Initial Purchasers anticipate that any such commissions charged will be at competitive market rates, the Collateral Manager and the Initial Purchasers may have interests in such transactions that are adverse to those of the Issuer, such as an interest in obtaining favorable commissions.

Lehman Brothers Special Financing Inc., an affiliate of the Initial Purchasers, will act as the swap counterparty under the Credit Default Swap Agreement (in such capacity, the "**Credit Default Swap Counterparty**"). The Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions with dealers selected by the Credit Default Swap Counterparty in its sole discretion. The fixed rate premium received by the Credit Default Swap Counterparty under any such back-to-back hedging transaction will exceed the premium payable by the Credit Default Swap Counterparty to the Issuer under the related Synthetic Security, which excess represents an intermediation fee payable to the Credit Default Swap Counterparty. In addition, an affiliate of either Initial Purchaser may act as the Hedge Counterparty under one or more Hedge Agreements. The Credit Default Swap Counterparty will have the right to make determinations and to take actions or to decline to take actions which may have an adverse effect on the Issuer, Noteholders and Preference Shareholders. Whether and when to declare a Credit Event and to deliver any notice that a Credit Event or a Floating Amount Event has occurred will be in the sole discretion of the Credit Default Swap Counterparty, and none of the Credit Default Swap Counterparty, the calculation agent or any of their affiliates will have any liability to any Noteholder, any Preference Shareholder or any other person as a result of giving (or not giving) any such notice. If a Writedown or Failure to Pay Principal occurs, the Credit Default Swap Counterparty, if it is acting as buyer of protection, may elect to require the Issuer to pay the Floating Payment or to treat it as a Credit Event and physically settle under the CDS Agreement Transaction. In addition, the Credit Default Swap Counterparty will have a right to determine, in its sole discretion, the termination or assignment payment to be made by the Issuer to it or by it to the Issuer in connection with the termination or assignment at the request of the Issuer of one or all of the CDS Agreement Transactions and it has no liability to any Noteholder, any Preference Shareholder or any other person (other than any liability which it may have to the Issuer under the Credit Default Swap Agreement) as a result of making such determination.

There can be no assurance that the terms of the Credit Default Swap Agreement are the most favorable terms that the Issuer could obtain in the market if it entered into an identical agreement with another potential counterparty that was not an affiliate of any of the Initial Purchasers. The initial portfolio of CDS Agreement Transactions which the Issuer will enter into with the Credit Default Swap Counterparty on the Closing Date will be made on the terms (including the fixed rate which the Credit Default Swap Counterparty will pay to the Issuer) set forth in the warehousing arrangements entered into prior to the Closing Date.

Certain of the Reference Obligations under the Credit Default Swap Agreement may be obligations of Reference Obligors that are, or may be Reference Obligations that are, sponsored or serviced by companies for which one or more of the Initial Purchasers, the Credit Default Swap Counterparty and their respective affiliates have acted as underwriter, agent, placement agent or dealer or for which one or more of the Initial Purchasers, the Credit Default Swap Counterparty and their respective affiliates has acted as lender or provided other commercial or investment banking services. Any of the Initial Purchasers, the Credit Default Swap Counterparty and their respective affiliates may (i) be an investor in, a lender to or other secured or unsecured creditor of any Reference Obligor or a holder of a Reference Obligation and, in such capacity, may make decisions in such capacity in its own commercial interests, regardless of whether any such action might have an adverse effect on the holders of the Notes, the Preference Shares, or on any Reference Obligation (including, without limitation, any action which might constitute or give rise to a Credit Event or might diminish the value of a Reference Obligation), (ii) engage in

derivative transactions (including credit derivative transactions) with any Reference Obligor and may provide investment banking and other financial services to any Reference Obligor, (iii) hold long or short financial positions with respect to the Reference Obligations or other securities or obligations of any Reference Obligor or the Issuer, (iv) act with respect to such financial positions and may exercise or enforce, or refrain from exercising or enforcing, any or all of their rights and powers in connection with such financial positions as if the relevant Initial Purchaser or Credit Default Swap Counterparty (as applicable) had not entered into the Securities Purchase Agreement, Credit Default Swap Agreement or any other agreement with the Issuer, and without regard to whether any such action might have an adverse effect on the Issuer, any holder of Notes or Preference Shares, any Reference Obligor or any obligation of the Issuer or any Reference Obligor and/or (v) have received or may in the future receive significant fees for such services. Each of the Initial Purchasers and the Credit Default Swap Counterparty will have only the duties and responsibilities expressly agreed to in the relevant capacity in which it is performing and will not, by virtue of it or any of its affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to a standard of care other than as expressly provided with respect to each such capacity.

There is no limitation or restriction on the Initial Purchasers or any of their affiliates with regard to acting in a similar role to other parties or persons. This and other future activities of the Initial Purchasers and/or their affiliates may give rise to additional conflicts of interest.

Purchase of Collateral Debt Securities and entry into CDS Agreement Transactions. If Lehman Brothers Inc. were to become the subject of a case or proceeding under the United States Bankruptcy Code or another applicable insolvency law, the trustee in bankruptcy or other liquidator could assert that Collateral Debt Securities acquired from Lehman Brothers Inc. are property of the insolvency estate of a third party. Property that Lehman Brothers Inc. has pledged or assigned, or in which Lehman Brothers Inc. has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of Lehman Brothers Inc. Property that Lehman Brothers Inc. has sold or absolutely assigned and transferred to another party, however, is not property of the estate of Lehman Brothers Inc. The Issuer does not expect that the purchase by the Issuer of Collateral Debt Securities, under the circumstances contemplated by this Offering Memorandum, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Collateral Debt Securities to the Issuer).

Dependence on Key Personnel. Because the composition of the Collateral Debt Securities will vary over time, the performance of the Collateral Debt Securities depends heavily on the skills of the Collateral Manager in analyzing, selecting and managing the Collateral Debt Securities. As a result, the Issuer will be highly dependent on the financial and managerial experience of the Collateral Manager and certain of its officers to whom the task of managing the Collateral has been assigned.

Certain employment arrangements between those employees and the Collateral Manager may exist, but the Issuer is not and will not be, a direct beneficiary of such arrangements, which arrangements are in any event subject to change without the consent of the Issuer. See "*The Collateral Management Agreement*" and "*The Collateral Manager*."

In addition, the Collateral Management Agreement provides that so long as any Class A Notes or Class B Notes are outstanding, the Collateral Manager may be removed at any time without cause upon not less than 90 days' prior written notice to the Collateral Manager, the Trustee, each Hedge Counterparty and the Rating Agencies, at the direction of holders of at least 66⅔% in Aggregate Outstanding Amount of such aforementioned Notes, voting together as a single class (but excluding from such vote any Offered Securities beneficially owned by the Collateral Manager or any Affiliates thereof or by an account or fund for which the Collateral Manager or an Affiliate thereof acts as the investment advisor (with discretionary authority), if the Class AB Overcollateralization Test is less than 100% for 180 consecutive days.

Furthermore, the Collateral Management Agreement provides that the Collateral Manager may be removed for cause upon 15 Business Days' prior written notice by the Issuer, given at any time when a Collateral Manager Termination Event (as defined herein) has occurred and is continuing, which will effect such removal at the direction of (x) holders of at least 66⅔% in Aggregate Outstanding Amount of the Controlling Class or (y) holders of at least 66⅔% of the Preference Shares (in each case, excluding from such vote any Collateral Manager Securities (as defined herein)). See "*The Collateral Management Agreement*" and "*The Collateral Manager*."

Dependence of the Issuer on the Collateral Manager. The Issuer has no employees and is dependent on the employees of the Collateral Manager to advise the Issuer in accordance with the terms of the Indenture and the Collateral Management Agreement. Consequently, the loss of one or more of the individuals employed by the Collateral Manager to administer the Collateral Debt Securities could have an adverse effect on the performance of the Issuer. The Collateral Manager may add or change employees who perform the obligations of the Collateral Manager under the Collateral Management Agreement at any time without notice to or consent of the Issuer. Any such additional or different employees may not have the same level of experience as any person they may replace. Any such change to the persons appointed by the Collateral Manager to perform such obligations may have an adverse effect on the performance of the Issuer. See "*—Certain Conflicts of Interest—The Collateral Manager*" and "*The Collateral Manager.*"

Risk Factors Relating to Prior Investment Results, Projections, Forecasts and Estimates

Relation to Prior Investment Results. The prior investment results of the Collateral Manager or its affiliates or persons associated with the Collateral Manager or its affiliates or any other entity or person described herein are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

Projections, Forecasts and Estimates. Any projections, forecasts and estimates contained herein are forward-looking statements and are based upon certain assumptions that the Co-Issuers consider reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

In addition, a prospective investor may have received a prospective investor presentation or other similar materials from an Initial Purchaser. Such a presentation may have contained a summary of certain proposed terms of a hypothetical offering of the Offered Securities as contemplated at the time of preparation of such presentation in connection with preliminary discussions with prospective investors in the Offered Securities. However, as indicated therein, no such presentation was an offering of securities for sale, and any offering is being made only pursuant to the final Offering Memorandum. Given the foregoing and the fact that information contained in any such presentation was preliminary in nature and has been superseded and may no longer be accurate, neither any such presentation nor any information contained therein may be relied upon in connection with a prospective investment in the Offered Securities. In addition, the Initial Purchasers or the Issuer may make available to prospective investors certain information concerning the economic benefits and risks resulting from ownership of the Offered Securities derived from modeling the cashflows expected to be received by, and the expected obligations of, the Issuer under various hypothetical assumptions provided to the Initial Purchasers or potential investors. Any such information may constitute projections that depend on the assumptions supplied and are otherwise limited in the manner indicated above.

Some important factors that could cause actual results to differ materially from those in any forward-looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of Collateral Debt Securities, differences in the actual allocation of the Collateral Debt Securities among asset categories from those assumed, the timing of acquisitions of the Collateral Debt Securities, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Collateral Debt Securities (particularly during ramp-up), defaults under Collateral Debt Securities and the effectiveness of any Hedge Agreement, among others. Consequently, the inclusion of projections herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchasers, the Credit Default Swap Counterparty, the Hedge Counterparty or any of their respective affiliates or any other person or entity of the results that will actually be achieved by the Issuer.

None of the Issuer, the Co-Issuer, the Collateral Manager, the Trustee, the Initial Purchasers, the Credit Default Swap Counterparty, the Hedge Counterparty, any of their respective affiliates, any other person has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or

other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Risk Factors Relating to Interest Rate Risks and Hedge Agreements

Interest Rate Risk. The Notes bear interest at floating rates based on three-month LIBOR. Some of the Collateral Debt Securities may bear interest at fixed rates or at a London interbank offered rate and other floating rates that are calculated or fixed on different dates or for shorter or longer periods than the LIBOR applicable to the Notes. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on the Notes and the rates at which interest accrues on such Collateral Debt Securities. There is no requirement that Eligible Investments bear interest at LIBOR, and the interest rates available for Eligible Investments are inherently uncertain. As a result of these mismatches, an increase in three-month LIBOR could adversely impact the ability of the Issuer to make payments on the Notes (including by reason of a decline in the value of previously issued fixed rate Collateral Debt Securities as LIBOR increases). To mitigate a portion of such interest rate mismatch, the Issuer may on the Closing Date enter into the Interest Rate Hedge Agreement and Basis Swap Agreement and may, on or after the Closing Date, enter into Deemed Floating Asset Hedge Agreements and Basis Swap Agreement or other hedge agreements to mitigate interest rate risk or mismatches in the timing of cashflows. However, there can be no assurance that the Collateral Debt Securities and Eligible Investments, together with the Hedge Agreements, will in all circumstances generate sufficient Interest Proceeds to make timely payments of interest on the Notes. In addition, the Issuer will be subject to the credit risk of the Hedge Counterparties to make payments under the Hedge Agreements. Moreover, the benefits of the Hedge Agreements may not be achieved in the event of the early termination of the Hedge Agreements, including termination upon the failure of the related Hedge Counterparty to perform its obligations thereunder. See "*Security for the Notes—The Hedge Agreements*."

On any Distribution Date on which there is a payment of principal of the Notes, the notional amount of any interest rate swap or cap outstanding under the Interest Rate Hedge Agreement may be reduced in a corresponding amount. In such an event, a termination payment may be due by the Issuer to the Interest Rate Hedge Counterparty. See "*Security for the Notes—The Hedge Agreements.*"

Reliance on Creditworthiness of Total Return Swap Counterparty. All or a portion of the Synthetic Security Counterparty Account amounts may be invested in Synthetic Security Collateral which may include AAA/Aaa RMBS and Credit Card Securities. In case of investment into RMBS and Credit Card Securities, the Issuer will transfer the market value and credit risk of such RMBS and Credit Card Securities to the Total Return Swap counterparty (the "**Total Return Swap Counterparty**") which will initially be Lehman Brothers Special Financing ("**LBSF**") under a Total Return Swap (the "**Total Return Swap**"). Consequently, the Co-Issuers will be exposed to the credit risk of the Total Return Swap Counterparty and there will be a degree of concentration risk with respect to such credit risk. The insolvency of the Total Return Swap Counterparty or a default by the Total Return Swap Counterparty under the Total Return Swap may materially and adversely affect the ability of the Co-Issuers to repay principal and interest when due under the Notes and to make distributions to the Preference Shareholders and could result in a withdrawal or downgrade of the ratings assigned to the Notes. Neither the Collateral Manager nor any other person will perform an independent credit analysis of the Total Return Swap Counterparty. However, the Total Return Swap Counterparty will agree to specific rating downgrade provisions acceptable to the Rating Agencies. A failure by the Total Return Swap Counterparty to comply with these requirements may result in the termination of the Total Return Swap. If the Total Return Swap is terminated due to an event of default, the Issuer may attempt to secure a replacement contract. There can be no assurance, however, that the Issuer will be able to secure an alternative investment contract, in particular, one that yields the same return as the Total Return Swap. Prospective investors in the Notes and the Preference Shares should consider and assess for themselves the likelihood of default by the Total Return Swap Counterparty. See "*Security for the Notes—The Total Return Swap*" and "*—The Total Return Swap Counterparty*."

Risk Factors Relating to Certain Regulations and Accounting

Money Laundering Prevention. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "**USA PATRIOT Act**"), effective as of October 26, 2001, requires that financial institutions, a term that includes banks, broker-dealers and investment

companies, establish and maintain compliance programs to guard against money laundering activities. The USA PATRIOT Act requires the Secretary of the U.S. Treasury (the "**Treasury**") to prescribe regulations in connection with anti-money laundering policies of financial institutions. The Federal Reserve Board, the Treasury and the U.S. Securities and Exchange Commission (the "**SEC**") are currently studying what types of investment vehicles should be required to adopt anti-money laundering procedures, and it is unclear at this time whether such procedures will apply to pooled investment vehicles such as the Issuer. It is possible that there could be promulgated legislation or regulations that would require the Issuer, the Initial Purchasers or other service providers to the Issuer, in connection with the establishment of anti-money laundering procedures, to share information with governmental authorities with respect to investors in the Offered Securities. Such legislation and/or regulations could require the Issuer to implement additional restrictions on the transfer of the Offered Securities. The Issuer reserves the right to request such information as is necessary to verify the identity of investors in the Offered Securities and the source of the payment of subscription monies, or as is necessary to comply with any customer identification programs required by Financial Crimes Enforcement Network and/or the SEC. In the event of delay or failure by the applicant to produce any information required for verification purposes, an application for or transfer of Offered Securities and the subscription monies relating thereto may be refused.

Certain Legal Investment Considerations. None of the Issuer, the Co-Issuer, the Collateral Manager and the Initial Purchasers make any representation as to the proper characterization of the Offered Securities for legal investment or other purposes, as to the ability of particular investors to purchase Offered Securities for legal investment or other purposes or as to the ability of particular investors to purchase Offered Securities under applicable investment restrictions. All institutions the activities of which are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their own legal advisors in determining whether and to what extent the Offered Securities are subject to investment, capital or other restrictions. Without limiting the generality of the foregoing, none of the Issuer, the Co-Issuer, the Collateral Manager and the Initial Purchasers make any representation as to the characterization of the Offered Securities as a U.S.-domestic or foreign (non-U.S.) investment under any state insurance code or related regulations, and they are not aware of any published precedent that addresses such characterization. Although they are not making any such representation, the Co-Issuers understand that the New York State Insurance Department, in response to a request for guidance, has been considering the characterization (as U.S.-domestic or foreign (non-U.S.)) of certain collateralized debt obligation securities co-issued by a non-U.S. issuer and a U.S. co-issuer. There can be no assurance as to the nature of any advice or other action that may result from such consideration. The uncertainties described above (and any unfavorable future determinations concerning legal investment or financial institution regulatory characteristics of the Offered Securities) may affect the liquidity of the Offered Securities.

Risk Factors Relating to Tax and ERISA

Changes in Tax Law; No Gross-Up in Respect of Offered Securities. Although no withholding tax is currently imposed on the payments of interest on or principal of the Notes or on the distributions on the Preference Shares, there can be no assurance that, as a result of any change in any applicable law, treaty, rule, regulation, or interpretation thereof, the payments on the Offered Securities would not in the future become subject to withholding taxes. In the event that any withholding tax is imposed on payments of interest or other payments on any Offered Securities, no "gross-up" payments or additional amounts will be paid to the holders of the Offered Securities.

Changes in Tax Law; No Gross-Up in Respect of Collateral Debt Securities. Under the Eligibility Criteria, a Collateral Debt Security will be eligible for purchase by the Issuer if, at the time it is purchased, either the payments thereon are not subject to U.S. withholding tax or foreign withholding tax or the issuer thereof (and the guarantor, if any) is required to make "gross-up" payments that cover the full amount of any such withholding taxes. However, there can be no assurance that, as a result of any change in any applicable law, treaty, rule, regulation or interpretation thereof, the payments on the Collateral Debt Securities would not in the future become subject to withholding taxes imposed by the United States or another jurisdiction. In that event, if the obligors of such Collateral Debt Securities were not then required to make "gross-up" payments that cover the full amount of any such withholding taxes, the amounts available to make payments on the Offered Securities would accordingly be reduced. There can be no assurance that remaining payments on the Collateral Debt Securities would be sufficient to make timely payments of interest on and payment of principal at the maturity of each Class of Notes or that there would be amounts available to pay dividends and make other distributions on the Preference Shares. In the event the imposition of any such tax at any time after the Closing Date results in the occurrence of a Tax Materiality

Condition, holders of a Majority of any Affected Class of Notes will be entitled to require a redemption of the Notes in full. See "*Description of the Securities—Optional Redemption and Tax Redemption*."

U.S. Federal Income Tax Consequences of an Investment in the Offered Securities. The U.S. federal income tax consequences of an investment in the Offered Securities and, in particular the Preference Shares, are uncertain as to both the timing and character of any income and gain. Because of this uncertainty, prospective investors are urged to consult their tax advisors as to the tax consequences of an investment in an Offered Security. For a more complete discussion of the U.S. federal income tax consequences of an investment in an Offered Security, please see the summary under "*Certain U.S. Federal Income Tax Considerations*" below.

Certain ERISA Considerations. The Issuer intends to restrict ownership of the Class C Notes, the Class D Notes and the Preference Shares so that no assets of the Issuer will be deemed to be "plan assets" subject to ERISA and/or Section 4975 of the Code, as such term is defined in Section 3(42) of ERISA and in the Plan Asset Regulation issued by the United States Department of Labor. Accordingly, the Issuer intends to restrict the acquisition and transfer of Class C Notes, Class D Notes and Preference Shares by Benefit Plan Investors (which is defined in Section 3(42) of ERISA to include all employee benefit plans subject to ERISA, plans subject to Section 4975 of the Code, as well as entities whose underlying assets include "plan assets" by reason of such an employee benefit plan's or plan's investment in such entity and including, for this purpose, the general account of any insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof) such that Benefit Plan Investors will not be permitted to directly or indirectly acquire Class C Notes, Class D Notes or Preference Shares. The Issuer also intends to restrict transfers of the Class C Notes, the Class D Notes and the Preference Shares so that no Class C Notes, Class D Notes or Preference Shares will be transferred to Benefit Plan Investors.

If the assets of either the Issuer or the Co-Issuer are deemed to be "plan assets," certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of business might constitute non-exempt prohibited transactions under ERISA and/or Section 4975 of the Code and might have to be rescinded.

Each Original Purchaser and each transferee of a Class A Note, Class S Note or Class B Note will be deemed to represent and warrant either that (a) it is not and is not acting on behalf of (and, for so long as it holds any such Note or any interest therein, will not be and will not be acting on behalf of) an employee benefit plan subject to Title I of ERISA, a plan subject to the prohibited transaction provisions of Section 4975 of the Code, a governmental, church plan or non-U.S. plan subject to any Similar Law or an entity deemed to hold the assets of any of the foregoing pursuant to 29 C.F.R. 2510.3-101, Section 3(42) of ERISA or otherwise or (b) its purchase and ownership of such Note will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, will not result in a non-exempt violation of any Similar Law).

Each Original Purchaser of a Class C Note or a Class D Note will be required, and each transferee of a Class C Note or a Class D Note will be required (or in certain cases will be deemed) to represent and warrant that it is not, and is not acting on behalf of (and, for so long as it holds any such Note or any interest therein, will not be, and will not be acting on behalf of) a Benefit Plan Investor (including, for this purpose the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each Original Purchaser or transferee of a Class C Note or a Class D Note that is a governmental, church or non-US plan subject to any Similar Law will be required (or in certain cases will be deemed) to represent and warrant that its purchase and ownership of such Class C Note or Class D Note will not result in a non-exempt violation of any Similar Law.

Each Original Purchaser of a Preference Share will be required, and each transferee of a Preference Share will be required (or in certain cases will be deemed) to represent and warrant that it is not, and is not acting on behalf of (and, for so long as it holds any such Preference Share or any interest therein, will not be, and will not be acting on behalf of), a Benefit Plan Investor (including, for this purpose, the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each Original Purchaser or transferee of a Preference Share that is a governmental, church or non-U.S. plan subject to any Similar Law will be required (or in certain cases will be deemed) to represent and warrant that its purchase and ownership of such Preference Share will not result in a non-exempt violation of Similar Law.

See "*Certain ERISA Considerations*" herein for a more detailed discussion of certain ERISA and related considerations with respect to an investment in the Offered Securities.

German Investment Tax Act. Investors who are resident in Germany for German tax purposes, investors holding Offered Securities through a German permanent establishment (or a permanent representative) and investors presenting Offered Securities at the office of a German credit institution or financial services institution (each as defined in the German Banking Act (*Kreditwesengesetz*)) may be subject to the German Investment Tax Act (*Investmentsteuergesetz*). According to a tax decree on the interpretation of the Investment Tax Act issued by the Federal Ministry of Finance (*Bundesfinanzministerium—BMF*) on June 2, 2005, CDO vehicles will not qualify as foreign investment funds within the meaning of the Investment Tax Act if, according to the contractual terms, save for the replacement of collateral obligations for the purpose of securing the volume, the duration and the risk structure of the portfolio, no more than 20% of the assets of the Issuer may be freely traded *per annum*, regardless of the class of securities held in such vehicle. If this exemption applied to the Issuer, the Offered Securities would not fall under the scope of the Investment Tax Act. However, it is currently not clear whether the exemption will apply.

In case the exemption mentioned above does not apply and therefore the Issuer qualifies as a foreign investment fund, the more junior a class of securities is the higher is the risk that the Investment Tax Act will apply and the Investment Tax Act will very likely apply to the Preference Shares.

Investors being subject to the Investment Tax Act could be subject to adverse lump-sum taxation provisions in which case the higher of (i) 70% of the annual increase in the market price of the respective Offered Securities *plus* distributions on the respective Offered Securities and (ii) 6% of the market price at the end of every calendar year would be taxable and could also be subject to withholding tax.

Furthermore, investors subject to the Investment Tax Act may, upon redemption or sale of the Offered Securities, be subject to a special lump sum taxation, *i.e.* 6% of the consideration for the redemption or disposal of the Offered Securities may be treated as taxable deemed interim profits which may also be subject to German withholding tax.

Prospective investors in the Offered Securities are urged to seek independent tax advice and to consult their professional advisers as to the legal and tax consequences that may arise from the application of the Investment Tax Act to the Offered Securities and none of the Issuer, the Co-Issuer, the Trustee, the Initial Purchasers and their respective affiliates accept any responsibility in respect of the German tax position of the Offered Securities or the holders of the Offered Securities.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to the Indenture. The following summary describes certain provisions of the Notes and the Indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture. Following the closing, copies of the Indenture may be obtained by prospective investors upon request to the Trustee at 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group—Ceago ABS CDO 2007-1.

Status and Security

The Notes will be co-issued on a limited recourse basis by the Issuer and on a non-recourse basis by the Co-Issuer. All of the Class A-1 Notes are entitled to receive payments *pro rata* among themselves, all of the Class S Notes are entitled to receive payments *pro rata* among themselves, all of the Class A-2 Notes are entitled to receive payments *pro rata* among themselves, all of the Class B Notes are entitled to receive payments *pro rata* among themselves, all of the Class C Notes are entitled to receive payments *pro rata* among themselves and all of the Class D Notes are entitled to receive payments *pro rata* among themselves. Except as otherwise described in the Priority of Payments, the relative order of Seniority of payment of each Class of Notes with respect to Interest Proceeds is as follows: *first*, the Class A-1 Notes and the Class S Principal Payment, on a *pari passu* basis, *second*, the remaining principal balance of the Class S Notes, *third*, the Class A-2 Notes, *fourth*, the Class B Notes, *fifth*, the Class C Notes and *sixth*, the Class D Notes, with (a) each Class of Notes (other than the Class D Notes) in such list being "Senior" or in "Seniority" to each other Class of Notes that follows such Class of Notes in such list and (b) each Class of Notes (other than the Class A-1 Notes and Class S Notes) in such list being "Subordinate" to each other Class of Notes that precedes such Class of Notes in such list. No payment of interest on any Class of Notes will be made until all accrued and unpaid interest on the Notes of each Class that is Senior to such Class and that remains outstanding has been paid in full. No payment of principal of any Class of Notes will be made until all principal of, and all accrued and unpaid interest on, the Notes of each Class that is Senior to such Class and that remain outstanding have been paid in full; *provided*, *however*, that (i) Principal Proceeds will be applied on each Distribution Date if (A) no Coverage Test has been breached on the applicable or any prior Determination Date and (B) the Pro Rata Payment Conditions are satisfied, to pay, *pro rata*, principal of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, and, otherwise, to pay principal of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, sequentially, as described in the Principal Proceeds Waterfall, and (ii) Interest Proceeds may be applied to the payment of principal of the Notes in accordance with the Priority of Payments with respect to Interest Proceeds. See "*—Priority of Payments*."

Under the terms of the Indenture, the Issuer will grant to the Trustee for the benefit of the Secured Parties a first priority security interest in the Collateral described herein to secure the Issuer's obligations under the Indenture, the Hedge Agreements, the Credit Default Swap Agreement, the Collateral Management Agreement and the Notes.

Payments of principal of and interest on the Notes will be made solely from the proceeds of the Collateral, in accordance with the priorities described under "*—Priority of Payments*." If the amounts received in respect of the Collateral (net of certain expenses) are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Collateral, the obligations of the Co-Issuers to pay any such deficiency will be extinguished.

Interest

The Class A-1 Notes will bear interest at a floating rate *per annum* equal to LIBOR (determined as described herein) *plus* 0.40%. The Class S Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 0.40%. The Class A-2 Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 2.25%. The Class B Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 3.50%. The Class C Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 7.00%. The Class D Notes will bear interest at a floating rate per annum equal to LIBOR *plus* 9.00%. Interest on the Notes and interest on Defaulted Interest and Deferred Interest in respect thereof will be computed on the basis of a 360-day year and the actual number of days elapsed.

Interest will accrue on the outstanding principal amount of each Class of Notes (determined as of the first day of each Interest Period and after giving effect to any redemption or other payment of principal occurring on such day). Interest accruing for any Interest Period will accrue for the period from and including the first day of such Interest Period to the last day of such Interest Period.

Payments of interest on the Notes will be payable in U.S. Dollars quarterly in arrears on the sixth day of each January, April, July and October (each, together with the Accelerated Distribution Date, a "**Distribution Date**"), beginning on the Distribution Date occurring in January 2008; *provided* that if any such date is not a Business Day, the relevant Distribution Date will be the next succeeding Business Day.

So long as any Class A Notes, Class S Notes or Class B Notes remain outstanding, if any Class AB Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of interest on the Class C Notes, the Class D Notes and to make distributions on the Preference Shares will be used instead to redeem each Class of Notes Senior to the Class C Notes (sequentially in direct descending order of Seniority).

So long as any Class A Notes, Class S Notes, Class B Notes or Class C Notes remain outstanding, if any Class C Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of interest on the Class D Notes and to make distributions on the Preference Shares will be used instead to redeem each Class of Notes Senior to the Class D Notes (sequentially in direct descending order of Seniority).

So long as any Class A Notes, Class S Notes, Class B Notes, Class C Notes or Class D Notes remain outstanding, if the Class D Coverage Test, if applicable, is not satisfied on any Determination Date related to any Distribution Date, then funds that would otherwise be used to make payments in respect of the Preference Shares will be used instead to redeem each Class of Notes Senior to the Preference Shares (sequentially in direct descending order of Seniority).

So long as any Class A Notes, Class S Notes or Class B Notes are outstanding, the failure on any Distribution Date to make payment in respect of interest on the Class C Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class C Notes that is not paid when due by operation of the Priority of Payments will be deferred (such interest being referred to herein as "**Class C Deferred Interest**"); *provided* that no accrued interest on the Class C Notes will become Class C Deferred Interest unless a more Senior Class of Notes is then outstanding. Any Class C Deferred Interest will not be added to the Aggregate Outstanding Amount of the Class C Notes but interest will accrue on Class C Deferred Interest at the rate applicable to the Class C Notes until such Class C Deferred Interest is paid in full.

So long as any Class A Notes, Class S Notes, Class B Notes or Class C Notes are outstanding, the failure on any Distribution Date to make payment in respect of interest on the Class D Notes by reason of the operation of the Priority of Payments will not constitute an Event of Default under the Indenture. Any interest on the Class D Notes that is not paid when due by operation of the Priority of Payments will be deferred (such interest being referred to herein as "**Class D Deferred Interest**" and, together with Class C Deferred Interest, as "**Deferred Interest**"); *provided* that no accrued interest on any Class D Notes will become Class D Deferred Interest, as applicable, unless a Class Senior to the Class D Notes is then outstanding. Any Class D Deferred Interest will not be added to the Aggregate Outstanding Amount of the Class D Notes but interest will accrue on Class D Deferred Interest at the rate applicable to the Class D Notes until such Class D Deferred Interest is paid in full.

Interest will cease to accrue on each Note or, in the case of a partial repayment, on such part, from the date of repayment or the Stated Maturity unless payment of principal is improperly withheld or unless default is otherwise made with respect to such payments. To the extent lawful and enforceable, interest on any Defaulted Interest on any Note will accrue at the interest rate applicable to such Note until paid. "**Defaulted Interest**" means any interest (other than Deferred Interest) due and payable in respect of any Note that is not punctually paid or duly provided for on the applicable Distribution Date or at the applicable Stated Maturity and remains unpaid; *provided* that: (i) for so long as any Class A Notes, Class S Notes or Class B Notes are outstanding, any interest payable in respect of the Class C Notes that is not punctually paid or duly provided for on the applicable Distribution Date will become Class C Deferred Interest rather than Defaulted Interest and (ii) for so long as any Class A Notes, Class S Notes, Class B Notes or Class C Notes are outstanding, any interest payable in respect of the Class D Notes that is not

punctually paid or duly provided for on the applicable Distribution Date will become Class D Deferred Interest rather than Defaulted Interest.

Definitions

"**Class S Interest Payment**" means, with respect to each Distribution Date through and including the Distribution Date occurring in October 2017, an amount equal to (a) the Aggregate Outstanding Amount of the Class S Notes *multiplied by* (b) LIBOR plus 0.40% *multiplied by* (c) the actual number of days in the related Calculation Period *divided by* (d) 360.

"**Class S Payment**" means, with respect to each Distribution Date, the Class S Interest Payment and the Class S Principal Payment.

"**Class S Principal Payment**" means, with respect to each Distribution Date through and including the Distribution Date occurring in October 2017, an amount equal to the lesser of U.S.$222,392.90 and the Aggregate Outstanding Amount of the Class S Notes.

"**Class S Shortfall Amount**" means, with respect to the Class S Notes and any Distribution Date, any shortfall or shortfalls in the payment of the Class S Payment with respect to any preceding Distribution Date together with interest accrued thereon at the Note Interest Rate for the Class S Notes (net of all Class S Shortfall Amounts, if any, paid with respect to the Class S Notes prior to such Distribution Date).

"**Cumulative Class S Payment**" means, with respect to each Distribution Date through and including the Distribution Date occurring in October 2017, the Class S Payment and the Class S Shortfall Amount due on such Distribution Date.

"**Interest Period**" means, with respect to the Notes, (i) in the case of the initial Interest Period, the period from, and including, the Closing Date to, but excluding, the first Distribution Date, and (ii) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Distribution Date.

"**LIBOR**" for purposes of calculating the interest rate for each Class of Notes for any Interest Period will be determined by LaSalle Bank National Association, as calculation agent (the "**Calculation Agent**") in accordance with the following provisions:

(i) LIBOR for any Interest Period will equal the London interbank offered rate, as determined by the Calculation Agent, for U.S. Dollar deposits in Europe of three months (or as set forth below in clause (iii)) that appears on Reuters Screen LIBOR 01 Page (or such other page as may replace such Reuters Screen LIBOR 01 Page for the purpose of displaying comparable rates) as of 11:00 a.m. (London time) on the applicable LIBOR Determination Date. "**LIBOR Determination Date**" means with respect to any Interest Period, the second London Banking Day prior to the first day of such Interest Period.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Reuters Screen LIBOR 01 Page (or such other page as may replace such Reuters Screen LIBOR 01 Page for the purpose of displaying comparable rates), the Calculation Agent will determine the arithmetic mean of the offered quotations of the Reference Banks to prime banks in the London interbank market for U.S. Dollar deposits in Europe of three months (except that in the case where such Interest Period will commence on a day that is not a LIBOR Business Day, for the relevant term commencing on the next following LIBOR Business Day), by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such LIBOR Determination Date made by the Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR will equal such arithmetic mean. If, on any LIBOR Determination Date, fewer than two Reference Banks provide such quotations, LIBOR will be deemed to be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Calculation Agent are quoting on the relevant LIBOR Determination Date for U.S. Dollar deposits for the term of such Interest Period (except that in the case where such Interest Period will commence on a day that is not a LIBOR

Business Day, for the relevant term commencing on the next following LIBOR Business Day), to the principal London offices of leading banks in the London interbank market.

(iii) In respect of any Interest Period having a Designated Maturity other than three months, LIBOR will be determined through the use of straight-line interpolation by reference to two rates calculated in accordance with clauses (i) and (ii) above, one of which will be determined as if the maturity of the U.S. Dollar deposits referred to therein were the period of time, in months, for which rates are available next shorter than the Interest Period and the other of which will be determined as if the such maturity were the period of time, in months, for which rates are available next longer than the Interest Period; *provided* that if an Interest Period is less than or equal to seven days, then LIBOR will be determined by reference to a rate calculated in accordance with clauses (i) and (ii) above as if the maturity of the U.S. Dollar deposits referred to therein were a period of time equal to seven days.

(iv) If the Calculation Agent is required but is unable to determine a rate in accordance with either procedure described in clauses (i) and (ii) above, LIBOR with respect to such Interest Period will be the arithmetic mean of the offered quotations of the Reference Dealers as of 10:00 a.m. (New York City time) on the first day of such Interest Period for negotiable U.S. Dollar certificates of deposit of major U.S. money market banks having a remaining maturity closest to the Designated Maturity.

(v) If the Calculation Agent is required but is unable to determine a rate in accordance with any of the procedures described in clauses (i), (ii) or (iv) above, LIBOR with respect to such Interest Period will be calculated on the last day of such Interest Period and will be the arithmetic mean of the Base Rate for each day during such Interest Period.

For purposes of clauses (i), (iii), (iv) and (v) above, all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point. For the purposes of clause (ii) above, all percentages resulting from such calculations will be rounded, if necessary, to the nearest one thirty-second of a percentage point.

As used herein:

"**Base Rate**" means a fluctuating rate of interest determined by the Calculation Agent as being the rate of interest most recently announced by the Base Rate Reference Bank at its New York office as its base rate, prime rate, reference rate or similar rate for U.S. Dollar loans. Changes in the Base Rate will take effect simultaneously with each change in the underlying rate.

"**Base Rate Reference Bank**" means JPMorgan Chase Bank or, if such bank ceases to exist or is not quoting a base rate, prime rate reference rate or similar rate for U.S. Dollar loans, such other major money center commercial bank in New York City selected by the Calculation Agent.

"**Designated Maturity**" means, with respect to any Class of Notes, (i) for the first Interest Period, the number of calendar days from, and including the Closing Date to, but excluding, the first Distribution Date and (ii) for each Interest Period after the first Interest Period, three months.

"**LIBOR Business Day**" means a day on which commercial banks and foreign exchange markets settle payments in U.S. Dollars in New York and London.

"**London Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Reference Banks**" means four major banks in the London interbank market, selected by the Calculation Agent.

"**Reference Dealers**" means three major dealers in the secondary market for U.S. Dollar certificates of deposit, selected by the Calculation Agent.

For so long as any Note remains outstanding, the Co-Issuers will at all times maintain an agent appointed to calculate LIBOR in respect of each Interest Period. As soon as possible after 11:00 a.m. (London time) on each

LIBOR Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Determination Date, the Calculation Agent will calculate the interest rate for the Notes for the related Interest Period and the amount of interest for such Interest Period payable in respect of each U.S.$1,000 in principal amount of each Class of Notes (in each case rounded to the nearest cent, with half a cent being rounded upward) on the related Distribution Date and will communicate such rates and amounts and the related Distribution Date to the Co-Issuers, the Trustee, each Paying Agent (other than the Preference Share Paying Agent), the Depositary, the Custodian, Euroclear, Clearstream, Luxembourg and, for so long as any such Notes are listed on the Irish Stock Exchange, the Irish Paying Agent.

The Calculation Agent may be removed by the Co-Issuers at any time. If the Calculation Agent is unable or unwilling to act as such, is removed by the Co-Issuers or fails to determine the interest rate for any Class of Notes, or the amount of interest payable in respect of any Class of Notes, for any Interest Period, the Co-Issuers will promptly appoint as a replacement Calculation Agent a leading bank that is engaged in transactions in U.S. Dollar deposits in the international Eurodollar market and which does not control and is not controlled by or under common control with either of the Co-Issuers or any affiliate thereof. The Calculation Agent may not resign its duties without a successor having been duly appointed. The determination of the interest rate for each Class of Notes for each Interest Period by the Calculation Agent will (in the absence of manifest error) be final and binding upon all parties.

Principal

The Stated Maturity of each Class of Notes (other than the Class S Notes) is the Distribution Date occurring in October 2047 and the Stated Maturity of the Class S Notes is the Distribution Date occurring in October 2017, or, in each case, if such date is not a Business Day, the next following Business Day; *provided* that if such succeeding Business Day falls in a subsequent calendar month, the Stated Maturity will be the immediately preceding Business Day. Each Class of Notes is scheduled to mature at the Stated Maturity unless redeemed or repaid prior thereto. The Notes may be paid in full prior to the Stated Maturity. See "*Risk Factors—Average Life of the Notes and Prepayment Considerations*." Any payment of principal with respect to any Class of Notes (including any payment of principal made in connection with a Mandatory Redemption, Optional Redemption, Auction Call Redemption or Tax Redemption) will be made by the Trustee on behalf of the Issuer on a *pro rata* basis on each Distribution Date among the Notes of such Class according to the respective unpaid principal amounts thereof outstanding immediately prior to such payment. The Trustee will, so long as any Class of Notes is listed on the Irish Stock Exchange, notify the listing agent for purposes of notification to the Irish Stock Exchange not later than the second Business Day preceding each Distribution Date of the amount of principal payments to be made on the Notes of each Class on such Distribution Date, the amount of any Deferred Interest, the Aggregate Outstanding Amount of the Notes of each Class and the percentage of the original Aggregate Outstanding Amount of the Notes of such Class after giving effect to the principal payments, if any, on such Distribution Date.

Principal Proceeds will be applied on each Distribution Date in accordance with the Priority of Payments to pay principal of each Class of Notes, with principal of a Class of Notes being paid prior to the payment of principal of each other Class of Notes then outstanding that is Subordinate to the Class of Notes being paid, provided that the Class A-1 Notes and the Class S Principal Payment will be paid on a *pari passu* basis; *provided* that Principal Proceeds will be applied on each Distribution Date if (A) no Coverage Test has been breached on the applicable or any prior Determination Date and (B) the Pro Rata Payment Conditions are satisfied to pay, *pro rata*, principal of the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, and, otherwise, to pay principal of the Class A-1 Notes, the Class S Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, sequentially, as described in the Principal Proceeds Waterfall. The amount and frequency of principal payments of a Class of Notes will depend upon, among other things, the amount and frequency of payments of principal and interest received with respect to the Collateral Debt Securities.

In addition, the Issuer may redeem the Notes, in whole but not in part, at the direction of a Majority-in-Interest of Preference Shareholders at the applicable Redemption Price therefor on any Distribution Date occurring after the Distribution Date occurring in October 2008 under the circumstances described in "*—Optional Redemption and Tax Redemption*" and "*—Priority of Payments—Interest Proceeds*" and, on and after the Note Acceleration Date, under the circumstances described in "*—Auction Call Redemption*" and "*—Clean-Up Call Redemption*."

Mandatory Redemption

Each Class of Notes will, on any Distribution Date, be subject to mandatory redemption (such redemption, a "**Mandatory Redemption**"), in the event that any Coverage Test applicable to such Class of Notes or any Class of Notes Subordinate to such Class of Notes is not satisfied on the related Determination Date. Any such redemption as a result of a Coverage Test failure will be effected, *first*, from Interest Proceeds and, *second*, to the extent that the application of Interest Proceeds pursuant to the Priority of Payments would be insufficient to cause such tests to be satisfied, from Principal Proceeds, in each case, to the extent necessary to cause each applicable Coverage Test to be satisfied. Any such redemption will be applied to the repayment of the Notes (sequentially in direct descending order of Seniority in the case of a Coverage Test failure) in accordance with the Priority of Payments.

In addition, the Issuer, or the Collateral Manager on its behalf, will notify the Trustee, each of the Rating Agencies and each Hedge Counterparty in writing (such notice, the "**Ramp-Up Notice**") of the occurrence of the date that is the earlier of (a) 90 days following the Closing Date and (b) if the Issuer has not provided prior notice of its intent to issue additional Notes as described herein before such 90th day, the date on which the Issuer demonstrates that (i) the Aggregate Principal Balance of the Collateral Debt Securities *plus* any payments of principal received by the Issuer in respect of any such Collateral Debt Securities is at least equal to the Aggregate Ramp-Up Par Amount and (ii) each of the Collateral Quality Tests, the Coverage Tests (if applicable), the Class AB Pro Rata Test and the Eligibility Criteria is satisfied (such date, the "**Ramp-Up Completion Date**").

The Co-Issuers are required to request, within 10 Business Days following the Ramp-Up Completion Date, that Standard & Poor's (and Moody's, but only if (i) the Coverage Tests (if applicable), the Collateral Quality Tests, the Class AB Pro Rata Test or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) confirm its Initial Ratings of the Notes. In the event of a Ratings Confirmation Failure, and provided a Proposed Plan cannot be agreed to between the Collateral Manager, on behalf of the Issuer, and the Rating Agencies, the Issuer will be required on the Distribution Date relating to the Determination Date as of which such failure occurs to apply, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes in accordance with the Priority of Payments and as to the extent necessary to obtain a Rating Confirmation from Standard & Poor's and, if required, Moody's.

On the Distribution Date occurring in October 2012 (the "**Note Acceleration Date**") and on each Distribution Date thereafter, if the Notes are not redeemed in full on or prior to such date, Interest Proceeds that would otherwise be paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied to pay principal of the Notes sequentially in reverse order of Seniority until each such Class of Notes has been paid in full.

Auction Call Redemption

In accordance with the procedures set forth in the Indenture (the "**Auction Procedures**"), the Trustee will, at the expense of and on behalf of the Issuer, and with the assistance of the Collateral Manager, conduct an auction (an "**Auction**") of the Collateral Debt Securities if, prior to the Note Acceleration Date, the Notes have not been (and on the Note Acceleration Date will not be) redeemed in full. The Auction will be conducted on a date no later than 10 Business Days prior to (1) the Note Acceleration Date and (2) if the Notes are not redeemed in full on the related Distribution Date, each Distribution Date thereafter until the Notes have been redeemed in full (each such date, an "**Auction Date**"). Notwithstanding the foregoing, the Trustee will not conduct an Auction on an Auction Date if (i) from (and including) the Distribution Date occurring in October 2012 to (and including) the Distribution Date occurring in October 2013 there would be insufficient funds to provide the Preference Shareholders with a combined Internal Rate of Return from the Closing Date of at least 5% or, following the Distribution Date occurring in October 2013, there would be insufficient funds to provide the Preference Shareholders with a combined Internal Rate of Return from the Closing Date of at least 0%, unless the Preference Shareholders waive such requirement by vote of 100% of the Preference Shareholders, or (ii) an unsuccessful Auction was conducted on the preceding Auction Date and the Collateral Manager notifies the Trustee that, due to market conditions, an Auction on such Auction Date is unlikely to be successful. Any of the Collateral Manager, the Preference Shareholders, the Trustee, the Credit Default Swap Counterparty or their respective Affiliates may, but will not be under any obligation to, bid at the Auction.

The Trustee, on behalf of the Issuer, will sell, terminate, assign or otherwise liquidate the Collateral Debt Securities (which may be divided into up to eight subpools) to the highest bidder therefor (or to the highest bidder for each subpool) at the Auction; *provided* that:

(i) the Auction has been conducted in accordance with the Auction Procedures;

(ii) the Collateral Manager has received bids for the Collateral Debt Securities (or for each of the related subpools) from at least one or more prospective purchasers (including the winning bidder) identified on a list of qualified bidders (such bidders, "**Qualified Bidders**") provided by the Collateral Manager to the Trustee in accordance with the Indenture;

(iii) the Collateral Manager certifies to the Trustee that the highest bid would result in the sale of the Collateral Debt Securities (or the related subpools) for a purchase price (paid in cash) which, together with the balance of all Eligible Investments and cash held by the Issuer (other than in any Hedge Counterparty Collateral Account, any Synthetic Security Counterparty Account unless the relevant Synthetic Security has been, or will be, sold and any Issuer Collateral Account unless the relevant Synthetic Security has been, or will be, sold), will be at least equal to the Total Redemption Amount *plus* on any Distribution Date from and including the Distribution Date occurring in October 2012 to and including the Distribution Date occurring in October 2013, an amount sufficient to provide the Preference Shareholders with a combined Internal Rate of Return from the Closing Date of at least 5% or, following the Distribution Date occurring in October 2013, an amount sufficient to provide the Preference Shareholders with a combined Internal Rate of Return from the Closing Date of at least 0%, (such amount, the "**Auction Call Redemption Amount**"); *provided* that holders of 100% of the aggregate outstanding amount of any Class of Notes may elect, in connection with any Auction Call Redemption, to receive less than 100% of the portion of the proceeds from the sale of the Collateral Debt Securities conducted for the purpose of such Auction Call Redemption, and the balance of Eligible Investments and cash in the Issuer's accounts (other than any Hedge Counterparty Collateral Account, any Issuer Collateral Account unless the relevant Synthetic Security has been, or will be, sold and any Synthetic Security Counterparty Account unless the relevant Synthetic Security has been, or will be, sold) that would otherwise be payable to holders of such Class if such sum were to equal the Auction Call Redemption Amount as defined without reference to this proviso, in which case the Auction Call Redemption Amount will be reduced accordingly;

(iv) with respect to each Synthetic Security, the Issuer (or the Collateral Manager on behalf of the Issuer) will request that the calculation agent under such Synthetic Security determine the net termination payment payable by or to the Issuer on the date six Business Days prior to the termination date of the relevant Synthetic Security and will notify the Trustee of such amount and, in the case of a Defeased Synthetic Security, the Trustee will determine the amount (if any) that will be released from the related Synthetic Security Counterparty Account based on the information it receives with respect to the net termination payment; and

(v) the highest bidder(s) enter(s) into a written agreement with the Issuer in a form provided by the Collateral Manager (which the Issuer will execute if the conditions set forth above and in the Indenture are satisfied which execution will constitute certification by the Issuer that such conditions have been satisfied) that obligates such highest bidders (or the highest bidder for each subpool) to purchase all of the Collateral Debt Securities (or the relevant subpool) and provides for payment in full (in cash) of the purchase price to the Trustee on or prior to the sixth Business Day following the relevant Auction Date;

provided, *however*, that notwithstanding any provision herein to the contrary, but subject to the satisfaction of the conditions set forth in clauses (i) through (iv) above, the Collateral Manager or an Affiliate thereof, although it may not have been the highest bidder, will have the option to purchase the Collateral Debt Securities (or any subpool) for a purchase price equal to the highest bid therefor.

If all of the conditions set forth in clauses (i) through (v) of the last sentence of the preceding paragraph have been met, (x) the Trustee, on behalf of the Issuer, will sell and transfer the Collateral Debt Securities (or the related subpool), without representation, warranty or recourse, to the highest bidder (or the highest bidder for each subpool,

as the case may be) and (y) the Issuer will terminate the transactions under each Synthetic Security, in each case, in accordance with and upon completion of the Auction Procedures. The Trustee will deposit the purchase price for the Collateral Debt Securities in the Collection Accounts and, subject to applicable provisions set forth under "— *Redemption Procedures*" below, the Notes and the Preference Shares will be redeemed on the Distribution Date immediately following the relevant Auction Date (such redemption, the "**Auction Call Redemption**").

If any of the foregoing conditions is not met with respect to any Auction or if the highest bidder (or the highest bidder for any subpool) fails to pay the purchase price before the sixth Business Day following the relevant Auction Date (and, in the case of a failure by the highest bidder to pay for a subpool, the aggregate purchase price received with respect to the remaining subpools is less than the Auction Call Redemption Amount), (a) the Auction Call Redemption will not occur on the Distribution Date following the relevant Auction Date, (b) the Trustee will give notice of the withdrawal, (c) subject to clause (d) below, the Trustee will decline to consummate such sale and will not solicit any further bids or otherwise negotiate any further sale of Collateral Debt Securities in relation to such Auction and (d) unless the Notes are redeemed in full prior to the next succeeding Auction Date, or the Collateral Manager notifies the Trustee that market conditions are such that such Auction would not likely be successful, the Trustee will conduct another Auction on the next succeeding Auction Date.

Any of the Preference Shareholders, the Trustee or their respective affiliates may, but will be under no obligation to, bid at the Auction; *provided*, *however*, that purchasers of the Offered Securities should not expect that any such party will take part in any such Auction.

The Collateral Manager or any of its Affiliates will have the right, but not the obligation, to bid in any Auction of the Collateral Debt Securities, provided that such bidding is done on an "arm's-length" basis. If the Collateral Manager or any of its Affiliates decides to bid in an Auction, its decision will be based entirely on its own investment policy, guidelines and strategy and will only reflect its own assessment of the expected risks and returns with respect to each asset that is subject to such a bid. In particular, in the case of an auction of non-performing or credit-impaired assets, purchasers of the Offered Securities should not expect that the Collateral Manager or any of its Affiliates will take part in any such auction.

In addition, upon the occurrence of a Tax Event, the Notes will be redeemable (such redemption, a "**Tax Redemption**"), in whole but not in part, by the Issuer (i) at the written direction of the holders of a Majority of any Class of Notes that, as a result of the occurrence of a Tax Event, has not received 100% of the aggregate amount of principal and interest payable to such Class on any Distribution Date (each such Class, an "**Affected Class**") or (ii) at the direction of a Majority-in-Interest of the Preference Shareholders. Any such redemption of the Notes may only be effected on a Distribution Date and only from (a) the sale proceeds of the Collateral and (b) all other funds in the Interest Collection Account, the Interest Reserve Account, the Periodic Interest Reserve Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account and the Payment Account on the relevant Distribution Date, at the applicable Redemption Price (exclusive of installments of principal, interest due on or prior to such date, provided payment of which will have been made or duly provided for, to the holders of the Notes as provided for in the Indenture). No Tax Redemption may be effected, however, unless (i) all sale proceeds under clause (a) above are used to make such Tax Redemption, (ii) funds under clauses (a) and (b) are sufficient to redeem the Notes simultaneously and to pay certain other amounts (including any fees and expenses incurred by the Trustee and the Collateral Manager in connection with the sale of Collateral Debt Securities payable by the Issuer) in accordance with the procedures set forth in the Indenture and (iii) the Tax Materiality Condition is satisfied.

A "**Tax Event**" occurs if, whether or not as a result of any change in law or interpretations: (i) any obligor (including any Synthetic Security Counterparty) is, or on the next scheduled payment date under any Collateral Debt Security, will be, required to deduct or withhold from any payment under any Collateral Debt Security to the Issuer for or on account of any tax for whatever reason and such obligor is not required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) equals the full amount that the Issuer would have received had no such deduction or withholding been required, (ii) any jurisdiction imposes net income, profits, or similar tax on the Issuer, (iii) the Issuer is required to deduct or withhold from any payment under a Hedge Agreement for or on account of any tax and the Issuer is obligated to make a gross-up payment (or otherwise pay additional amounts) to the Hedge Counterparty, or (iv) a Hedge Counterparty is required to deduct or withhold from any payment under a Hedge Agreement for or on account of any tax for whatever reason and such Hedge Counterparty is not required to pay to

the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding been required. The "**Tax Materiality Condition**" will be satisfied if a Tax Event occurs and (i) such a tax or taxes imposed on the Issuer or withheld from payments to the Issuer and with respect to which the Issuer receives less than the full amount that the Issuer would have received had no such deduction occurred, or (ii) "gross-up payments" required to be made by the Issuer exceed the amounts that the Issuer would have been required to pay had no deduction or withholding been required exceeds, in the aggregate, U.S.$1,000,000 during any 12-month period.

In connection with any Tax Redemption, holders of at least 66⅔% of the Aggregate Outstanding Amount of an Affected Class may elect to receive less than 100% of the Redemption Price that would otherwise be payable to such Class (and the minimum Sale Proceeds requirements will be reduced accordingly).

Clean-Up Call Redemption

Subject to the general conditions to redemption described below under "*Redemption Procedures*" and the additional conditions described herein, at the direction of the Collateral Manager the Notes will be subject to redemption by the Issuer, in whole but not in part, at the applicable Redemption Price, on any Distribution Date selected by the Collateral Manager which occurs on or after the Distribution Date on which the Aggregate Outstanding Amount of the Notes is less than or equal to 10% of the original Aggregate Outstanding Amount of such Notes (a "**Clean-Up Call Redemption**"). Any Clean-Up Call Redemption may only be effected on a Distribution Date and *provided* that Available Redemption Funds are at least equal to (a) the Total Redemption Amount *minus* (b) the Balance of the Cash and Eligible Investments in the Interest Collection Account, the Interest Reserve Account, the Periodic Interest Reserve Account, the Principal Collection Account, the Expense Account and the Payment Account. "**Available Redemption Funds**" means (i) Sale Proceeds of the sale, liquidation, termination or assignment of the Collateral Debt Securities, *plus* (ii) the balance of all cash and Eligible Investments maturing on or prior to the scheduled Redemption Date credited to the Accounts (other than any Hedge Counterparty Collateral Account, any Synthetic Security Counterparty Account and any Issuer Collateral Account, to the extent the Issuer is not entitled to the amounts in such accounts), *plus* (iii) proceeds that would be released to the Issuer from any Synthetic Security Counterparty Account following termination or assignment of the related Synthetic Securities and payment by the Issuer of amounts owed to such Synthetic Security Counterparty including, in the case of a Clean-Up Call Redemption, cash paid by the Collateral Manager in exchange for any purchase by it of Collateral Debt Securities (other than CDS Agreement Transactions). The Collateral Manager may elect to purchase the Collateral Debt Securities (other than CDS Agreement Transactions subject to the Credit Default Swap Agreement) in connection with a Clean-Up Call Redemption.

Redemption Procedures

Notice of redemption will be given by the Trustee by first-class mail, postage prepaid, mailed not less than 10 Business Days prior to the date scheduled for redemption (with respect to any of the Auction Call Redemption, Optional Redemption or Tax Redemption, the "**Redemption Date**"), to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar under the Indenture, with a copy to each Hedge Counterparty, to the Credit Default Swap Counterparty, to the Collateral Manager and to each Rating Agency. In addition, the Trustee will, if and for so long as any Class of Notes to be redeemed is listed on the Irish Stock Exchange, cause notice of such Auction Call Redemption, Optional Redemption or Tax Redemption to be delivered to the listing agent for delivery to the Company Announcements Office of the Irish Stock Exchange not less than 10 Business Days prior to the applicable Record Date. Notes called for redemption must be surrendered at the offices of any Paying Agent under the Indenture in order to receive the applicable Redemption Price, unless the holder provides (i) an undertaking to surrender such Note thereafter and (ii) in the case of a holder that is not a Qualified Institutional Buyer, such security or indemnity as may be required by the Co-Issuers.

Any such notice of redemption may be withdrawn by the Issuer up to the fourth Business Day prior to the scheduled Redemption Date by written notice to the Trustee, the Rating Agencies, the Collateral Manager, the Credit Default Swap Counterparty and any Hedge Counterparties, but only if (i) the Collateral Manager is unable to deliver the sale agreement or agreements or certifications referred to in the immediately succeeding paragraph in a form satisfactory to the Trustee, (ii) solely with respect to an Optional Redemption, a Majority-in-Interest of the

Preference Shares have requested that such notice of redemption be withdrawn, or (iii) solely with respect to a Clean-Up Call Redemption, if the Collateral Manager has elected to purchase Collateral Debt Securities from the Issuer pursuant to the Indenture, if the Trustee has not received such purchase price from the Collateral Manager in immediately-available funds. During the period when a notice of redemption may be withdrawn, the Issuer will not terminate any Hedge Agreement or the Credit Default Swap Agreement, and the Hedge Agreements and the Credit Default Swap Agreement will not be terminable by the relevant Hedge Counterparty or Credit Default Swap Counterparty, respectively, in relation to such notice of redemption. Notice of any such withdrawal will be given by the Trustee to each holder of Notes at such holder's address in the Note Register maintained by the Note Registrar, to the Credit Default Swap Counterparty and to each Hedge Counterparty under the Indenture by overnight courier guaranteeing next day delivery, sent not later than the third Business Day prior to the scheduled Redemption Date. In addition, the Trustee will, if any Class of Notes to have been redeemed was listed on the Irish Stock Exchange deliver a notice of such withdrawal to the listing agent for delivery to the Company Announcements Office of the Irish Stock Exchange not less than three Business Days prior to the scheduled Redemption Date.

The Notes may not be redeemed pursuant to the Auction Call Redemption, Optional Redemption or Tax Redemption unless, at least four Business Days before the scheduled Redemption Date, the Collateral Manager will have furnished to the Trustee, the Credit Default Swap Counterparty and each Hedge Counterparty evidence (which evidence may be in the form of facsimile or electronic mail indicating firm bids), that the Collateral Manager on behalf of the Issuer has entered into a binding agreement or agreements with a financial institution or institutions whose long-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) have a credit rating from each Rating Agency at least equal to the highest rating of any Notes then outstanding or whose short-term unsecured debt obligations have a credit rating of "P-1" by Moody's and "A-1" by Standard & Poor's (and not on watch for possible downgrade) (and has entered into a binding commitment with the Credit Default Swap Counterparty to liquidate the CDS Agreement Transaction) to sell, terminate, assign or otherwise liquidate, not later than the Business Day immediately preceding the scheduled Redemption Date, for cash in immediately available funds, all or part of the Collateral Debt Securities at a sale price which, when added to all cash and Eligible Investments maturing on or prior to the scheduled Redemption Date credited to the Interest Collection Account, the Interest Reserve Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account and the Payment Account on the relevant Distribution Date, is at least equal to (x) with respect to the Tax Redemption or Optional Redemption, an amount sufficient to pay any accrued and unpaid amounts payable under the Priority of Payments prior to the payment of the Notes (without regard to any cap or limitation provided for therein) (including (i) any termination payments payable by the Issuer pursuant to the Hedge Agreements and the Credit Default Swap Agreement, (ii) any accrued and unpaid Collateral Management Fee, (iii) all Administrative Expenses without regard to the U.S. Dollar limitation set forth in paragraph (2) of the Interest Proceeds Waterfall), and any fees and expenses incurred by the Trustee and the Collateral Manager in connection with such sale of Collateral Debt Securities payable by the Issuer), to redeem the Notes on the scheduled Redemption Date at the applicable Redemption Prices (the aggregate amount required to make all such payments, the "**Total Redemption Amount**") or (y) with respect to the Auction Call Redemption, the Auction Call Redemption Amount; *provided*, *however*, that the rating requirements listed above will not be applicable to the extent the Collateral Manager or an Affiliate thereof is the purchaser of Collateral Debt Securities and certain other conditions are satisfied.

Redemption Price

The amount payable with respect to any Class of Notes in connection with any Auction Call Redemption, Optional Redemption or Tax Redemption (with respect to each Class of Notes, the "**Redemption Price**") will be an amount equal to (A) (i) the Aggregate Outstanding Amount of such Class of Notes being redeemed plus (ii) with respect to the Optional Redemption of Class A-1 Notes, the Class A-1 Make-Whole Amount, if any, *plus* (iii) accrued interest thereon (including Defaulted Interest, interest on Defaulted Interest and any Deferred Interest and interest thereon and, with respect to Class S, any shortfall or shortfalls in the Class S Interest Payment with respect to any preceding Distribution Date together with interest accrued thereon) or (B) any lesser amount agreed to in writing by Holders of 100% of such Class of Notes.

Cancellation

All Notes that are redeemed or paid and surrendered for cancellation as described herein will forthwith be canceled and may not be reissued or resold.

Payments

Payments in respect of principal of and interest on any Note will be made to the person in whose name such Note is registered at the close of business on (i) in respect of Global Securities, the Business Day prior to the applicable date of payment and (ii) in respect of Definitive Notes, the 15th day prior to the applicable date of payment (the "**Record Date**"). Payments on each Note will be payable by wire transfer in immediately available funds to a U.S. Dollar account maintained by the holder thereof in accordance with wire transfer instructions received by any paying agent appointed under the Indenture (each, a "**Paying Agent**") on or before the Record Date or, if no wire transfer instructions are received by a Paying Agent in respect of such Note, by a U.S. Dollar check drawn on a bank in the United States mailed to the address of the holder of such Note as it appears on the Note Register at the close of business on the Record Date for such payment. Final payments in respect of principal of the Notes will be made against surrender of such Notes at the office of the Paying Agent.

If any payment on the Notes is due on a day that is not a Business Day, then payment will be made on the next succeeding Business Day with the same force and effect as if made on the date for payment; *provided* that if such succeeding Business Day falls in a subsequent calendar month, payment will be made on the immediately preceding Business Day.

"**Business Day**" means a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in New York City, Chicago and London (and the Cayman Islands but only with respect to actions required of the Administrator on behalf of the Issuer), and any other locale in which the corporate trust office of the Trustee is located and, in the case of the final payment of principal of any Note, the place of presentation of such Note; *provided* that if any action is required of the Paying Agent in Ireland, then, for purposes of determining when such action is required, Dublin, Ireland will be considered in determining "Business Day."

For so long as any Notes are listed on the Irish Stock Exchange and the rules of such exchange will so require, the Co-Issuers will maintain a listing agent and a paying agent (the "**Irish Paying Agent**") with respect to such Notes with an office located in Dublin, Ireland and payments on such Notes may be effected through such Irish Paying Agent. In the event that the Irish Paying Agent is replaced at any time during such period, notice of the appointment of any replacement will be given to the "Company Announcements Office" of the Irish Stock Exchange.

Except as otherwise required by applicable law, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable will be paid to the Co-Issuers upon request by the Issuer therefor, and the holder of such Note will thereafter, as an unsecured general creditor, look to the Issuer or the Co-Issuer for payment of such amounts and all liability of the Trustee or such Paying Agent with respect to such trust money (but only to the extent of the amounts so paid to the Co-Issuers) will thereupon cease. The Trustee or the Paying Agent, before being required to make any such release of payment may, but will not be required to, adopt and employ, at the expense of the Co-Issuers, any reasonable means of notification of such release of payment, including mailing notice of such release to holders whose Notes have been called but have not been surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of any Paying Agent, at the last address of record of each such holder.

Priority of Payments

With respect to any Distribution Date, including any Redemption Date, collections received on the Collateral and certain payments received under the Hedge Agreements during each Due Period in respect of the Collateral will be divided into Interest Proceeds and Principal Proceeds and applied in the priority set forth below under "*—Interest Proceeds*" and "*—Principal Proceeds*," respectively (collectively, the "**Priority of Payments**").

Interest Proceeds. On each Distribution Date, Interest Proceeds credited to the Payment Account with respect to the related Due Period will be applied in the order of priority (the "**Interest Proceeds Waterfall**") stipulated below:

(1) to the payment of taxes and filing and registration fees owed by the Co-Issuers, if any;

(2) (a) *first*, to the payment to the Trustee, an amount equal to the greater of (x) U.S.$6,250 and (y) 0.0025% of the Quarterly Asset Amount with respect to such Distribution Date other than with respect to the first Distribution Date, for which such percentage will be proportional to the actual number of days from the Closing Date to such first Distribution Date; (b) *second*, to the payment, in the following order, to the Trustee, the Collateral Administrator, the Preference Share Paying Agent and the Administrator, of accrued and unpaid fees and expenses (excluding fees and expenses paid pursuant to clause (a) above) owing to them under the Indenture, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement, as applicable, and, *then*, to the payment, in the following order, to the Trustee, the Collateral Administrator, the Preference Share Paying Agent and the Administrator, of indemnities (excluding indemnities, if any, paid pursuant to clause (a) above) owing to them under the Indenture, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement, as applicable; (c) *third*, to the payment *pro rata* of other accrued and unpaid Administrative Expenses (including indemnities) of the Co-Issuers including, without limitation, any indemnification and other obligations owed to the Collateral Manager (other than the Collateral Management Fee) under the Collateral Management Agreement and any reasonable fees and expenses of accountants or other parties in connection with the preparation of audited or unaudited financial statements of the Issuer if required by law or for listing purposes (but excluding fees and expenses described in clauses (a) and (b) above); *provided* that the aggregate amount of all payments made pursuant to clauses (b) and (c) of this paragraph (2) over four consecutive Distribution Dates does not exceed an amount equal to U.S.$150,000; and (d) *fourth*, after application of the amounts under clauses (a), (b) and (c) of this paragraph (2), if the balance of all Eligible Investments and Cash in the Expense Account on the related Determination Date is less than U.S.$150,000, for deposit to the Expense Account of such amount as would have caused the balance of all Eligible Investments and Cash in the Expense Account immediately after such deposit, to equal U.S.$150,000; *provided* that the aggregate amount of all payments made pursuant to clauses (b) and (c) of this paragraph (2) over four consecutive Distribution Dates and any other amounts paid from the Expense Account will not exceed U.S.$150,000;

(3) to the payment to the Credit Default Swap Counterparty and the Total Return Swap Counterparty of any unpaid termination payment (excluding any Defaulted Synthetic Termination Payment) payable by the Issuer in connection with the termination in full (but not the partial termination) of the Credit Default Swap Agreement and the Total Return Swap Agreement, together with any accrued interest thereon;

(4) to the payment to the Collateral Manager of accrued and unpaid Collateral Management Fee;

(5) to the payment, *pro rata*, of all amounts scheduled to be paid to any Hedge Counterparty pursuant to any Hedge Agreement, together with any termination payments (and any accrued interest thereon) payable by the Issuer pursuant to any Hedge Agreement to which such Hedge Counterparty is a party other than by reason of an event of default or a termination event (other than "Illegality" or "Tax Event") as to which such Hedge Counterparty is the "defaulting party" or the sole "affected party";

(6) to the payment of (a) *first*, the Interest Distribution Amount with respect to the Class A-1 Notes and the Cumulative Class S Payment, on a *pari passu* basis, (b) *second*, the Interest Distribution Amount with respect to the Class A-2 Notes and (c) *third*, the Interest Distribution Amount with respect to the Class B Notes;

(7) (a) if (so long as any Class A Notes or Class B Notes remain outstanding) any Class AB Coverage Test (if applicable) is not satisfied on the related Determination Date, *then*, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis (until the Class A-1 Notes have been paid in full), *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, and *then*, if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes (until the Class A-2 Notes have been paid in full), and *then*, if no Class A-1 Notes, Class S Notes or Class A-2 Notes remain outstanding, to the payment of principal of the Class B Notes, in each case to the extent necessary to cause each of the Class AB Coverage Tests to be satisfied as of such

Determination Date; and *then* (b) on each Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class A Notes, the Class S Notes or the Class B Notes, after application of Uninvested Proceeds, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *second*, if no Class A-1 Notes or Class S Notes remain outstanding, principal of the Class A-2 Notes, and *third*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to the Class A Notes, the Class S Notes and the Class B Notes;

(8) to the payment of the Interest Distribution Amount with respect to the Class C Notes (for purposes of clarity, excluding any Class C Deferred Interest);

(9) to the payment of accrued and unpaid Class C Deferred Interest, if any;

(10) (a) if (so long as any Class C Notes remain outstanding) any Class C Coverage Test (if applicable) is not satisfied on the related Determination Date, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, *then*, if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A-1 Notes, Class S Notes or Class A-2 Notes remain outstanding, to the payment of principal of the Class B Notes and, then, if no Class A-1 Notes, Class S Notes, Class A-2 Notes or Class B Notes remain outstanding, to the payment of principal of the Class C Notes, in each case to the extent necessary to cause each of the Class C Coverage Tests to be satisfied as of such Determination Date; and *then* (b) on each Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class C Notes, after application of Uninvested Proceeds, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *second*, if no Class A-1 Notes or Class S Notes remain outstanding, principal of the Class A-2 Notes, *third*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes and, *fourth*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, principal of the Class C Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to the Class C Notes;

(11) to the payment of the Interest Distribution Amounts with respect to the Class D Notes (for purposes of clarity, excluding any Class D Deferred Interest);

(12) to the payment of accrued and unpaid Class D Deferred Interest, if any;

(13) (a) if (so long as any Class D Notes remain outstanding) the Class D Coverage Test (if applicable) is not satisfied on the related Determination Date, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, *then*, if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A-1 Notes, Class S Notes or Class A-2 Notes remain outstanding, to the payment of principal of the Class B Notes, *then*, if no Class A-1 Notes, Class S Notes, Class A-2 Notes or Class B Notes remain outstanding, to the payment of principal of the Class C Notes, and, *then*, if no Class A-1 Notes, Class S Notes, Class A-2 Notes, Class B Notes or Class C Notes remain outstanding, to the payment of principal of the Class D Notes, to the extent necessary to cause the Class D Coverage Test to be satisfied as of such Determination Date; and *then* (b) on each Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class D Notes, after application of Uninvested Proceeds, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *second*, if no Class A-1 Notes or Class S Notes remain outstanding, principal of the Class A-2 Notes, *third*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes, *fourth*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, principal of the Class C Notes, and, *fifth*, if no Class A Notes, Class S Notes, Class B Notes or Class C Notes remain outstanding, principal of the Class D Notes, to the extent necessary in order to obtain a Rating Confirmation with respect to the Class D Notes;

(14) on each Distribution Date occurring before the Distribution Date occurring in October 2011 for deposit into the Periodic Interest Reserve Account, any such amount at the direction of the Collateral Manager;

(15) to the payment of all other accrued and unpaid Administrative Expenses (including indemnity obligations) of the Co-Issuers (including, in the following order, any accrued and unpaid fees and expenses to the Trustee, the Collateral Administrator, the Preference Share Paying Agent and the Administrator under the Indenture, the Collateral Administration Agreement, the Preference Share Paying Agency Agreement and the Administration Agreement, as applicable, and any indemnification and other obligations owed to the Collateral Manager under the Collateral Management Agreement (other than the Collateral Management Fee)) and termination payments pursuant to the Hedge Agreements and the Credit Default Swap Agreement and the Total Return Swap Agreement not paid pursuant to paragraph (3) and (5) above (whether as the result of the limitations on amounts set forth therein or otherwise);

(16) on and after the Note Acceleration Date, to the payment of, *first*, to the payment of principal of the Class D Notes, *second*, if no Class D Notes remain outstanding, principal of the Class C Notes, *third*, if no Class C Notes or Class D Notes remain outstanding, principal of the Class B Notes, *fourth*, if no Class B Notes, Class C Notes or Class D Notes remain outstanding, principal of the Class A-2 Notes and *fifth*, if no Class A-2 Notes, Class B Notes, Class C Notes or Class D Notes remain outstanding, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, in each case until each Class of Notes is paid in full; and

(17) on any Distribution Date, to the Preference Share Paying Agent for distribution to the Preference Shareholders in accordance with the terms of the Preference Share Paying Agency Agreement.

Principal Proceeds. On each Distribution Date, Principal Proceeds with respect to the related Due Period will be applied in the order of priority (the "**Principal Proceeds Waterfall**") set forth below:

(1) to the payment of the amounts referred to in paragraphs (1) through (6) (excluding the Class S Principal Payment) under the Interest Proceeds Waterfall, in the same order of priority specified therein, but only to the extent not paid in full thereunder;

(2) (a) if (so long as any Class A Notes or Class B Notes remain outstanding) any Class AB Coverage Test is not satisfied on the related Determination Date, after giving effect to the application of Interest Proceeds under the Interest Proceeds Waterfall, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, and *then*, if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, and *then*, if no Class A Notes or Class S Notes remain outstanding, to the payment of principal of the Class B Notes but, in each case, only to the extent necessary to cause the Class AB Coverage Tests to be satisfied as of such Determination Date; and *then* (b) on each Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class A Notes, Class S Notes, Class B Notes, Class C Notes or Class D Notes, after giving effect to any application of Uninvested Proceeds and the application of Interest Proceeds under the Interest Proceeds Waterfall, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *then*, if no Class A-1 Notes and Class S Notes remain outstanding, principal of the Class A-2 Notes, and *then*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to the Class A Notes, Class S Notes and Class B Notes;

(3) so long as no Class A Notes, Class S Notes and Class B Notes remain outstanding, to the payment of the amounts referred to in paragraph (8) under the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder;

(4) (a) if (so long as any Class C Notes remain outstanding) any Class C Coverage Test (if applicable) is not satisfied on the related Determination Date, after giving effect to the application of Interest Proceeds under the Interest Proceeds Waterfall, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, and *then* if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, to the payment of principal of the Class B Notes, and then, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, to the payment of principal of the Class C Notes, in each case to the extent necessary to cause each of the Class C Coverage Tests to be satisfied as of such Determination Date; and *then* (b) on each

Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class C Notes, after giving effect to any application of Uninvested Proceeds and the application of Interest Proceeds under the Interest Proceeds Waterfall, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *then*, if no Class A-1 Notes and Class S Notes remain outstanding, principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes, and, *then*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, principal of the Class C Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to the Class C Notes;

(5) so long as no Class A Notes, Class S Notes, Class B Notes and Class C Notes remain outstanding, to the payment of the amounts referred to in paragraph (11) under the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder;

(6) (a) if (so long as any Class D Notes remain outstanding) any Class D Coverage Test (if applicable) is not satisfied on the related Determination Date, after giving effect to the application of Interest Proceeds under the Interest Proceeds Waterfall, *first*, to the payment of principal of the Class A-1 Notes and the unpaid Class S Principal Payment, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to reduce the principal balance of the Class S Notes, *then*, if no Class A-1 Notes or Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, to the payment of principal of the Class B Notes, *then*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, to the payment of principal of the Class C Notes, and then, if no Class A Notes, Class S Notes, Class B Notes or Class C Notes remain outstanding, to the payment of principal of the Class D Notes, in each case to the extent necessary to cause each of the Class D Coverage Tests to be satisfied as of such Determination Date; and *then* (b) on each Distribution Date relating to a Determination Date as of which a Ratings Confirmation Failure occurs or continues to exist with respect to the Class D Notes, after giving effect to any application of Uninvested Proceeds and the application of Interest Proceeds under the Interest Proceeds Waterfall, to the payment of, *first*, principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, *then*, if no Class A-1 Notes and Class S Notes remain outstanding, principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, principal of the Class B Notes, *then*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, principal of the Class C Notes, and *then*, if no Class A Notes, Class S Notes, Class B Notes or Class C Notes remain outstanding, principal of the Class D Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to the Class D Notes;

(7) either (a) *pro rata* (based on the respective Aggregate Outstanding Amounts of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes) (i) to the payment of principal of the Class A-1 Notes, (ii) to the payment of principal of the Class A-2 Notes, (iii) to the payment of principal of the Class B Notes, (iv) to the payment of principal of the Class C Notes and (v) to the payment of principal of the Class D, until, in each case, such Notes have been paid in full, so long as, and to the extent, (A) the Pro Rata Payment Conditions are satisfied and (B) no Coverage Test has been breached on the applicable or any prior Determination Date; or (b) if such conditions (A) or (B) have not been met, to the payment of principal of the Class A-1 Notes and the Class S Principal Payment to the extent not paid in full, on a *pari passu* basis, *then*, if no Class A-1 Notes remain outstanding, to the payment of principal of the Class S Notes, *then*, if no Class A-1 Notes and Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, to the payment of principal of the Class B Notes, *then*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, to the payment of the amounts referred to in paragraphs (8) and (9) under the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder, *then*, to the payment of principal of the Class C Notes until paid in full, *then*, to the payment of the amounts referred to in paragraphs (11) and (12) under the Interest Proceeds Waterfall, but only to the extent not paid in full thereunder, and *then* to the payment of principal of the Class D Notes until paid in full;

(8) to the payment of amounts referred to in paragraph (15) under the Interest Proceeds Waterfall, in the same order of priority specified therein (and subject to the same limitations), but only to the extent not paid in full thereunder; and

(9) on any Distribution Date, to the Preference Share Paying Agent for distribution to the Preference Shareholders in accordance with the terms of the Preference Share Paying Agency Agreement.

Notwithstanding the foregoing, the Preference Share Paying Agent will pay dividends, and other distributions to the Preference Shareholders, only to the extent that the payment of such dividends or other distributions on the Preference Shares is legally permitted, as more fully described under "*Description of Preference Shares*."

If a Ratings Confirmation Failure has occurred with respect to any Class of outstanding Notes, on the Distribution Date relating to the Determination Date as of which such Rating Confirmation Failure occurs, Uninvested Proceeds will be applied, prior to the application of Interest Proceeds and Principal Proceeds for such purposes, *first*, to the payment of principal of the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, and then, if no Class A-1 Notes and Class S Notes remain outstanding, to the payment of principal of the Class A-2 Notes, *then*, if no Class A Notes or Class S Notes remain outstanding, to the payment of principal of the Class B Notes, *then*, if no Class A Notes, Class S Notes or Class B Notes remain outstanding, to the payment of principal of the Class C Notes, and, *then*, if no Class A Notes, Class S Notes, Class B Notes or Class C Notes remain outstanding, to the payment of principal of the Class D Notes, in each case to the extent necessary in order to obtain a Rating Confirmation with respect to each Class of outstanding Notes. In addition, if, on any Distribution Date prior to the Uninvested Proceeds being deposited to the Principal Collection Account to be treated as Principal Proceeds, Interest Proceeds and Principal Proceeds are insufficient to pay the amounts referred to in clause (a) of paragraphs (2) and (4) of the Principal Proceeds Waterfall and clause (a) of paragraphs (7), (10) and (13) of the Interest Proceeds Waterfall, the Issuer will use Uninvested Proceeds to make such payments (in the same manner and order of priority).

Except as otherwise expressly provided in the Priority of Payments, if on any Distribution Date, the amount available in the Payment Account from amounts received in the related Due Period is insufficient to make the full amount of the disbursements required by any paragraph in this section to different persons, the Trustee will make the disbursements called for by each such paragraph ratably in accordance with the respective amounts of such disbursements then due and payable to the extent funds are available therefor.

In determining the amounts to be paid on any Distribution Date pursuant to each numbered paragraph under the Interest Proceeds Waterfall and the Principal Proceeds Waterfall, if the distribution of all amounts available to be paid pursuant to any such paragraph would cause the Issuer to fail any Coverage Test referred to in any paragraph with a higher priority, the Trustee will reduce the distribution for any such paragraph by the minimum amount necessary so that, after giving effect to such distribution, the Issuer would not fail such Coverage Test referred to in the paragraph with a higher priority.

If the Notes and the Preference Shares have not been redeemed prior to the Distribution Date in October 2047, it is expected that the Issuer (or the Collateral Manager acting pursuant to the Collateral Management Agreement on behalf of the Issuer) will cause the Trustee to sell all of the Collateral Debt Securities and all Eligible Investments, terminate all CDS Agreement Transactions that have not yet terminated and will cause the Trustee to sell or liquidate all other Collateral to redeem the Notes and the Preference Shares.

All net proceeds from such liquidation or assignment and all available cash will be applied to the payment (in the order of priorities set forth above) of all (i) fees, (ii) expenses (including the amounts due to each Hedge Counterparty) and (iii) principal of and interest (including any Defaulted Interest, interest on Defaulted Interest and any Class S Shortfall Amount, Deferred Interest and interest thereon) on the Notes. Net proceeds from such liquidation or assignment and available cash remaining after all payments required pursuant to the Indenture and the payment of the costs and expenses of such liquidation, the establishment of adequate reserves to meet all contingent, unliquidated liabilities or obligations of the Issuer, the payment to the Preference Shareholders of the aggregate liquidation value of the Preference Shares, the return of U.S.$250 of capital to the owner of the Issuer's ordinary shares and the payment of a U.S.$250 profit fee to the owner of the Issuer's ordinary shares and interest thereon, will be distributed to the Preference Shareholders in accordance with the Preference Share Paying Agency Agreement.

Amounts that would otherwise have been payable in respect of a Collateral Debt Security on or before the last day of a Due Period, but for such day not being a designated business day in the Collateral Debt Security's Underlying Instruments or the presence of a legal or business holiday, will be considered included in the collections received during such Due Period (and, for the avoidance of doubt, such amounts will not be considered included in the collections received during the subsequent Due Period) to the extent such amounts are received no later than two Business Days immediately preceding the related Distribution Date.

Any payments made on the Preference Shares (from Interest Proceeds or Principal Proceeds) on the Stated Maturity, the final Distribution Date or any Redemption Date will be applied to pay principal of the Preference Shares, until the principal amount thereof has been paid in full, and then to pay interest on the Preference Shares. Interest Proceeds paid on the Preference Shares other than on the Stated Maturity, the final Distribution Date or any Redemption Date will be applied to pay interest on the Preference Shares. Principal Proceeds paid on the Preference Shares will be applied to pay principal of the Preference Shares, until the principal amount thereof has been paid in full, and then to pay interest on the Preference Shares. Notwithstanding anything herein to the contrary, the Preference Shares will not be redeemed until the Preference Share Redemption Amount is paid on the Redemption Date, even if the aggregate outstanding amount of the Preference Shares is reduced to zero.

The "**Preference Share Redemption Amount**" means, in the aggregate, an amount equal to the proceeds of the liquidation of the assets of the Issuer less the sum of, without duplication, (i) the costs and expenses of such liquidation, (ii) any amounts payable to the creditors of the Issuer, (iii) the amount of any reserves necessary to meet any and all contingent, unliquidated liabilities or obligations of the Issuer, (iv) the Trustee Fee payable to the Trustee in accordance with the Priority of Payments; (v) the Management Fee payable to the Collateral Manager in accordance with the Priority of Payments and (v) U.S.$500 (consisting of the nominal amount paid up on the Ordinary Shares and a profit fee of U.S.$250) and any interest paid thereon.

Listing

Application is expected to be made to the Irish Stock Exchange to admit the Notes to the Daily Official List of the Irish Stock Exchange (the "**Daily Official List**"). No application will be made to list the Notes on any other stock exchange. If any Class or Classes of the Notes are admitted to the Daily Official List, the Issuer may at any time terminate the listing of such Class or Classes if the Issuer determines that the maintenance of such listing would impose any material obligation or expense on the Issuer in excess of the amount anticipated on the Closing Date.

Certain Definitions

"**Account Control Agreement**" means the Account Control Agreement, dated as of the Closing Date, among the Issuer, the Trustee and the Custodian.

"**Accounts**" means collectively, the Interest Collection Account, the Uninvested Proceeds Account, each Issuer Collateral Account, each Synthetic Security Counterparty Account, the Principal Collection Account, the Interest Reserve Account, the Payment Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account, the Custodial Account, each Hedge Counterparty Collateral Account and any subaccount thereof that the Trustee deems necessary or appropriate.

"**Administrative Expenses**" means amounts, including indemnities, due or accrued with respect to any Distribution Date and payable by the Issuer or the Co-Issuer, in the following order, to (i) the Trustee or any co-trustee appointed pursuant to the Indenture, (ii) the Collateral Administrator under the Collateral Administration Agreement, (iii) the Preference Share Paying Agent under the Preference Share Paying Agency Agreement, (iv) the Administrator under the Administration Agreement, (v) the Rating Agencies for fees and expenses in connection with any rating (including the annual or quarterly fee payable with respect to credit estimates and the monitoring of any rating) of the Notes, including fees and expenses due or accrued in connection with any rating of the Collateral Debt Securities, (vi) the Independent accountants, agents and counsel of the Issuer for reasonable fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Co-Issuers), (vii) the Collateral Manager under the Indenture and the Collateral Management Agreement (including amounts payable by the Issuer to any party required to be indemnified by the Issuer pursuant to the Collateral Management Agreement but excluding the Collateral Management Fee), (viii) any other Person in respect of any governmental or registered office fee, charge or tax in relation to the Issuer or the Co-Issuer (in each case as certified by an Authorized Officer of the Issuer or the Co-Issuer to the Trustee) and (ix) any other Person in respect of any other fees or expenses (including indemnities) permitted under the Indenture and the documents delivered pursuant to or in connection with the Indenture and the Notes; *provided* that Administrative Expenses will not include (a) any amounts due or accrued with respect to the actions taken on or in connection with the Closing Date, (b) amounts payable in respect of the Notes or Preference Shares, (c) amounts payable under the Hedge Agreements and the Credit Default Swap Agreement and (d) any Collateral Management Fee payable pursuant to the Collateral Management Agreement.

"**Aggregate Outstanding Amount**" means, at any time, the aggregate principal amount of any of the Notes Outstanding at such time.

"**Aggregate Principal Balance**" means, when used with respect to any Collateral Debt Securities as of any date of determination, the sum of the Principal Balances on such date of determination of all such Collateral Debt Securities.

"**Applicable Recovery Rate**" means, with respect to any Collateral Debt Security on any Measurement Date, the lesser of (a) an amount equal to the percentage for such Collateral Debt Security set forth in the Moody's Recovery Rate Matrix set forth in Part I of Schedule A hereto in (x) the table corresponding to the relevant Specified Type of Collateral Debt Security, (y) the column in such table setting forth the Moody's Rating of such Collateral Debt Security as of the date of issuance of such Collateral Debt Security and (z) the row in such table opposite the percentage of the issue of which such Collateral Debt Security including, for senior only bonds, all other bonds which are *pari passu* in terms of losses, is a part relative to the total capitalization of (including both debt and equity securities issued by) the relevant issuer of or obligor on such Collateral Debt Security, determined on the original issue date of such Collateral Debt Security, *provided* that (1) if such Collateral Debt Security is a U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, it will be treated as an ABS Type Diversified Security for the purposes of applying the recovery rate in Part I of Schedule A hereto, (2) if the timely payment of principal of and interest on such Collateral Debt Security is guaranteed (and such guarantee ranks equally and ratably with the guarantor's senior unsecured debt) by another Person, unless such Collateral Debt Security is a U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, such amount will be 30% and (3) if such Collateral Debt Security is a Reinsurance Security, such amount will be assigned by Moody's upon the purchase of each such Collateral Debt Security and (b) an amount equal to the percentage for such Collateral Debt Security set forth in the Standard & Poor's Recovery Rate Matrix set forth in Part II of Schedule A hereto in (x) the applicable table, (y) the row in such table opposite the Standard & Poor's Rating of such Collateral Debt Security at the time of issuance of such Collateral Debt Security and (z) (i) for purposes of determining the Standard & Poor's Weighted Average Recovery Rate, in the column in such table below the current rating of the respective Class of Notes or (ii) for purposes of determining the Calculation Amount, in the column in such table below the current rating of the Class of Outstanding Notes with the highest rating by Standard & Poor's in the Recovery Rate Matrix set forth in Part III of Schedule A. For purposes of the definition of "Applicable Recovery Rate," the Issuer will request Moody's and Standard & Poor's to assign a recovery rate to any Synthetic Security that is not a Form-Approved Synthetic Security prior to the acquisition thereof.

"**Asset Hedge Account**" means any Securities Account designated as an "Asset Hedge Account" and established in the name of the Trustee pursuant to the Indenture.

"**Below A3 Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Moody's Rating below "A3" but at least "Baa3" on such date.

"**Below A- Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Standard & Poor's Rating below "A-" but at least "BBB-" on such date.

"**Below B3 Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Moody's Rating below "B3" on such date.

"**Below B- Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Standard & Poor's Rating below "B-" on such date.

"**Below Baa3 Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Moody's Rating below "Baa3" but at least "Ba3" on such date.

"**Below Ba3 Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Moody's Rating below "Ba3" but at least "B3" on such date.

"**Below BB- Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Standard & Poor's Rating below "BB-" but at least "B-" on such date.

"**Below BBB- Security**" means, on any Measurement Date, any Collateral Debt Security (other than a Defaulted Security) having a Standard & Poor's Rating below "BBB-" but at least "BB-" on such date.

"**Benchmark Rate**" means (a) with respect to a Collateral Debt Security that bears interest at a floating rate and pays interest monthly, quarterly or semi-annually, the offered rate for U.S. Dollar deposits in Europe of one month, three months or six months (as applicable) that appears on Reuters Screen LIBOR 01 Page (or such other page as may replace such Reuters Screen LIBOR 01 Page for the purpose of displaying comparable rates), as of 11:00 a.m. (London time) on the second London Banking Day preceding the date of acquisition of such Collateral Debt Security and (b) with respect to a Collateral Debt Security that does not bear interest at a floating rate, the yield reported, as of 10:00 a.m. (New York City time) on the second Business Day preceding the date of acquisition of such Collateral Debt Security, on the display designated as "Page 678" on the Telerate Access Service (or such other display as may replace Page 678 on Telerate Access Service) for actively traded U.S. Treasury securities having a maturity equal to the Average Life of such Collateral Debt Security on such date of acquisition; *provided* that if no U.S. Treasury security having a maturity equal to such Average Life is actively traded, then the Benchmark Rate would be interpolated from the yield so reported for U.S. Treasury securities with maturities nearest to the Average Life of such Collateral Debt Security.

"**Calculation Amount**" means, with respect to any Defaulted Security at any time, the lesser of (a) the Fair Market Value of such Defaulted Security and (b) the amount obtained by *multiplying* the Applicable Recovery Rate by the Principal Balance of such Defaulted Security.

"**Calculation Period**" means, with respect to any Distribution Date, (i) in the case of the initial Calculation Period, the period from, and including, the Closing Date to, but excluding, the first Distribution Date and (ii) thereafter, the period from, and including, the Distribution Date immediately following the last day of the immediately preceding Calculation Period to, but excluding, the next succeeding Distribution Date.

"**Cash Collateral Debt Security**" means a Collateral Debt Security that is not a Synthetic Security.

"**CDS Agreement Transactions**" means the Synthetic Securities in the form of credit default swap transactions entered into by the Issuer with the Credit Default Swap Counterparty under the Credit Default Swap Agreement.

"**Class A-1 Make-Whole Amount**" means, with respect to any Redemption Date prior to the Distribution Date in October 2011 on which an Optional Redemption occurs, the product of (a) the Class A-1 Make-Whole Factor multiplied by (b) the sum of the present values of each Class A-1 Periodic Make-Whole Amount from such Redemption Date through and including the Distribution Date in October 2011, assuming that the present value is calculated with a discount rate equal to the Make-Whole Benchmark Rate as determined on the Redemption Date for a designated maturity equal to the period from and including such Redemption Date to but excluding the Distribution Date in October 2011, applying linear interpolation.

"**Class A-1 Make-Whole Factor**" means, on any Redemption Date prior to the Distribution Date in October 2011 on which an Optional Redemption occurs, (a) the Aggregate Outstanding Amount of the Class A-1 Notes *divided by* (b) the Class A-1 Make-Whole Notional Amount as of such Redemption Date.

"**Class A-1 Make-Whole Notional Amount**" means, with respect to any Redemption Date prior to the Distribution Date in October 2011 on which an Optional Redemption occurs, the value in the table below corresponding to the applicable Redemption Date:

Redemption Date	Class A-1 Make-Whole Notional Amount
October 2008	U.S.$820,000,000
January 2009	U.S.$812,500,000
April 2009	U.S.$805,000,000
July 2009	U.S.$784,000,000
October 2009	U.S.$763,000,000
January 2010	U.S.$742,000,000

Redemption Date	Class A-1 Make-Whole Notional Amount
April 2010	U.S.$721,000,000
July 2010	U.S.$700,000,000
October 2010	U.S.$665,000,000
January 2011	U.S.$630,000,000
April 2011	U.S.$595,000,000
July 2011	U.S.$570,000,000

"**Class A-1 Periodic Make-Whole Amount**" means, with respect to any Distribution Date between January 2009 and October 2011, the product of (x) 0.17%, (y) the Class A-1 Make-Whole Notional Amount on the previous Distribution Date, and (z) the actual number of days between the previous Distribution Date and such Distribution Date, divided by 360.

"**Class AB Pro Rata Test**" means a test that is satisfied on any Measurement Date if the Net Outstanding Portfolio Collateral Balance *divided* by the sum of (x) the Aggregate Outstanding Amount of the Class A-1 Notes, (y) the Aggregate Outstanding Amount of the Class A-2 Notes and (z) the Aggregate Outstanding Amount of the Class B Notes is equal to or greater than 100.35%.

"**Determination Date**" means the last day of a Due Period.

"**Defaulted Synthetic Termination Payment**" means, with respect to any Synthetic Security, any termination payment (and any accrued interest thereon) payable by the Issuer pursuant to the Underlying Instruments relating thereto (including, if applicable, the Credit Default Swap Agreement) as a result of an "Event of Default" or "Termination Event" as to which the relevant Synthetic Security Counterparty is the "Defaulting Party" or the sole "Affected Party" (each as defined in such Underlying Instruments).

"**Deferred Interest PIK Bond**" means a PIK Bond with respect to which payment of interest either in whole or in part has been deferred or capitalized in an amount equal to the amount of interest payable in respect of the lesser of (a) one payment period and (b) a period of six months, but only until such time as payment of interest on such PIK Bond has resumed and all capitalized or deferred interest has been paid in accordance with the terms of the Underlying Instruments.

"**Discount Security**" means

(a) a Collateral Debt Security (other than a Synthetic Security) purchased at a purchase price (exclusive of accrued interest) of: (i) if such Collateral Debt Security or Reference Obligation is a Floating Rate Security, if such Floating Rate Security has a Moody's Rating of "Aa3" or higher or a Standard & Poor's Rating of "AA-" or higher, less than 92.0% of the par amount thereof, (ii) if such Collateral Debt Security or Reference Obligation is a Fixed Rate Security, if such Fixed Rate Security has a Moody's Rating of "Aa3" or higher or a Standard & Poor's Rating of "AA-" or higher, less than 85.0% of the par amount thereof or (iii) if such Collateral Debt Security has a Moody's Rating of "A1" or below and a Standard & Poor's Rating of "A+" or below, less than 75.0% of the par amount thereof; *provided* that the Aggregate Principal Balance of such Collateral Debt Securities and Reference Obligations may not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance; and *provided*, *further*, that (A) any such Floating Rate Security (1) if such Floating Rate Security has a Moody's Rating of "Aa3" or higher or a Standard & Poor's Rating of "AA-" or higher, the Fair Market Value of which equals or exceeds 95.0% of its principal balance for a period of 60 consecutive days or (2) if such Floating Rate Security has a Moody's Rating of "A1" or below and a Standard & Poor's Rating of "A+" or below the Fair Market Value of which equals or exceeds 85.0% of its principal balance for a period of 60 consecutive days will no longer be considered a "Discount Security" and (B) any such Fixed Rate Security (1) if such Fixed Rate Security has a Moody's Rating of "Aa3" or higher or a Standard & Poor's Rating of "AA-" or higher, the Fair Market Value of which equals or exceeds 90.0% of its principal balance for a period of 60 consecutive days or (2) if such Fixed Rate Security has a Moody's Rating of "A1" or below and a Standard & Poor's Rating of "A+" or below the Fair Market Value of which equals or exceeds 85.0% of its principal balance for a period of 60 consecutive days will no longer be considered a "Discount Security"; or

(b) a Synthetic Security for which (i) the fixed rate for the fixed premium amounts under such Synthetic Security (including a CDS Agreement Transaction) exceeds the Synthetic Matrix Rate on the date on which the Issuer first acquires or enters into the Synthetic Security (or, if earlier, the date on which the Synthetic Security was acquired pursuant to the Warehousing Agreement) and (ii) the Reference Obligation would have been a Discount Security under clause (a) of this definition if the Issuer had acquired such Reference Obligation as a Cash Collateral Debt Security on the date on which the Issuer first acquired or entered into the Synthetic Security (or, if earlier, the date on which the Synthetic Security was acquired pursuant to the Warehousing Agreement) at a purchase price determined for the Reference Obligation at the time of acquisition thereof by the Collateral Manager (which, for the avoidance of doubt, may be the date on which the Synthetic Security was acquired pursuant to the Warehousing Agreement) in good faith using current initial net cash flows and market spreads; *provided* that (i) the Discount Security Haircut Amount will be determined using such purchase price for the Reference Obligation as determined by the Collateral Manager as the cost to the Issuer of the Discount Security and taking into account all principal payments on the Reference Obligation as if they have been received by the Issuer, (ii) such Synthetic Security will cease to be a Discount Security at such time as the Reference Obligation would have ceased to be a Discount Security and (iii) a Synthetic Security will not be a Discount Security if the fixed rate for the fixed premium amounts thereunder is less than the Synthetic Matrix Rate; *provided*, *further*, that the Issuer may change this definition, and may notify the Trustee of such changes, only if the Rating Condition with respect to Moody's is satisfied.

"**Discount Security Haircut Amount**" means, with respect to any Discount Security, an amount equal to the greater of (a) zero and (b)(i) the principal amount or certificate balance of such Collateral Debt Security *minus* (ii) the cost to the Issuer (exclusive of accrued interest) of such Discount Security.

"**Due Period**" means, with respect to any Distribution Date, the period commencing on the day immediately following the fifth Business Day prior to the preceding Distribution Date (or on the Closing Date, in the case of the Due Period relating to the first Distribution Date) and ending on the fifth Business Day prior to such Distribution Date (without giving effect to any Business Day adjustment thereto), except that, in the case of the Due Period that is applicable to the Distribution Date relating to the Stated Maturity of the Notes, such Due Period will end on the day preceding the Stated Maturity.

"**Fair Market Value**" means, in respect of any Collateral Debt Security, and/or Eligible Investment at any time, either (i) an amount equal to (x) the average of the *bona fide* bids for such Collateral Debt Security obtained by the Collateral Manager at such time from any three nationally recognized dealers, which dealers are Independent from one another and from the Collateral Manager, (y) if the Collateral Manager, acting in accordance with the Standard of Care, is unable to obtain bids from three such dealers, the lesser of the *bona fide* bids for such Collateral Debt Security obtained by the Collateral Manager at such time from any two nationally recognized dealers chosen by the Collateral Manager, which dealers are Independent from each other and the Collateral Manager or (z) if the Collateral Manager, acting in accordance with the Standard of Care, is unable to obtain bids from two such dealers, the *bona fide* bid for such Collateral Debt Security obtained by the Collateral Manager at such time from any nationally recognized dealer chosen by the Collateral Manager, which dealer is Independent from the Collateral Manager; or (ii) the lesser of the prices for such Collateral Debt Security on such date provided by two pricing services chosen by the Collateral Manager, which pricing services are Independent from each other and the Collateral Manager and which satisfy the Rating Condition with respect to Standard & Poor's; *provided* that (1) pending confirmation that the Rating Condition with respect to Standard & Poor's is satisfied with respect to a pricing service, the Fair Market Value may be determined based on prices provided by such pricing service and (2) if the Collateral Manager, acting in accordance with the Standard of Care, is unable to obtain *bona fide* bids on such Collateral Debt Security pursuant to any of subclauses (x), (y) and (z) of clause (i) above but is able to obtain *bona fide* bids from the requisite number of dealers with respect to the same security in a principal amount other than the principal amount of such Collateral Debt Security in accordance with such subclause, the "Fair Market Value" of such Collateral Debt Security will be equal to the amount determined pursuant to such subclause using the *bona fide* bids (or the *bona fide* bid) obtained for such security in such other principal amount adjusted to reflect the actual principal amount of such Collateral Debt Security. If the Collateral Manager, acting in accordance with the Standard of Care, is still unable to obtain *bona fide* bids for such Collateral Debt Security from at least one nationally recognized dealer or to obtain prices from at least two such pricing services, the "Fair Market Value" of such Collateral Debt Security will be zero until such time that the Collateral Manager, acting in accordance with the

Standard of Care, is able to obtain *bona fide* bids for such Collateral Debt Security from at least one nationally recognized dealer or to obtain prices from at least two such pricing services.

"**Interest Distribution Amount**" means, with respect to any Class of Notes, on any Distribution Date, the sum of (i) the aggregate amount of interest accrued at the Note Interest Rate for such Class during the Interest Period ending immediately prior to such Distribution Date on the Aggregate Outstanding Amount of the Notes of such Class on the first day of such Interest Period (after giving effect to any redemption of the Notes of such Class or other payment of principal of the Notes of such Class on any preceding Distribution Date) *plus* (ii) any Defaulted Interest in respect of the Notes of such Class and accrued and unpaid interest thereon; *provided* that the Interest Distribution Amount with respect to the Class C Notes and the Class D Notes will not include any Deferred Interest, but will include accrued and unpaid interest on any Class C Deferred Interest or any Class D Deferred Interest, as applicable.

"**Interest Proceeds**" means, with respect to any Due Period, the sum (without duplication) of: (1) all payments of interest on the Collateral Debt Securities received in cash by the Issuer during such Due Period (in each case excluding (x) payments in respect of accrued interest included in Principal Proceeds, (y) interest on any Collateral Debt Security that is required to be paid to a Deemed Floating Asset Hedge Agreement Counterparty in accordance with the terms of a Deemed Floating Asset Hedge Agreement and (z) payments of interest in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down Security does not exceed the original principal amount of such Defaulted Security or Written-Down Security)); (2) all accrued interest received in cash by the Issuer with respect to Collateral Debt Securities sold or committed to be sold by the Issuer (excluding payments in respect of accrued and unpaid interest on any Credit Risk Security sold at the option of the Collateral Manager, Sale Proceeds received in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down Security does not exceed the original principal amount of such Defaulted Security or Written-Down Security) and payments in respect of accrued interest included in Principal Proceeds pursuant to clause (7) of the definition of Principal Proceeds)); (3) all payments of interest (including any amount representing the accreted portion of a discount from the face amount of an Eligible Investment) on Eligible Investments or U.S. Agency Securities in the Collection Accounts and the Uninvested Proceeds Account received in cash by the Issuer relating to such Due Period and all payments of principal, including repayments, on Eligible Investments purchased with amounts from the Interest Collection Account received by the Issuer relating to such Due Period; (4) all amendment and waiver fees, all late payment fees, and all other fees and commissions received in cash by the Issuer during such Due Period in connection with such Collateral Debt Securities, Eligible Investments and U.S. Agency Securities (other than fees and commissions received in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down Security does not exceed the original principal amount of such Defaulted Security or Written-Down Security) and yield maintenance payments included in Principal Proceeds pursuant to clause (8) of the definition thereof); (5) all payments received pursuant to the Interest Rate Hedge Agreement, the Basis Swap Agreement, any Deemed Floating Asset Hedge Agreements (other than any proceeds resulting from the termination, replacement, partial reduction or liquidation of any Hedge Agreement or any upfront or deferred premium payment received from a Hedge Counterparty) relating to such Due Period; (6) all amounts to be transferred by the Trustee from the Interest Reserve Account to the Interest Collection Account; (7) any amounts on deposit in the Periodic Interest Reserve Account at the direction of the Collateral Manager; (8) all interest earned on Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds) and each Synthetic Security Counterparty Account (net of any amounts in such Synthetic Security Counterparty Account then payable to the Synthetic Security Counterparty) related to such Due Period; (9) any Eligible Investments purchased with Interest Proceeds held in the Collection Accounts; and (10) all amounts to be transferred from the Closing Date Expense Account to the Interest Collection Account; *provided* that Interest Proceeds will in no event include (i) any payment or proceeds that constitute "Principal Proceeds" pursuant to the definition thereof or (ii) the U.S.$250 of capital contributed by the owners of the ordinary shares of the Issuer in accordance with the Issuer Charter or U.S.$250 representing a profit fee to the owner of the Issuer's ordinary shares and any interest thereon and the bank account in which such funds are held; *provided, further*, that amounts that would otherwise have been payable in respect of a Collateral Debt Security on or before the last day of a Due Period, but for such day not being a designated business day in the Collateral Debt Security's Underlying Instruments or the presence of a legal or business holiday on such date, will be considered included in the

collections received during such Due Period (and, for the avoidance of doubt, such amounts will not be considered included in the collections received during the subsequent Due Period) to the extent such amounts are received no later than two Business Days immediately preceding the related Distribution Date.

"**Internal Rate of Return**" means, with respect to any Distribution Date, the annual discount rate at which the sum of the discounted values of the following cashflows is equal to zero (assuming discounting on a quarterly basis as of each Distribution Date): (1) the aggregate original principal amount of the Preference Shares (which amount will be deemed to be negative for purposes of this calculation) and (2) each distribution, including any amounts remitted to Preference Shareholders by the Issuer, made to the Preference Shareholders on any prior Distribution Date and on such Distribution Date; *provided* that the first period will be the period from the Closing Date to the first Distribution Date; *provided*, *further*, that the Internal Rate of Return will be calculated on an annual 30/360 basis.

"**Majority**" means, with respect to any Class or Classes of Notes, the Holders of more than 50% of the Aggregate Outstanding Amount of the Notes of such Class or Classes of Notes, as the case may be.

"**Make-Whole Benchmark Rate**" for a particular time period means the yield reported, as of 10:00 a.m. (New York City time) on the first Business Day of such term , on the display designated as "Page 678" on the Telerate Access Service (or such other display as may replace Page 678 on Telerate Access Service) for actively traded U.S. Treasury securities having a maturity equal to such time period; provided that if no U.S. Treasury security having a maturity equal to such time period is actively traded, then the Make-Whole Benchmark Rate would be interpolated from the yield so reported for U.S. Treasury securities with maturities nearest to the length of such time period.

"**Measurement Date**" means any of the following: (i) the Ramp-Up Completion Date, (ii) any date after the Ramp-Up Completion Date upon which the Issuer disposes of any Collateral Debt Security; (iii) any date after the Ramp-Up Completion Date on which a Collateral Debt Security becomes a Defaulted Security; (iv) each Determination Date; (v) the 8th day of each calendar month (other than any calendar month in which a Determination Date occurs and any calendar month ending prior to the Ramp-Up Completion Date); and (vi) with written notice of two Business Days to the Issuer and the Trustee, any other Business Day that either Rating Agency, or Holders of more than 50% of the Aggregate Outstanding Amount of any Class of Notes requests be a "Measurement Date"; *provided* that if any such date would otherwise fall on a day that is not a Business Day, the relevant Measurement Date will be the next succeeding day that is a Business Day.

"**Negative Amortization Capitalization Amount**" means, with respect to any Negative Amortization Security and any specified period of time, the aggregate amount of accrued interest thereon that has been capitalized as principal pursuant to the related Underlying Instruments during such period, as the same may be reduced from time to time pursuant to and in accordance with the related Underlying Instruments.

"**Negative Amortization Haircut Amount**" means, with respect to any Negative Amortization Security on any date of determination, the excess (if any) of (a) the Negative Amortization Capitalization Amount therefor (if any) for the period from and including the date of issuance thereof to but excluding such date of determination over (b) the sum of (i) 5.0% of the original principal amount of such Negative Amortization Security upon issuance and (ii) the amount by which such Negative Amortization Security has already been haircut pursuant to the operation of subclause (B) of the proviso to the definition of "Net Outstanding Portfolio Collateral Balance" (taking into account the proviso to the definition of "Negative Amortization Security" below in the case of such subclause (B)).

"**Negative Amortization Security**" means an RMBS Security which (a) permits the related mortgage loan or mortgage loan obligor for a specified period of time to make no repayments of principal and payments of interest in amounts that are less than the interest payments that would otherwise be payable thereon based upon the stated rate of interest thereon, (b) to the extent that interest proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits principal proceeds received in respect of the related underlying collateral to be applied to pay such interest shortfall and (c) to the extent that the aggregate amount of interest proceeds and principal proceeds received in respect of the related underlying collateral are insufficient to pay interest that is due and payable thereon, permits such unpaid interest to be capitalized as principal and itself commence accruing interest at the applicable interest rate, in each case pursuant to the related Underlying Instruments.

"**Net Outstanding Portfolio Collateral Balance**" means, on any Measurement Date, an amount equal to (a) the Aggregate Principal Balance on such Measurement Date of all Collateral Debt Securities *plus* (b) the Aggregate Principal Balance of all Principal Proceeds and Uninvested Proceeds held as cash, Eligible Investments and U.S. Agency Securities purchased with Principal Proceeds or Uninvested Proceeds and any amount on deposit at such time in the Principal Collection Account or the Uninvested Proceeds Account (without duplication) *minus* (c) the Aggregate Principal Balance on such Measurement Date of all Collateral Debt Securities that are (i) Defaulted Securities (except for purposes of calculating Trustee's fees) or Deferred Interest PIK Bonds or (ii) Equity Securities *plus* (d) for each Defaulted Security or Deferred Interest PIK Bond, the Calculation Amount with respect to such Defaulted Security or Deferred Interest PIK Bond; *provided* that solely for the purpose of calculating the Net Outstanding Portfolio Collateral Balance in connection with the Class AB Overcollateralization Test, the Class C Overcollateralization Test, the Class D Overcollateralization Test and the Class AB Pro Rata Test, "Net Outstanding Portfolio Collateral Balance" means (A) the amount determined pursuant to the preceding clauses of this definition *minus* (B) the Overcollateralization Haircut Amount.

"**Noteholder**" means the Person in whose name a Note is registered in the Note Register.

"**Overcollateralization Haircut Amount**" means, on any Measurement Date, the sum of, without duplication (it being understood that if more than one of the following clauses apply for a single Collateral Debt Security, the clause which results in the highest haircut for a Collateral Debt Security will be applicable for that Collateral Debt Security):

(a) The product of (i) 4% and (ii) the Aggregate Principal Balance of all Collateral Debt Securities (other than Written-Down Securities and Defaulted Securities) that are Below A3 Securities or Below A- Securities exceeding 5% of the Aggregate Principal Balance of all Collateral Debt Securities;

(b) The product of (i) 10% and (ii) the Aggregate Principal Balance of all Collateral Debt Securities (other than Written-Down Securities and Defaulted Securities) that are Below Baa3 Securities or Below BBB- Securities;

(c) The product of (i) 30% and (ii) the Aggregate Principal Balance of all Collateral Debt Securities (other than Written-Down Securities and Defaulted Securities) that are Below Ba3 Securities or Below BB- Securities; and

(d) The product of (i) 50% and (ii) the Aggregate Principal Balance of all Collateral Debt Securities (other than Written-Down Securities, Discount Securities and Defaulted Securities) that are Below B3 Securities or Below B- Securities;

provided that if a Collateral Debt Security is a Discount Security (other than a Written-Down Security or a Defaulted Security), the Overcollateralization Haircut Amount with respect to such security will be the greater of (i) the Discount Security Haircut Amount and (ii) the amount derived from the other clauses of this definition;

provided, *further*, that if a Collateral Debt Security is a Negative Amortization Security (other than a Written-Down Security or a Defaulted Security), the Overcollateralization Haircut Amount with respect to such security will be the greater of (i) the amount by which the aggregate deferred interest of such security on such Measurement Date exceeds 5% of the Principal Balance at origination for such security and (ii) the amount derived from the other clauses of this definition.

"**PIK Bond**" means any Collateral Debt Security that, pursuant to the terms of the related Underlying Instruments, permits the payment of interest thereon to be deferred, diverted or capitalized as additional principal thereof (even if sufficient interest proceeds would have been available to pay interest on the Collateral Debt Security) or that issues identical securities in place of payments of interest in cash (even if sufficient interest proceeds would have been available to pay interest on the Collateral Debt Security); *provided*, *however*, that as of the date of such security's inclusion in the Collateral, such security has paid in cash all interest accrued thereon up to and including such date.

"**Principal Balance**" means, or "**par**" means, with respect to any Collateral Debt Security or Eligible Investment, as of any date of determination, the outstanding principal amount of such Pledged Security; *provided* that:

(a) the Principal Balance of a Collateral Debt Security received upon acceptance of an Offer for another Collateral Debt Security, which Offer expressly states that failure to accept such Offer may result in a default under the Underlying Instruments of such tendered Collateral Debt Security, will be deemed to be the Calculation Amount of such received Collateral Debt Security until such time as Interest Proceeds and Principal Proceeds, as applicable, are received when due with respect to such received Collateral Debt Security;

(b) the Principal Balance of any Synthetic Security will be equal to (i) in the case of a Synthetic Security that is a credit default swap (including any CDS Agreement Transaction), (A) at any time prior to the delivery of a notice of physical settlement, the Notional Amount of such Synthetic Security or (B) at any time following the delivery of a notice of physical settlement but prior to the receipt by the Issuer of the related Deliverable Obligations, (I) in the case of an exercise in whole, the physical settlement amount of such Synthetic Security and (II) in the case of an exercise in part, the sum of the delivery amount and the remaining Notional Amount after giving effect to such delivery, in each case determined in accordance with the Underlying Instruments relating thereto or (ii) in the case of any other Synthetic Security, the aggregate amount of the repayment obligations of the Synthetic Security Counterparty payable to the Issuer through the maturity of such Synthetic Security;

(c) the Principal Balance of any Equity Security will be deemed to be zero;

(d) the Principal Balance of any Discount Security will be equal to the acquisition price of such security;

(e) the Principal Balance of any PIK Bond (including any Deferred Interest PIK Bond) will be equal to the outstanding principal amount thereof (exclusive of any principal thereof representing capitalized interest);

(f) the Principal Balance of any Eligible Investment that does not pay Cash interest on a current basis will be the lesser of par or the original purchase price thereof;

(g) the Principal Balance of any Written-Down Security will be reduced to reflect the percentage by which the aggregate par amount of the entire Issue of which such Written-Down Security is a part (taking into account all securities ranking senior in priority of payment thereto and secured by the same pool of collateral) exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such Issue (excluding defaulted collateral), as determined by the Collateral Manager using customary procedures and information available in the servicer reports relating to such Written-Down Security;

(h) the Principal Balance of a Zero Coupon Bond will be the sum of (i) the original issue price thereof *plus* (ii) the aggregate amount of interest accreted thereon to but excluding such date of determination in accordance with the provisions of the related Underlying Instruments (or any other agreement between the issuer thereof and the original purchasers thereof) relating to the reporting of income by the holders of, and deductions by the issuer of, such Zero Coupon Bond for U.S. federal income tax purposes; and

(i) the Principal Balance of a Negative Amortization Security will be (i) the original principal amount of such Negative Amortization Security on the date of issuance thereof (which amount will in no event be adjusted to reflect any Negative Amortization Capitalization Amounts thereon) *minus* (ii) the aggregate amount of all payments made in respect of principal thereof (excluding any payments made in respect of Negative Amortization Capitalization Amounts for any period) from and including the date of issuance thereof to but excluding such date of determination.

"**Principal Proceeds**" means, with respect to any Due Period, the sum (without duplication) of: (1) any Uninvested Proceeds transferred from the Uninvested Proceeds Account to the Principal Collection Account on or

before the Distribution Date relating to the first Determination Date as of which a Ratings Confirmation Failure occurs, after application of funds on such Distribution Date in accordance with the Priority of Payments (or, if there is no Ratings Confirmation Failure, on the Distribution Date relating to the first Determination Date after the 30th day following the delivery of the Ramp-Up Notice; (2) without duplication (v) all payments of principal of the Collateral Debt Securities and Eligible Investments (excluding any amount representing the accreted portion of a discount from the face amount of an Eligible Investment and including principal payments received in respect of any Synthetic Security Collateral to the extent no longer subject to the security interest of the applicable Synthetic Security Counterparty) received in cash by the Issuer during such Due Period including prepayments or mandatory sinking fund payments, or payments in respect of redemptions, exchange offers or tender offers (other than payments of principal of Eligible Investments acquired with Interest Proceeds or Uninvested Proceeds), (w) interest and all recoveries on Defaulted Securities and Written-Down Securities, in each case up to an amount equal to the original principal amount of such Defaulted Securities or Written Down-Securities, (x) the proceeds of a sale of any Equity Security and any amounts received as a result of redemptions, exchange offers and tender offers for any Equity Security, in each case received in cash by the Issuer during such Due Period, (y) any Principal Reimbursements received by the Issuer in respect of any CDS Agreement Transactions or other Synthetic Securities structured as credit default swaps and (z) any other principal payments or prepayments made by the issuers of the Collateral Debt Securities or Eligible Investments prior to the scheduled maturity dates thereof; (3) Sale Proceeds received by the Issuer during such Due Period (excluding those included in Interest Proceeds as defined above); (4) all amendment, waiver, late payment fees and other fees and commissions, received in cash by the Issuer during the related Due Period in respect of Defaulted Securities and Written-Down Securities (so long as the aggregate amount of such fees does not exceed the principal amount of such security); (5) any proceeds resulting from the termination and liquidation or reduction of a Hedge Agreement, to the extent such proceeds exceed the cost of entering into a replacement Hedge Agreement in accordance with the requirements set forth in the Indenture; (6) all payments received in cash by the Issuer during such Due Period that represent call or prepayment or redemption premiums; (7) all payments of interest on Collateral Debt Securities received in cash by the Issuer to the extent that they represent accrued interest purchased with Principal Proceeds or Uninvested Proceeds; (8) all yield maintenance payments received in cash by the Issuer during such Due Period; (9) all payments received pursuant to the Interest Rate Hedge Agreement, the Basis Swap Agreement, any Deemed Floating Asset Hedge Agreement resulting from the termination, replacement, partial reduction or liquidation of any Hedge Agreement or any upfront or deferred premium payment received from a Hedge Counterparty relating to such Due Period; (10) all other payments received in connection with the Collateral Debt Securities and Eligible Investments that are not included in Interest Proceeds; (11) all amounts to be transferred by the Trustee from the Interest Reserve Account and the Periodic Interest Reserve Account to the Principal Collection Account; (12) any upfront payments received by the Issuer upon acquiring any CDS Agreement Transaction; (13) any amounts received in respect of Negative Amortization Capitalization Amounts for such Due Period; and (14) all amounts to be transferred by the Trustee from the Closing Date Expense Account to the Principal Collection Account; *provided* that in no event will Principal Proceeds include the U.S.$250 of capital contributed by the owners of the ordinary shares of the Issuer in accordance with the Issuer Charter or U.S.$250 representing a profit fee to the owner of the Issuer's ordinary shares and any interest thereon or the bank account in which such funds are held; *provided*, *further*, that amounts that would otherwise have been payable in respect of a Collateral Debt Security on or before the last day of a Due Period, but for such day not being a designated business day in the Collateral Debt Security's Underlying Instruments or the presence of a legal or business holiday on such date, will be considered included in the collections received during such Due Period (and, for the avoidance of doubt, such amounts will not be considered included in the collections received during the subsequent Due Period) to the extent such amounts are received no later than the Business Day immediately preceding the related Distribution Date.

"**Quarterly Asset Amount**" means, with respect to any Distribution Date, the Net Outstanding Portfolio Collateral Balance on the first day of the related Due Period or, in the case of the first Due Period, on the Closing Date.

"**Underlying Instruments**" means the indenture or other agreement (including, in the case of a Synthetic Security, the related master agreement, schedule, confirmation and credit support annex, as applicable) pursuant to which a Collateral Debt Security, U.S. Agency Security, Eligible Investment or Equity Security has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Collateral Debt Security, U.S. Agency Security, Eligible Investment or Equity Security or of which holders of such Collateral Debt Security, U.S. Agency Security, Eligible Investment or Equity Security are the beneficiaries.

"**Uninvested Proceeds**" means, at any time, the net proceeds received by the Issuer on the Closing Date from the initial issuance of the Offered Securities (other than the funds needed to pay organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchasers, the Trustee, the Hedge Counterparties and the Collateral Manager), the fees and expenses payable in connection with the ratings of the Notes and the other expenses related to the offering of the Offered Securities (including fees payable to the Initial Purchasers in connection with the underwriting and placement of the Offered Securities)).

The Coverage Tests

The Coverage Tests applicable to a Class of Notes will be used primarily to determine whether and to what extent Interest Proceeds may be used to pay interest on Classes of Notes Subordinate to such Class, to pay certain expenses and to make distributions in respect of the Preference Shares. Furthermore, for so long as the Coverage Tests have not been breached on any Determination Date, principal of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes will be paid, in certain circumstances, *pro rata* instead of sequentially, as set forth under the Priority of Payments.

The "**Class AB Coverage Tests**" means the Class AB Overcollateralization Test and the Class AB Interest Coverage Test. The "**Class C Coverage Tests**" means the Class C Overcollateralization Test and the Class C Interest Coverage Test. The "**Class D Coverage Test**" means the Class D Overcollateralization Test. For purposes of the Class AB Coverage Tests, the Class C Coverage Tests and the Class D Coverage Test (collectively, the "**Coverage Tests**"), unless otherwise specified, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation. None of the Coverage Tests will apply prior to January 2012. As used herein, "**Interest Coverage Tests**" means the Class AB Interest Coverage Test and the Class C Interest Coverage Test, and "**Overcollateralization Tests**" means the Class AB Overcollateralization Test, the Class C Overcollateralization Test and the Class D Overcollateralization Test.

The Class AB Overcollateralization Test.

The "**Class AB Overcollateralization Ratio**" is, as of any Measurement Date, the number (rounded to the nearest 0.01%) calculated by *dividing* (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date *by* (b) the Aggregate Outstanding Amount of the Class A Notes *plus* the Aggregate Outstanding Amount of the Class B Notes.

The "**Class AB Overcollateralization Test**" will be applicable on or after January 2012 and will be satisfied if the Class AB Overcollateralization Ratio on the related Measurement Date is equal to or greater than 100.35%.

The Class C Overcollateralization Test.

The "**Class C Overcollateralization Ratio**" is, as of any Measurement Date, the number (rounded to the nearest 0.01%) calculated by *dividing* (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date *by* (b) the Aggregate Outstanding Amount of the Class A Notes, *plus* the Aggregate Outstanding Amount of the Class B Notes *plus* the Aggregate Outstanding Amount of the Class C Notes (*plus* Class C Deferred Interest, if any).

The "**Class C Overcollateralization Test**" will be applicable on or after January 2012 and will be satisfied if the Class C Overcollateralization Ratio on the related Measurement Date is equal to or greater than 100.21%.

The Class D Overcollateralization Test.

The "**Class D Overcollateralization Ratio**" is, as of any Measurement Date, the number (rounded to the nearest 0.01%) calculated by *dividing* (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date *by* (b) the Aggregate Outstanding Amount of the Class A Notes, *plus* the Aggregate Outstanding Amount of the Class B Notes *plus* the Aggregate Outstanding Amount of the Class C Notes (*plus* Class C Deferred Interest, if any) *plus* the Aggregate Outstanding Amount of the Class D Notes (*plus* Class D Deferred Interest, if any).

The "**Class D Overcollateralization Test**" will be applicable on or after January 2012 and will be satisfied if the Class D Overcollateralization Ratio on the related Measurement Date is equal to or greater than 100.16%.

The Interest Coverage Tests.

The interest coverage ratio with respect to the Class A Notes and the Class B Notes (the "**Class AB Interest Coverage Ratio**") and the interest coverage ratio with respect to the Class C Notes (the "**Class C Interest Coverage Ratio**"), as of any Measurement Date, will be calculated by *dividing*:

(a) the sum with respect to any Due Period, without duplication, of (i) the scheduled interest payments due (in each case regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (x) the Collateral Debt Securities (other than payments of interest in respect of Defaulted Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security does not exceed the original principal amount of such Defaulted Security)), (y) any interest earned on Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds) and each Synthetic Security Counterparty Account (net of any amounts in such Synthetic Security Counterparty Account then payable to the Synthetic Security Counterparty) and (z) any Eligible Investments purchased with Interest Proceeds held in the Collection Accounts related to such Due Period *plus* (ii) any fees actually received by the Issuer relating to such Due Period that constitute Interest Proceeds *plus* (iii) any amounts due to, or received in cash by, the Issuer related to such Due Period pursuant to any Deemed Floating Asset Hedge Agreement excluding termination payments *plus* (iv) all accrued interest received in Cash by the Issuer with respect to Collateral Debt Securities sold or committed to be sold by the Issuer (excluding payments in respect of accrued and unpaid interest on any Credit Risk Security sold at the option of the Collateral Manager in any Substitute Collateral Debt Security, Sale Proceeds received in respect of Defaulted Securities and Written-Down Securities (but only so long as the aggregate amount of payments received by the Issuer in respect of any such Defaulted Security or Written-Down Security does not exceed the original principal amount of such Defaulted Security or Written-Down Security) and payments in respect of accrued interest included in Principal Proceeds pursuant to clause (7) of the definition of Principal Proceeds)) *plus* (v) amounts available in the Interest Reserve Account that are expected to be transferred to the Interest Collection Account *plus* (vi) amounts available in the Periodic Interest Reserve Account *plus* (vii) the net amount (excluding termination payments), if any, scheduled to be paid to the Issuer by the applicable Hedge Counterparties under the Interest Rate Hedge Agreement or the Basis Swap Agreement relating to such Due Period *minus* (viii) any scheduled interest payment relating to the Due Period in which such Measurement Date occurs on a Collateral Debt Security that is required to be paid to a Deemed Floating Asset Hedge Agreement Counterparty in accordance with the terms of a Deemed Floating Asset Hedge Agreement *minus* (ix) the sum of the amounts scheduled to be paid pursuant to each of paragraphs (1), (2), (3) and (4) under the Interest Proceeds Waterfall *minus* (x) any scheduled distribution of interest accrued on Collateral Debt Securities to the date of acquisition thereof and acquired with Principal Proceeds or Uninvested Proceeds *minus* (xi) the net amount (excluding any payments payable by the Issuer by reason of an event of default or termination event as to which the Interest Rate Hedge Counterparty is the "defaulting party" or the sole "affected party," which payments are subordinated to payments of interest in respect of the Notes in the Priority of Payments), if any, scheduled to be paid to the applicable Hedge Counterparties by the Issuer under the Interest Rate Hedge Agreement, the Basis Swap Agreement or Deemed Floating Asset Hedge Agreement relating to such Due Period; *by*

(b) an amount equal to (A) in the case of the Class AB Interest Coverage Ratio, the sum of the Interest Distribution Amounts for each of the Class A Notes and Class B Notes, payable on the Distribution Date immediately following such Measurement Date relating to such Due Period, and (B) in the case of the Class C Interest Coverage Ratio, the sum of the Interest Distribution Amounts for each of the Class A Notes, Class B Notes and Class C Notes (including, for purposes of clarity, interest on any Class C Deferred Interest), payable on the Distribution Date immediately following such Measurement Date relating to such Due Period.

For purposes of clause (a) above, amounts that would otherwise have been payable in respect of a Collateral Debt Security on or before the last day of a Due Period, but for such day not being a designated business day in the

Collateral Debt Security's Underlying Instruments or the presence of a legal or business holiday, will be considered included in the collections received during such Due Period (and, for the avoidance of doubt, such amounts will not be considered included in the collections received during the subsequent Due Period) to the extent such amounts are received no later than two Business Days immediately preceding the related Distribution Date. For the purpose of determining compliance with the Class AB Interest Coverage Test or the Class C Interest Coverage Test there will be excluded all scheduled payments of interest or principal on Defaulted Securities and any payments, including any amounts payable to the Issuer by the Hedge Counterparties, that will not be made in cash or received when due, as determined by the Collateral Manager, acting in accordance with the Standard of Care. For purposes of calculating either the Class AB Interest Coverage Ratio or the Class C Interest Coverage Ratio, (i) the expected interest income on floating rate Collateral Debt Securities (including Deemed Floating Collateral Debt Securities), U.S. Agency Securities and Eligible Investments and under any Hedge Agreement and the expected interest payable on the Notes will be calculated using the interest rates applicable thereto on the applicable Measurement Date or in the case of those assets for which interest rates reset, the forward rate at the respective reset date (and, in the case of any Deemed Floating Collateral Debt Security, after taking into account the related Deemed Floating Asset Hedge Agreement) and the expected interest income on fixed rate Collateral Debt Securities and Eligible Investments will be calculated using the stated interest rates thereon, (ii) accrued original issue discount on U.S. Agency Securities and Eligible Investments will be deemed to be a scheduled interest payment thereon due on the date such original issue discount is scheduled to be paid and (iii) it will be assumed that no principal payments are made on the Notes during the applicable periods (except with respect to the Class C Interest Coverage Test principal payments made to cure a breach of the Class AB Coverage Tests).

The "**Class AB Interest Coverage Test**" will be applicable on or after the Distribution Date occurring in January 2012 and will be satisfied if the Class AB Interest Coverage Ratio as of such Measurement Date is equal to or greater than 102.00%.

The "**Class C Interest Coverage Test**" will be applicable on or after the Distribution Date occurring in January 2012 and will be satisfied if the Class C Interest Coverage Ratio as of such Measurement Date is equal to or greater than 100.00%.

No Gross-Up

All payments made by the Issuer under the Notes will be made without any deduction or withholding for or on the account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will not be obligated to pay any additional amounts in respect of such withholding or deduction.

The Indenture

The following summary describes certain provisions of the Indenture. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture.

Events of Default

An "**Event of Default**" is defined in the Indenture as:

> (a) a default in the payment of any accrued interest (i) on any Class A-1 Note, Class S Note, Class A-2 Note or Class B Note or (ii) if there are no Class A-1 Notes, Class S Notes, Class A-2 Notes or Class B Notes Outstanding, on any Class C Note when the same becomes due and payable or (iii) if there are no Class A-1 Notes, Class S Notes, Class A-2 Notes, Class B Notes or Class C Notes Outstanding, on any Class D Note when the same becomes due and payable, in each case which default continues for a period of three Business Days (or, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, five Business Days after the Trustee or the Administrator is made aware of such administrative error or omission);

(b) a default in the payment of principal of any Note when the same becomes due at its Stated Maturity or Redemption Date (or, in the case of a payment default resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such default continues for a period of five Business Days after the Trustee or the Administrator is made aware of such administrative error or omission);

(c) the failure on any Distribution Date to disburse amounts available in the Interest Collection Account or Principal Collection Account in accordance with the order of priority set forth under "*—Priority of Payments*" (other than a default in payment described in clause (a) or (b) above), which failure continues for a period of three Business Days (or, in the case of a failure resulting solely from an administrative error or omission by the Trustee, the Administrator, a Paying Agent (other than the Preference Share Paying Agent) or the Note Registrar, such failure continues for a period of five Business Days after the Trustee or the Administrator is made aware of such administrative error or omission);

(d) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act;

(e) a default in the performance, or breach, of any other covenant or other agreement (other than the covenants to meet the Collateral Quality Tests, the Class AB Pro Rata Test, the Coverage Tests (if applicable) or the Eligibility Criteria) of the Issuer or the Co-Issuer under the Indenture or any representation or warranty of the Issuer or the Co-Issuer made in the Indenture or in any certificate or other writing delivered pursuant thereto or in connection herewith proves to be incorrect in any material respect when made, if such default or breach has a material adverse effect on the Noteholders and the continuation of such default or breach for a period of 30 days (or, if such default, breach or failure has a material adverse effect on the validity, perfection or priority of the security interest granted thereunder, 15 days) after any of the Issuer, the Co-Issuer or the Collateral Manager has actual knowledge thereof or after notice thereof to the Issuer and the Collateral Manager by the Trustee or to the Issuer, the Collateral Manager and the Trustee, by the Holders of at least 25% in Aggregate Outstanding Amount of Notes of any Class, the Credit Default Swap Counterparty or any Hedge Counterparty;

(f) an involuntary proceeding will be commenced or an involuntary petition will be filed seeking (i) winding up, liquidation, reorganization or other relief in respect of the Issuer or the Co-Issuer or its debts, or of a substantial part of its assets, under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Issuer or the Co-Issuer or for a substantial part of its assets, and, in any such case, such proceeding or petition will continue undismissed for 60 days; or an order or decree approving or ordering any of the foregoing will be entered; or the Issuer or its assets will become subject to any event that, under the applicable laws of the Cayman Islands, has an analogous effect to any of the foregoing;

(g) the Issuer or the Co-Issuer will (i) voluntarily commence any proceeding or file any petition seeking winding up, liquidation, reorganization or other relief under any bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in the Indenture, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Issuer or the Co-Issuer or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing; or the Issuer will cause or become subject to any event with respect to the Issuer that, under the applicable laws of the Cayman Islands, has an analogous effect to any of the foregoing; or

(h) the Net Outstanding Portfolio Collateral Balance (calculated, for such purpose, without giving effect to the Overcollateralization Haircut Amount) falls below 100% of the Aggregate Outstanding Amount of the Class A-1 Notes.

If either of the Co-Issuers obtains knowledge, or has reason to believe, that an Event of Default has occurred and is continuing, such Co-Issuer is obligated to promptly (and in any event within two Business Days) notify the Trustee, the Preference Share Paying Agent, the Collateral Manager, the Noteholders, the Credit Default Swap

Counterparty, each Hedge Counterparty and each Rating Agency of such Event of Default in writing. The Trustee may rely upon an Opinion of Counsel (which opinion may rely, but not to the exclusion of such counsel's professional judgment, on an officer's certificate of the Issuer (or the Collateral Manager on behalf of the Issuer)) as to whether an Event of Default pursuant to clause (e) above has occurred and is continuing.

If an Event of Default occurs and is continuing (other than an Event of Default described in clause (f) or (g) under "*Events of Default*" above), (i) the Trustee may, or will at the direction of the holders of a majority in aggregate principal amount of the Controlling Class, by notice to the Co-Issuers, or (ii) holders of at least a Majority of the Controlling Class, by notice to the Co-Issuers and the Trustee, may declare the principal of and accrued and unpaid interest on all of the Notes to be immediately due and payable. If an Event of Default described in clause (f) or (g) above under "*Events of Default*" occurs, such an acceleration will occur automatically and without any further action. Notwithstanding the foregoing, if the sole Event of Default is an Event of Default described in clause (a) or clause (b) above under "*Events of Default*" with respect to a default in the payment of any principal of or interest on the Notes of a Class other than the Controlling Class, neither the Trustee nor the holders of such non-Controlling Class will have the right to declare such principal and other amounts to be immediately due and payable. Any declaration of acceleration may under certain circumstances be rescinded by the holders of at least a Majority of the Controlling Class.

The "**Controlling Class**" means the Class A-1 Notes and the Class S Notes collectively, or, if the Aggregate Outstanding Amount of the Class A-1 Notes and the Class S Notes is zero, the Class A-2 Notes, or, if the Aggregate Outstanding Amount of the Class A Notes and the Class S Notes is zero, the Class B Notes, or, if the Aggregate Outstanding Amount of the Class A Notes, the Class S Notes and the Class B Notes is zero, the Class C Notes or, if the Aggregate Outstanding Amount of the Class A Notes, the Class S Notes, the Class B Notes and the Class C Notes is zero, the Class D Notes.

If an Event of Default occurs and is continuing when any Note remains outstanding, the Trustee will retain the Collateral intact and collect all payments in respect of the Collateral and continue making payments in the manner described under "*—Priority of Payments*" unless:

(A) the Trustee determines that the anticipated net proceeds of a sale or liquidation of such Collateral would be sufficient to discharge in full the amounts then due and unpaid on the Notes and Administrative Expenses (including any amounts due to the Hedge Counterparties and the Credit Default Swap Counterparty) in accordance with the Priority of Payments and a Majority of the Controlling Class agree with such determination;

(B) the holders of at least 66⅔% in Aggregate Outstanding Amount of each Class of Notes, voting as separate Classes, the Credit Default Swap Counterparty and the Hedge Counterparties (unless no early termination or liquidation payment would be owing by the Issuer to the Hedge Counterparties and Credit Default Swap Counterparty upon the termination thereof by reason of an event of default or termination event under the Hedge Agreements or Credit Default Swap Agreement with respect to the Issuer), direct, subject to the provisions of the Indenture, the sale and liquidation of the Collateral; *provided* that if a Hedge Counterparty or Credit Default Swap Counterparty will fail to vote to direct the sale and liquidation of the Collateral within three Business Days after written notice from the Issuer or the Trustee requesting a vote pursuant to such clause (b), such Hedge Counterparty and Credit Default Swap Counterparty will not be entitled to participate in the vote requested by such notice; or

(C) a Control Event has occurred and is continuing and a Majority of the Controlling Class (so long as the Controlling Class is the Class A-1 Notes) directs the disposition of the Collateral; *provided* that the Credit Default Swap Counterparty will have consented to such direction if the aggregate disposition proceeds of any such disposition of the Collateral pursuant to this clause (C) would be insufficient, upon distribution pursuant to the Priority of Payments, to pay any amounts due and owing by the Issuer to the Credit Default Swap Counterparty under the Credit Default Swap Agreement (other than any Defaulted Swap Termination Payment). "**Control Event**" means, at any time when the Class A-1 Notes is the Controlling Class, the occurrence and continuance of an Event of Default (1) under clause (a) of the definition of "Event of Default" with respect to amounts owing to the Class A-1 Notes, the Class A-2 Notes, the Class S Notes or

the Class B Notes on any Distribution Date, (2) under clause (b) of the definition of "Event of Default" or (3) under clause (h) of the definition of "Event of Default."

If any of clause (A), (B) or (C) is satisfied, the Collateral will be so sold and liquidated, the Trustee will cause the Issuer to terminate each of the Hedge Agreements or Credit Default Swap Agreements prior to such sale and liquidation (*provided* that no Hedge Agreement will be terminated unless the Trustee has received firm bids, or entered into agreements, with respect to such sale of the Collateral), and the proceeds of such liquidation will be distributed in accordance with the Priority of Payments on the Business Day following the Business Day on which the Issuer (or the Collateral Manager) notifies the Trustee that such liquidation and termination is completed (the "**Accelerated Distribution Date**").

The holders of a Majority of the Notes of the Controlling Class will have the right to direct the Trustee in the conduct of any proceedings for any remedy available to the Trustee; *provided* that (i) such direction will not conflict with any rule of law or the Indenture; (ii) the Trustee may take any other action not inconsistent with such direction; (iii) the Trustee has been provided with an indemnity from the Noteholders satisfactory to it (and the Trustee need not take any action that it determines might involve it in liability unless it has received such indemnity against such liability); and (iv) any direction to undertake a sale of the Collateral may be made only as described above.

Pursuant to the Indenture, as security for the payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer, the Issuer will grant the Trustee a lien on the Collateral, which lien is senior to the lien of the Secured Parties. The Trustee's lien will be exercisable by the Trustee only if the Notes have been declared due and payable following an Event of Default and such acceleration has not been rescinded or annulled.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request of any holders of any of the Notes.

The holders of a Majority of the Notes of the Controlling Class may, prior to the time a judgment or decree for the payment of money due has been obtained by the Trustee, waive any past default on behalf of the holders of all the Notes and its consequences, except (i) a default in the payment of the principal of any Note or in the payment of interest on (including any Defaulted Interest, interest on Defaulted Interest, any Deferred Interest and interest thereon) the Class A-1 Notes, Class S Notes, Class A-2 Notes and Class B Notes or, after such Notes have been paid in full, on the Class C Notes, or, after the Class A-1 Notes, Class S Notes, Class A-2 Notes, Class B Notes and Class C Notes have been paid in full, on the Class D Notes or, (ii) in respect of a provision of the Indenture that cannot be modified or amended without the waiver or consent of the holder of each outstanding Note affected thereby, or (iii) arising as a result of an Event of Default described in clause (vi) above under "*Events of Default*."

No holder of a Note will have the right to institute any proceeding with respect to the Indenture unless (i) such holder previously has given to the Trustee written notice of an Event of Default, (ii) except in certain cases of a default in the payment of principal or interest, the holders of at least 25% in Aggregate Outstanding Amount of the Notes of the Controlling Class, the Credit Default Swap Counterparty or any Hedge Counterparty has made a written request upon the Trustee to institute such proceedings in its own name as Trustee and such holders (or such Credit Default Swap Counterparty or Hedge Counterparty) have offered the Trustee reasonable indemnity, (iii) the Trustee has failed to institute any such proceeding within 30 calendar days of such notice and (iv) no direction inconsistent with such written request has been given to the Trustee during such 30-calendar day period by the holders of a Majority of the Notes of the Controlling Class.

In determining whether the holders of the requisite percentage of Notes have given any direction, notice or consent, (i) Notes owned by the Issuer, the Co-Issuer or any affiliate thereof will be disregarded and deemed not to be outstanding and (ii) in relation to any assignment or termination of any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any right to remove the Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Manager), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager, Notes owned by the Collateral Manager or any of its Affiliates, or by any accounts managed by them, will be disregarded and deemed not to be outstanding. The Collateral Manager and its Affiliates will be entitled to vote Notes held by them, and by

accounts managed by the Collateral Manager or, to the Collateral Manager's knowledge, any Affiliate thereof, with respect to all matters other than those described in the foregoing clause (ii).

Following an Event of Default and acceleration, any cash collected by the Trustee will be applied to the payment of principal and interest on the Notes in the following order of seniority, commencing with the Class A-1 Notes and the Class S Notes, on a *pari passu* basis, until the Class A-1 Notes and the Class S Notes are paid in full, then, to the Class A-2 Notes until the Class A-2 Notes are paid in full, then, to the Class B Notes until the Class B Notes are paid in full, then, to the Class C Notes until the Class C Notes are paid in full, and then, to the Class D Notes until the Class D Notes are paid in full.

"**Opinion of Counsel**" means a written opinion addressed to the Trustee and each Rating Agency (each, a "**Recipient**"), in form and substance reasonably satisfactory to each Recipient, of an independent attorney at law admitted to practice in any state of the United States or the District of Columbia (or the Cayman Islands, in the case of an opinion relating to the laws of the Cayman Islands), which attorney may, except as otherwise expressly provided in the Indenture, be counsel for the Issuer or the Co-Issuer, as the case may be, and which attorney will be reasonably satisfactory to the Trustee. Whenever an Opinion of Counsel is required under the Indenture, such Opinion of Counsel may rely on opinions of other counsel who are so admitted and so satisfactory which opinions of other counsel will accompany such Opinion of Counsel and will either be addressed to each Recipient or will state that each Recipient will be entitled to rely thereon.

Notices

Notices to the holders of the Notes will be given by first-class mail, postage prepaid, to the registered holders of the Notes at their addresses appearing in the Note Register. For so long as any Class of Notes is listed on the Irish Stock Exchange, and so long as the rules of such exchange so require, notices to the holders of the Notes will also be given by delivery to the listing agent for delivery to the Company Announcements Office of the Irish Stock Exchange.

Modification of the Indenture

With the consent of (x) the holders of not less than a Majority of the outstanding Notes of each Class materially and adversely affected thereby and a Majority-in-Interest of Preference Shares (if the Preference Shares are materially and adversely affected thereby), (y) the relevant Hedge Counterparty and the Credit Default Swap Counterparty (if such supplemental indenture could be reasonably expected to have a material adverse effect on the relevant Hedge Counterparty's and/or Credit Default Swap Counterparty's interests) and (z) the Total Return Swap Counterparty (except to the extent required by the Total Return Swap), the Trustee and Co-Issuers may enter into one or more supplemental indentures to add provisions to, or change in any manner or eliminate any provisions of, the Indenture or modify in any manner the rights of the holders of the Notes of such Class, the Preference Shares, the Credit Default Swap Counterparty, the Hedge Counterparties or the Total Return Swap Counterparty, if any, as the case may be, under the Indenture. Unless notified by holders of a Majority of any Class of Notes or a Majority-in-Interest of Preference Shareholders that such Class of Notes or the Preference Shares will be materially and adversely affected, by a Hedge Counterparty, the Credit Default Swap Counterparty and/or the Total Return Swap Counterparty that such supplemental indenture could be reasonably expected to have a material adverse effect on the relevant Hedge Counterparty's, Credit Default Swap Counterparty's and/or Total Return Swap Counterparty's interests, the Trustee may, consistent with an Opinion of Counsel (which opinion may rely, but not to the exclusion of such counsel's professional judgment, on an officer's certificate of the Issuer (or the Collateral Manager on behalf of the Issuer)), determine whether or not such Class of Notes or the Preference Shares would be materially and adversely affected or such Hedge Counterparty, Credit Default Swap Counterparty and/or Total Return Swap Counterparty would be materially and adversely affected by such change (after giving notice of such change to the holders of such Class of Notes, the Preference Shareholders, the Credit Default Swap Counterparty, the relevant Hedge Counterparty and the Total Return Swap Counterparty). Such determination will be conclusive and binding on all present and future holders of the Notes, the Preference Shareholders, the Hedge Counterparties, the Credit Default Swap Counterparty and the Total Return Swap Counterparty. As long as any of the Notes are listed on the Irish Stock Exchange, the Issuer will notify the listing agent for purposes of notification to the Irish Stock Exchange following any modification to the Indenture that affects any of the Notes that are listed on the Irish Stock Exchange.

Notwithstanding the foregoing, the Trustee may not enter into any supplemental indenture without the consent of each holder of each outstanding Note of each Class and each Preference Share (which consent may be evidenced by an officer's certificate of the Issuer certifying that such consent has been obtained), the Credit Default Swap Counterparty and the Hedge Counterparties (if such supplemental indenture could be reasonably expected to have a material adverse effect on the Credit Default Swap Counterparty's or Hedge Counterparty's interests) and the Total Return Swap Counterparty (to the extent required by the Total Return Swap), if such supplemental indenture (i) changes the Stated Maturity of the principal of or the due date of any installment of interest on any Note, reduces the principal amount thereof or the rate of interest thereon, or the redemption price or the Class A-1 Make-Whole Amount with respect thereto, changes the earliest date on which the Issuer may redeem any Note, changes the provisions of the Indenture relating to the application of proceeds of any Collateral to the payment of principal of or interest on the Notes, changes any place where, or the coin or currency in which, any Note, or the principal or face amount thereof or interest thereon is payable, or impairs the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the applicable redemption date), (ii) reduces the percentage in Aggregate Outstanding Amount of Notes of each Class or aggregate outstanding principal amount of holders of Preference Shares whose holders' consent is required for the authorization of any supplemental indenture or for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder or their consequences, (iii) impairs or adversely affects the Collateral pledged under the Indenture except as otherwise permitted thereby, (iv) permits the creation of any lien ranking prior to or on a parity with the lien created by the Indenture with respect to any part of the Collateral (it being understood that the addition of Hedge Counterparties or Synthetic Security Counterparties does not require consent under this clause) or terminates such lien on any property at any time subject thereto or deprives the holder of any Note of the security afforded by the lien created by the Indenture, (v) reduces the percentage of the Aggregate Outstanding Amount of Notes of each Class whose holders' consent is required to request that the Trustee preserve the Collateral pledged under the Indenture or rescind the Trustee's election to preserve the Collateral or to sell or liquidate the Collateral pursuant to the Indenture, (vi) modifies any of the provisions of the Indenture with respect to the undertaking of party litigants to pay (if required) costs of suits for (among others) the enforcement of rights under the Indenture or against the Trustee, (vii) modifies any of the provisions of the Indenture with respect to supplemental indentures requiring the consent of the Credit Default Swap Counterparty, Hedge Counterparties, Noteholders or Preference Shareholders except to increase the percentage of outstanding Notes or Preference Shares whose holders' consent is required for any such action or to provide that other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note or Preference Share affected thereby, (viii) modifies the definition of the term "Outstanding" in, or the subordination provisions of, the Indenture, (ix) changes the permitted minimum denominations of any Class of Notes, (x) will cause the Issuer, the Noteholders, the Preference Shareholders, or the Trustee to become subject to material withholding or other taxes, fees or assessments or cause the Issuer to be treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal, state, local or foreign income or franchise tax on a net income basis, (xi) modifies any of the provisions of the Indenture in such a manner as to affect the calculation of the amount of any payment of interest or principal of any Note or the right of the holders of Notes to the benefit of any provisions for the redemption of such Notes contained therein or (xii) amends or modifies any of clauses (i) through (xi) above. The Trustee may not enter into any such supplemental indenture unless the Trustee has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that the proposed supplemental indenture will not cause the Issuer to be treated as engaged in a U.S. trade or business or otherwise subject to U.S. federal income tax on a net income tax basis.

So long as any Class of Notes is rated by either Rating Agency, the Trustee will not enter into any such supplemental indenture if, with respect to such supplemental indenture the Rating Condition has not been satisfied, unless each holder of Notes of each Class whose rating would be reduced or withdrawn has, after prior notice of such potential reduction or withdrawal, consented to such supplemental indenture.

The Co-Issuers and the Trustee may also enter into one or more supplemental indentures, without obtaining the consent of the Noteholders (other than the Majority of the Controlling Class), the Credit Default Swap Counterparty, or any Hedge Counterparty, but with the consent of a Majority of the Controlling Class, a Majority-in-Interest of the Preference Shareholders and the Collateral Manager, so long as the Rating Condition will have been satisfied, for any of the following purposes: (i) to modify the Moody's Asset Correlation Test; (ii) to modify the Moody's Weighted Average Rating Test; (iii) to modify the Moody's Minimum Weighted Average Recovery Rate Test; (iv) to modify the Standard & Poor's Minimum Weighted Average Recovery Rate Test; (v) to modify the Weighted

Average Spread Test; (vi) to modify the Weighted Average Coupon Test; and (vii) to modify the Weighted Average Life Test.

The Co-Issuers and the Trustee may also enter into supplemental indentures without obtaining the consent of holders of any Notes, the Preference Shareholders, the Credit Default Swap Counterparty (except to the extent required by the Credit Default Swap Agreement), the Hedge Counterparties (except to the extent required by the Hedge Agreements) or the Total Return Swap Counterparty (except to the extent required by the Total Return Swap) but with satisfaction of the Standard & Poor's Rating Condition in order to (i) evidence the succession of any person to the Issuer or the Co-Issuer and the assumption by such successor of the covenants in the Indenture and the Notes, (ii) add to the covenants of the Co-Issuers or the Trustee for the benefit of the holders of all of the Notes or to surrender any right or power conferred upon the Co-Issuers, (iii) convey, transfer, assign, mortgage or pledge any property to or with the Trustee, (iv) evidence and provide for the acceptance of appointment by a successor trustee or a successor Collateral Manager (in accordance with the Collateral Management Agreement) and the compensation thereof and, in the case of multiple trustees, to add to or change any of the provisions of the Indenture as will be necessary to facilitate the administration of the trusts under the Indenture by more than one trustee, (v) correct or amplify the description of any property at any time subject to the lien created by the Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subject to the lien created by the Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations) or to subject to the lien created by the Indenture any additional property, (vi) modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in applicable law or regulation (or the interpretation thereof) or to enable the Co-Issuers to rely upon any less restrictive exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder, (vii) correct any inconsistency, defect or ambiguity in the Indenture, (viii) obtain ratings for one or more Classes of Notes from any rating agency, (ix) solely, in order to, and solely to the extent required to accommodate the issuance of Notes or Preference Shares in exchange for existing Notes or Preference Shares, as the case may be, to be held in global form through the facilities of DTC, Euroclear or Clearstream, Luxembourg or otherwise or solely, in order to, and solely to the extent required to accommodate the issuance of additional Notes and/or Preference Shares, (x) solely, in order to, and solely to the extent required to accommodate the listing or de-listing of any of the Notes or Preference Shares on any exchange or the issuance of additional Preference Shares, (xi) make any non-material administrative changes as the Co-Issuers deem appropriate, (xii) avoid the Issuer or the Co-Issuer or the Collateral being required to register as an investment company under the Investment Company Act, (xiii) prevent the Issuer, the Noteholders, the Preference Shareholders, or the Trustee from being subject to withholding or other taxes, fees or assessments or to prevent the Issuer from being treated as engaged in a United States trade or business for U.S. federal income tax purposes or otherwise subject to U.S. federal, state, local or foreign income or franchise tax on a net income tax basis; *provided* that the modification will not adversely affect the tax treatment of the Noteholders as described in "*Certain U.S. Federal Income Tax Considerations*" to any material extent or cause any of the statements described therein to be inaccurate or incorrect to any material extent, (xiv) to the extent this Offering Memorandum and the Indenture are inconsistent, conform the terms of the Indenture to the terms set forth in this Offering Memorandum, so long as such change has no material adverse effect on any Class of Notes, (xv) accommodate the issuance of any Class of Notes as definitive notes, (xvi) conform the Indenture to a Proposed Plan (excluding any portion of a Proposed Plan that modifies the Eligibility Criteria but including any of the other items which requires the consent of each holder of each outstanding Note of each Class or each holder of each outstanding Preference Share materially and adversely affected thereby), (xvii) correct any manifest error in any provision of the Indenture upon receipt by the Trustee of written direction from the Issuer describing in reasonable detail such error and the modification necessary to correct such error or (xviii) in the event that, in the Collateral Manager's judgment (exercised in accordance with the Standard of Care), unanticipated events affect market conditions generally, revise the provisions of the proviso of the definition of "Net Outstanding Portfolio Collateral Balance" and the definitions used therein; *provided* that in each such case (other than pursuant to clauses (vii), (xiv) or (xvii)), such supplemental indenture would not materially and adversely affect any Noteholder, any Preference Shareholder, the Credit Default Swap Counterparty, any Hedge Counterparty or the Total Return Swap Counterparty.

Unless notified by holders of a Majority of the Notes of any Class, a Majority-in-Interest of Preference Shareholders, Credit Default Swap Counterparty, any Hedge Counterparty or the Total Return Swap Counterparty that such party or parties will be materially and adversely affected, the Trustee may rely upon an Opinion of Counsel (which opinion may rely, but not to the exclusion of such counsel's professional judgment, on an officer's certificate

of the Issuer (or the Collateral Manager on behalf of the Issuer)) as to whether (i) the interests of any Noteholder, Preference Shareholder, Credit Default Swap Counterparty, Hedge Counterparty or Total Return Swap Counterparty would be materially and adversely affected by any such supplemental indenture (after giving notice of such change to each Noteholder, Preference Shareholder, Credit Default Swap Counterparty, Hedge Counterparty and Total Return Swap Counterparty) or (ii) such supplemental indenture is permitted under the terms of the Indenture. The Trustee may not enter into any supplemental indenture described in clause (vii) or (viii) of the preceding paragraph without the written consent of the Collateral Manager. In addition, the Trustee may not enter into any supplemental indenture without the written consent of the Collateral Manager if such supplemental indenture alters the rights or obligations of the Collateral Manager in any respect, and the Collateral Manager will not be bound by any such supplemental indenture unless the Collateral Manager has consented in writing thereto. The Trustee will not enter into any such supplemental indenture if, with respect to such supplemental indenture, the Rating Condition with respect to Standard & Poor's has not been satisfied; *provided* that the Trustee may, with the consent of the holders of 100% of the Aggregate Outstanding Amount of Notes of each Class and each Hedge Counterparty, enter into any supplemental indenture notwithstanding any such reduction or withdrawal of the ratings of any outstanding Class of Notes; *provided*, *however*, that notwithstanding anything herein to the contrary, the Rating Condition with respect to Standard & Poor's need not be satisfied (i) to amend the terms of any documents for the purpose of facilitating compliance by the Issuer with any exemption from registration under the Investment Company Act, (ii) to cure any ambiguity or manifest error or correct or supplement any provision contained therein which is manifestly defective or inconsistent with any other provision contained in the transaction documents or this Offering Memorandum or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error and (iii) to make any change required by the Irish Stock Exchange (so long as any of the Notes are listed thereon) in order to permit or maintain the listing of the Notes thereon, or to de-list any Notes from the Irish Stock Exchange pursuant to the Indenture. The Trustee will not enter into any such supplemental indenture unless the Trustee has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that (x) the modification will not adversely affect the tax treatment of the Noteholders as described in "*Certain U.S. Federal Income Tax Considerations*" to any material extent or cause any of the statements described therein to be inaccurate or incorrect to any material extent and (y) the proposed supplemental indenture will not cause the Issuer to be treated as engaged in a U.S. trade or business or otherwise subject to U.S. federal income tax on a net income tax basis.

For purposes of this section, the interests of any Hedge Counterparty, the Credit Default Swap Counterparty and the Total Return Swap Counterparty will be deemed not to be materially and adversely affected by, and a Hedge Counterparty, the Credit Default Swap Counterparty and the Total Return Swap Counterparty will have no right of consent in relation to, any supplemental indenture with respect to (i) the appointment of any successor Collateral Manager in accordance with the Collateral Management Agreement and (ii) any change to the Collateral Management Fee or otherwise in respect of the fees, liabilities and expenses to apply to such successor Collateral Manager.

Notwithstanding anything herein to the contrary, the term "Hedge Counterparty" and "Hedge Counterparties" will not include any Deemed Floating Asset Hedge Agreement Counterparties for the purposes of this subsection "*—Modification of the Indenture*."

Modification of Certain Other Documents

Prior to entering into any amendment to the Collateral Management Agreement, the Collateral Administration Agreement, the Administration Agreement, the Credit Default Swap Agreement or any Hedge Agreement (*provided* that the amendment to such Hedge Agreement or Credit Default Swap Agreement has been consented to by the Hedge Counterparty or Credit Default Swap Counterparty, as applicable), the Issuer is required by the Indenture to obtain the written confirmation that the entry by the Issuer into such amendment satisfies the Rating Condition with respect to each Rating Agency; *provided*, *however*, that the Rating Condition with respect to Standard & Poor's need not be satisfied (but written notice to Standard & Poor's must still be given) (i) to amend the terms of any documents for the purpose of facilitating compliance by the Issuer with any exemption from registration under the Investment Company Act, (ii) to cure any ambiguity or manifest error or correct or supplement any provision contained therein which is manifestly defective or inconsistent with any other provision contained in the transaction documents or this Offering Memorandum or make any modification that is of a formal, minor or technical nature or which is made to correct a manifest error and (iii) to make any change required by the Irish Stock Exchange (so long as any of the Notes are listed thereon) in order to permit or maintain the listing of the Notes thereon, or to de-list any Notes from

the Irish Stock Exchange pursuant to the Indenture. Prior to entering into any waiver in respect of any of the foregoing agreements, the Issuer is required to provide each Rating Agency, the Credit Default Swap Counterparty, each Hedge Counterparty and the Trustee with written notice of such waiver. The amendment to and waiver of provisions of the Collateral Management Agreement are also subject to additional restrictions as described herein under "*The Collateral Management Agreement*." In addition, the Issuer will not enter into any amendment to the Collateral Administration Agreement or any Hedge Agreements without the written consent of the Collateral Manager if such amendment alters the rights or obligations of the Collateral Manager in any respect, and the Collateral Manager will not be bound by any such amendment unless the Collateral Manager has consented in writing thereto.

Notwithstanding anything herein to the contrary, the term "Hedge Counterparty" and "Hedge Counterparties" will not include any Deemed Floating Asset Hedge Agreement Counterparties for the purposes of this subsection "*—Modification of Certain Other Documents*."

Consolidation, Merger or Transfer of Assets

The Issuer will not consolidate or merge with or into any other entity or transfer or convey all or substantially all of its assets to any entity, unless permitted by Cayman Islands law and unless, (i) the Issuer will be the surviving entity, or the entity (if other than the Issuer) formed by such consolidation or into which the Issuer is merged or to which all or substantially all of the assets of the Issuer are transferred or conveyed will be an exempted company with limited liability organized and existing under the laws of the Cayman Islands or such other jurisdiction outside the United States as may be approved by holders of a Majority of the Notes of each Class and each Hedge Counterparty; *provided* that no such approval will be required in connection with any such transaction undertaken solely to effect a change in the jurisdiction of organization pursuant to the terms of the Indenture, and will expressly assume, by a supplemental indenture, executed and delivered to the Trustee, each Hedge Counterparty and each Noteholder, the due and punctual payment of the principal of and interest on all Notes and the performance of every covenant of the Indenture and each Hedge Agreement on the part of the Issuer to be performed or observed, all as provided therein, (ii) the Initial Hedge Counterparty will have consented to such consolidation, merger or transfer of assets, (iii) each Rating Agency will have received written notification of such consolidation, merger, transfer or conveyance and the Rating Condition with respect to Standard & Poor's will have been satisfied with respect to the consummation of such transaction, (iv) if the Issuer is not the surviving entity, the entity formed by such consolidation or into which the Issuer is merged or to which all or substantially all of the assets of the Issuer are transferred or conveyed will have agreed with the Trustee (a) to observe the same legal requirements for the recognition of such formed or surviving entity as a legal entity separate and apart from any of its affiliates as are applicable to the Issuer with respect to its affiliates and (b) not to consolidate or merge with or into any other entity or transfer or convey the Collateral or all or substantially all of its assets to any other entity except in accordance with the provisions set forth in the Indenture, (v) if the Issuer is not the surviving entity, the entity formed by such consolidation or into which the Issuer is merged or to which all or substantially all of the assets of the Issuer are transferred or conveyed will have delivered to the Trustee and each Rating Agency an officer's certificate and an Opinion of Counsel each stating that such entity will be duly organized, validly existing and (if applicable) in good standing in the jurisdiction in which such entity is organized; that such entity has sufficient power and authority to assume the obligations set forth in clause (i) above and to execute and deliver a supplemental indenture for the purpose of assuming such obligations; that such entity has duly authorized the execution, delivery and performance of a supplemental indenture for the purpose of assuming such obligations and that such supplemental indenture is a valid, legal and binding obligation of such entity, enforceable in accordance with its terms, subject only to bankruptcy, reorganization, insolvency, moratorium and other laws affecting the enforcement of creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); that, immediately following the event which causes such entity to become the successor to the Issuer, (a) such entity has good and marketable title, free and clear of any lien, security interest or charge, other than the lien and security interest of the Indenture, to the Collateral; and (b) the Trustee continues to have a valid perfected first priority security interest in the Collateral securing all of the Notes and such other matters as the Trustee or any Noteholder may reasonably require, (vi) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that the Issuer or each such other entity referred to in the preamble to this paragraph will not be treated as engaged in a U.S. trade or business or otherwise subject to U.S. federal income tax on a net income tax basis, (vii) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that such action will not adversely affect the tax treatment of the Noteholders as

described in "*Certain U.S. Federal Income Tax Considerations*" to any material extent or cause any of the statements described therein to be inaccurate or incorrect to any material extent, (viii) immediately after giving effect to such transaction, no Event of Default or any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default (a "**Default**") will have occurred and be continuing, (ix) the Issuer will have delivered to the Trustee, each Hedge Counterparty and each Noteholder an officer's certificate and an opinion of counsel each stating that such consolidation, merger, transfer or conveyance and such supplemental indenture comply with the provisions set forth in the Indenture, that all conditions precedent set forth in the Indenture relating to such transaction have been complied with and that no adverse tax consequences will result therefrom to the Co-Issuers or any Noteholder and (x) the Issuer will have delivered to the Trustee an opinion of counsel stating that after giving effect to such transaction, neither of the Co-Issuers nor the pool of Collateral will be required to register as an investment company under the Investment Company Act.

The Co-Issuer will not consolidate or merge with or into any other entity or transfer or convey all or substantially all of its assets to any entity, unless (i) the Co-Issuer will be the surviving entity, or the entity (if other than the Co-Issuer) formed by such consolidation or into which the Co-Issuer is merged or to which all or substantially all of the assets of the Co-Issuer are transferred or conveyed will expressly assume, by an indenture supplemental to the Indenture, executed and delivered to the Trustee, the due and punctual payment of the principal of and interest on all Notes and the performance of every covenant of the Indenture on the part of the Co-Issuer to be performed or observed, all as provided therein, (ii) the Initial Hedge Counterparty will have consented to such consolidation, merger or transfer of assets, (iii) the Hedge Counterparties consent to the consummation of such transaction and each Rating Agency will have received written notification of such consolidation, merger, transfer or conveyance and the Rating Condition with respect to Standard & Poor's will have been satisfied with respect to the consummation of such transaction, (iv) if the Co-Issuer is not the surviving entity, the entity formed by such consolidation or into which the Co-Issuer is merged or to which all or substantially all of the assets of the Co-Issuer are transferred or conveyed will have agreed with the Trustee (a) to observe the same legal requirements for the recognition of such formed or surviving corporation as a legal entity separate and apart from any of its affiliates as are applicable to the Co-Issuer with respect to its affiliates and (b) not to consolidate or merge with or into any other entity or transfer or convey all or substantially all of its assets to any other entity except in accordance with the provisions set forth in the Indenture, (v) if the Co-Issuer is not the surviving entity, the entity formed by such consolidation or into which the Co-Issuer is merged or to which all or substantially all of the assets of the Co-Issuer are transferred or conveyed will have delivered to the Trustee and each Rating Agency an officer's certificate and an opinion of counsel each stating that such entity will be duly organized, validly existing and (if applicable) in good standing in the jurisdiction in which such entity is organized; that such entity has sufficient power and authority to assume the obligations set forth in clause (i) above and to execute and deliver a supplemental indenture for the purpose of assuming such obligations; that such entity has duly authorized the execution, delivery and performance of a supplemental indenture for the purpose of assuming such obligations and that such supplemental indenture is a valid, legal and binding obligation of such entity, enforceable in accordance with its terms, subject only to bankruptcy, reorganization, insolvency, moratorium and other laws affecting the enforcement of creditors' rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and such other matters as the Trustee or any Noteholder may reasonably require, (vi) immediately after giving effect to such transaction, no Default will have occurred and be continuing, (vii) the Co-Issuer will have delivered to the Trustee and each Noteholder an officer's certificate and an opinion of counsel each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the provisions set forth in the Indenture and that all conditions precedent in the Indenture relating to such transaction have been complied with, (viii) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that the Co-Issuer or any other entity referred to above will not cause the Issuer to be treated as engaged in a U.S. trade or business or otherwise subject to U.S. federal income tax on a net income tax basis, (ix) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel that such action will not adversely affect the tax treatment of the Noteholders as described in "*Certain U.S. Federal Income Tax Considerations*" to any material extent or cause any of the statements described therein to be inaccurate or incorrect to any material extent, (x) after giving effect to such transaction, neither of the Co-Issuers nor the pool of Collateral will be required to register as an investment company under the Investment Company Act, and (xi) after giving effect to such transaction, the outstanding stock of the Co-Issuer will not be beneficially owned by any entity other than the Issuer.

Petitions for Bankruptcy

The Indenture provides that the Trustee, the Note Registrar, the Paying Agents, the Hedge Counterparties and the holders of the Notes may not cause the filing of a petition for winding up or a petition in bankruptcy against the Issuer or the Co-Issuer before one year and one day have elapsed since the final payments to the holders of the Notes or, if longer, the applicable preference period then in effect *plus* one day.

Satisfaction and Discharge of Indenture

The Indenture will be discharged and cease to be of further effect with respect to the Collateral upon delivery to the Trustee for cancellation of all of the Notes, or, subject to certain limitations, upon deposit with the Trustee of funds sufficient for the payment or redemption of the Notes, the payment by the Co Issuers of all other amounts due on the Notes under the Indenture, the Hedge Agreements, the Credit Default Swap Agreement, the Collateral Administration Agreement, the Administration Agreement and the Collateral Management Agreement and the Co-Issuers have delivered to the Trustee officer's certificates and an Opinion of Counsel with respect to the conditions precedent for satisfaction and discharge of the Indenture.

Trustee

LaSalle Bank National Association will be the Trustee under the Indenture. The Co-Issuers, the Collateral Manager and their respective affiliates may maintain other banking relationships in the ordinary course of business with the Trustee. The payment of the fees and expenses of the Trustee is solely the obligation of the Co-Issuers. The Trustee and its affiliates may receive compensation in connection with the investment of trust assets in Eligible Investments as provided in the Indenture. Eligible Investments may include investments for which the Trustee and/or its affiliates provide services. The Indenture contains provisions for the indemnification of the Trustee for any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the Indenture. Pursuant to the Indenture, the Issuer has granted to the Trustee a lien senior to that of the Noteholders to secure payment by the Issuer of the compensation and expenses of the Trustee and any sums the Trustee may be entitled to receive as indemnification by the Issuer under the Indenture (subject to the U.S. Dollar limitations set forth in the Priority of Payments with respect to any Distribution Date), which lien the Trustee is entitled to exercise only under certain circumstances. In the Indenture, the Trustee will agree not to cause the filing of a petition for winding up or a petition in bankruptcy against the Co-Issuers for nonpayment to the Trustee of amounts payable thereunder until at least one year and one day, or if longer, the applicable preference period then in effect *plus* one day, after the payment in full of all of the Notes.

The Trustee may resign at any time by giving written notice thereof to the Co-Issuers, the Noteholders, the Collateral Manager, each Hedge Counterparty, the Credit Default Swap Counterparty, the Preference Share Paying Agent and each Rating Agency. Upon receiving such notice of resignation, the Co-Issuers will promptly appoint a successor trustee; *provided* that such successor trustee will be appointed only upon the written consent of the holders of a Majority of each Class of Notes or at any time when an Event of Default will have occurred and be continuing, by a Majority of the Controlling Class. If no successor trustee will have been appointed and an instrument of acceptance by a successor trustee will not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any holder of a Note, on behalf of itself and all others similarly situated, may petition any court of competent jurisdiction for the appointment of a successor trustee. The Trustee may be removed at any time by holders of at least 66⅔% of the Aggregate Outstanding Amount of the Notes, voting as a single class, or at any time when an Event of Default will have occurred and be continuing, by a Majority of the Controlling Class. The Co-Issuers may remove the Trustee, or any holder of a Note may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee if (a) the Trustee ceases to be eligible to act in such capacity under the Indenture and fails to resign after written request therefor by the Co-Issuers or by any holder of a Note or (b) the Trustee becomes incapable of acting, is adjudged as bankrupt or insolvent or a receiver or liquidator of the Trustee or of its property is appointed or any public officer takes charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. No resignation or removal of the Trustee will become effective until the acceptance of the appointment of a successor trustee.

Pursuant to the Indenture, LaSalle Bank National Association has been appointed and will serve as the registrar with respect to the Notes (in such capacity, the "**Note Registrar**") and will provide for the registration of Notes and the registration of transfers of Notes in the register maintained by it (the "**Note Register**"). LaSalle Bank National Association has also been appointed as a transfer agent with respect to the Notes (in such capacity, the "**Transfer Agent**").

Agents

LaSalle Bank National Association will be the Note Paying Agent and the Note Registrar. The Co-Issuers and their affiliates may maintain other banking relationships in the ordinary course of business with LaSalle Bank National Association. The payment of the fees and expenses of LaSalle Bank National Association relating to the Notes is solely the obligation of the Co-Issuers. The Indenture contains provisions for the indemnification of LaSalle Bank National Association for any loss, liability or expense incurred without gross negligence, willful misconduct, default or bad faith on its part arising out of or in connection with the acceptance or administration of the Indenture.

Governing Law

The Indenture, the Subscription Agreements, the Notes the Collateral Administration Agreement, the Preference Share Paying Agency Agreement, the Credit Default Swap Agreement, each Hedge Agreement and the Collateral Management Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

DESCRIPTION OF THE PREFERENCE SHARES

The Preference Shares will be issued pursuant to the Memorandum and Articles of Association of the Issuer (the "**Issuer Charter**") and certain resolutions of the Board of Directors of the Company relating to the issuance of the Preference Shares (the "**Resolutions**") and will be subject to the provisions of the Indenture and a Preference Share Paying Agency Agreement, dated as of the Closing Date (the "**Preference Share Paying Agency Agreement**" and, together with the Indenture, the Issuer Charter and the Resolutions, the "**Preference Share Documents**"), among LaSalle Bank National Association, as preference share paying agent (in such capacity, the "**Preference Share Paying Agent**"), Deutsche Bank (Cayman) Limited, as Preference Share Registrar and the Issuer and will be subject to the Subscription Agreements. The following summary describes certain provisions of the Preference Shares, the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the Issuer Charter, the Preference Share Paying Agency Agreement and the Subscription Agreements. After the closing, copies of the Issuer Charter, the Preference Share Paying Agency Agreement and the form of Subscription Agreement may be obtained by prospective investors upon request in writing to the Preference Share Paying Agent at LaSalle Bank National Association, 181 West Madison Street, 32nd Floor, Chicago, Illinois 60602, Attention: CDO Trust Services Group-Ceago ABS CDO 2007-1.

Status

The Issuer is authorized to issue Preference Shares. The Preference Shares will constitute an equity interest in the Issuer and will not be secured under the Indenture. The Issuer is authorized to issue 9,000 Preference Shares, with a par value U.S.$0.01 per share. The Preference Shares will be issued in minimum lots of 100 Preference Shares and in integral multiples of one lot in excess thereof. Fractional Preference Shares will not be issued.

Distributions

On each Distribution Date, as set forth in the Priority of Payments, to the extent that funds are available therefor, Interest Proceeds will be released from the lien of the Indenture for payment to the Preference Share Paying Agent for distribution to the Preference Shareholders by way of dividends only after the payment of interest on the Notes and, in certain circumstances, principal due in respect of the Notes and the payment of certain other amounts in accordance with the Priority of Payments. Any Interest Proceeds permitted to be released from the lien of the Indenture and paid to the Preference Share Paying Agent will be distributed to the Preference Shareholders on each Distribution Date. The scheduled final distribution date of the Preference Shares is the Distribution Date occurring in October 2047 (the "**Scheduled Preference Shares Redemption Date**"). However, the Preference Shares may be paid in full prior to the Scheduled Preference Shares Redemption Date thereof following the Mandatory Redemption, Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption of the Notes, in each case, out of proceeds of the liquidation of the pool of Collateral. Until the Notes and certain other amounts have been paid in full, Principal Proceeds are not permitted to be released from the lien of the Indenture and will not be available to make distributions in respect of the Preference Shares. See "*Description of the Notes—Priority of Payments—Interest Proceeds*" and "*—Principal Proceeds*" and "*Security for the Notes*."

Subject to provisions of The Companies Law (2007 Revision) of the Cayman Islands, the Issuer Charter and the Preference Share Paying Agency Agreement governing the declaration and payment of dividends, after the Notes and certain other amounts have been paid in full, Interest Proceeds and Principal Proceeds will be released from the lien of the Indenture in accordance with the Priority of Payments and paid to the Preference Share Paying Agent on each Distribution Date, for distribution by way of dividends to the Preference Shareholders on such Distribution Date. Cayman Islands law provides that dividends may only be paid by the Issuer if the Issuer has funds lawfully available for such purpose. Dividends may be paid out of profit and/or out of the Issuer's share premium account (which includes subscription monies in excess of the par value of each share), and the Issuer may pay dividends provided that the Issuer is solvent (which term will mean able to pay its debts as they fall due in the ordinary course of business, immediately prior to, and after giving effect to, such distribution has been made).

Any amounts paid by the Preference Share Paying Agent as dividends or other distributions on the Preference Shares in accordance with the Priority of Payments will be payable only to the extent of the Issuer's distributable

profits and/or share premium (determined in accordance with Cayman Islands law). In addition, such distributions will be payable only to the extent that the Issuer is solvent on the applicable Distribution Date and the Issuer will not be insolvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts as they fall due.

To the extent the requirements under Cayman Islands law described in the preceding paragraph are not met, amounts otherwise payable to the holders of the Preference Shares will be retained by the Issuer until, in the case of any payments by way of dividend, the next succeeding Distribution Date or (in the case of any payment that would otherwise be payable on a redemption date of the Preference Shares) the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met and, in the case of any payments by way of redemption of the Preference Share, the next succeeding Business Day on which the Issuer notifies the Preference Share Paying Agent that such requirements are met. Amounts so retained by the Issuer for payment to holders of the Preference Shares will not be available to pay amounts due to the holders of the Notes, the Trustee, the Credit Default Swap Counterparty, the Hedge Counterparties or any other creditor of the Issuer whose claim is limited in recourse to the Collateral. However, such amounts may be subject to the claims of creditors of the Issuer that have not contractually limited their recourse to the Collateral. The Issuer does not expect to have any significant full recourse liabilities that would be payable out of any such amounts. The Indenture will limit the Issuer's to those described in "*The Co-Issuers—General*."

Distributions on any Preference Share will be made to the person in whose name such Preference Share is registered 15 days prior to the applicable Distribution Date (the "**Record Date**"). Payments will be made by wire transfer in immediately available funds to a U.S. Dollar account maintained by the holder thereof appearing in the Preference Share Register in accordance with wire transfer instructions received from such holder by the Preference Share Paying Agent on or before the Record Date or, if no wire transfer instructions are received by the Preference Share Paying Agent, by a U.S. Dollar check drawn on a bank in the United States. Final distributions or payments made in respect of a Preference Share in the course of a winding up will be made only against surrender of the certificate evidencing such Preference Share at the office of the Preference Share Registrar, who will be appointed under the Preference Share Paying Agency Agreement. The Preference Share Registrar will communicate such distributions and payments and the related Distribution Date to the Issuer, the Preference Share Paying Agent, Euroclear and Clearstream, Luxembourg.

If a Ratings Confirmation Failure occurs, funds that would otherwise be distributed to the Preference Shareholders (subject to the payment of certain other amounts prior thereto) will be used, on the first Distribution Date relating to the first Measurement Date occurring thereafter, to redeem the Notes (sequentially in direct order of seniority) to the extent necessary to obtain a Rating Confirmation. See "*Description of the Notes—Priority of Payments*."

On the Note Acceleration Date, and on each Distribution Date thereafter, if the Notes are not redeemed in full prior to such date, Interest Proceeds that would otherwise be released from the lien of the Indenture and paid to the Preference Share Paying Agent for distribution to the Preference Shareholders will be applied in accordance with the Priority of Payments, to the payment of principal of the Notes in the following order: *first*, the Class D Notes (until the Class D Notes have been paid in full), *second*, the Class C Notes (until the Class C Notes have been paid in full), *third*, the Class B Notes (until the Class B Notes have been paid in full), *fourth*, the Class A-2 Notes (until the Class A-2 Notes have been paid in full) and *fifth*, the Class S Notes and the Class A-1 Notes, on a *pari passu* basis (until the Class S Notes and the Class A-1 Notes have been paid in full). See "*Description of the Notes—Mandatory Redemption*" and "*—Priority of Payments—Interest Proceeds*."

No Gross-Up

All payments made by the Issuer under the Preference Shares will be made without any deduction or withholding for or on the account of any tax unless such deduction or withholding is required by applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Issuer is so required to deduct or withhold, then the Issuer will not be obligated to pay any additional amounts in respect of such withholding or deduction.

Governing Law

The Preference Share Paying Agency Agreement and the Subscription Agreements will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer Charter and the Preference Shares will be governed by, and construed in accordance with, the laws of the Cayman Islands.

FORM, REGISTRATION AND TRANSFER

Form of Offered Securities

Regulation S Global Securities

Offered Securities that are sold or transferred outside the United States to persons that are not U.S. Persons will be represented by, in the case of a Note, one or more permanent global Note certificates (each a "**Regulation S Global Note**") and, in the case of a Preference Share, one or more permanent global Preference Share certificates (each a "**Regulation S Global Preference Share**" and, collectively with the Regulation S Global Notes, the "**Regulation S Global Securities**") in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee. By acquisition of a beneficial interest in a Regulation S Global Security, any purchaser thereof will be deemed to represent that (a) it is not a "U.S. Person" (as defined in Regulation S) and is purchasing such beneficial interest for its own account and not for the account or benefit of a U.S. Person and (b) if in the future it decides to transfer such beneficial interest, it will transfer such interest only in an offshore transaction in accordance with Regulation S or to a person who takes delivery in the form of a Restricted Security (or beneficial interest therein).

Restricted Global Securities

Notes that are sold or transferred to a U.S. Person or in the United States to Qualified Institutional Buyers that are Qualified Purchasers in reliance upon an exemption from the registration requirements of the Securities Act under Section 4(2) or Rule 144A and Section 3(c)(7) of the Investment Company Act will be represented by one or more permanent global Note certificates ("**Restricted Global Notes**"). Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon an exemption under Rule 144A will be represented by one or more permanent global notes (each, a "**Restricted Global Preference Share**" and, collectively with the Restricted Global Notes, the "**Restricted Global Securities**" and, collectively with the Regulation S Global Notes, the "**Global Securities**") in definitive, fully registered form, without interest coupons, and deposited with the Trustee as custodian for, and registered in the name of, DTC or its nominee.

Restricted Definitive Preference Shares

Preference Shares that are sold or transferred to a U.S. Person or in the United States in reliance upon Rule 144A or, to Institutional Accredited Investors pursuant to a separate exemption from the registration requirements of the Securities Act, will be represented by certificates ("**Restricted Definitive Preference Shares**") in definitive, fully registered form, registered in the name of the legal and beneficial owner thereof.

Clearing Systems

Beneficial interests in each Global Security will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and Indirect Participants, including Euroclear and Clearstream, Luxembourg. Transfers between members of, or participants (each a "**Participant**") in, DTC will be effected in the ordinary way in accordance with the Applicable Procedures and will be settled in immediately available funds. Transfers between Participants in Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, Luxembourg S.A. ("**Clearstream, Luxembourg**") will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Transfer of Global Securities to Definitive Securities

Owners of beneficial interests in Global Securities will be entitled or required, as the case may be, to receive physical delivery of certificated Notes ("**Definitive Notes**"), or Preference Share certificates ("**Definitive Preference Shares**" and, collectively with the Definitive Notes, "**Definitive Securities**"), in each case, in fully registered, definitive form only if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Global Security, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depositary is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global

Security is required by law to take physical delivery of securities in definitive form or (d) the transferee is otherwise unable to pledge its interest in a Global Security. However, no owner of an interest in a Global Preference Share will be entitled to receive a Definitive Preference Share unless such person provides written certification that the Definitive Preference Share is beneficially owned by a person that is not a U.S. Person or held for the account or benefit of a U.S. Person. Upon the occurrence of any of the events described in the second preceding sentence, the Issuer will cause Definitive Securities bearing an appropriate legend specifying restrictions on transfer to be delivered. Definitive Securities may only be transferred upon delivery of a transfer certificate to the Trustee or the Preference Share Paying Agent, as applicable.

Transfer Restrictions

The Offered Securities are subject to the restrictions on transfer set forth in this Offering Memorandum under "*Transfer Restrictions*" and the Indenture or the Preference Share Paying Agency Agreement, as applicable, and will bear a legend setting forth such restrictions. See "*Transfer Restrictions*." The Issuer may impose additional restrictions on the transfer of Securities in order to comply with the USA PATRIOT Act, to the extent it is applicable to the Issuer.

Transfer and Exchange of Notes

Regulation S Global Note to Restricted Global Note

Transfers by a holder of a beneficial interest in a Regulation S Global Note to a transferee which takes delivery of such interest in the form of a beneficial interest in a Restricted Global Note will be made (a) only in accordance with the Applicable Procedures and (b) upon receipt by the Note Registrar of written certifications from each of the transferor and the transferee of the beneficial interest in the form provided in the Indenture to the effect that, among other things, such transfer is being made:

> (i) to a transferee that (A) is both (1) a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) a Qualified Purchaser and (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle); and
>
> (ii) in accordance with all other applicable securities laws of any relevant jurisdiction.

Regulation S Global Note to Regulation S Global Note

The holder of a beneficial interest in a Regulation S Global Note may transfer such interest to a transferee which takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note without the provision of written certification. Any such transfer may only be made to a person that is not a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. Any such transferee will be deemed to have made the representation set forth under "*Transfer Restrictions*."

Restricted Global Note to Regulation S Global Note

The holder of a beneficial interest in a Restricted Global Note may transfer such interest to a transferee which takes delivery of such interest in the form of a beneficial interest in a Regulation S Global Note without the provision of written certification. Any such transfer may only be made to a person that is not a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and that is not acquiring such beneficial interest for the account or benefit of a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and any such transfer may only be effected in an offshore transaction in accordance with Regulation S and only in accordance with the Applicable Procedures. Any such transferee will be deemed to have made the representation set forth under "*Transfer Restrictions*."

Restricted Global Note to Restricted Global Note

The holder of a beneficial interest in a Restricted Global Note may transfer such interest to a transferee which takes delivery of such interest in the form of a beneficial interest in a Restricted Global Note without the provision of written certification. Any such transfer may only be made (i) to a transferee that (A) is both (1) a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) a Qualified Purchaser and (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and (ii) only in accordance with the Applicable Procedures. Any such transferee will be deemed to have made the representation set forth under "*Transfer Restrictions*."

Definitive Note to Global Note

Exchanges or transfers by a holder of a Definitive Note to a transferee which takes delivery of such Note in the form of a beneficial interest in a Global Note will be made only in accordance with the Applicable Procedures, and upon receipt by the Note Registrar of written certifications from each of the transferor and the transferee in the form provided in the Indenture.

Definitive Note to Definitive Note

Definitive Notes may be exchanged or transferred in whole or in part in the principal amount of authorized denominations by surrendering such Definitive Notes at the office of the Note Registrar with a written instrument of transfer and written certification from each of the transferor and the transferee in the form provided in the Indenture. With respect to any transfer of a portion of a Definitive Note, the transferor will be entitled to receive a new Definitive Note representing the principal amount retained by the transferor after giving effect to such transfer. Definitive Notes issued upon any such exchange or transfer (whether in whole or in part) will be made available at the office of the Note Registrar. Definitive Notes issued upon any exchange or registration of transfer of securities will be valid obligations of the Co-Issuers, evidencing the same debt, and entitled to the same benefits, as the Definitive Notes surrendered upon such exchange or registration of transfer.

Transfer and Exchange of Preference Shares

LaSalle Bank National Association has been appointed as transfer agent with respect to the Preference Shares (the "**Preference Share Transfer Agent**").

Pursuant to the Preference Share Paying Agency Agreement, Deutsche Bank (Cayman) Limited (on behalf of the Issuer) has been appointed and will serve as the registrar with respect to the Preference Shares (in such capacity, the "**Preference Share Registrar**") and will provide for the registration of Preference Shares and the registration of transfers of Preference Shares in the register maintained by it on behalf of the Issuer (the "**Preference Share Register**"). Written instruments of transfer are available at the office of the Preference Share Registrar.

No Preference Share may be transferred to a U.S. Person or within the United States except (a) to a transferee whom the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, (b) to a transferee that is a Qualified Purchaser or is not a U.S. Person, (c) to a transferee that is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (d) if such transfer is made in compliance with the certification and other requirements set forth in the Preference Share Paying Agency Agreement and (e) if such transfer is made in accordance with any applicable securities laws of any State of the United States and any other relevant jurisdiction.

The Preference Share Paying Agency Agreement provides that if, notwithstanding the restrictions on transfer contained therein, the Issuer determines that any beneficial owner of a Global Preference Share (or any interest therein) is a Benefit Plan Investor, then the Issuer may require, by notice to such holder, that such holder sell all of its right, title and interest to such Global Preference Share (or any interest therein) to a person or entity that is not a Benefit Plan Investor and otherwise complies with all the transfer restrictions relating to such Preference Share set forth herein and in the Preference Share Paying Agency Agreement, with such sale to be effected within 30 days after notice of such sale requirement is given. If such beneficial owner fails to effect the transfer required within

such 30-day period, (i) the Issuer will cause such beneficial owner's interest in such Preference Share to be transferred in a commercially reasonable sale (conducted by the Preference Share Paying Agent in accordance with Section 9-610(b) of the Uniform Commercial Code as in effect in the State of New York as applied to securities that are sold on a recognized market or that may decline speedily in value) to a person that certifies to Issuer, in connection with such transfer, that such person is not a Benefit Plan Investor and otherwise complies with all the transfer restrictions relating to such Preference Share and (ii) pending such transfer, no further payments will be made in respect of such Preference Share held by such beneficial owner.

In addition, no Preference Share may be transferred to a person or entity acquiring an interest in a Regulation S Global Preference Share except (a) to a transferee that is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Regulation S, (b) to a transferee that is not a U.S. Person, (c) to a transferee that is not a Benefit Plan Investor, (d) if such transfer is made in compliance with the certification, if any, and other requirements set forth in the Preference Share Paying Agency Agreement and (e) if such transfer is made in accordance with any applicable securities laws of any State of the United States and any other relevant jurisdiction.

Transfers by a holder of a beneficial interest in a Global Preference Share to a transferee who takes delivery of a Restricted Preference Share will be made (a) in the case of a transfer by a holder of a beneficial interest in a Global Preference Share, only in accordance with the Applicable Procedures and (b) in either case, upon receipt by the Preference Share Registrar of written certifications from each of the transferor and the transferee of such beneficial interest in the form provided in the Preference Share Paying Agency Agreement to the effect that, among other things, such transfer is being made:

(i) to a transferee that (A) is both (1) a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) a Qualified Purchaser and (B) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle); and

(ii) in accordance with all other applicable securities laws of any relevant jurisdiction.

USE OF PROCEEDS

The gross proceeds received from the issuance and sale of the Offered Securities will be approximately U.S.$1,005,327,000. The net proceeds from the issuance and sale of the Offered Securities are expected to be approximately U.S.$992,343,361, which reflects the payment from such gross proceeds of organizational and structuring fees and expenses of the Co-Issuers (including, without limitation, the legal fees and expenses of counsel to the Co-Issuers, the Initial Purchasers, the Trustee, the Preference Share Paying Agent, the Hedge Counterparties and the Collateral Manager and the fees and expenses payable in connection with the ratings of the Notes), the expenses related to the offering of the Offered Securities (including fees payable to the Initial Purchasers in connection with the underwriting and placement of the Offered Securities), expenses payable in connection with the Hedge Agreements, the initial deposit into the Expense Account of approximately U.S.$150,000, the initial deposit into the Closing Date Expense Account of approximately U.S.$2,823,010, the initial deposit into the Interest Reserve Account of approximately U.S.$2,850,000 and the initial deposit into the Periodic Interest Reserve Account of approximately U.S.$1,000,000, among others. Such net proceeds will be used by the Issuer to purchase interests in the Collateral Debt Securities and accrued interest thereon.

On the Closing Date, the Issuer will have purchased (or entered into commitments to purchase for settlement following the Closing Date) Collateral Debt Securities and entered into CDS Agreement Transactions or other Synthetic Securities having an Aggregate Principal Balance of not less than U.S.$900,000,000 of the Aggregate Ramp-Up Par Amount. The Issuer expects that, no later than the Ramp-Up Completion Date, it will have purchased (or entered into commitments to purchase) Collateral Debt Securities (including amounts standing to the credit of the Principal Collection Account) (and entered into additional CDS Agreement Transactions or other Synthetic Securities), having an Aggregate Principal Balance of at least U.S.$1,010,000,000 (the "**Aggregate Ramp-Up Par Amount**"). Any proceeds not invested in Collateral Debt Securities or deposited into the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account or into the Interest Reserve Account or used to purchase accrued interest will be deposited by the Trustee in the Collection Accounts and invested in Eligible Investments pending the use of such proceeds for the purchase of Collateral Debt Securities, as described herein, and, in certain limited circumstances described herein, for the payment of the Notes. See "*Security for the Notes*."

RATINGS OF THE OFFERED SECURITIES

It is a condition to the issuance of the Offered Securities that the Class A-1 Notes, the Class S Notes and the Class A-2 Notes be rated "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" or "**S&P**"), and "Aaa" by Moody's Investors Service, Inc. ("**Moody's**" and, together with Standard & Poor's, the "**Rating Agencies**"), that the Class B Notes be rated at least "AA" by Standard & Poor's and at least "Aa2" by Moody's, that the Class C Notes be rated at least "A" by Standard & Poor's and at least "A2" by Moody's and that the Class D Notes be rated at least "BBB+" by Standard & Poor's and at least "Baa2" by Moody's. The Preference Shares will not be rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The Issuer, or the Collateral Manager on its behalf, is required to request by delivery of the Ramp-Up Notice, within five Business Days following the Ramp-Up Completion Date, that Standard & Poor's (and Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) confirm in writing within 30 days after the delivery of the Ramp-Up Notice that it has not reduced or withdrawn any Initial Rating assigned by it on the Closing Date to any Class of the Notes (such notification, a "**Rating Confirmation**"); *provided* that if the Ramp-Up Completion Date occurs on the Closing Date, then the initial assignment by Moody's and Standard & Poor's of their ratings to the Notes on the Closing Date will constitute a Rating Confirmation and no further action will be required in connection with the Ramp-Up Completion Date. If Standard & Poor's (or Moody's, but only if (i) the Coverage Tests (if applicable), the Class AB Pro Rata Test, the Collateral Quality Tests or the Eligibility Criteria are not satisfied on the Ramp-Up Completion Date or (ii) the Aggregate Principal Balance of the Collateral Debt Securities held by the Issuer *plus* any Principal Proceeds received in respect of any such Collateral Debt Securities is less than the Aggregate Ramp-Up Par Amount) does not provide such written confirmation prior to the Determination Date immediately following the date that is 30 days after the delivery of the Ramp-Up Notice, a "**Ratings Confirmation Failure**" will occur. In the event of a Ratings Confirmation Failure, and provided a Proposed Plan cannot be agreed to between the Collateral Manager, on behalf of the Issuer, and the Rating Agencies, the Issuer will be required on the Distribution Date relating to such Determination Date to apply, *first*, Uninvested Proceeds, *second*, Interest Proceeds and, *third*, Principal Proceeds to the repayment of the Notes in accordance with the Priority of Payments and as and to the extent necessary for each Rating Agency to confirm, or to confirm that it has restored, as applicable, each such Initial Rating assigned by it to each such Class of Notes on the Closing Date. See "*Description of the Notes—Mandatory Redemption*" and "*—Priority of Payments.*" In connection with obtaining a Rating Confirmation on the Ramp-Up Completion Date, the Collateral Manager, on behalf of the Issuer, may provide a Proposed Plan to the Rating Agencies. See "*Security for the Notes—Proposed Plan.*"

To the extent required by applicable stock exchange rules, the Issuer will inform any such exchange on which any of the Securities are listed if any rating assigned by Standard & Poor's or Moody's to such Notes is reduced or withdrawn.

THE CO-ISSUERS

General

The Issuer was incorporated as an exempted company with limited liability and registered on June 14, 2007 in the Cayman Islands with corporation number MC-189223 pursuant to the Issuer Charter and is in good standing under the laws of the Cayman Islands. The registered office of the Issuer is at the offices of Deutsche Bank (Cayman) Limited, P.O. Box 1984, Boundary Hall, Cricket Square, Grand Cayman KY1-1104, Cayman Islands, telephone number: +1 (345) 949-8244. The Issuer has no significant prior operating experience other than in connection with the acquisition of certain Collateral Debt Securities prior to the issuance of the Securities and the entering into of arrangements with respect thereto, and the Issuer will not have any substantial assets other than the Collateral pledged to secure the Notes, the Issuer's obligations under any Hedge Agreement and the Issuer's obligations to the Trustee. The entire authorized share capital of the Issuer will consist of (a) 250 ordinary shares, par value U.S.$1.00 per share (the "**Ordinary Shares**"), which have been or will be issued and will be held in trust for charitable purposes by Deutsche Bank (Cayman) Limited, a licensed trust company incorporated in the Cayman Islands (in such capacity, the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") and (b) 9,000 Preference Shares, par value U.S.$0.01 per share. Under the terms of the Declaration of Trust, Deutsche Bank (Cayman) Limited as share trustee (in such capacity, the "**Share Trustee**") holds the Ordinary Shares in trust until the Termination Date (as defined in the Declaration of Trust) and may only dispose or otherwise deal with the Ordinary Shares with the approval of the Trustee for so long as there are Notes outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power with the consent of the Notes Trustee, to benefit the Noteholders or Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made while any Note is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Ordinary Shares.

Paragraph 3 of the Issuer Charter sets out the objects of the Issuer, which are unrestricted and therefore include the business to be undertaken by the Issuer as set forth herein. However, the Indenture will restrict the activities of the Issuer to (1) acquiring and disposing of, and investing in, Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments for its own account, (2) entering into and performing its obligations under the Indenture, any Hedge Agreement, the Credit Default Swap Agreement, the Collateral Management Agreement, the Collateral Administration Agreement, the Securities Purchase Agreement, the Preference Share Paying Agency Agreement and each Subscription Agreement, (3) issuing and selling the Securities, (4) pledging the Collateral as security for its obligations in respect of the Notes and otherwise for the benefit of the Secured Parties, (5) owning the membership interests in the Co-Issuer and (6) other activities incidental to the foregoing. The Issuer will be liquidated, and all CDS Agreement Transactions that have not yet terminated will be terminated, on the date that is one year and two days (for RMBS Securities and CMBS Securities) or three years and two days (for CDO Securities), as applicable, after the Stated Maturity of the Notes, unless earlier dissolved and terminated in accordance with the terms of the Issuer Charter. The Issuer has no employees and no subsidiaries other than the Co-Issuer. See "*Description of the Preference Shares—Dissolution; Liquidating Distributions*."

The Co-Issuer was organized on June 28, 2007 under the law of the State of Delaware with the registered number 4382116. The registered office of the Co-Issuer is at Deutsche International Corporate Services (Delaware) LLC, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, telephone number: +1 (302) 636-3392. The Co-Issuer was organized for the specific purpose of carrying out the transactions described in this Offering Memorandum, which primarily consists of issuing the Notes and performing other activities related thereto, as set forth in Article Third of its Certificate of Incorporation. The Co-Issuer has no prior operating history.

The Notes are obligations only of the Co-Issuers, the Preference Shares constitute an equity interest in the Issuer only and none of the Notes and Preference Shares is an obligation of or constituting any interest in the Trustee, the Share Trustee, the Administrator, the Collateral Manager, the Initial Purchasers or any of their respective affiliates or any directors or officers of the Co-Issuers. Since the respective dates of incorporation of the Co-Issuers, the Co-Issuers have not commenced operations and no annual accounts or reports have been prepared as of the date of the prospectus.

Deutsche Bank (Cayman) Limited will act as the administrator (in such capacity, the "**Administrator**") of the Issuer. The office of the Administrator will serve as the general business office of the Issuer. Through this office and pursuant to the terms of an agreement by and between the Administrator and the Issuer (the "**Administration Agreement**"), the Administrator will perform various administrative functions on behalf of the Issuer, including communications with the general public and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. In consideration of the foregoing, the Administrator will receive various fees and other charges payable by the Issuer at rates provided for in the Administration Agreement and will be reimbursed for expenses.

The activities of the Administrator under the Administration Agreement will be subject to the overview of the Board of Directors of the Issuer. The directors of the Issuer are David Dyer, Alan Corkish, Gwen Pineau and Simon Wetherell, each of whom is a director or officer of the Administrator and each of whom may be contacted at the address of the Issuer. The Administration Agreement may be terminated by either the Issuer (acting upon the recommendation of the Collateral Manager) or the Administrator upon three months' written notice, in which case a replacement administrator will be appointed or upon 14 days' written notice upon the occurrence of certain events as set out in the Administration Agreement.

Capitalization

The initial capitalization of the Issuer, after giving effect to the issuance of the Securities and the ordinary shares of the Issuer but before deducting expenses of the offering of the Securities and organizational expenses of the Co-Issuers, is expected to be as follows:

Class A-1 Notes	U.S.$850,000,000
Class S Notes	6,227,000
Class A-2 Notes	106,000,000
Class B Notes	21,000,000
Class C Notes	11,500,000
Class D Notes	2,500,000
Total Debt	997,227,000
Ordinary Shares	250
Preference Shares	9,000,000
Total Equity:	9,000,250
Total Capitalization	U.S.$1,006,227,250

The Issuer will not have any material assets other than the Collateral and its equity interest in the Co-Issuer.

The Co-Issuer will be capitalized only to the extent of its membership interests, will have no assets other than the capital contribution made by the Issuer and will have no debt other than as Co-Issuer of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes. As of the Closing Date and after giving effect to the issuance of the Co-Issuer's limited liability company membership interests, the authorized equity of the Co-Issuer is U.S.$250.

The Issuer is not required by Cayman Islands law, and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware State law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee with written confirmation, on an annual basis, that to the best of its knowledge following review of the activities for the prior year, no Default or other matter required to be brought to the Trustee's attention has occurred or, if one has, specifying the same.

SECURITY FOR THE NOTES

General

The collateral securing the Notes will consist of: (i) the Collateral Debt Securities and Equity Securities; (ii) the rights of the Issuer under the Hedge Agreements; (iii) the Payment Account, the Interest Collection Account, the Interest Reserve Account, the Principal Collection Account, the Uninvested Proceeds Account, the Expense Account, the Closing Date Expense Account, the Periodic Interest Reserve Account, the Custodial Account, any Issuer Collateral Account and each Hedge Counterparty Collateral Account and Eligible Investments and U.S. Agency Securities purchased with funds on deposit in such accounts and all income from the investment of funds therein; (iv) for the benefit of the Credit Default Swap Counterparty (to the extent necessary to secure the Issuer's obligations under the Credit Default Swap Agreement), the Issuer's security interest in the Synthetic Security Counterparty Account; (v) the Issuer's right to investment income in any Synthetic Security Counterparty Account; (vi) the rights of the Issuer under the Collateral Management Agreement, the Collateral Administration Agreement, the Credit Default Swap Agreement and the Subscription Agreements; (vii) all cash delivered to the Trustee; (vii) all cash delivered to the Trustee; and (viii) all proceeds of the foregoing (collectively, the "**Collateral**").

Collateral Debt Securities

"**Asset-Backed Security**" means (i) a security issued by an entity formed for the purpose of holding or investing and reinvesting in a pool, either fixed or revolving, of receivables, debt obligations, debt securities, finance leases or other similar assets *plus* any other rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the securities or (ii) a beneficial interest in a trust, all of the assets of which would satisfy the Eligibility Criteria. Asset-Backed Securities include CDO Securities, RMBS Securities and CMBS Securities as well as other types of asset-backed securities.

"**Collateral Debt Security**" means (i) an Asset-Backed Security or a Synthetic Security that satisfies each of the Eligibility Criteria when purchased by the Issuer, (ii) any Deliverable Obligations that would satisfy paragraphs (1) through (4), (6) through (29), (31) and (32) of the Eligibility Criteria and (iii) any Synthetic Security Collateral that satisfies the Eligibility Criteria as to which the lien of the Synthetic Security Counterparty has been released following the termination of the Synthetic Security; *provided* that Collateral Debt Securities will not include Excluded Securities.

"**Defeased Synthetic Security**" means any Synthetic Security that requires payment by the Issuer after the date upon which it is Granted to the Trustee and that satisfies the following: (a) the Issuer has caused to be deposited in a Synthetic Security Counterparty Account Synthetic Security Collateral in an amount at least equal to the aggregate of all further payments (contingent or otherwise) that the Issuer is or may be required to make to the Synthetic Security Counterparty under the Synthetic Security; (b) the Underlying Instruments relating to such Synthetic Security contain "non-petition" provisions with respect to the Issuer and "limited recourse" provisions limiting the Synthetic Security Counterparty's rights in respect of the Synthetic Security to the funds and other property credited to the Synthetic Security Counterparty Account related to such Synthetic Security; and (c) the Underlying Instruments relating to such Synthetic Security contain provisions to the effect that upon the occurrence of an "Event of Default" or "Termination Event" (other than an "Illegality" or "Tax Event"), if any, where the Synthetic Security Counterparty is the sole "Defaulting Party" or the sole "Affected Party" (each, as defined in the ISDA Master Agreement relating to such Synthetic Security) (x) the Issuer may terminate its obligations under such Synthetic Security and, upon such termination, any lien in favor of the Synthetic Security Counterparty over its related Synthetic Security Counterparty Account will be terminated and (y) the Issuer will no longer be obligated to make any payments to the Synthetic Security Counterparty with respect to such Synthetic Security.

"**Deliverable Obligation**" means a debt obligation that may be or is delivered to the Issuer upon the occurrence of a "credit event" under a Synthetic Security that would satisfy the criteria set forth in paragraphs (1) through (4), (6) through (29), (31) and (32) of the Eligibility Criteria at the time such debt obligation is delivered; *provided* that if such debt obligation does not satisfy such criteria, the treatment of such debt obligation as a Deliverable Obligation will occur only if the Rating Condition with respect to Moody's is satisfied; *provided further* that if such obligation does not satisfy such criteria, it will be treated as a Defaulted Security by Standard & Poor's.

"**Excepted Security**" means (a) cashflow structured finance obligations not rated by Standard & Poor's the cashflow of which is primarily from non-U.S. sources, (b) collateralized bond obligations the underlying collateral of which consists primarily of collateralized debt obligations, (c) collateralized bond obligations the underlying collateral of which is distressed debt, (d) obligations secured by contingent deferred sales charges, asset based sales charges, shareholder servicing fees and other similar fees associated with the marketing and distribution of interests in, and management and servicing of, mutual funds registered under the Investment Company Act, (e) catastrophe bonds, (f) the first loss tranche of any securitization, (g) combination securities, (h) Re-REMICs, (i) market value collateralized debt obligations or (j) net interest margin securities.

"**Form-Approved Synthetic Security**" means a Synthetic Security (including a CDS Agreement Transaction) (a)(i) the Reference Obligation of which, if it were a Collateral Debt Security, could be purchased by the Issuer without satisfaction of the Rating Condition or with respect to which the Rating Condition has been satisfied or (ii) the Reference Obligation of which would satisfy clause (i) but for (x) the currency in which it is payable, and such Synthetic Security is payable in U.S. Dollars and does not expose the Issuer to currency risk or (y) the frequency of the scheduled periodic payments of interest on such Reference Obligation, (b) entered into pursuant to the Credit Default Swap Agreement or other documentation which conforms (but for the amount and timing of periodic payments, the name of the Reference Obligation, the Notional Amount, the effective date, the termination date and other similarly necessary changes) to a form previously approved in writing by the Rating Agencies for use by the Issuer, *provided* that any amendment to a Form-Approved Synthetic Security and any new Form-Approved Synthetic Security must be approved by Standard & Poor's (c) for which the Issuer has provided to each of the Rating Agencies notice of the purchase of such Synthetic Security within five days after such purchase, requesting the relevant Rating Agency's determination of the Moody's Applicable Recovery Rate and Moody's Rating or Standard & Poor's Applicable Recovery Rate and Standard & Poor's Rating, as applicable, with respect to such Synthetic Security; *provided* that either of the Rating Agencies may revoke its consent to the use of a Form-Approved Synthetic Security with respect to any prospective purchase by the Issuer of a Synthetic Security upon 30 days' prior written notice to the Trustee and Collateral Manager (*provided* that such revocation will not affect the continuing effectiveness of any Synthetic Security already entered into under such cancelled Form-Approved Synthetic Security or the determination of the Moody's Recovery Rate, Standard & Poor's Recovery Rate, Standard & Poor's Rating and Moody's Rating with respect to any such Synthetic Security); *provided*, *further*, that the Credit Default Swap Agreement on any single Collateral Debt Security will not be required to satisfy clause (c) above.

"**Remaining Exposure**" means with respect to (a) any Synthetic Security (other than a CDS Agreement Transaction) at any time, the excess, if any, of (i) the Total Exposure of such Synthetic Security at such time over (ii) the Funded Amount of such Synthetic Security at such time or (b) with respect to any CDS Agreement Transaction under which the Issuer is the seller of protection, the Total Exposure under such CDS Agreement Transaction.

"**Single Obligation Synthetic Security**" means a Synthetic Security that references only one Reference Obligation.

"**Synthetic Matrix Rate**" means, with respect to a Reference Obligation and a Synthetic Security, the sum of (a) either (i) with respect to any floating rate Reference Obligation that bears interest based on LIBOR, the spread over LIBOR at which such Reference Obligation bears interest, (ii) with respect to any floating rate Reference Obligation that bears interest based on a floating rate index other than LIBOR, the then-current base rate applicable to such Floating Rate Collateral Debt Security plus the rate at which such Floating Rate Collateral Debt Security pays interest in excess of such base rate minus three-month LIBOR or (iii) with respect to any fixed rate Reference Obligation, the deemed spread determined by subtracting the then-current LIBOR (with a Designated Maturity matching the periodic payment frequency of such Reference Obligation) from the fixed rate coupon payable in respect of such Reference Obligation (for a fixed rate Reference Obligation) and (b) the percentage rate in the chart below applicable to the Reference Obligation where the "Duration" refers to the duration (in years) of the Reference Obligation as determined by the Collateral Manager in its reasonable discretion and the "Rating" refers to the Moody's Rating of the Reference Obligation on the date that the Issuer entered into the Synthetic Security (or, if earlier, the date that the Synthetic Security Issuer was acquired or entered into pursuant to the Warehousing Agreement), minus (c) if applicable, the quotient obtained by dividing (I) any upfront payment by (II) the lesser of (x) the related "Duration" and (y) 5 years:

	Moody's Rating			
Duration	**Aaa**	**Aa1-Aa3**	**A1-A3**	**Below A3**
0-3 years	0.70%	0.70%	3.00%	3.00%
3-5 years	0.50%	0.50%	3.00%	3.00%
>5 years	0.40%	0.40%	2.00%	2.00%

provided that the Synthetic Matrix Rate will not be less than zero and the Issuer will notify the Trustee of changes to this definition if the Rating Condition with respect to Moody's is satisfied.

"**Synthetic Security**" means any credit default swap (including any CDS Agreement Transaction), total return swap, credit linked note, derivative instrument, structured note or trust certificate purchased, or entered into, by the Issuer with or from a Synthetic Security Counterparty (including, without limitation, with the Credit Default Swap Counterparty under the Credit Default Swap Agreement) that provides for payments closely correlated to the default, recovery upon default and other expected loss characteristics of a Permitted Reference Obligation (other than the risk of default of the related Synthetic Security Counterparty), but that may provide for payments based on a maturity shorter than or a principal amount, interest rate, currency, premium, payment terms or other non-credit terms different from that of the related Reference Obligation; *provided* that (i) any "credit event" under any Synthetic Security that can result in termination and settlement of the Synthetic Security prior to its scheduled maturity date (a "**Credit Event**") will not include restructuring, repudiation, moratorium, obligation default or obligation acceleration unless such Synthetic Security may be settled only through a physical settlement of a Deliverable Obligation to the Issuer, and not in cash, (ii) a Deemed Floating Asset Hedge Agreement entered into by the Issuer with respect to a Collateral Debt Security held by the Issuer will not constitute a Synthetic Security for purposes of this definition, (iii) a Negative Amortization Security will not constitute a Synthetic Security for purposes of this definition, (iv) if such Synthetic Security requires or permits physical settlement upon the occurrence of a Credit Event or otherwise by delivery of one or more Deliverable Obligations, each such Deliverable Obligation must itself be a Permitted Reference Obligation on the date the Issuer enters into such Synthetic Security, (v) the Acquisition, ownership or disposition of such Synthetic Security will not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or otherwise subject the Issuer to net income tax and (vi) amounts receivable by the Issuer will not be subject to withholding tax in respect of the Synthetic Security or the Synthetic Security Counterparty or the Reference Obligor is required to make "gross-up" payments that cover the full amount of any such withholding tax; *provided*, *further*, that the Synthetic Security is either a Form-Approved Synthetic Security or satisfies the Rating Condition of Moody's and Standard & Poor's.

For purposes of the Coverage Tests (if applicable), unless otherwise specified, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the Synthetic Security and not of the related Reference Obligation.

For purposes of the Collateral Quality Tests and acquisition price a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (except for the principal balance) (and the issuer thereof will be deemed to be the related Reference Obligor); *provided* that for purposes of the Weighted Average Spread Test, Weighted Average Coupon Test, Weighted Average Life Test and for determining the Moody's Rating and the Standard & Poor's Rating of a Synthetic Security, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the relevant Synthetic Security.

"**Synthetic Security Collateral**" means, in connection with any Synthetic Security, (i) any floating rate security which is either a Credit Card Security or RMBS Security (that is not an Excluded Security) that is rated "AAA" by Standard and Poor's and "Aaa" by Moody's and matures no later than the Stated Maturity, the expected Average Life of which does not exceed the expected Average Life of the related Reference Obligation by more than one year, (ii) any Eligible Investment or any investment of a type described in the definition of "Eligible Investments" but with respect to which the counterparty thereto has a long term rating of not less than "AA-" by Standard & Poor's and not less than "Aa3" by Moody's (and, if rated "Aa3" by Moody's, such rating is not on watch for possible downgrade by Moody's) or a short term credit rating of not less than "A-1+" by Standard & Poor's and "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) at the time of such investment or (iii) commercial paper maturing no later than the Business Day prior to the Distribution Date next succeeding the date of investment in such commercial paper having at the time of such investment a credit rating of "P-1" by

Moody's (and such rating is not on watch for possible downgrade by Moody's) and not less than "A-1+" by Standard & Poor's, in each case which mature no later than the Stated Maturity; *provided* that with respect to clause (i), the market value risk and credit risk on such credit card securities and RMBS Securities will be hedged through the use of total return swaps which are subject to Rating Confirmation of Moody's and Standard & Poor's; *provided further* that all Synthetic Security Collateral will be denominated in United States Dollars.

Proposed Plan

If on the Ramp-Up Completion Date any of the Collateral Quality Tests, the Coverage Tests (if applicable), the Class AB Pro Rata Test or the Eligibility Criteria are not satisfied, (i) the Collateral Manager, on behalf of the Issuer, may provide a Proposed Plan for satisfying such tests or limitations to both Moody's and Standard & Poor's and (ii) the Issuer will be prohibited from purchasing additional Collateral Debt Securities (unless the first such purchase satisfies the Proposed Plan and the Proposed Plan satisfies the Rating Condition with respect to Moody's and Standard & Poor's); *provided* that such prohibition will not apply to purchases of Collateral Debt Securities which the Issuer had committed to make prior to the effective date of such prohibition. In such event, the Collateral Manager will give written notice to the Trustee and the Noteholders that the Issuer is prohibited from purchasing additional Collateral Debt Securities other than pursuant to the above.

"**Proposed Plan**" means a reasonable plan proposed by the Collateral Manager, on behalf of the Issuer, to the Rating Agencies prior to the Ramp-Up Completion Date, which Proposed Plan may include a proposal to (a) make payments of principal of and accrued interest on the Aggregate Outstanding Amount of the Notes or a payment on a CDS Agreement Transaction in accordance with the Priority of Payments, (b) sell a portion of the Collateral, (c) subject to the terms of the Preference Share Paying Agency Agreement, issue additional Preference Shares and use the proceeds from the sale of such Preference Shares to purchase Collateral, (d) extend the Ramp-Up Completion Date, (e) amend the Indenture, including, without limitation, the requirements necessary to satisfy each of the Collateral Quality Tests, each of the Coverage Tests (if applicable), the Class AB Pro Rata Test and any of the Eligibility Criteria in which case all references herein to any Collateral Quality Test, Coverage Test (if applicable), Class AB Pro Rata Test, Eligibility Criteria or any other provision modified pursuant to the related Proposed Plan, from the date of satisfaction of the Rating Condition with respect to such Proposed Plan, will be deemed to refer to such item as so modified or (f) any other action as may be proposed in a Proposed Plan which satisfies the Rating Condition; *provided* that notwithstanding anything herein to the contrary, any amendment or modification pursuant to a Proposed Plan (other than a Proposed Plan that modifies the Eligibility Criteria) will not require the consent of any of Holders of the Notes. In accordance with the Indenture, the terms and conditions of any Proposed Plan proposed by the Collateral Manager, on behalf of the Issuer, and in respect of which the Rating Condition has been satisfied, as described above, will be set forth in a supplemental indenture.

Eligibility Criteria

Uninvested Proceeds and Principal Proceeds may be invested prior to the Ramp-Up Completion Date in an Asset-Backed Security or Synthetic Security if, after giving effect to such investment, each of the following criteria (the "**Eligibility Criteria**") are satisfied:

Assignable	(1) the Underlying Instrument pursuant to which such security was issued permits the Issuer to purchase it and pledge it to the Trustee and such security is a type subject to Article 8 or Article 9 of the UCC;
Jurisdiction of issuer	(2) such security is an obligation of an issuer organized under the laws of the United States (including a Special Purpose Vehicle Jurisdiction);
U.S. Dollar denominated	(3) such security is denominated and payable only in U.S. Dollars and may not be converted into a security payable in any other currency;
Fixed principal amount	(4) such security (or in the case of a Synthetic Security, the applicable Reference Obligation) requires the payment of a fixed amount of principal in cash no later than its stated maturity or termination date;

Rating..... (5) such security has a Moody's Rating of at least "A3" and has a Standard & Poor's Rating of at least "A-" (and such rating does not include the subscript "p", "pi", "q", "r" or "t"); *provided* that (A) at least 20.0% of the Net Outstanding Portfolio Collateral Balance will consist of securities that have a Moody's Rating of "Aaa" and a Standard & Poor's Rating of "AAA", (B) Collateral Debt Securities having a Moody's Rating below "Aa3" but at least "A3" or having a Standard & Poor's Rating below "AA-" but at least "A-" will not exceed 35.0% of the Net Outstanding Portfolio Collateral Balance and (C) Collateral Debt Securities that are publicly rated "A3" by Moody's or "A-" by Standard & Poor's will not exceed 7.5% of the Net Outstanding Portfolio Collateral Balance; *provided*, *further*, that if such security is a Downgraded Security, the Aggregate Principal Balance of all such securities will not exceed 0% of the Net Outstanding Portfolio Collateral Balance;

No withholding..... (6) such security does not provide for any payments which are or will be subject to deduction or withholding for or on account of any withholding or similar tax, unless the issuer of such security is required to make "gross-up" payments that ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding been required;

Does not subject Issuer to tax on a net income basis..... (7) either (A) such security is issued by an entity that is treated as a corporation that is not a United States real property holding corporation as defined in Section 897(c)(2) of the Code, (B) such security is treated as indebtedness for U.S. federal income tax purposes and is not a United States real property interest as defined under Section 897 of the Code, or (C) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an opinion of other nationally recognized U.S. tax counsel experienced in such matters to the effect that the acquisition, ownership or disposition of such security will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes or otherwise subject the Issuer to U.S. federal income tax on a net income basis;

ERISA..... (8) such security is not a security that, pursuant to 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA, (x) would be treated as an equity interest in an entity and (y) if held by an employee benefit plan subject to ERISA or a plan subject to Section 4975 of the Code, would cause such employee benefit plan to be treated as owning an undivided interest in each of the underlying assets of such entity for purposes of ERISA and/or Section 4975 of the Code; *provided* that this restriction will not apply to any security issued by an entity that issues securities which are covered by Department of Labor Prohibited Transaction Exemption 2007-05 or an equivalent exemption;

Excluded securities..... (9) such security (or, in the case of a Synthetic Security, the Reference Obligation of such security) is not an Excluded Security;

Average Life; Maturity..... (10) no more than 40.0% of the Net Outstanding Portfolio Collateral Balance may consist of Collateral Debt Securities with Average Lives greater than 8.0 years; no Collateral Debt Security may have an

	Average Life greater than 13.0 years; and no more than 10.0% of the Net Outstanding Portfolio Collateral Balance may consist of Long-Dated Securities;
No foreign exchange controls.....	(11) such security is not a security issued by an issuer located in a country that imposes foreign exchange controls that effectively limit the availability or use of U.S. Dollars to make when due the scheduled payments of principal of and interest on such security;
No substantial non-credit-related risk.....	(12) such security is not a security whose timely repayment is subject to substantial non-credit-related risk, as determined by the Collateral Manager in its commercially reasonable business judgment (based on the facts or circumstances at such time);
No margin stock.....	(13) such security and any Equity Security acquired in connection with such security is not Margin Stock;
Investment Company Act.....	(14) such security will not cause the Issuer or the pool of Collateral to be required to register as an investment company under the Investment Company Act; and if the issuer of such security is excepted from the definition of an "investment company" solely by reason of Section 3(c)(1) of the Investment Company Act, then either (x) such security does not constitute a "voting security" for purposes of the Investment Company Act or (y) the aggregate principal amount of such security is less than 5% of the entire Issue of which such security is a part;
No debtor-in-possession financing.....	(15) such security is not a financing by a debtor-in-possession in any insolvency proceeding;
Conversion or exchange into Equity Securities; Attached Equity Securities.....	(16) (A) such security is not a security that by the terms of its Underlying Instruments provides for conversion or exchange (whether mandatory, at the option of the issuer or the holder thereof or otherwise) into equity capital at any time prior to its maturity and (B) such security is not purchased as a unit with an attached Equity Security;
Not subject to an Offer or a call for redemption.....	(17) such security is not the subject of an Offer and has not been called for redemption;
No future advances.....	(18) after the acquisition of such security, the Issuer is not required by the Underlying Instruments related thereto to make any payment or advance to the issuer thereof or to the related Synthetic Security Counterparty under the related Underlying Instruments (except in the case of any payment made under the terms of a Synthetic Security);

Credit Risk Securities, Defaulted Securities, Deferred Interest PIK Bonds, Index Securities, Interest-Only Securities, PIK Bonds, Principal-Only Securities and Written-Down Securities..... (19) such security (or, in the case of a Synthetic Security, the Reference Obligation of such security) is not a Credit Risk Security, a Defaulted Security, a Deferred Interest PIK Bond, an Index Security, an Interest-Only Security, a PIK Bond, a Principal-Only Security or a Written-Down Security;

Fixed Rate Securities..... (20) if such security is a Fixed Rate Security (other than a Deemed Floating Collateral Debt Security), the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 8.4% of the Net Outstanding Portfolio Collateral Balance;

Pure private Collateral Debt Securities..... (21) if such security was not (A) issued pursuant to an effective registration statement under the Securities Act or (B) a privately placed security that is eligible for resale under Rule 144A or Regulation S under the Securities Act, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

Single Issuer..... (22) (A) if a Collateral Debt Security has a Moody's Rating of "Aaa" and a Standard & Poor's Rating of "AAA", not more than 2.0% of the Net Outstanding Portfolio Collateral Balance consists of securities issued by the issuer thereof (including the Aggregate Principal Balance of Synthetic Securities for which such issuer is the Reference Obligor); *provided* that for each of 2 issuers with respect to which a Collateral Debt Security of such issuer has a Moody's Rating of "Aaa" and a Standard & Poor's Rating of "AAA", the securities of each such issuer may comprise up to 2.5% of the Net Outstanding Portfolio Collateral Balance; (B) if a Collateral Debt Security has a Moody's Rating of between, and including, "Aa1" and "Aa3", or a Standard & Poor's Rating of between, and including, "AA+" and "AA-", not more than 1.5% of the Net Outstanding Portfolio Collateral Balance consists of securities that have a Moody's Rating of "Aa1" or lower or a Standard & Poor's Rating of "AA+" or lower issued by the issuer thereof (including the Aggregate Principal Balance of Synthetic Securities for which such issuer is the Reference Obligor); *provided* that 2 such issuers may comprise up to 1.75% of the Net Outstanding Portfolio Collateral Balance; (C) if a Collateral Debt Security has a Moody's Rating of "A1" or "A2" or a Standard & Poor's Rating of "A+" or "A", not more than 1.25% of the Net Outstanding Portfolio Collateral Balance consists of securities that have a Moody's Rating of "A1" or lower or a Standard & Poor's Rating of "A+" or lower issued by the issuer thereof (including the Aggregate Principal Balance of Synthetic Securities for which such issuer is the Reference Obligor); *provided* that 2 such issuers may comprise up to 1.5% of the Net Outstanding

Portfolio Collateral Balance and no more than 1 of the 2 such issuers may be an issuer of Sub-Prime RMBS Securities; and (D) if a Collateral Debt Security has a Moody's Rating of "A3" or a Standard & Poor's Rating of "A-", not more than 1.0% of the Net Outstanding Portfolio Collateral Balance consists of such securities issued by the issuer thereof (including the Aggregate Principal Balance of Synthetic Securities for which such issuer is the Reference Obligor);

Single RMBS Servicer ..... (23) with respect to the Servicer of RMBS Securities being acquired, the Aggregate Principal Balance of all Collateral Debt Securities serviced by such single RMBS Servicer (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed (A) if the Servicer (or, if an Affiliate of such Servicer is required to perform the obligations of such Servicer, such Affiliate) is publicly ranked "Strong" by Standard & Poor's (and, if publicly ranked "Strong," is not on servicer outlook "Negative" by Standard & Poor's) or if no servicer ranking is available, its long-term senior unsecured debt rating is at least "AA", 20.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that the Aggregate Principal Balance of all Collateral Debt Securities serviced by up to 2 such Servicers may each constitute up to 25.0% of the Net Outstanding Portfolio Collateral Balance for so long as such Servicer maintains such ratings by Standard & Poor's; (B) if the Servicer (or, if an Affiliate of such Servicer is required to perform the obligations of such Servicer, such Affiliate) is publicly ranked "Above Average" by Standard & Poor's or is publicly ranked "Strong" by Standard & Poor's and is on servicer outlook "Negative" by Standard & Poor's, or if no servicer ranking is available, its long-term senior unsecured debt rating is at least "A-" but lower than "AA", 15.0% of the Net Outstanding Portfolio Collateral Balance; and (C) if the Servicer (or, if an Affiliate of such Servicer is required to perform the obligations of such Servicer, such Affiliate) does not satisfy clauses (A) or (B) of this paragraph, 7.5% of the Net Outstanding Portfolio Collateral Balance;

Synthetic Securities..... (24) if such security is a Synthetic Security (including for purposes hereof any credit default swap with reference obligations consisting of Asset-Backed Securities), then the Aggregate Principal Balance of all Synthetic Securities does not exceed 25.0% of the Net Outstanding Portfolio Collateral Balance;

Specified Type..... (25) with respect to the particular Specified Type of Collateral Debt Security being acquired:

(i) at least 85.0% of the Net Outstanding Portfolio Collateral Balance will consist of RMBS Securities and CMBS Securities;

(ii) at least 100% of the Net Outstanding Portfolio Collateral Balance will consist of RMBS Securities, CMBS Securities, Credit Card Securities and Structured Finance CDO Securities;

(iii) with respect to RMBS Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does

not exceed 85.0% of the Net Outstanding Portfolio Collateral Balance;

(iv) with respect to Prime RMBS Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 7.0% of the Net Outstanding Portfolio Collateral Balance;

(v) with respect to Mid-Prime RMBS Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 65.0% of the Net Outstanding Portfolio Collateral Balance;

(vi) with respect to Sub-Prime RMBS Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 40.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that with respect to Sub-Prime RMBS Securities that have a Moody's public rating of "A1" or below or a Standard & Poor's public rating of "A+" or below the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 20.0% of the Net Outstanding Portfolio Collateral Balance;

(vii) if such security (including any Synthetic Security as to which the sole Reference Obligation) is a Negative Amortization Security, (i) the Aggregate Principal Balance of all Collateral Debt Securities that are Negative Amortization Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and (ii) the Aggregate Principal Balance of all Collateral Debt Securities that are Negative Amortization Securities that were issued within any six-month period (based on the then-current outstanding balance of such Negative Amortization Securities) does not exceed 2.3% of the Net Outstanding Portfolio Collateral Balance; *provided* that no Negative Amortization Security acquired by the Issuer will have a Moody's Rating below "Aa3" or a Standard & Poor's Rating below "AA-" (at the time of the Issuer's acquisition thereof);

(viii) with respect to Credit Card Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that such Credit Card Securities will only consist of "prime" Credit Card Securities; *provided*, *further*, that no Credit Card Securities acquired by the Issuer will have a Moody's Rating below "Aa3" or a Standard & Poor's Rating below "AA-";

(ix) with respect to Monoline Guaranteed Securities, the Aggregate Principal Balance of such Collateral Debt Securities insured by a single monoline (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that the related guarantor of each such Monoline Guaranteed Security is rated "Aaa" by Moody's and "AAA" by S&P;

(x) with respect to CMBS Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 20.0% of the Net Outstanding Portfolio Collateral Balance;

(xi) with respect to CMBS Credit Tenant Lease Securities and CMBS Single Property Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 1.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that no CMBS Credit Tenant Lease Securities or CMBS Single Property Securities acquired by the Issuer will have a Moody's Rating below "Aaa" or a Standard & Poor's Rating below "AAA" (at the time of the Issuer's acquisition thereof);

(xii) with respect to CMBS Conduit Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that no CMBS Conduit Securities acquired by the Issuer will have a Moody's Rating below "Aa3" or a Standard & Poor's Rating below "AA-" with the exception of 1.0% with Moody's Rating below "Aa3" but higher than "A3" or a Standard & Poor's Rating below "AA-" but higher than "A-";

(xiii) with respect to Commercial Real Estate CDO Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that no Commercial Real Estate CDO Securities acquired by the Issuer will have a Moody's Rating below "Aa3" or a Standard & Poor's Rating below "AA-";

(xiv) with respect to CMBS Large Loan Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; *provided* that no CMBS Large

Loan Securities acquired by the Issuer will have a Moody's Rating below "Aa3" or a Standard & Poor's Rating below "AA-";

(xv) with respect to Structured Finance CDO Securities, (A) the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance and (B) each such Structured Finance CDO Security acquired by the Issuer will have a Moody's Rating of "Aa3" or higher and a Standard & Poor's Rating of "AA-" or higher;

(xvi) with respect to Structured Finance CDO Securities and Commercial Real Estate CDO Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) managed by a single manager, does not exceed 2.75% of the Net Outstanding Portfolio Collateral Balance; *provided* that no Structured Finance CDO Securities and Commercial Real Estate CDO Securities may be managed by the Collateral Manager;

(xvii) with respect to Agency Mortgage-Backed Securities, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance; and

(xviii) with respect to Structured Finance CDO Securities and Commercial Real Estate CDO Securities, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are securities) does not exceed 15.0% of the Net Outstanding Portfolio Collateral Balance;

Frequency of Interest Payments ..... (26) (A) if such security provides for periodic payments of interest in cash less frequently than semi-annually, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 0% of the Net Outstanding Portfolio Collateral Balance, (B) if such security provides for periodic payments of interest in cash less frequently than quarterly, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 2.0% of the Net Outstanding Portfolio Collateral Balance, and (C) if such security provides for periodic payments of interest in cash less frequently than monthly, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 20.0% of the Net Outstanding Portfolio Collateral Balance;

Step-Up Securities / Step-Down Securities..... (27) if such security is a Step-Up Security, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance and if such security is a

Step-Down Security, the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

Collateral Quality Tests..... (28) if such security is acquired on or prior to the Ramp-Up Completion Date, (A) each of the Collateral Quality Tests is satisfied or, if immediately prior to such acquisition one or more of the Collateral Quality Tests was not satisfied, the extent of compliance with each such Collateral Quality Test will be maintained or improved and (B) the Standard & Poor's CDO Monitor Test is satisfied or, if immediately prior to such investment the Standard & Poor's CDO Monitor Test was not satisfied, the result is closer to compliance and the Issuer will have promptly delivered to the Trustee, the Noteholders and the Hedge Counterparties an Officer's certificate specifying the extent to which the Standard & Poor's CDO Monitor Test was not satisfied; *provided* that the Standard & Poor's CDO Monitor Test will not apply to the reinvestment of the proceeds from the sale of any Credit Risk Securities;

Coverage Tests..... (29) each of the Overcollateralization Tests is satisfied and was satisfied as of the immediately preceding Determination Date and each of the Interest Coverage Tests was satisfied as of the immediately preceding Determination Date (after giving effect to all distributions made on the related Distribution Date);

Minimum Number of Obligors..... (30) the number of obligors with obligations constituting part of the Collateral Debt Securities will not be less than 85;

Deemed Floating Collateral Debt Securities..... (31) if such security is a Deemed Floating Collateral Debt Security, such security and the Deemed Floating Asset Hedge Agreement entered into with respect to such security must conform to all the requirements set forth, respectively, in the definitions of "Deemed Floating Collateral Debt Security" and "Deemed Floating Asset Hedge Agreement"; *provided* that the Aggregate Principal Balance of all such Collateral Debt Securities (together with the Aggregate Principal Balance of any Synthetic Securities the Reference Obligations of which are such securities) does not exceed 10.0% of the Net Outstanding Portfolio Collateral Balance; and

Discount Securities..... (32) if such security is a Discount Security, the Aggregate Principal Balance of all such Collateral Debt Securities does not exceed 5.0% of the Net Outstanding Portfolio Collateral Balance;

provided that, on or prior to the Ramp-Up Completion Date, if any of the Collateral Quality Tests, the Coverage Tests (if applicable) or the Eligibility Criteria set forth in paragraphs (5), (10), (20) though (27), (31) and (32) above are not satisfied prior to such investment, such Collateral Quality Tests, Coverage Tests (if applicable) or Eligibility Criteria will be deemed to be satisfied if, after giving effect to such investment, the extent of compliance with such Collateral Quality Tests, Coverage Tests (if applicable) or Eligibility Criteria is maintained or improved; *provided*, *further*, that the Eligibility Criteria are not applicable after the Ramp-Up Completion Date; *provided*, *further*, that each calculation made to determine compliance with the Eligibility Criteria set forth in paragraphs (5), (10), (20) through (27), (31) and (32) above will be made with the assumption that the Net Outstanding Portfolio Collateral Balance will be U.S.$1,010,000,000 on and prior to the Ramp-Up Completion Date. Additionally, each calculation made to determine compliance with the Eligibility Criteria set forth in paragraphs (5) and (25)(i) and (ii) will be made with the inclusion of Principal Proceeds in the numerator.

In order to ensure that the Issuer is not treated as engaged in a U.S. trade or business for U.S. federal income tax purposes, the Issuer and the Collateral Manager will observe certain additional restrictions and limitations on their activities and on the Collateral Debt Securities that may be purchased. Accordingly, although a particular prospective investment may satisfy the Eligibility Criteria, it may be ineligible for purchase by the Issuer and the Collateral Manager as a result of these limitations and restrictions.

Notwithstanding the foregoing, with respect to any series of trades in which the Issuer commits to purchase and/or sell multiple Collateral Debt Securities pursuant to a Trading Plan, compliance with the Eligibility Criteria may, at the option of the Collateral Manager, be measured by determining the aggregate effect of such Trading Plan on the Issuer's level of compliance with the Eligibility Criteria rather than considering the effect of each purchase and sale of such Collateral Debt Securities individually. The Issuer (or the Collateral Manager on its behalf) may enter into a Trading Plan only if (1) as evidenced by an officer's certificate of the Collateral Manager delivered to the Trustee on or prior to the earliest event specified in the related Trading Plan, the Eligibility Criteria are expected to be satisfied as of the scheduled completion date of the related Trading Plan and (2) the level of compliance with each of the Eligibility Criteria that was not satisfied at the time of completion of any prior Trading Plan (if any) is equal to or better than the level of compliance with such Eligibility Criteria prior to the initiation of such previous Trading Plan. Upon completion of a Trading Plan, the Collateral Manager will deliver to the Trustee an officer's certificate of the Collateral Manager specifying whether each of the Eligibility Criteria was satisfied.

If at any time any one Trading Plan that was previously implemented results in the deterioration in the Issuer's level of compliance with any of the Eligibility Criteria, other than due to (x) a failure of a counterparty or issuer to comply with any of its payment or delivery obligations to the Issuer or any other default by such counterparty or issuer for reasons beyond the control of the Issuer or any other terms that were agreed with the Issuer at or prior to the commencement of such Trading Plan or (y) an error or omission of an administrative or operational nature made by any bank, broker-dealer, clearing corporation or other similar financial intermediary holding funds, securities or other property directly or indirectly for the account of the Issuer, notice will be provided to Standard & Poor's and the Issuer will be prohibited from entering into any additional Trading Plans notwithstanding that such Trading Plan was executed in good faith, until the Issuer's level of compliance is restored to its prior level. The time period for each such Trading Plan will be measured from the earliest trade date to the latest trade date of any such amounts. The Collateral Manager may only specify one Trading Plan per trade date. The Collateral Manager will provide notice to Standard & Poor's of any failed Trading Plan. Once compliance is restored to its prior level the Collateral Manager may request, and Standard & Poor's may restore the Issuer's ability to implement Trading Plans.

So long as the Initial Hedge Counterparty is a Hedge Counterparty, certain additional criteria will apply to the purchase of Collateral Debt Securities.

"**Downgraded Security**" means any security other than a CDO Security that (A) was downgraded prior to acquisition by the Issuer (i) no more than two notches from its original public rating by either of the Rating Agencies and (ii) a maximum of one time each by Moody's and Standard & Poor's; and (B) with respect to any such security that has a Moody's Rating of "A2" or a Standard & Poor's Rating of "A", such rating is not on negative watch; *provided* that if such security is upgraded to its original rating following acquisition by the Issuer, at the time of such upgrade such security will no longer be a Downgraded Security.

"**Eligible Servicer**" means any servicer other than CIT, Bombardier, Oakwood and GreenTree/Conseco.

"**Fixed Rate Security**" means any Collateral Debt Security other than a Floating Rate Security or a Synthetic Security.

"**Floating Rate Security**" means any Collateral Debt Security other than a Deemed Floating Collateral Debt Security (a) that is expressly stated to bear interest based upon a floating rate index for U.S. Dollar-denominated obligations commonly used as a reference rate in the United States or the United Kingdom or (b) the interest payments on which are derived primarily from underlying assets that bear interest based on a floating rate index.

"**Initial Rating**" means (i) with respect to the Class A-1 Notes, the Class A-2 Notes and the Class S Notes "Aaa" by Moody's and "AAA" by Standard & Poor's, (ii) with respect to the Class B Notes, "Aa2" by Moody's and "AA" by Standard & Poor's, (iii) with respect to the Class C Notes, "A2" by Moody's and "A" by Standard & Poor's and (iv) with respect to the Class D Notes, "Baa2" by Moody's and "BBB+" by Standard & Poor's.

"**Interest-Only Security**" means any Collateral Debt Security that does not provide for payment or repayment of a stated principal amount in one or more installments on or prior to the date two Business Days prior to the Stated Maturity of the Notes.

"**Issue**" or "**Issue of Collateral Debt Securities**" means securities issued by the same issuer, secured by the same collateral pool having the same terms and conditions (as to, among other things, coupon, maturity, security and subordination).

"**Offer**" means, with respect to any security, (i) any offer by the issuer of such security or by any other person made to all of the holders of such security to purchase or otherwise acquire such security (other than pursuant to any redemption in accordance with the terms of its Underlying Instruments) or to convert or exchange such security into or for cash, securities or any other type of consideration or (ii) any solicitation by the issuer of such security or any other person to amend, modify or waive any provision of such security or any related Underlying Instrument.

"**Principal-Only Security**" means any security (other than a Zero Coupon Bond) that does not provide for the periodic payment of interest.

"**Rating Condition**" means, with respect to any action taken or to be taken under the Indenture or under the Collateral Management Agreement, the Credit Default Swap Agreement or any Hedge Agreement, a condition that is satisfied when each of Moody's and Standard & Poor's (or if expressly so specified in respect of such action, the specified Rating Agency) has confirmed in writing, to the Issuer, the Trustee, each Hedge Counterparty and the Collateral Manager that such action will not result in the withdrawal, reduction or other adverse action with respect to its then-current rating (including any private or confidential ratings or credit estimates) of any Class of Notes.

"**Sale Proceeds**" means all proceeds received as a result of sales of Collateral Debt Securities, Equity Securities, U.S. Agency Securities and Eligible Investments that have been pledged to the Trustee under the Indenture pursuant to a sale thereof in accordance with the provisions of the Indenture, or an Auction, net of any reasonable out-of-pocket expenses of the Collateral Manager and the Trustee in connection with any such sale.

"**Servicer**" means, with respect to any Collateral Debt Security (other than CDO Securities), the entity that, absent any default, event of default or similar condition (however described), is primarily responsible for managing, servicing, monitoring and otherwise administering the cashflows from which payments to investors in such Collateral Debt Security are made. Notwithstanding anything herein to the contrary, the Trustee is not a Servicer with respect to the Issuer.

"**Special Purpose Vehicle Jurisdiction**" means (a) the Cayman Islands, the Bahamas, Bermuda, the Netherlands Antilles, the Channel Islands and (b) any other jurisdiction that is commonly used as the place of organization of special or limited purpose vehicles that issue Asset-Backed Securities (x) that generally imposes no or nominal tax on the income of such special purpose vehicle and (y) the designation of which as a Special Purpose Vehicle Jurisdiction satisfies the Rating Condition.

"**Step-Down Security**" means a security which by the terms of the related Underlying Instrument provides for a decrease, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step-Down Security will not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer or any such security where the decrease is linked to a clean-up call. In calculating the Class AB Pro Rata Test, any Coverage Test (if applicable), or Collateral Quality Test by reference to the spread (in the case of a floating rate Step-Down Security) or coupon (in the case of a fixed rate Step-Down Security) of a Step-Down Security, the spread or coupon on any date will be deemed to be the lowest spread or coupon, respectively, scheduled to apply to such Step-Down Security on or after such date.

"**Step-Up Security**" means a security which by the terms of the related Underlying Instrument provides for an increase, in the case of a fixed rate security, in the per annum interest rate on such security or, in the case of a floating rate security, in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that a Step-Up Security will not include any such security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer or any such security where the increase is linked to a clean-up call. In calculating the Class AB Pro Rata Test, any Coverage Test (if applicable), or Collateral Quality

Test by reference to the spread (in the case of a floating rate Step-Up Security) or coupon (in the case of a fixed rate Step-Up Security) of a Step-Up Security, the spread or coupon on any date will be deemed to be the spread or coupon stated to be payable in cash and in effect on such date.

"**Trading Plan**" means series of sales and/or purchases of Collateral Debt Securities prior to the Ramp-Up Completion Date (a) that is completed within the lesser of 10 Business Days and the period of time between the date on which the first purchase or sale is made pursuant to such Trading Plan and the next succeeding Determination Date and (b) that results in the purchase of Collateral Debt Securities having an Aggregate Principal Balance of not more than 5% of the Net Outstanding Portfolio Collateral Balance. The time period for a Trading Plan will commence on the first date on which the Issuer sells or purchases (or commits to sell or purchase) a Collateral Debt Security included in such Trading Plan and will end on the last day on which the Issuer sells or purchases (or commits to sell or purchase) a Collateral Debt Security included in such Trading Plan.

"**UCC**" means the Uniform Commercial Code as in effect in the State of New York or any other relevant jurisdiction.

"**Zero Coupon Bond**" means a security (other than a Step-Up Security) that, pursuant to the terms of its Underlying Instruments, on the date on which it is purchased by the Issuer, does not provide for the periodic payment of interest or provides that all payments of interest will be deferred until the final maturity thereof.

If the Issuer has previously entered into a commitment to acquire an obligation or security for inclusion in the Collateral, then the Eligibility Criteria need not be satisfied (x) on the date of such acquisition if the Eligibility Criteria were satisfied on the date on which the Issuer entered into such commitment or (y) on the date on which the Issuer entered into such commitment if the Eligibility Criteria were or will be satisfied on the date of such acquisition. However, the Issuer may only enter into commitments to acquire securities for inclusion in the Collateral if such commitments to acquire securities do not extend beyond a 60-day period.

Notwithstanding the foregoing provisions, if an Event of Default will have occurred and be continuing, no Collateral Debt Security may be acquired unless it was the subject of a commitment entered into by the Issuer prior to the occurrence of such Event of Default.

The Issuer may not acquire any Collateral Debt Security unless such acquisition is made on an "arm's-length basis" for fair market value.

The Indenture will specify the means of determining the Principal Balance of certain types of Collateral Debt Securities, including Synthetic Securities.

Asset-Backed Securities

Most of the Collateral Debt Securities will consist of Asset-Backed Securities, including, without limitation, Automobile Securities, Car Rental Receivable Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities, CMBS Single Property Securities, Credit Card Securities, Equipment Leasing Securities, Home Equity Loan Securities, Manufactured Housing Securities, Monoline Guaranteed Securities, Prime RMBS Securities, Mid-Prime RMBS Securities, Sub-Prime RMBS Securities, Structured Finance CDO Securities, Student Loan Securities and Timeshare Securities. Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cashflow from a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities.

The collateral underlying Asset-Backed Securities includes assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations. Issuers of Asset-Backed Securities are primarily banks and finance companies, captive finance subsidiaries of non-financial corporations or specialized originators such as credit card lenders. Credit risk is an important issue in Asset-Backed Securities because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Accordingly, Asset-Backed Securities generally include one or more credit enhancements that are designed to raise the overall credit quality of the security above that of the underlying collateral. Another type of Asset-Backed Security is commercial paper issued by special-purpose entities. Asset-backed commercial paper is usually backed by trade

receivables, though such conduits may also fund commercial and industrial loans. Banks are typically more active as issuers of these instruments than as investors in them.

An Asset-Backed Security is created by the sale of assets or collateral to a conduit, which becomes the legal issuer of the Asset-Backed Securities. The securitization conduit or issuer is generally a bankruptcy-remote vehicle such as a grantor trust or, in the case of an asset-backed commercial paper program, a special-purpose entity. The sponsor or originator of the collateral usually establishes the issuer. Interests in the trust, which embody the right to certain cashflows arising from the underlying assets, are then sold in the form of securities to investors through an investment bank or other securities underwriter. Each Asset-Backed Security has a servicer (often the originator of the collateral) that is responsible for collecting the cashflows generated by the securitized assets—principal, interest and fees net of losses and any servicing costs as well as other expenses—and for passing them along to the investors in accordance with the terms of the securities. The servicer processes the payments and administers the borrower accounts in the pool.

The structure of an Asset-Backed Security and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Often Asset-Backed Securities are structured to reallocate the risks entailed in the underlying collateral (particularly credit risk) into security tranches that match the desires of investors. For example, senior subordinated security structures give holders of senior tranches greater credit risk protection (albeit at lower yields) than holders of subordinated tranches. Under this structure, at least two classes of Asset-Backed Securities are issued, with the senior class having a priority claim on the cashflows from the underlying pool of assets. The subordinated class must absorb credit losses on the collateral before losses can be charged to the senior portion. Because the senior class has this priority claim, cashflows from the underlying pool of assets must first satisfy the requirements of the senior class. Only after these requirements have been met will the cashflows be directed to service the subordinated class.

Asset-Backed Securities also use various forms of credit enhancements to transform the risk-return profile of underlying collateral, including third-party credit enhancements, recourse provisions, overcollateralization and various covenants. Third-party credit enhancements include standby letters of credit, collateral or pool insurance, or surety bonds from third parties. Recourse provisions are guarantees that require the originator to cover any losses up to a contractually agreed-upon amount. One type of recourse provision, usually seen in securities backed by credit card receivables, is the "spread account." This account is actually an escrow account whose funds are derived from a portion of the spread between the interest earned on the assets in the underlying pool of collateral and the lower interest paid on securities issued by the trust. The amounts that accumulate in this escrow account are used to cover credit losses in the underlying asset pool, up to several multiples of historical losses on the particular assets collateralizing the securities. Overcollateralization is another form of credit enhancement that covers a predetermined amount of potential credit losses. It occurs when the value of the underlying assets exceeds the face value of the securities. A similar form of credit enhancement is the cash-collateral account, which is established when a third party deposits cash into a pledged account. The use of cash-collateral accounts, which are considered by enhancers to be loans, grew as the number of highly rated banks and other credit enhancers declined in the early 1990s. Cash-collateral accounts provide credit protection to investors of a securitization by eliminating "event risk," or the risk that the credit enhancer will have its credit rating downgraded or that it will not be able to fulfill its financial obligation to absorb losses. An investment banking firm or other organization generally serves as an underwriter for Asset-Backed Securities. In addition, a credit-rating agency often will analyze the policies and operations of the originator and servicer, as well as the structure, underlying pool of assets, expected cashflows and other attributes of the securities. Before assigning a rating to the issue, the rating agency will also assess the extent of loss protection provided to investors by the credit enhancements associated with the issue.

Although the basic elements of all Asset-Backed Securities are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and down-streamed to investors, how credit losses affect the trust and the return to investors, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the asset-backed instrument) any remaining balance in the accounts may revert to the issuing company and the extent to which the company that is the actual source of the collateral assets is obligated to provide support to the trust or conduit or to the investors. Further issues may arise based on discretionary behavior of the issuer within the terms of the securitization agreement, such as voluntary buybacks from, or contributions to, the

underlying pool of loans when credit losses rise. A bank or other issuer may play more than one role in the securitization process. An issuer can simultaneously serve as originator of loans, servicer, administrator of the trust, underwriter, provider of liquidity and credit enhancer. Issuers typically receive a fee for each element of the transaction they undertake. Institutions acquiring Asset-Backed Securities should recognize that the multiplicity of roles that may be played by a single firm—within a single securitization or across a number of them—means that credit and operational risk can accumulate into significant concentrations with respect to one or a small number of firms.

There are many different varieties of Asset-Backed Securities, often customized to the terms and characteristics of the underlying collateral. The most common types are securities collateralized by revolving credit card receivables, but instruments backed by home equity loans, other second mortgages and automobile finance receivables are also common.

Securities backed by closed-end installment loans are typically the least complex form of asset-backed instruments. Collateral for these Asset-Backed Securities typically includes leases, student loans and automobile loans. The loans that form the pool of collateral for the Asset-Backed Securities may have varying contractual maturities and may or may not represent a heterogeneous pool of borrowers. The trustee does not need to take physical possession of any account documents to perfect a security interest in the receivables under the Uniform Commercial Code. The repayment stream on installment loans is fairly predictable, since it is primarily determined by a contractual amortization schedule. Early repayment on these instruments can occur for a number of reasons, with most tied to the disposition of the underlying collateral (for example, in the case of Asset-Backed Securities backed by automobile loans, the sale of the vehicles). Interest is typically passed through to security holders at a fixed rate that is slightly below the weighted average coupon of the loan pool, allowing for servicing and other expenses as well as credit losses.

Unlike closed-end installment loans, revolving credit receivables involve greater uncertainty about future cashflows. Therefore, Asset-Backed Securities structures using this type of collateral must be more complex to afford investors more comfort in predicting their repayment. Accounts included in the securitization pool may have balances that grow or decline over the life of the Asset-Backed Securities. Accordingly, at maturity of the Asset-Backed Securities, any remaining balances revert to the originator. During the term of the Asset-Backed Securities, the originator may be required to sell additional accounts to the pool to maintain a minimum U.S. Dollar amount of collateral if accountholders pay down their balances in advance of predetermined rates. Credit card securitizations are the most prevalent form of revolving credit Asset-Backed Securities, although home equity lines of credit are a growing source of Asset-Backed Securities collateral. Credit card securitizations are typically structured to incorporate two phases in the life cycle of the collateral: an initial phase during which the principal amount of the securities remains constant and an amortization phase during which investors are paid off. A specific period of time is assigned to each phase. Typically, a specific pool of accounts is identified in the securitization documents, and these specifications may include not only the initial pool of loans but a portfolio from which new accounts may be contributed. The dominant vehicle for issuing securities backed by credit cards is a master trust structure with a "spread account," which is funded up to a predetermined amount through "excess yield"—that is, interest and fee income less credit losses, servicing and other fees. With credit card receivables, the income from the pool of loans—even after credit losses—is generally much higher than the return paid to investors. After the spread account accumulates to its predetermined level, the excess yield reverts to the issuer. Under United States generally accepted accounting principles, issuers are required to recognize on their balance sheet an excess yield asset that is based on the fair value of the expected future excess yield; in principle, this value would be based on the net present value of the expected earnings stream from the transaction. Issuers are further required to revalue the asset periodically to take account of changes in fair value that may occur due to interest rates, actual credit losses and other factors relevant to the future stream of excess yield. The accounting and capital implications of these transactions are discussed further below.

A number of banks have used a structure—a "special-purpose entity"—that is designed to acquire trade receivables and commercial loans from high-quality (often investment-grade) obligors and to fund those loans by issuing (asset-backed) commercial paper that is to be repaid from the cashflow of the receivables. Capital is contributed to the special-purpose entity by the originating bank that, together with the high quality of the underlying borrowers, is sufficient to allow the special-purpose entity to receive a high credit rating. The net result is that the special-purpose entity's cost of funding can be at or below that of the originating bank itself. The special-

purpose entity is "owned" by individuals who are not formally affiliated with the bank, although the degree of separation is typically minimal. These securitization programs enable banks to arrange short-term financing support for their customers without having to extend credit directly. This structure provides borrowers with an alternative source of funding and allows banks to earn fee income for managing the programs. As the asset-backed commercial paper structure has developed, it has been used to finance a variety of underlying loans—in some cases, loans purchased from other firms rather than originated by the bank itself—and as a "remote origination" vehicle from which loans can be made directly. Like other securitization techniques, this structure allows banks to meet their customers' credit needs while incurring lower capital requirements and a smaller balance sheet than if it made the loans directly.

Issuers obtain a number of advantages from securitizing assets, including improving their capital ratios and return on assets, monetizing gains in loan value, generating fee income by providing services to the securitization conduit, closing a potential source of interest-rate risk and increasing institutional liquidity by providing access to a new source of funds. Investors are attracted by the high credit quality of Asset-Backed Securities, as well as their attractive returns.

Asset-Backed Securities carry coupons that can be fixed or floating. Pricing is typically designed to mirror the coupon characteristics of the loans being securitized. The spread will vary depending on the credit quality of the underlying collateral, the degree and nature of credit enhancement and the degree of variability in the cashflows emanating from the securitized loans.

Credit risk arises from (1) losses due to defaults by the borrowers in the underlying collateral and (2) the issuer's or servicer's failure to perform. These two elements can blur together as, for example, in the case of a servicer who does not provide adequate credit-review scrutiny to the serviced portfolio, leading to higher incidence of defaults. Asset-Backed Securities are rated by major rating agencies. Market risk arises from the cashflow characteristics of the security, which for many Asset-Backed Securities tend to be predictable. The greatest variability in cashflows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor in the event that credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk, like that which occurred in 1996 and 1997 with the rise in reported delinquencies and losses on securitized pools of credit cards. Liquidity can also become a major concern for asset-backed commercial paper programs if concerns about credit quality, for example, lead investors to avoid the commercial paper issued by the relevant special-purpose entity. For these cases, the securitization transaction may include a "liquidity facility," which requires the facility provider to advance funds to the relevant special purpose entity should liquidity problems arise. To the extent that the bank originating the loans is also the provider of the liquidity facility, and that the bank is likely to experience similar market concerns if the loans it originates deteriorate, the ultimate practical value of the liquidity facility to the transaction may be questionable. Operations risk arises through the potential for misrepresentation of loan quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer.

Specified Types

For the purpose of determining compliance with the Eligibility Criteria set forth above, the Asset-Backed Securities to be pledged to the Trustee on Closing Date are divided into the following different "**Specified Types**":

"**Agency Mortgage-Backed Securities**" means Collateral Debt Securities that entitle the holder thereof to receive payments that depend on the cashflow from a pool of residential mortgage loans repackaged and guaranteed by one of the following agencies: Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or Government National Mortgage Association (GNMA); *provided*, *however*, that such Collateral Debt Securities will not be materially less stable with respect to average life and prepayment experience than their respective underlying mortgage pass-through securities.

"**CMBS Conduit Securities**" means Asset-Backed Securities (A) issued by a single-seller or multi-seller conduit under which the holders of such Asset-Backed Securities have recourse to a specified pool of assets (but not other assets held by the conduit that support payments on other series of securities) and (B) that entitle the holders

thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a pool of commercial mortgage loans generally having the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors (with the creditworthiness of individual obligors being less material than for CMBS Large Loan Securities and Credit Tenant Lease Securities) and accordingly represent a relatively undiversified pool of obligor credit risk; (4) upon original issuance of such Asset-Backed Securities no five commercial mortgage loans account for more than 55% of the aggregate principal balance of the entire pool of commercial mortgage loans supporting payments on such securities; and (5) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"**CMBS Credit Tenant Lease Securities**" means Asset-Backed Securities (other than CMBS Large Loan Securities and CMBS Conduit Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties leased to corporate tenants (or on the cashflow from such leases). They generally have the following characteristics: (1) the commercial mortgage loans or leases have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the leases are secured by leasehold interests; (4) the commercial mortgage loans or leases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment thereof can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans or termination of leases depending on numerous factors specific to the particular obligors or lessees and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; and (6) the creditworthiness of such corporate tenants is the primary factor in any decision to invest in these securities.

"**CMBS Large Loan Securities**" means Asset-Backed Securities (other than CMBS Conduit Securities and CMBS Credit Tenant Lease Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a pool of commercial mortgage loans made to finance the acquisition, construction and improvement of properties. They generally have the following characteristics: (1) the commercial mortgage loans have varying contractual maturities; (2) the commercial mortgage loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the commercial mortgage loans are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) the valuation of individual properties securing the commercial mortgage loans is the primary factor in any decision to invest in these securities.

"**CMBS Single Property Securities**" means CMBS Large Loan Securities that entitle the holder thereof to receive payments that depend on the cashflow from a single commercial mortgage property.

"**Commercial Real Estate CDO Securities**" means collateralized debt obligations, collateralized bond obligations or collateralized loan obligations (including, without limitation, any synthetic collateralized debt obligations or synthetic collateralized loan obligations) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Commercial Real Estate CDO Securities) on the cash flow from (and not the market value of) a portfolio of securities related to commercial mortgage property.

"**Credit Card Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from balances outstanding under revolving consumer credit

card accounts, generally having the following characteristics: (1) the accounts have standardized payment terms and require minimum monthly payments; (2) the balances are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the accounts are not sub-prime; and (4) the repayment stream on such balances does not depend upon a contractual payment schedule, with early repayment depending primarily on interest rates, availability of credit against a maximum credit limit and general economic matters.

"**Home Equity Loan Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend on the cashflow from balances (including revolving balances) outstanding under loans or lines of credit secured by (primarily, upon origination, by a second priority lien on) one to four family residential real estate the proceeds of which loans or lines of credit are generally not used to, among other things, purchase such real estate or to purchase or construct dwellings thereon (or to refinance indebtedness previously so used); *provided* that (a) such dependence may in addition be conditioned upon rights or additional assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities such as a financial guaranty insurance policy and (b) any Collateral Debt Security falling within this definition will be excluded from the definition of each other Specified Type of Collateral Debt Security.

"**Long-Dated Securities**" means any Collateral Debt Security that matures after October 2047, but not later than October 2052; *provided* that the maturity of any Collateral Debt Security which the holder thereof may, solely at its option, put to the issuer of such Collateral Debt Security at or above par will be the earliest date, as certified to the Trustee, on which such put option may be exercised; *provided, further*, that such Collateral Debt Security has an expected maturity, as determined by the Collateral Manager, acting in accordance with the Standard of Care, prior to October 2047.

"**Mid-Prime RMBS Securities**" means (i) residential mortgage securities that have a FICO score greater than 625 and less than 700 and (ii) residential mortgage securities that do not have a FICO score that have been designated as "Mid-Prime RMBS Securities" by the Collateral Manager in its reasonable discretion.

"**Monoline Guaranteed Securities**" means any Asset-Backed Security of a Specified Type as to which the timely payment of interest when due, and the payment of principal no later than stated legal maturity, is unconditionally guaranteed pursuant to an insurance policy, guarantee or other similar instrument issued by a Monoline Insurer organized under the laws of a state of the United States, but only if such insurance policy, guarantee or other similar instrument (1) expires no earlier than such stated maturity, (2) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) is issued by a Monoline Insurer having a credit rating assigned by a nationally recognized statistical rating organization that currently rates such Asset-Backed Security which is higher than the credit rating assigned by such rating organization to such Asset-Backed Security determined without giving effect to such insurance policy, guarantee or other similar instrument. Notwithstanding anything herein to the contrary, any Collateral Debt Security that qualifies as a Monoline Guaranteed Security will not qualify as any other specified type for so long as such Collateral Debt Security qualifies as a Monoline Guaranteed Security.

"**Prime RMBS Securities**" means (i) residential mortgage securities that have a FICO score of 700 or above and (ii) residential mortgage securities that do not have a FICO score that have been designated as "Prime RMBS Securities" by the Collateral Manager in its reasonable discretion.

"**Real Estate CDO Securities**" means collateral debt securities that entitle the holders thereof to receive payments that depend on the cashflow either from a portfolio of CMBS Securities, Home Equity Loan Securities, Manufactured Housing Securities, RMBS Securities or Timeshare Securities, or from one or more credit default swaps which reference obligors of CMBS Securities, Home Equity Loan Securities, Manufactured Housing Securities, RMBS Securities or Timeshare Securities. For purposes of clarity, "Real Estate CDO Securities" will include Commercial Real Estate CDO Securities.

"**Residential A Mortgage Securities**" means Asset-Backed Securities (other than Residential B/C Mortgage Securities and Home Equity Loan Securities) that entitle the holders thereof to receive payments that depend on the cashflow from residential mortgage loans to prime borrowers secured (substantially on a first priority basis, subject to permitted liens, easements and other encumbrances) by one to four family residential real estate the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon (or to refinance indebtedness previously so used or to take out equity) and generally underwritten to the standards of the Federal National

Mortgage Association and the Federal Home Loan Mortgage Corporation (without regard to the size of the loan); *provided* that such dependence may in addition be conditioned upon rights or additional assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities such as a financial guaranty insurance policy; *provided, further*, that any Collateral Debt Security falling within this definition will be excluded from the definition of each other Specified Type of Collateral Debt Security.

"**Residential B/C Mortgage Securities**" means Asset-Backed Securities (other than Residential A Mortgage Securities and Home Equity Loan Securities) that entitle the holders thereof to receive payments that depend on the cashflow from residential mortgage loans to sub-prime borrowers secured (subject to permitted liens, easements and other encumbrances) by one to four family residential real estate the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon; *provided* that (a) such dependence may in addition be conditioned upon rights or additional assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities such as a financial guaranty insurance policy, (b) the weighted average credit score based on the credit scoring models developed by Fair, Isaac & Company ("**FICO**") with respect to the obligors on all such underlying loans is less than 660 and (c) any Collateral Debt Security falling within this definition will be excluded from the definition of each other Specified Type of Collateral Debt Security.

"**Structured Finance CDO Securities**" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the market value of, credit exposure to, or cashflow from, a portfolio consisting substantially of Asset-Backed Securities (excluding CMBS Securities and CDO Securities).

"**Sub-Prime RMBS Securities**" means (i) residential mortgage securities that have a FICO score of 625 or below and (ii) residential mortgage securities that do not have a FICO score that have not been designated as "Prime RMBS Securities" or "Mid-Prime RMBS Securities" by the Collateral Manager in its reasonable discretion.

"**U.S. Agency Guaranteed Securities**" means any Asset-Backed Security as to which the timely payment of interest when due, and the payment of principal no later than stated legal maturity, is (a) unconditionally guaranteed by a U.S. federal agency backed by the full faith and credit of the United States, but only if such guarantee (1) expires no earlier than such stated maturity and (2) is independent of the performance by the obligor on the relevant Asset-Backed Security or (b) in the judgment of the Collateral Manager (acting in accordance with the Standard of Care) dependent upon the credit of a U.S. federal agency backed by the full faith and credit of the United States; *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other type of Asset-Backed Security.

Specified Type Categories

The Specified Types of Asset-Backed Securities set forth above are divided into the following categories (the designation of each Collateral Debt Security to be determined by the Collateral Manager in its discretion at the time of purchase or commitment to purchase):

"**ABS Type Diversified Securities**" means (1) Automobile Securities; (2) Car Rental Receivable Securities; (3) Credit Card Securities; (4) Student Loan Securities; and (5) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Diversified Securities" in connection therewith.

"**ABS Type Residential Securities**" means (1) Prime RMBS Securities; (2) Mid-Prime RMBS Securities; (3) Sub-Prime RMBS Securities; (4) Manufactured Housing Securities; (5) Time Share Securities and (6) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Residential Securities" in connection therewith.

"**ABS Type Undiversified Securities**" means each Specified Type of Asset-Backed Securities, other than (a) ABS Type Diversified Securities or (b) ABS Type Residential Securities; and any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Undiversified Securities" in connection therewith.

"**CMBS Securities**" means CMBS Conduit Securities, CMBS Credit Tenant Lease Securities, CMBS Large Loan Securities (including CMBS Single Property Securities) and Commercial Real Estate CDO Securities.

"**High-Diversity CDO Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities or any combination of the foregoing, generally having the following characteristics: (1) the bank loans and debt securities have varying contractual maturities; (2) the loans and securities are obligations of obligors or issuers that represent a diversified pool of obligor credit risk having a Moody's diversity score higher than 20 or, if a Moody's asset correlation is provided instead of a Moody's diversity score, a Moody's asset correlation is lower than 15%; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual bank loans or debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional bank loans and/or debt securities.

"**Low-Diversity CDO Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a portfolio of commercial and industrial bank loans, other asset-backed securities or corporate debt securities or any combination of the foregoing, generally having the following characteristics: (1) the bank loans and debt securities have varying contractual maturities; (2) the loans and securities are obligations of a pool of obligors or issuers that represent a relatively undiversified pool of obligor credit risk having a Moody's diversity score of 20 or lower or, if a Moody's asset correlation is provided instead of a Moody's diversity score, a Moody's asset correlation is 15% or higher; (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual bank loans or debt securities depending on numerous factors specific to the particular issuers or obligors and upon whether, in the case of loans or securities bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (4) proceeds from such repayments can for a limited period and subject to compliance with certain eligibility criteria be reinvested in additional bank loans and/or debt securities.

"**RMBS Securities**" means Prime RMBS Securities, Mid-Prime RMBS Securities, Sub-Prime RMBS Securities and Agency Mortgage-Backed Securities.

"**Second Lien Securities**" means RMBS Securities with more than 10% of the underlying loans in such security structured as second liens.

After the Closing Date, any other type of Asset-Backed Security may be designated as a "Specified Type" (and designated as an "ABS Type Diversified Security," an "ABS Type Residential Security," an "ABS Type Undiversified Security," a "High-Diversity CDO Security" or a "Low-Diversity CDO Security") in order to comply with the Rating Agency criteria in a notice from the Collateral Manager to the Trustee so long as (i) the Controlling Class has provided the Trustee with its prior written consent and (ii) Standard & Poor's has confirmed in writing to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition. If any type of Asset-Backed Security will be so designated as an additional Specified Type, the definition of each Specified Type of Asset-Backed Security in existence prior to such designation will be construed to exclude such newly-designated Specified Type of Asset-Backed Security.

Excluded Securities

For the purposes of determining the excluded securities under paragraph (9) of the Eligibility Criteria (the "**Excluded Securities**"), the following terms will have the following meanings:

"**Aircraft Lease Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a portfolio consisting of aircraft leases and subleases, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an

undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage or wear and tear; and (5) the obligations of the lessors or sublessors may be secured not only by the leased equipment but also by other assets of the lessee or sublessee or guarantees granted by third parties, Aircraft Lease Securities include Enhanced Equipment Trust Certificates with respect to aircraft.

"**Automobile Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from installment sale loans made to finance the acquisition of, or from leases of, automobiles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessors and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally do not have a poor credit rating and are not sub-prime; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"**Bank Guaranteed Securities**" means any Asset-Backed Security as to which, (a) if interest thereon is not timely paid when due, or the principal thereof is not timely paid at stated legal maturity, a national banking association organized under United States law or banking corporation organized under the laws of a state of the United States has undertaken in an irrevocable letter of credit or other similar instrument to make such payment against the presentation of documents, but only if such letter of credit or similar instrument (1) expires no earlier than such stated maturity (or contains "evergreen" provisions entitling the beneficiary thereof to draw the entire undrawn amount thereof upon the failure of the expiration date of such letter of credit or other similar instrument to be extended beyond its then current expiry date), (2) provides that payment thereunder is independent of the performance by the obligor on the relevant Asset-Backed Security and (3) was issued by a bank having a credit rating assigned by each nationally recognized statistical rating organization that currently rates such Asset-Backed Security higher than the credit rating assigned by such rating organization to such Asset-Backed Security, determined without giving effect to such letter of credit or similar instrument or (b) the timely payment of interest on, or the payment of principal of at stated legal maturity is, in the judgment of the Collateral Manager (acting in accordance with the Standard of Care), dependent upon an irrevocable letter of credit or other similar instrument undertaken by a national banking association organized under United States law or a banking corporation organized under the laws of a state of the United States; *provided* that any Asset-Backed Security falling within this definition will be excluded from the definition of each other Specified Type of Asset-Backed Security.

"**Bank Trust Preferred CDO Securities**" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cashflow from a pool of trust preferred securities issued by a wholly-owned trust subsidiary of a U.S. financial institution which uses the proceeds of such issuance to purchase a portfolio of debt securities issued by its parent. They generally have the following characteristics: (1) the trust securities are non-amortizing preferred stock securities; (2) the trust securities have a 30-year maturity with a 5- or 10-year non-call period; and (3) the trust securities are subordinated debt.

"**Car Rental Receivable Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from leases and subleases of vehicles to car rental systems (such as Hertz, Avis, National, Dollar, Budget, etc.) and their franchisees, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the subleases are obligations of numerous franchisees and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee or third party of the underlying vehicle; and (4) such leases or subleases typically provide for the right of the lessee or

sublessee to purchase the vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"**Catastrophe Bonds**" means Asset-Backed Securities that entitle the holders thereof to receive a fixed principal or similar amount and a specified return on such amount, generally having the following characteristics: (1) the issuer of such Asset-Backed Security has entered into a swap, insurance contract or similar arrangement with a counterparty pursuant to which such issuer agrees to pay amounts to the counterparty upon the occurrence of certain specified events, including but not limited to: hurricanes, earthquakes and other events; and (2) payments on such Asset-Backed Security depend primarily upon the occurrence and/or severity of such events.

"**CDO of CDO Securities**" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the credit exposure to, or cashflow from, a portfolio consisting of other CDO Securities the aggregate principal balance of which is greater than 35% of the aggregate principal balance of such portfolio. For the avoidance of doubt, CDO of CDO Securities includes Synthetic CDO of CDO Securities.

"**Chassis Leasing Securities**" means Asset-Backed Securities (other than Aircraft Lease Securities, Natural Resource Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from leases and subleases of chassis (other than automobiles) to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying chassis; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the chassis for their stated residual value, subject to payments at the end of lease term for excess usage.

"**CLO Securities**" means Collateral Debt Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Collateral Debt Securities) on the cashflow from a portfolio that includes any commercial and industrial bank loans which are generally rated by Moody's and Standard & Poor's.

"**Combination Securities**" means securities that consist of (or payments on and the rating of such security are based on the payments on) two or more other CDO Securities issued by the same issuer.

"**Container Leasing Securities**" means Asset-Backed Securities (other than Aircraft Lease Securities, Natural Resource Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from leases and subleases of containers to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying containers; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the containers for their stated residual value, subject to payments at the end of lease term for excess usage.

"**Corporate CDO Securities**" means (a) with respect to Collateral Debt Securities acquired by the Issuer on the Closing Date, CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the market value of, credit exposure to, or cashflow from, a portfolio with respect to which the aggregate principal balance of corporate debt securities (other than CLO Securities) included therein is greater than 10% of the aggregate principal balance of such portfolio; and (b) with respect to Collateral Debt Securities acquired by the Issuer after the Closing Date, CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the market value of, credit exposure to, or cashflow from, a portfolio with respect to which the

aggregate principal balance of (x) CLO Securities, (y) corporate debt securities and (z) CDO Securities more than 50% of the aggregate principal balance of which consist of corporate debt securities, included therein is, in the aggregate, greater than 10% of the aggregate principal balance of such portfolio.

"**Corporate Guaranteed Security**" means any Asset-Backed Security with respect to which the current rating thereof from any Rating Agency is primarily dependent upon a guarantee of such security by any entity other than a monoline insurer or a multi-line insurer.

"**Corridor Floating Rate Security**" means a floating rate RMBS Security (i) whose collateral is composed of at least 50% or more of 15 year or greater fixed rate term residential mortgages and (ii) such floating rate security has a cap equal to the weighted average coupon of the mortgage collateral (regardless of any yield maintenance agreement or caps).

"**Emerging Market Security**" means any security (i) the obligor of which is an Emerging Market Obligor; or (ii) that is a Structured Finance CDO Security the underlying instruments of which permit more than 20% of its assets to be invested in securities the obligors of which are Emerging Market Obligors; or (iii) that is a Synthetic Security based in whole or in part on a security described in clause (i) or (ii) above. "**Emerging Market Obligor**" means any obligor of a security (i) that is organized under the laws of an Emerging Market Country, Japan, Taiwan or Singapore or (ii) that is a Sovereign (whether or not a Sovereign issuer) or another governmental issuer of an Emerging Market Country, Japan, Taiwan or Singapore; *provided*, *however*, that this definition may be revised (i) with the prior written approval of a majority of the Aggregate Outstanding Amount of the Controlling Class and (ii) upon satisfaction of the Rating Condition with respect to such revision. "**Emerging Market Country**" means any Sovereign jurisdiction the long-term U.S. Dollar denominated Sovereign debt obligations of which are rated below "Aa2" by Moody's or the foreign currency issuer credit rating of such jurisdiction is rated below "AA" by Standard & Poor's. "**Sovereign**" means, when used with respect to any country or obligations, the central or federal executive or legislative governmental authority of such country or, insofar as any obligations are concerned, any agency or instrumentality of such governmental authority (including any central bank or central monetary authority) to the extent such obligations are fully backed by the general taxing power of such governmental authority.

"**Enhanced Equipment Trust Certificate**" means the senior tranche of an Equipment Trust Certificate, the subordinated tranche of which forms the equity of the ETC Issuer.

"**Equipment Leasing Securities**" means Asset-Backed Securities (other than Aircraft Lease Securities, Natural Resource Securities and Restaurant and Food Services Securities) that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from leases and subleases of equipment (other than automobiles) to commercial and industrial customers, generally having the following characteristics: (1) the leases and subleases have varying contractual maturities; (2) the leases or subleases are obligations of a relatively limited number of obligors and accordingly represent an undiversified pool of obligor credit risk; (3) the repayment stream on such leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon the disposition to a lessee, sublessee or third party of the underlying equipment; and (4) such leases or subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of lease term for excess usage.

"**Equipment Trust Certificates**" means Asset-Backed Securities in the form of equipment trust certificates, including enhanced equipment trust certificates and pass-through equipment trust certificates, issued by, or supported by obligations of, issuers that are subject, or are wholly-owned subsidiaries of parent companies that are subject (in which case such parent companies have fully and unconditionally guaranteed such obligations on a subordinate or non-subordinate basis), to the informational requirements of the Exchange Act and, in accordance therewith, file reports and other information with the United States Securities and Exchange Commission. Equipment Trust Certificates are generally issued, in one or more classes, by a trust or other special purpose legal entity that owns equipment or by an owner/operator of the equipment, including airlines (an "**ETC Issuer**"). Such obligations of the ETC Issuers are secured by mortgages of the equipment and, in the case of special purpose ETC Issuers, typically are supported by assignments of lease payments on equipment under leases to operators of the equipment. Pass-through Equipment Trust Certificates are issued by a trust or other special purpose legal entity that holds Equipment Trust Certificates of other ETC Issuers.

"**Floorplan Receivable Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) upon assets that will consist of a revolving pool of receivables arising from the purchase and financing by domestic retail motor vehicle dealers for their new and used automobile and light-duty truck inventory. The receivables are comprised of principal receivables and interest receivables. In addition to receivables arising in connection with designated accounts, the trust assets may include interests in other floorplan assets, such as: (1) participation interests in pools of assets existing outside the trust and consisting primarily of receivables arising in connection with dealer floorplan financing arrangements originated by a manufacturer or one of its affiliates; (2) participation interests in receivables arising under dealer floorplan financing arrangements originated by a third party and participated to a manufacturer; (3) receivables originated by a manufacturer under syndicated floorplan financing arrangements between a motor vehicle dealer and a group of lenders; or (4) receivables representing dealer payment obligations arising from purchases of vehicles.

"**Franchise Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such Asset-Backed Securities) primarily on the cashflow from balances outstanding on franchise loans secured by the cashflow generated at franchise or chain-store establishments, typically fast-food chains, service stations, convenience stores or funeral homes, as well as liens on real estate, furniture, fixtures and equipment, the proceeds of which were used to acquire, refinance or create a source of working capital for such franchise establishments, generally having the following characteristics: (1) the franchise loans have standardized payment terms and require minimum monthly payments; (2) the franchise loans are obligations of numerous borrowers and accordingly represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the franchise loans are repaid; and (4) environmental liabilities and legal liabilities of the franchisees may affect their ability to repay the franchise loans.

"**Future Flow Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) upon the receipt of accounts receivable generated by ongoing business of the issuer. The proceeds from the Future Flow Securities are typically used to improve or increase business capacity for which all or a portion of the future cash generated from the business is pledged.

"**Healthcare Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from (i) leases and subleases of equipment to hospitals, non-hospital medical facilities, physicians and physician groups for use in the provision of healthcare services or (ii) Medicare, Medicaid or any other third-party payor receivables related to medical, hospital or other health care related expenses, charges or fees.

"**High-Yield CDO Securities**" means CDO Securities which entitle the holders thereof to receive payments that depend primarily on the cashflow from a portfolio of corporate bond securities that are obligations of issuers that have a Moody's Rating below "Baa3". For purposes of clarity, "High-Yield CDO Securities" will not include High-Yield CLO Securities.

"**High-Yield CLO Securities**" means CLO Securities which entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such CLO Securities) on the cash flow from a portfolio that includes any commercial and industrial bank loans that are obligations of issuers that have a Moody's Rating below "Baa3".

"**Insurance Trust Preferred CDO Securities**" means CDO Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the CDO Securities) on the cashflow from a pool of trust preferred securities issued by a wholly-owned trust subsidiary of an insurance holding company which uses the proceeds of such issuance to purchase a portfolio of debt securities issued by its parent. They generally have the following characteristics: (1) the trust securities are non-amortizing preferred stock securities; (2) the trust securities have a 30-year maturity with a 5- or 10- year non-call period; and (3) the trust securities are subordinated debt.

"**Investment Grade CDO Securities**" means CDO Securities with respect to which at least 80% of the assets in the underlying pool are corporate bonds and/or leveraged loans rated "Baa3" or higher by Moody's and "BBB-" or higher by both Standard & Poor's and Fitch (in each case, if rated by such rating agency). For the avoidance of doubt, Investment Grade CDO Securities does not include Synthetic Investment Grade CDO Securities.

"**Lottery Receivable Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) upon an arrangement which compensates a winner of a state lottery with one lump sum payment in exchange for a pledge of the lottery payments that individual would have received over a future period of time. Therefore, Lottery Receivable Securities are backed by a diversified pool of payments received from various state lottery commissions in exchange for a lump sum payment to a bona fide winner of a given state lottery.

"**Manufactured Housing Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from manufactured housing (also known as mobile homes and prefabricated homes) installment sales contracts and installment loan agreements, generally having the following characteristics: (1) the contracts and loan agreements have varying, but typically lengthy contractual maturities; (2) the contracts and loan agreements are secured by the manufactured homes and, in certain cases, by mortgages and/or deeds of trust on the real estate to which the manufactured homes are deemed permanently affixed; (3) the contracts and/or loans are obligations of a large number of obligors and accordingly represent a relatively diversified pool of obligor credit risk; (4) repayment thereof can vary substantially from the contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium; and (5) in some cases, obligations are fully or partially guaranteed by a governmental agency or instrumentality.

"**Market Value Securities**" means any securities (other than Synthetic Securities) that entitle the holders thereof to receive payments that depend primarily on the cashflow from a portfolio comprised predominantly of debt securities, generally having the following characteristics: (1) the debt securities have varying contractual maturities; (2) the securities are obligations of a relatively limited number of issuers and accordingly represent a relatively undiversified pool of obligor credit risk; (3) repayment of the underlying securitized assets can vary substantially from their contractual payment schedules (if any), with prepayment depending on numerous factors specific to the particular issuers and upon whether, in the case of securities bearing interest at a fixed rate, such securities include an effective call option and/or prepayment penalties; (4) the underlying securitized assets are managed on behalf of the issuer by a collateral manager, who typically has the right to trade a portion of the portfolio; (5) during a reinvestment period (typically three to five years) principal collections are reinvested in additional securities; (6) proceeds from such prepayments can, subject to compliance with certain eligibility criteria, be reinvested in additional debt securities; and (7) the overcollateralization with respect to any such Asset-Backed Security is measured by the market value of its underlying portfolio of securities.

"**Mutual Fund Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a pool of brokerage fees and costs relating to various mutual funds, generally having the following characteristics: (1) the brokerage arrangements have standardized payment terms and require minimum payments; (2) the brokerage fees and costs arise out of numerous mutual funds and accordingly represent a very diversified pool of credit risk; and (3) the collection of brokerage fees and costs can vary substantially from the contractual payment schedule (if any), with collection depending on numerous factors specific to the particular mutual funds, interest rates and general economic matters.

"**Natural Resource Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from the sale of products derived from the right to harvest, mine, extract or exploit a natural resource such as timber, oil, gas and minerals, generally having the following characteristics: (1) the contracts have standardized payment terms; (2) the contracts are the obligations of a few consumers of natural resources and accordingly represent an undiversified pool of credit risk; and (3) the repayment stream on such contracts is primarily determined by a contractual payment schedule.

"**Net Interest Margin Securities**" means Asset Backed Securities that generally entitle the holders thereof to receive payments that depend primarily on one or more of the excess spread cashflow, prepayment penalty cashflow, derivative-related cashflow and other residual cashflow from one or more separate or related securitizations; *provided* that for the avoidance of doubt, a Synthetic Security is not a Net Interest Margin Security.

"**Project Finance Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from (1) the sale of products, such as electricity, nuclear energy, steam or water, in the utility industry by a special purpose entity formed to own the assets generating or otherwise producing such products and such assets were or are being constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited recourse basis (including recourse to such assets and the land on which they are located) or (2) fees or other usage charges, such as tolls collected on a highway, bridge, tunnel or other infrastructure project, collected by a special purpose entity formed to own one or more such projects that were constructed or otherwise acquired primarily with the proceeds of debt financing made available to such entity on a limited-recourse basis (including recourse to the project and the land on which it is located).

"**Recreational Vehicle Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from installment sale loans made to finance the acquisition of, or from leases of, recreational vehicles, generally having the following characteristics: (1) the loans or leases may have varying contractual maturities; (2) the loans or leases are obligations of numerous borrowers or lessees and accordingly represent a very diversified pool of obligor credit risk; (3) the borrowers or lessees under the loans or leases generally do not have a poor credit rating; (4) the repayment stream on such loans or leases is primarily determined by a contractual payment schedule, with early repayment on such loans or leases predominantly dependent upon the disposition of the underlying vehicle; and (5) such leases typically provide for the right of the lessee to purchase the recreational vehicle for its stated residual value, subject to payments at the end of lease term for excess mileage or use.

"**Reinsurance Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend in part on the premiums from reinsurance policies held by a special purpose vehicle created for such purpose, generally having the following characteristics: (1) proceeds from the security are invested in a collateral account; (2) such collateral account is subject to claims from the reinsurance policies; and (3) the repayment of principal of the security is dependent on the exercise of the reinsurance policies.

"**REIT Debt Security**" means a debt security issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision).

"**REIT Trust Preferred CDO Security**" means an Asset-Backed Security issued by an entity formed for the purpose of holding or investing and reinvesting in a pool of trust preferred securities issued by a real estate investment trust (as defined in Section 856 of the Code or any successor provision).

"**Restaurant and Food Services Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from (a) a pool of franchise loans made to operators of franchises that provide goods and services relating to the restaurant and food services industries and (b) leases or subleases of equipment to such operators for use in the provision of such goods and services. They generally have the following characteristics: (1) the loans, leases or subleases have varying contractual maturities; (2) the loans are secured by real property purchased or improved with the proceeds thereof (or to refinance an outstanding loan the proceeds of which were so used); (3) the obligations of the lessors or sublessors of the equipment may be secured not only by the leased equipment but also the related real estate; (4) the loans, leases and subleases are obligations of a relatively limited number of obligors and accordingly represent a relatively undiversified pool of obligor credit risk; (5) payment of the loans can vary substantially from the contractual payment schedule (if any), with prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans include an effective prepayment premium; (6) the repayment stream on the leases and subleases is primarily determined by a contractual payment schedule, with early termination of such leases and subleases predominantly dependent upon

the disposition to a lessee, a sublessee or third party of the underlying equipment; (7) such leases and subleases typically provide for the right of the lessee or sublessee to purchase the equipment for its stated residual value, subject to payments at the end of a lease term for excess usage or wear and tear; and (8) the ownership of a franchise right or other similar license and the creditworthiness of such franchise operators is the primary factor in any decision to invest in these securities.

"**RMBS Toggle Floater Security**" means any floating rate security that has a complex condition on its floating rate, including, for example, but not limited to the following "months 1-96": one-month LIBOR+1.00% capped at 7%, after month 96: one-month LIBOR+1.00% capped at 7% with a coupon of 0.00% any month that one-month LIBOR exceeds 6.50%.

"**Small Business Loan Securities**" means Asset Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset Backed Securities) on the cashflow from general purpose corporate loans made to independently owned and operated businesses organized for profit which have not been dominant in their field of operation on a national basis or "small business concerns" (within the meaning given to such term by regulations of the United States Small Business Administration), including but not limited to those (a) made pursuant to Section 7(a) of the United States Small Business Act, as amended, and (b) partially guaranteed by the United States Small Business Administration. Small Business Loan Securities generally have the following characteristics: (1) the loans may have payment terms that comply with any applicable requirements of the Small Business Act, as amended; (2) the loans are obligations of a relatively limited number of borrowers and accordingly represent an undiversified pool of obligor credit risk; and (3) repayment thereof can vary substantially from the contractual payment schedule (if any), with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium.

"**Static Synthetic Investment Grade CDO Securities**" means Collateral Debt Securities the underlying assets of which are credit default swaps or total return swaps the reference obligations of which are investment grade corporate entities; *provided* that the parties to such credit default swaps or total return swaps are not permitted to change the reference entities, together with collateral held by the issuer thereof primarily as collateral to secure its obligations under the swaps.

"**Structured Settlement Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from receivables representing the right of litigation claimants to receive future scheduled payments under settlement agreements that are funded by annuity contracts, which receivables may have varying maturities.

"**Student Loan Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from loans made to students (or their parents) to finance educational needs, generally having the following characteristics: (1) the loans have standardized terms; (2) the loans are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; (3) the repayment stream on such loans is primarily determined by a contractual payment schedule, with early repayment on such loans predominantly dependent upon interest rates and the income of borrowers following the commencement of amortization; and (4) such loans may be fully or partially insured or reinsured by the United States Department of Education.

"**Synthetic CDO of CDO Securities**" means Collateral Debt Securities the underlying assets of which are credit default swaps or total return swaps the reference obligations of which are CDO Securities, together with collateral held by the issuer thereof primarily as collateral to secure its obligations under the swaps.

"**Synthetic Investment Grade CDO Securities**" means Collateral Debt Securities the underlying assets of which are credit default swaps or total return swaps the reference obligations of which are investment grade corporate entities, together with collateral held by the issuer thereof primarily as collateral to secure its obligations under the swaps.

"**Synthetic Mono-Tranche Securities**" means Synthetic Securities that represent the only tranche of securities issued by the issuer in the same offering.

"**Tax Lien Securities**" means Asset-Backed Securities that entitle the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities) on the cashflow from a pool of tax obligations owed by businesses and individuals to state and municipal governmental taxing authorities, generally having the following characteristics: (1) the obligations have standardized payment terms and require minimum payments; (2) the tax obligations are obligations of numerous borrowers and accordingly represent a very diversified pool of obligor credit risk; and (3) the repayment stream on the obligation is primarily determined by a payment schedule entered into between the relevant tax authority and obligor, with early repayment on such obligation predominantly dependent upon interest rates and the income of the obligor following the commencement of amortization.

"**Timeshare Securities**" means Asset-Backed Securities (other than Prime RMBS Securities, Mid-Prime RMBS Securities, Sub-Prime RMBS Securities and Home Equity Loan Asset-Backed Securities) that entitle the holders thereof to receive payments that depend primarily on the cashflow from residential mortgage loans (secured on a first priority basis, subject to permitted liens, easements and other encumbrances) by residential real estate the proceeds of which were used to purchase fee simple interests in timeshare estates in units in a condominium, generally having the following characteristics: (1) the mortgage loans have standardized payment terms and require minimum monthly payments; (2) the mortgage loans are obligations of numerous borrowers and, accordingly, represent a diversified pool of obligor credit risk; (3) repayment of such securities can vary substantially from their contractual payment schedules and depends entirely upon the rate at which the mortgage loans are repaid; and (4) the repayment of such mortgage loans is subject to a contractual payment schedule, with early prepayment of individual loans depending on numerous factors specific to the particular obligors and upon whether, in the case of loans bearing interest at a fixed rate, such loans or securities include an effective prepayment premium and with early repayment depending primarily on interest rates and the sale of the mortgaged real estate and related dwelling and generally no penalties for early repayment.

"**Tobacco Litigation Security**" means any security that entitles the holder thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such security) on the cashflow from a tobacco litigation settlement annuity or lawyers' fees associated with a tobacco litigation settlement, generally having the following characteristics: (1) the receivables are backed by existing tobacco litigation settlement annuity contracts or lawyers' fee contracts; (2) the receivables are subject to the credit risk of the provider of such tobacco litigation settlement annuity or payments of lawyers' fees; and (3) the receivables represent obligations from a limited number of obligors and accordingly represent an undiversified pool of obligor credit risk.

RMBS Securities

Approximately 85% of the Collateral Debt Securities, as of the Closing Date, will consist of RMBS Securities meeting the Eligibility Criteria described herein, including Synthetic Securities the Reference Obligations of which are RMBS Securities. The collateral underlying RMBS Securities generally consists of a large, diversified pool of mortgage loans secured by one-to four-family residential properties. The residential mortgage loans themselves may earn interest at fixed, floating or hybrid rates, and provide for full amortization, negative amortization or partial amortization of principal with a balloon payment at maturity.

RMBS Securities may have structural characteristics that distinguish them from other Asset-Backed Securities. The rate of interest payable on RMBS Securities may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap." As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Servicemembers' Civil Relief Act of 2003 (the "**Relief Act**") provides relief for soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% per annum.

Residential mortgage-backed transactions may provide that the resulting interest shortfalls be applied to reduce the entitlement of securityholders to payment of such amounts. Furthermore, such reduction in entitlement to interest payments may be allocated on a *pro rata* basis among all classes of securities, irrespective of their relative seniority.

A number of transactions are structured without overcollateralization. If the interest rate payable on the securities is capped at the coupon on the mortgage loan pool, there will not be any excess spread available to cover losses. The sole source of credit support available to a class of securityholders is provided by subordination of more junior classes of securities. Principal on the securities will be written down by losses on the mortgage loan pool, in inverse order of priority. Writedown of the Principal Balance of a class of securities reduces the amount of interest that would otherwise have been payable to such class at the applicable coupon. In addition, underlying mortgage loans may be segregated into two or more mortgage loan subpools, each of which provides funds for payment of one or more designated classes of securities. These classes may not be fully cross-collateralized. As a result, higher losses and delinquencies experienced by a mortgage loan subpool may have a disproportionate effect on certain classes of securities, although the total underlying mortgage loan pool may be performing within expectations.

RMBS Securities may be in the form of certificates of beneficial ownership of the underlying mortgage loan pool. These securities are entitled to payments provided for in the underlying agreement only when and if funds are generated by the underlying mortgage loan pool. The likelihood of return of interest and principal may be assessed as a credit matter. However, securityholders do not have the legal status of secured creditors, and cannot accelerate a claim for payment on their securities, or force a sale of the mortgage loan pool in the event that insufficient funds exist to pay such amounts on any date designated for such payment. The sole remedy available to such securityholders would be removal of the servicer of the mortgage loans.

Local and national economic and demographic factors will impact prepayment rates on residential mortgage loans. Declining interest rates, job transfers and changes in housing needs may result in increased prepayments resulting from loan refinancing or from sale of the underlying mortgaged property. Increased interest rates and unemployment may increase default rates. Decreases in real estate values will result in increases in losses realized on foreclosure on the mortgaged properties following such defaults. Uninsurable natural disasters, such as earthquakes, hurricanes, and floods may also increase delinquencies and defaults and, ultimately, losses realized on foreclosure on the underlying mortgaged property. Residential mortgage loan pools with high concentrations in areas impacted by demographic shifts, economic changes and natural disasters will be disproportionately affected by resulting delinquencies, prepayments and losses.

Political events can also impact the performance of a residential mortgage loan pool. Military action by the United States in Iraq and other regions will affect the impact of the Relief Act on interest payable on a pool of residential mortgage loans. Terrorist attacks in the United States may result in federal agencies and servicer's deferring, reducing or forgiving payments or delaying foreclosure proceedings with respect to mortgagors adversely affected by possible future events.

Certain interest rate features of many mortgage loans may increase credit, liquidity and interest rate risk with respect to residential mortgage-backed transactions. Mortgage loans may be structured with balloon payments, which increase the likelihood of default by the borrower at maturity. A number of mortgage loans convert from fixed to floating rates after a fixed period of time or may, at the option of the borrower, be converted to another rate. In addition, floating rate mortgage loans may be priced off of a wide variety of interest rates, which make it difficult to predict expected future interest on a mortgage loan portfolio. Certain mortgage loans contain negative amortization provisions which result in capitalization of interest. In certain residential mortgage-backed transactions, negative amortization of mortgage loans in the underlying mortgage pool will result in an equivalent increase in the Principal Balance of the RMBS Securities themselves, effectively resulting in capitalization of interest on the RMBS Securities.

Some sub-prime residential mortgage loan transactions include mortgage loans with high loan-to-value ratios and/or junior lien positions, which will affect loss severity on the occurrence of a default. Consumer laws pose additional risks to transactions backed by mortgage loans to borrowers with poor credit ratings. These mortgage loans typically carry higher rates of interest and may be classified as "high cost loans." High cost loans may be subject to certain rules, disclosure requirements and other provisions added to the federal Truth-in Lending Act by the Home Ownership Protection Act of 1994 and similar state laws. Other federal and state laws also regulate

disclosure and lending practices with respect to residential mortgage loans. See "*Risk Factors—Residential Mortgage-Backed Securities*." Purchasers of high-cost loans, including the issuer of an RMBS Security, could be liable for all claims and subject to all defenses that the borrower could assert against the originator of the mortgage loan.

Synthetic Securities

Approximately 22% of the Collateral Debt Securities, as of the Closing Date, will consist of consist of Synthetic Securities entered into between the Issuer and a Synthetic Security Counterparty (each a "**Synthetic Security Counterparty**"), and it is anticipated that a large portion of the Synthetic Securities entered into by the Issuer will consist of CDS Agreement Transactions entered into with the Credit Default Swap Counterparty.

"**Permitted Reference Obligation**" means any Asset-Backed Security that is a Specified Type of Asset-Backed Security and which, if purchased by the Issuer, would satisfy the Eligibility Criteria.

"**Reference Obligation**" means a Permitted Reference Obligation in respect of which the Issuer has obtained a Synthetic Security. "**Reference Obligor**" means the obligor on a Reference Obligation.

In connection with the acquisition of a Synthetic Security that provides for the grant to the related Synthetic Security Counterparty of a security interest in cash or Eligible Investments (and the proceeds thereof) in lieu of all or a portion of the purchase price of such Synthetic Security, the Issuer may grant to the counterparty to such Synthetic Security a first priority security interest in cash and Eligible Investments (and the proceeds thereof) designated by the Issuer and deposited in a Synthetic Security Counterparty Account, which may be invested as provided in the terms of such Synthetic Security, and the proceeds of which may be applied to make periodic payments to the Synthetic Security Counterparty under such Synthetic Security. The grant of such security interest will be treated as the payment of a purchase price equal to the value of the cash and Eligible Investments covered by such grant, and the Issuer's obligations to make periodic payments under such Synthetic Security (to the extent recourse for such obligations is limited to such Synthetic Security Counterparty Account) will be disregarded for purposes of determining compliance with the Eligibility Criteria. Withdrawals from such Synthetic Security Counterparty Account will be made in accordance with the terms of the related Synthetic Security.

In connection with (or after) the acquisition of a Synthetic Security, the related Synthetic Security Counterparty may grant to the Issuer a first priority security interest in cash and Eligible Investments (and the proceeds thereof) designated by the related Synthetic Security Counterparty and deposited in an Issuer Collateral Account, which may be invested in accordance with the terms of such Synthetic Security, and the proceeds of which may be applied to make periodic payments to the Issuer under such Synthetic Security. Withdrawals from such Issuer Collateral Account will be made in accordance with the terms of the related Synthetic Security.

Investments in Synthetic Securities present risks in addition to those associated with other types of Collateral Debt Securities. See "*Risk Factors—Nature of Collateral*" and "*—Synthetic Securities*."

The Collateral Quality Tests

The "**Collateral Quality Tests**" will be used primarily as criteria for purchasing Collateral Debt Securities on or prior to the Ramp-Up Completion Date. See "*—Eligibility Criteria*." The Collateral Quality Tests will consist of the Moody's Asset Correlation Test, the Moody's Weighted Average Rating Test, the Moody's Minimum Weighted Average Recovery Rate Test, the Weighted Average Spread Test, the Weighted Average Coupon Test, the Weighted Average Life Test, the Standard & Poor's CDO Monitor Test and the Standard & Poor's Minimum Weighted Average Recovery Rate Test described below.

Measurement of the degree of compliance with the Collateral Quality Tests will be required on each Measurement Date on or after the Ramp-Up Completion Date. For purposes of the Collateral Quality Tests and acquisition price a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the related Reference Obligation (except for the principal balance) (and the issuer thereof will be deemed to be the related Reference Obligor); *provided* that for purposes of the Weighted Average Spread Test, Weighted Average Coupon Test, Weighted Average Life Test and for determining the Moody's Rating and the Standard & Poor's

Rating of a Synthetic Security, a Synthetic Security will be included as a Collateral Debt Security having the characteristics of the relevant Synthetic Security.

Moody's Asset Correlation Test. The "**Moody's Asset Correlation Test**" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Moody's Asset Correlation Factor (calculated based on a model that assumes 130 separate obligors) is less than or equal to 23% on such Measurement Date. The "**Moody's Asset Correlation Factor**" is a percentage determined in accordance with any of the one or more asset correlation methodologies provided from time to time to the Collateral Manager and the Trustee by Moody's as selected by the Collateral Manager in its sole discretion; *provided* that the Collateral Manager will give reasonably detailed instructions to the Trustee based on consultations between the Trustee, the Collateral Manager and Moody's as to the application of such methodology.

Moody's Weighted Average Rating Test. The "**Moody's Weighted Average Rating Test**" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date if the Moody's Weighted Average Rating Factor of the Collateral Debt Securities is less than or equal to a numerical value of 50.

The "**Moody's Weighted Average Rating Factor**" on any Measurement Date is the number determined by *dividing* (i) the sum of the series of products obtained for Collateral Debt Securities (other than Defaulted Securities, Written-Down Securities and Equity Securities) by *multiplying* (a) the Aggregate Principal Balance of such Collateral Debt Security on such Measurement Date of each such Collateral Debt Security by (b) its respective Moody's Rating Factor on such Measurement Date, *by* (ii) the Aggregate Principal Balance of all Collateral Debt Securities (other than Defaulted Securities, Written-Down Securities and Equity Securities) on such Measurement Date, rounding up to the nearest whole number.

The "**Moody's Rating Factor**" relating to any Collateral Debt Security is the number set forth in the table below opposite the Moody's Rating of such Collateral Debt Security:

Moody's Rating	Moody's Rating Factor	Moody's Rating	Moody's Rating Factor
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Moody's Weighted Average Rating Test, if a Collateral Debt Security does not have a Moody's Rating assigned to it at the date of acquisition thereof, the Moody's Rating Factor with respect to such Collateral Debt Security will be 10,000 for a period of 90 days from the acquisition of such Collateral Debt Security, and after such 90-day period, if such Collateral Debt Security is not rated by Moody's and no other security or obligation of the issuer thereof or obligor thereon is rated by Moody's and the Issuer or the Collateral Manager seeks to obtain an estimate of a Moody's Rating Factor, then the Moody's Rating Factor of such Collateral Debt Security will be deemed to be such estimate thereof as may be assigned by Moody's upon the request of the Issuer or the Collateral Manager.

A "**Qualified Foreign Obligor**" is (a) a corporation, partnership, trust or other entity organized in any of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, the Netherlands, the Netherlands Antilles, New Zealand, Norway, Sweden, Switzerland or the United Kingdom, so long as the unguaranteed, unsecured and otherwise unsupported long-term U.S. Dollar sovereign debt obligations of such country are rated "Aa2" or better by Moody's (and, if rated "Aa2", are not on watch for possible downgrade by Moody's) and "AA" or better by Standard & Poor's or (b) any other country with respect to which corporations, partnerships, trusts or other entities organized therein have been approved as Qualified Foreign Obligors in writing by a Majority of the Controlling Class, *provided* that such expansion of this definition satisfies the Rating Condition.

Moody's Minimum Weighted Average Recovery Rate Test. The "**Moody's Minimum Weighted Average Recovery Rate Test**" will be satisfied as of any Measurement Date on or after the Ramp-Up Completion Date, if the Moody's Weighted Average Recovery Rate is greater than or equal to 45.5%.

The "**Moody's Weighted Average Recovery Rate**" is the number, expressed as a percentage, obtained by *summing* the products obtained by *multiplying* the Principal Balance of each Collateral Debt Security, other than a Defaulted Security, by its "Applicable Recovery Rate" (determined for purposes of this definition pursuant to clause (a) of the definition of "Applicable Recovery Rate"), *dividing* such sum by the Aggregate Principal Balance of all such Collateral Debt Securities and rounding up the result to the first decimal place.

Weighted Average Spread Test. The "**Weighted Average Spread Test**" will be satisfied if, as of any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Spread is greater than or equal to 1.19%.

"**Weighted Average Spread**" means, as of any Measurement Date, the sum (rounded up to the next 0.01%) of (a) a number obtained by (i) *summing* the products obtained by *multiplying* (x) the stated spread above the applicable LIBOR at which interest accrues on each Collateral Debt Security that is a Floating Rate Security or Deemed Floating Collateral Debt Security (after taking into account the applicable Deemed Floating Asset Hedge Agreement) (in each case other than a Defaulted Security or a Written-Down Security) as of such date by (y) the Principal Balance of each such Collateral Debt Security as of such date, and (ii) *dividing* such sum by the Aggregate Principal Balance of all Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Collateral Debt Securities (excluding all Defaulted Securities and Written-Down Securities), *plus* (b) if clause (a) is less than 1.19%, an amount up to the amount (expressed as a percentage) determined by *dividing* (x) the applicable Gross Fixed Rate Excess, if any, *by* (y) the Aggregate Principal Balance of all Collateral Debt Securities that are Floating Rate Securities or Deemed Floating Collateral Debt Securities (excluding all Defaulted Securities and Written-Down Securities), *provided* that such amount under this clause (b) will be no greater than the amount necessary to cause the Weighted Average Spread Test to be satisfied as of such Measurement Date.

"**Gross Fixed Rate Excess**" means, as of any Measurement Date on or after the Ramp-Up Completion Date, an amount equal to the product of (i) the excess, if any, of the Weighted Average Coupon for such date over the Minimum Weighted Average Coupon and (ii) the Aggregate Principal Balance of all Collateral Debt Securities that are Fixed Rate Securities as of such Measurement Date (excluding all Defaulted Securities, Deemed Floating Collateral Debt Securities and Written-Down Securities).

Weighted Average Coupon Test. The "**Weighted Average Coupon Test**" will be satisfied if, as of any Measurement Date on or after the Ramp-Up Completion Date, the Weighted Average Coupon is greater than or equal to the Minimum Weighted Average Coupon; *provided* that such test will not be applicable at any time when the Collateral does not contain any Fixed Rate Securities.

"**Minimum Weighted Average Coupon**" means, as of any Measurement Date, 5.85% per annum.

"**Weighted Average Coupon**" means, as of any Measurement Date, the sum (rounded up to the next 0.01%) of (a) a number obtained by (i) *summing* the products obtained by *multiplying* (x) the current per annum rate at which interest accrues on each Collateral Debt Security that is a Fixed Rate Security (in each case other than a Defaulted Security, a Deemed Floating Collateral Debt Security or a Written-Down Security) as of such date by (y) the Principal Balance of each such Collateral Debt Security as of such date, and (ii) *dividing* such sum by the Aggregate Principal Balance of all Collateral Debt Securities that are Fixed Rate Securities (excluding all Defaulted Securities, Deemed Floating Collateral Debt Securities and Written-Down Securities), *plus* (b) if clause (a) is less than the Minimum Weighted Average Coupon, an amount up to the amount (expressed as a percentage) determined by *dividing* (x) the applicable Gross Spread Excess, if any, *by* (y) the Aggregate Principal Balance of all Collateral Debt Securities that are Fixed Rate Securities (excluding all Defaulted Securities, Deemed Floating Collateral Debt Securities and Written-Down Securities), *provided* that such amount under this clause (b) will be no greater than the amount necessary to cause the Weighted Average Coupon Test to be satisfied as of such Measurement Date.

"**Gross Spread Excess**" means, as of any Measurement Date on or after the Ramp-Up Completion Date, an amount equal to the product of (i) the excess, if any, of the Weighted Average Spread for such date over 1.19% and (ii) the Aggregate Principal Balance of all Collateral Debt Securities that are Floating Rate Securities or Deemed

Floating Collateral Debt Securities as of such Measurement Date (excluding all Defaulted Securities and Written-Down Securities).

Weighted Average Life Test. The "**Weighted Average Life Test**" will be satisfied as of any Measurement Date on or after the Ramp-Up Completion Date if the Weighted Average Life of all Collateral Debt Securities (other than Defaulted Securities) as of such Measurement Date is less than or equal to 5.3 years.

On any Measurement Date with respect to any Collateral Debt Security other than a Defaulted Security, the "**Weighted Average Life**" is the number obtained by (i) summing the products obtained by *multiplying* (a) the Average Life at such time of each such Collateral Debt Security *by* (b) the outstanding Principal Balance of such Collateral Debt Security and (ii) *dividing* such sum by the Aggregate Principal Balance at such time of all Collateral Debt Securities other than Defaulted Securities.

On any Measurement Date with respect to any Collateral Debt Security, the "**Average Life**" is the quotient obtained, by the Collateral Manager, by *dividing* (i) the sum of the products of (a) the number of years (rounded to the nearest one tenth thereof) from such Measurement Date to the respective dates of each successive distribution of principal of such Collateral Debt Security and (b) the respective amounts of principal of such scheduled distributions *by* (ii) the sum of all successive scheduled distributions of principal of such Collateral Debt Security.

Standard & Poor's Minimum Weighted Average Recovery Rate Test. The "**Standard & Poor's Minimum Weighted Average Recovery Rate Test**" will be satisfied on any Measurement Date on or after the Ramp-Up Completion Date, if the relevant Standard & Poor's Weighted Average Recovery Rate is equal to or greater than (a) with respect to the Class A Notes, 53.5%, (b) with respect to the Class S Notes, 53.5%, (c) with respect to the Class B Notes, 61.0%, (d) with respect to the Class C Notes, 69.0%, and (e) with respect to the Class D Notes, 75.0%.

The "**Standard & Poor's Weighted Average Recovery Rate**" means, as of any Measurement Date and for each Class of Notes, the number, expressed as a percentage, obtained by *summing* the products obtained by *multiplying* the Principal Balance of each Collateral Debt Security, other than a Defaulted Security, by its "Applicable Recovery Rate" (determined for purposes of this definition pursuant to clause (b) of the definition of "Applicable Recovery Rate"), *dividing* such sum by the Aggregate Principal Balance of all such Collateral Debt Securities, *multiplying* the result by 100 and rounding up to the first decimal place.

Dispositions of Collateral Debt Securities

The Collateral Debt Securities may be retired prior to their respective final maturities due to, among other things, the existence and frequency of exercise of any optional or mandatory redemption features of such Collateral Debt Securities. In addition, pursuant to the Indenture and so long as no Event of Default has occurred and is continuing, the Collateral Manager, on behalf of the Issuer, may direct the Trustee, on behalf of the Issuer, to sell, terminate, assign or otherwise liquidate:

(1) any Defaulted Security (excluding any Synthetic Security Counterparty Defaulted Obligation not identified in clause (b) of the definition thereof) at any time;

(2) any equity security acquired by the Issuer in exchange for a Defaulted Security (any of the foregoing, an "**Equity Security**") at any time; and

(3) any Credit Risk Security at any time.

"**Credit Risk Security**" means any Collateral Debt Security or any other security included in the Collateral that satisfies any of the following:

(1) if Moody's has not withdrawn or reduced its long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or reduced its long term ratings on any of the Class C Notes or the Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Notes, as applicable, to at least their initial long term rating), the Collateral Manager believes (as of the date

of the Collateral Manager's determination based upon currently available information reasonably available to the Collateral Manager) that such Collateral Debt Security has a significant risk of declining in credit quality and, with lapse of time, becoming a Defaulted Security, or

(2) if (i) such Collateral Debt Security is publicly rated by Moody's at any time when Moody's has withdrawn or reduced its long term ratings on any of the Class A Notes or the Class B Notes by one or more subcategories or reduced its long term ratings on any of the Class C Notes or the Class D Notes by two or more subcategories below the ratings in effect on the Closing Date (disregarding any withdrawal or reduction if subsequent thereto Moody's has upgraded any such reduced or withdrawn ratings of the Notes, as applicable, to at least their initial long term rating), such Collateral Debt Security has been downgraded or put on a watch list for possible downgrade by Moody's by one or more rating subcategories since it was acquired by the Issuer and the Collateral Manager believes, based on its commercially reasonable business judgment (based on the facts or circumstances at such time), that such Collateral Debt Security has a significant risk of declining in credit quality or (ii) such Collateral Debt Security is not publicly rated by Moody's, the credit spread with respect to such Collateral Debt Security has increased over the applicable Benchmark Rate, the applicable swap benchmark or the applicable LIBOR by (x) 0.50% or more if the original credit spread (as of the date on which such Collateral Debt Security was first acquired) was greater than 0.50% or (y) 0.25% if the original credit spread (as of the date on which such Collateral Debt Security was first acquired) was less than or equal to 0.50% and the Collateral Manager believes, based on its commercially reasonable business judgment (based on the facts or circumstances at such time), that such Collateral Debt Security has significantly declined in credit quality, or

at any time, such Collateral Debt Security is a Written-Down Security and the Collateral Manager believes, based on its commercially reasonable business judgment (based on the facts or circumstances at such time), that such Collateral Debt Security has a significant risk of declining in credit quality.

"**Defaulted Security**" means any Collateral Debt Security or any other security included in the Collateral:

(1) with respect to which there has occurred and is continuing a payment default thereunder (without giving effect to any applicable grace period or waiver); *provided* that a payment default of up to five days with respect to which the Collateral Manager certifies in writing to the Trustee in its judgment (exercised in accordance with the Standard of Care) is due to non-credit and non-fraud related reasons will not cause a Collateral Debt Security to be classified as a Defaulted Security; *provided, further*, that a Collateral Debt Security will not be classified as a Defaulted Security if all scheduled interest (including deferred interest and Defaulted Interest and any interest due thereon) and principal with respect to such Collateral Debt Security has been paid in full in cash;

(2) with respect to which there has occurred a default (other than any payment default) which entitles the holders thereof, with the giving of notice or passage of time or both, to accelerate the maturity of all or a portion of the principal amount of such obligation, and such default has not been cured or waived;

(3) as to which a bankruptcy, insolvency, or receivership proceeding has been initiated with respect to the issuer of such Collateral Debt Security, or there has been proposed or effected any distressed exchange or other debt restructuring where the issuer of such Collateral Debt Security has offered the holders thereof a new security or package of securities that, in the judgment of the Collateral Manager (exercised in accordance with the Standard of Care), either (x) amounts to a diminished financial obligation or (y) has the purpose of helping the borrower to avoid default, except that a Collateral Debt Security will not constitute a "Defaulted Security" under this clause (c) if such Collateral Debt Security was acquired in a distressed exchange or other debt restructuring and satisfies the requirements of the definition of a "Collateral Debt Security" at the time it is acquired and has paid and is currently paying scheduled interest and principal;

(4) as to which the Collateral Manager knows the issuer thereof is (or is expected by the Collateral Manager, acting in accordance with the Standard of Care, to be, as of the next scheduled payment distribution date) in default (without giving effect to any applicable grace period or waiver) as to payment of principal and/or interest on another obligation (and such default has not been cured or waived) which is senior or *pari passu* in right of payment to, and (in the case of Asset-Backed Securities only) is secured by the same collateral as, such Collateral Debt Security;

(5) that was received upon acceptance of an Offer for another Collateral Debt Security which Offer expressly stated that failure to accept such Offer may result in a default under the related Underlying Instruments and no payment of interest or principal has yet been received with respect to the Collateral Debt Security received;

(6) that (i) has a Moody's Rating of "Ca" or "C" or (ii) is rated "CC", "D" or "SD" or has had this rating withdrawn by Standard & Poor's;

(7) that is a Defaulted Synthetic Security;

(8) that is a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which there is a Synthetic Security Counterparty Defaulted Obligation;

(9) that is a debt obligation delivered to the Issuer upon the occurrence of a "credit event" under a Synthetic Security that is not a Deliverable Obligation; or

(10) that is a Deferred Interest PIK Bond with respect to which there has occurred a failure to pay interest for the shorter of (x) one pay period for such Collateral Debt Security and (y) six months, so long as the payment of interest on such Deferred Interest PIK Bond has not resumed and all capitalized and deferred interest has not been paid in full in accordance with the terms of the Underlying Instruments; *provided* that for purposes of the Overcollateralization Haircut Amount, a Deferred Interest PIK Bond will be treated as a Defaulted Security only if there has occurred a failure to pay interest for the shorter of (i) two consecutive pay periods for such Collateral Debt Security and (ii) six months, so long as the payment of interest on such Deferred Interest PIK Bond has not resumed and all capitalized and deferred interest has not been paid in full in accordance with the terms of the Underlying Instruments;

provided that in respect of any Collateral Debt Security that constitutes a Defaulted Security pursuant to subclause (x) of clause (10) above only, such Collateral Debt Security will not be treated as a Defaulted Security other than for purposes of calculating the Net Outstanding Portfolio Collateral Balance, so long as (i) interest in respect of such Collateral Debt Security was paid in full on the immediately preceding payment date for such Collateral Debt Security and (ii) the Collateral Manager, acting in accordance with the Standard of Care, believes that the interest in respect of such Collateral Debt Security will be paid in full on the next payment date for such Collateral Debt Security.

The Collateral Manager will be deemed to have knowledge of all information received by it that is delivered to it in accordance with the Indenture and will be responsible under the Collateral Management Agreement (to the extent provided therein) for obtaining and reviewing information available to it in its capacity as a collateral manager of national standing (except to the extent any such information has been withheld from the Collateral Manager by the Trustee or the Issuer). Notwithstanding the foregoing, the Collateral Manager may declare any Collateral Debt Security to be a Defaulted Security if the Collateral Manager, acting in accordance with the Standard of Care, believes that the credit quality of the issuer of such Collateral Debt Security has significantly deteriorated such that there is a reasonable expectation of payment default as of the next Due Date.

Nothing in the definition of "Defaulted Security" will be deemed to require any employee (including any portfolio manager or credit analyst) of the Collateral Manager to obtain, use or share with or otherwise distribute to any other person or entity (a) any information that he or she would be prohibited from obtaining, using, sharing or otherwise distributing by virtue of the Collateral Manager's internal policies relating to confidential communications or (b) material non-public information.

"**Defaulted Synthetic Security**" means a Synthetic Security referencing a Reference Obligation that would, if such Reference Obligation were a Collateral Debt Security, constitute a "Defaulted Security" under paragraph (1), (2), (3), (4), (5), (6) or (10) of the definition thereof above.

"**Synthetic Security Counterparty Defaulted Obligation**" means a Synthetic Security (other than a Defaulted Synthetic Security) with respect to which:

(a) the applicable Reference Obligation would satisfy the definition of Defaulted Security if it were a Collateral Debt Security held by the Issuer or the long-term debt obligations of the Synthetic Security Counterparty are rated "D" or "SD" by Standard & Poor's, or cease to be rated; *provided* that notwithstanding the foregoing, if at any time after such withdrawal or reduction such Synthetic Security is a credit default swap under which the Synthetic Security Counterparty will have provided Collateral to or for the benefit of the Issuer with a value equal to or greater than any termination payment that would then be due to the Issuer upon the termination of such credit default swap, no Synthetic Security Counterparty Defaulted Obligation will be deemed to exist with respect to such Synthetic Security; *provided, further*, that such obligation will require satisfaction of the Rating Condition with respect to Standard & Poor's; or

(b) the Synthetic Security Counterparty has defaulted in the performance of any of its payment obligations under the Synthetic Security.

"**Written-Down Security**" means any Collateral Debt Security (other than a Defaulted Security) as to which the aggregate par amount of such Collateral Debt Security and all other securities secured by the same pool of collateral that rank *pari passu* with or senior in priority of payment to such Collateral Debt Security exceeds the aggregate par amount (including reserved interest or other amounts available for overcollateralization) of all collateral securing such securities (excluding defaulted collateral). The Co-Issuers, or the Collateral Manager on their behalf, are required to notify each Rating Agency when a Collateral Debt Security becomes a Written-Down Security.

Except as otherwise provided in the Indenture, the Collateral Manager is required to (on behalf of the Issuer to use commercially reasonable efforts to sell any Defaulted Security within two years (or (i) within three years if the Collateral Manager expects that during the third year the recovery on the Defaulted Security will exceed the recovery resulting from a sale before the end of the second year, or (ii) an alternate time period, so long as prior written notice is given to Moody's) after such security becomes a Defaulted Security; *provided* that (A) the Issuer will not be required to sell, terminate, assign or otherwise liquidate such Defaulted Security if the Rating Condition with respect to Moody's is satisfied with respect to the retention of such Defaulted Security, (B) the Issuer will not be obligated to sell, terminate, assign or otherwise liquidate any Collateral Debt Security that is a Defaulted Security solely because it is rated "CC", "D" or "SD" by Standard & Poor's, (C) the Issuer will not be obligated to sell, terminate, assign or otherwise liquidate any Collateral Debt Security that is a Defaulted Security for up to three years after such Collateral Debt Security became a Defaulted Security, so long as the Aggregate Principal Balance of all Collateral Debt Securities that are Defaulted Securities does not exceed 5% of the Net Outstanding Portfolio Collateral Balance and (D) any Defaulted Security that is held for more than three years will be treated as having a Principal Balance of zero.

Any Equity Security that is not "margin stock" as defined under Regulation U issued by the Board of Governors of the Federal Reserve System and complies with Eligibility Criteria (7) and (8) or any security or other consideration that is received in an exchange that complies with Eligibility Criteria (7) and (8) must be sold, terminated or otherwise liquidated within one year after the Issuer's receipt thereof (or within one year of such later date as such security may first be sold, terminated or otherwise liquidated in accordance with its terms). Any Equity Security that does not comply with Eligibility Criteria (7) must be acquired through a wholly-owned subsidiary of the Issuer that is treated as a corporation for U.S. federal tax purposes.

In the event of an Auction Call Redemption, an Optional Redemption or a Tax Redemption of the Notes, the Collateral Manager, on behalf of the Issuer, may direct the Trustee to sell, terminate, assign or otherwise liquidate Collateral Debt Securities without regard to the foregoing limitations; *provided* that (i) the proceeds therefrom will be at least sufficient to pay certain expenses and other amounts and redeem, in whole but not in part, all Notes to be redeemed simultaneously, at the applicable Redemption Price; and (ii) such proceeds are used to make such a redemption. See "*Description of the Notes—Optional Redemption and Tax Redemption*," "*—Auction Call Redemption*" and "*—Redemption Procedures*."

The Collateral Manager, acting for and on behalf of the Issuer, may direct the Trustee to acquire an obligation to be included in the Collateral directly or indirectly from the Collateral Manager or any of its Affiliates, acting as

principal or agent, or any account or portfolio for which the Collateral Manager or any of its Affiliates serve as investment adviser or sell any obligation included in the Collateral directly or indirectly to the Collateral Manager or any of its Affiliates, acting as principal or agent, or any account or portfolio for which the Collateral Manager or any of its Affiliates serve as investment adviser, in each case only to the extent that (a) such purchases or sales are made for fair market value (as determined in good faith by the Collateral Manager at the time such obligation is acquired or sold) and otherwise on arms' length terms and (b) the Collateral Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. The Trustee will have no responsibility to oversee compliance with the above conditions by other parties.

The Hedge Agreements

The following summary describes certain provisions of the Hedge Agreements. The summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the relevant Hedge Agreements.

The Issuer will on the Closing Date, and may thereafter, enter into an interest rate protection agreement (such agreement, any replacement therefore and any additional interest rate protection agreements entered into in accordance with the Indenture, an "**Interest Rate Hedge Agreement**") with a counterparty with respect to which the Rating Condition has been satisfied (the "**Interest Rate Hedge Counterparty**"). The initial Interest Rate Hedge Counterparty will be Lehman Brothers Special Financing Inc. ("**LBSF**" or, for so long as it is a Hedge Counterparty, the "**Initial Hedge Counterparty**"), at 745 Seventh Avenue, New York, New York, 10019, telephone number: +1 (212) 526-7000. Such Interest Rate Hedge Agreement may consist of one or more interest rate swaps and/or interest rate caps.

In addition, the Issuer will on the Closing Date and may thereafter enter into a one-month vs. three-month basis swap agreement and a one-month vs. one-month basis swap agreement and may also enter into other hedge agreements in order to mitigate interest rate risk or mismatches in the timing of cashflows (each such agreement and any replacement therefore or supplement thereto entered into in accordance with the Indenture, a "**Basis Swap Agreement**") with a counterparty with respect to which the Rating Condition has been satisfied (the "**Basis Swap Counterparty**"). The initial Basis Swap Counterparty will be LBSF.

Notwithstanding anything herein to the contrary, the Issuer may not enter into a Hedge Agreement without satisfaction of the Rating Condition; *provided* that the Rating Condition need not be satisfied with respect to a Deemed Floating Asset Hedge Agreement if such Deemed Floating Asset Hedge Agreement is in a form previously approved by the Rating Agencies.

In addition, on or after the Closing Date, the Issuer may enter into one or more Deemed Floating Asset Hedge Agreements (and, together with the Interest Rate Hedge Agreement and the Basis Swap Agreement, each a "**Hedge Agreement**" and collectively, the "**Hedge Agreements**")with one or more counterparties (a "**Deemed Floating Asset Hedge Agreement Counterparty**" and, together with the Interest Rate Hedge Counterparty and the Basis Swap Counterparty, each a "**Hedge Counterparty**" and, together, the "**Hedge Counterparties**"). Each Deemed Floating Asset Hedge Agreement will relate to no more than one Deemed Floating Collateral Debt Security. Payments will be made by the Issuer to the relevant Deemed Floating Asset Hedge Agreement Counterparty in accordance with the terms of the relevant Deemed Floating Asset Hedge Agreement. Any amounts received by the Issuer under each Deemed Floating Asset Hedge Agreement (excluding any termination payments) will be transferred to the Interest Collection Account and applied by the Trustee on behalf of the Issuer to make payments in accordance with the Priority of Payments. Each Hedge Agreement will be governed by New York law.

Deemed Floating Asset Hedge Agreements may be terminated by the Issuer, at the direction of the Collateral Manager, only upon satisfaction of the Rating Condition; *provided* that Deemed Floating Asset Hedge Agreements may be terminated by the Issuer, at the direction of the Collateral Manager, without satisfaction of the Rating Condition if (A) the Deemed Floating Asset Hedge Agreement is a balanced guaranteed hedge agreement, (B) no termination payments are owed by the Issuer or (C) termination payments owed by the Issuer are paid out of excess interest; *provided*, *further*, that any termination payment payable to a Hedge Counterparty in connection with such a termination will be payable, *first*, from the portion of the Sale Proceeds from the sale of the Deemed Floating Collateral Debt Security (if the Deemed Floating Collateral Debt Security was sold in connection with such

termination) which consists of accrued interest on such security, *second*, from Interest Proceeds and *third*, provided the Rating Condition with respect to Moody's is satisfied or the Moody's Trading Gains Rules are in compliance, from Principal Proceeds.

"**Deemed Floating Asset Hedge Agreement**" means, with respect to a Fixed Rate Collateral Debt Security, an interest rate swap having a Notional Amount (or scheduled Notional Amounts) equal to the Principal Balance (as it may be reduced by expected amortization) of such Fixed Rate Collateral Debt Security; *provided* that (a) at the time of entry into a Deemed Floating Asset Hedge Agreement, (i) the Notional Amount of such Deemed Floating Asset Hedge Agreement is equal to the expected principal amount of the related Fixed Rate Collateral Debt Security (as calculated at such time), (ii) at the time of entry, the expected termination of such Deemed Floating Asset Hedge Agreement matches the expected maturity of the related Fixed Rate Collateral Debt Security, (iii) the expected payment dates of the Hedge Counterparty to the Issuer match the expected payment dates of the related Fixed Rate Collateral Debt Security and (iv) the Deemed Floating Asset Hedge Agreement Counterparty satisfies the Hedge Counterparty Ratings Requirement, (b) the Rating Agencies and the Trustee are notified prior to the Issuer's entry into a Deemed Floating Asset Hedge Agreement, and will be provided with the identity of the relevant Deemed Floating Asset Hedge Agreement Counterparty and copies of the hedge documentation and notional schedule, (c) the hedge documentation (including the applicable master agreement, confirmation and schedule attached thereto) either (i) is a Form-Approved Deemed Floating Asset Hedge Agreement or (ii) satisfies the Rating Condition and (d) such Deemed Floating Asset Hedge Agreement is priced at then current market rates; *provided*, *further*, that the agreement relating to such Deemed Floating Asset Hedge Agreement contains "non-petition" provisions with respect to the Issuer and "limited recourse" provisions limiting the Deemed Floating Asset Hedge Agreement Counterparty's rights in respect of the Fixed Rate Collateral Debt Security to the funds and other property credited to the Interest Collection Account related to such Fixed Rate Collateral Debt Security; *provided, further,* that a recovery rate will be assigned by Standard & Poor's at the time of entry into such Deemed Floating Asset Hedge Agreement.

"**Deemed Floating Asset Hedge Agreement Counterparty**" means a counterparty to a Deemed Floating Asset Hedge Agreement (or its permitted successor or assignee) with respect to which the Rating Condition with respect to Standard & Poor's has been satisfied and written notice has been provided to Moody's.

"**Deemed Floating Collateral Debt Security**" means a Fixed Rate Security at the time of entry into a Deemed Floating Asset Hedge Agreement with respect to such Fixed Rate Security; *provided* that at the time of entry into such Deemed Floating Asset Hedge Agreement, (i) the expected principal payments on such Fixed Rate Security do not extend beyond 10 years after the Closing Date, (ii) the expected amortization of such Deemed Floating Collateral Debt Security corresponds to the notional amortization schedule and stated maturity of the related Fixed Rate Security, (iii) the Average Life of such Deemed Floating Collateral Debt Security would not increase or decrease by more than one year from its expected Average Life if it were to prepay at either 50% or 150% of its Deemed Prepayment Rate, and (iv) the Moody's Rating of such Fixed Rate Security is at least "A3". The spread payable on a Deemed Floating Collateral Debt Security will be calculated after taking into account payments to be made by the Issuer and the Deemed Floating Asset Hedge Agreement Counterparty under the applicable Deemed Floating Asset Hedge Agreement.

"**Deemed Prepayment Rate**" means, with respect to any Fixed Rate Security, as of any date of determination, (x) the average actual rate of prepayment on such security during the immediately preceding six months, if available, or (y) if such Fixed Rate Security was issued less than six months prior to such date, the rate of prepayment specified by the Underlying Instruments of such security.

"**Form-Approved Deemed Floating Asset Hedge Agreement**" means a Deemed Floating Asset Hedge Agreement with respect to which (a) the related Fixed Rate Collateral Debt Security could be purchased by the Issuer without any required action by the Rating Agencies and (b) the documentation of which conforms in all respects other than changes relating to the identity, nature and jurisdiction of the counterparty and the economic terms of the relevant transaction (as certified to the Trustee by the Collateral Manager in its commercially reasonable business judgment (based on the facts or circumstances at such time)) to a form, the use of which, each of the Rating Agencies has confirmed in writing, will not affect the current rating of the Notes; *provided* that (i) either Rating Agency may revoke its consent to the use of a Form-Approved Deemed Floating Asset Hedge Agreement upon 30 days' prior written notice to the Trustee and the Collateral Manager (*provided* that such revocation will not affect any existing Deemed Floating Asset Hedge Agreement) and (ii) the Issuer will provide the

Rating Agencies with a copy of each Deemed Floating Asset Hedge Agreement entered into pursuant to any Form-Approved Deemed Floating Asset Hedge Agreement promptly following the execution thereof.

In respect of any Rating Determining Party of any Hedge Counterparty, if:

(i) such Rating Determining Party fails to satisfy the Hedge Counterparty Ratings Requirement, then the relevant Hedge Counterparty will, within 10 Business Days of such ratings downgrade, enter into an agreement with the Issuer providing for the posting of collateral, which agreement satisfies the Rating Condition; or

(ii) such Rating Determining Party fails to satisfy the Hedge Counterparty Ratings Requirement and the Hedge Counterparty has failed to comply with the foregoing clause (i), then the relevant Hedge Counterparty will use its best efforts to assign its rights and obligations in and under the related Hedge Agreement (at its own expense) to another Hedge Counterparty that has ratings at least equal to the Hedge Counterparty Ratings Requirement; *provided* that (x) neither the Issuer nor the new Hedge Counterparty is required to deduct or withhold on account of tax unless only the new Hedge Counterparty is required to withhold and the new Hedge Counterparty is required to pay additional amounts to the Issuer sufficient to cover any withholding tax due on payments made by such new Hedge Counterparty and (y) if such Hedge Counterparty has not assigned its rights and obligations within 30 days after such failure, it will be a "termination event" where the Hedge Counterparty is the sole affected party and such Hedge Counterparty will accept any *bona fide* bid received from another Hedge Counterparty that has ratings at least equal to the Hedge Counterparty Ratings Requirement (even if no other bids are received) and satisfies clause (x) above.

"**Firm Offer**" means a quotation (i) in an amount equal to the actual replacement cost of the Issuer to enter into a replacement transaction with such potential Replacement Counterparty and (ii) that is binding on the offeror.

"**Moody's Trading Gains Rules**" means, with respect to the termination of a Deemed Floating Asset Hedge Agreement and the sale or disposition of the related Fixed Rate Security or Floating Rate Security, as applicable, which results in a Trading Gain, such Trading Gain may not be not applied to pay swap termination costs (i) prior to the date which is one calendar year following the Ramp-Up Effective Date, (ii) unless, following such sale, the Moody's Minimum Weighted Average Recovery Rate Test is satisfied and the Class D Overcollateralization Ratio is not lower than its level on the Ramp-Up Effective Date and (iii) unless, as of the date of such sale, no Class of Notes has been downgraded from its original rating or had its rating withdrawn, provided that if such Class of Notes had its rating downgraded or withdrawn, it has been restored to its original rating.

"**Replacement Counterparty**" means a transferee that at the time of such transfer satisfies the Hedge Counterparty Ratings Requirement, *provided* that such assignment or transfer occurs on substantially the same terms and conditions as the relevant Hedge Agreement unless the Rating Agencies otherwise agree in writing, and Rating Confirmation with respect to such assignment or transfer has been received by the Issuer. For the avoidance of doubt, the Hedge Counterparty will make such transfer at its sole cost and in accordance with the relevant Hedge Agreement.

"**Trading Gain**" means, with respect to the termination of a Deemed Floating Asset Hedge Agreement and the sale or disposition of the related Fixed Rate Security or Floating Rate Security, as applicable, the excess (if any) of (i) the Sales Proceeds over (ii) the greater of (x) the par value and (y) the purchase price thereof.

"**Hedge Counterparty Ratings Requirement**" means, with respect to any Hedge Counterparty (i) (A) the long-term senior unsecured debt of such party is rated at least "A1" by Moody's (and if rated "A1", such rating is not on watch for possible downgrade by Moody's), if such party has a long term rating only or (B) the long-term senior unsecured debt of such party is rated at least "A2" by Moody's (and if rated "A2" is not on watch for possible downgrade by Moody's) and the short-term debt of such party is rated "P-1" by Moody's (and is not on watch for possible downgrade by Moody's); *provided* that with respect to clauses (i)(A) and (i)(B), any Hedge Counterparty will have provisions for posting collateral satisfactory to Moody's in respect of its contingent obligations under a Credit Support Annex based on the form of the ISDA Credit Support Annex, which will be entered into on or prior to the Closing Date or in conjunction with entering into a Deemed Floating Asset Hedge Agreement or Form-Approved Deemed Floating Asset Hedge Agreement if such agreement is executed after the Closing Date and

(ii) the short-term unsecured debt of such party is rated at least "A-1" by Standard & Poor's or, if no such short-term rating is available, the long-term senior unsecured debt of such party is rated at least "A+" by Standard & Poor's; *provided* that should a Rating Agency effect an overall downward adjustment of its required ratings for hedge counterparties in collateralized debt obligation transactions, then the applicable Hedge Counterparty Ratings Requirement will be subject to satisfaction of the Rating Condition with respect to the applicable Rating Agency.

The Trustee will deposit all collateral received from any Hedge Counterparty under a Hedge Agreement in a securities account (each, a "**Hedge Counterparty Collateral Account**") in the name of the Trustee that will be designated a "Hedge Counterparty Collateral Account," which account will be maintained for the benefit of the Secured Parties.

Each Hedge Agreement will be subject to termination upon the earlier to occur of (a) an Event of Default followed by the liquidation of all or part of the Collateral in accordance with the Indenture and (b) any Auction Call Redemption, Optional Redemption or Tax Redemption. In addition, subject to satisfaction of the Rating Condition, the Collateral Manager may amend or modify the terms of any Hedge Agreement; *provided* that the Rating Condition will not need to be satisfied when amending or modifying an existing Deemed Floating Asset Hedge Agreement (other than with respect to rate, term, notional amount and any provisions for deferral of amounts otherwise payable to the Hedge Counterparty) using Form-Approved Deemed Floating Asset Hedge Agreements unless such Deemed Floating Asset Hedge Agreement is with a new Deemed Floating Asset Hedge Agreement Counterparty with respect to which the Rating Condition has not been satisfied.

Pursuant to the Hedge Agreements entered into by the Issuer on the Closing Date, the Issuer may, subject to satisfaction of the Rating Condition, terminate any Hedge Agreement, in whole or in part upon 10 Business Days prior notice to the Hedge Counterparty for a termination payment determined by the Hedge Counterparty in a commercially reasonable manner; *provided*, *however*, that if the Issuer disagrees with the determination of such termination payment and provides evidence that such termination payment is not consistent with current market conditions, such termination payment will be determined pursuant to Market Quotation and Second Method (as defined in the Hedge Agreement) with the Issuer as the sole affected party.

Amounts payable upon any early termination or reduction will be based substantially upon standard replacement transaction valuation methodology set forth in the ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. If any amount is payable by the Issuer to a Hedge Counterparty in connection with the occurrence of any such early termination or notional amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment at a rate per annum determined in accordance with the 1992 ISDA Master Agreement, will be payable on such Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments, and any amount not so paid on such Distribution Date will be payable on the first Distribution Date on which such amount may be paid in accordance with the Priority of Payments.

The obligations of the Issuer under each Hedge Agreement are limited-recourse obligations payable solely from the Collateral pursuant to the Priority of Payments, or, in the case of a Deemed Floating Asset Hedge Agreement, from interest payments received by the Issuer in respect of the Collateral Debt Securities to which such Deemed Floating Asset Hedge Agreement relates.

The Accounts

Collection Accounts

All distributions on the Collateral Debt Securities and any proceeds received from the disposition of any such Collateral, to the extent such distributions or proceeds constitute Interest Proceeds, any amounts payable to the Issuer by a Hedge Counterparty under any Hedge Agreement, to the extent such amounts constitute Interest Proceeds (other than amounts received by the Issuer by reason of an event of default or termination event (each as defined in the relevant Hedge Agreement) or other comparable event that are required to be used for the purchase by the Issuer of a replacement Hedge Agreement) and all other Interest Proceeds will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties (the "**Interest Collection Account**"). All proceeds received from the disposition of any Collateral to the extent such proceeds constitute Principal Proceeds which for the

avoidance of doubt includes all payments of interest on Collateral Debt Securities received in Cash by the Issuer to the extent that they represent accrued interest purchased with Principal Proceeds or Uninvested Proceeds, all other Principal Proceeds and all uninvested proceeds remaining in the Uninvested Proceeds Account on (x) the Distribution Date relating to the first Determination Date as of which a Ratings Confirmation Failure occurs (after application of funds on such Distribution Date in accordance with the Priority of Payments) or (y) if there is no Ratings Confirmation Failure, the Distribution Date relating to the first Determination Date after the 30th day following the delivery of the Ramp-Up Notice), will be remitted to a single, segregated account established and maintained under the Indenture by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties (the "**Principal Collection Account**" and, together with the Interest Collection Account, the "**Collection Accounts**"). The Collection Accounts may be sub-accounts of the Custodial Account. The Collection Accounts will be maintained for the benefit of the Secured Parties and amounts on deposit therein will be available for application in the order of priority set forth above under "*Description of the Notes—Priority of Payments*" and for the acquisition of Collateral Debt Securities under the circumstances and pursuant to the requirements described herein and in the Indenture. If the Issuer enters into any Deemed Floating Asset Hedge Agreement, the Trustee will pay interest received in respect of any Collateral Debt Security that is the subject of such a Deemed Floating Asset Hedge Agreement to the relevant Deemed Floating Asset Hedge Agreement Counterparty in accordance with the terms of such Deemed Floating Asset Hedge Agreement.

Amounts received in the Collection Accounts during a Due Period and amounts received in prior Due Periods and retained in the Collection Accounts under the circumstances set forth above in "*Description of the Notes—Priority of Payments*" will be invested in Eligible Investments with stated maturities no later than the Business Day immediately preceding the next Distribution Date. All such proceeds will be retained in the Collection Accounts unless used to purchase Collateral Debt Securities in accordance with the Eligibility Criteria as otherwise permitted under the Indenture. See "*—Eligibility Criteria.*"

"**Eligible Investments**" means any U.S. Dollar-denominated investment that is one or more of the following (and may include investments for which the Trustee and/or its Affiliates provides services or receives compensation):

(a) cash;

(b) direct obligations of, and obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States or any agency or instrumentality of the United States the obligations of which are expressly backed by the full faith and credit of the United States;

(c) demand and time deposits in, certificates of deposit of, bankers' acceptances payable within 183 days of issuance issued by, or federal funds sold by any depository institution or trust company incorporated under the laws of the United States or any state thereof (including LaSalle Bank National Association or the commercial department of any successor Trustee, *provided* that such entity otherwise meets the criteria specified herein) and subject to supervision and examination by federal and/or state banking authorities so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have a credit rating of not less than "AA+" by Standard & Poor's and not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) in the case of long term debt obligations, or "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A 1+" (or "A-1" in the case of overnight time deposits offered by the Trustee so long as it acts as Trustee under the Indenture and is not on credit watch with negative implications) by Standard & Poor's in the case of commercial paper and short-term debt obligations; *provided* that in the case of commercial paper and short-term debt obligations with a maturity beyond the earlier of (x) 60 days and (y) the subsequent Distribution Date, the issuer thereof must also have at the time of such investment a long-term credit rating of not less than "AAA" by Standard & Poor's;

(d) unleveraged repurchase obligations with respect to (i) any security described in clause (b) above or (ii) any other Registered security issued or guaranteed by an agency or instrumentality of the United States (in each case without regard to the stated maturity of such security), in either case entered into with a U.S.

federal or state depository institution or trust company (acting as principal) described in clause (c) above or entered into with a corporation (acting as principal) whose long-term rating is not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's or whose short-term credit rating is "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's at the time of such investment; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) and (ii) if such security has a maturity beyond the earlier of (x) 60 days and (y) the subsequent Distribution Date, the issuer thereof must also have at the time of such investment a long-term credit rating of "AAA" by Standard & Poor's;

(e) debt securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state thereof that have a credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) and not less than "AA+" by Standard & Poor's;

(f) commercial paper or other short-term obligations with a maturity of not more than 183 days from the date of issuance and having at the time of such investment a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's) and (ii) if such security has a maturity beyond the earlier of (x) 60 days and (y) the subsequent Distribution Date, the issuer thereof must also have at the time of such investment a long-term credit rating of "AAA" by Standard & Poor's;

(g) reinvestment agreements issued by any bank (if treated as a deposit by such bank), or a Registered Reinvestment Agreement issued by any insurance company or other corporation or entity organized under the laws of the United States or any state thereof, in each case, that has a credit rating of "P-1" by Moody's (and such rating is not on watch for possible downgrade by Moody's) and "A-1+" by Standard & Poor's; *provided* that (i) in each case, the issuer thereof must have at the time of such investment a long-term credit rating of not less than "Aa2" by Moody's (and, if such rating is "Aa2", such rating is not on watch for possible downgrade by Moody's), (ii) if such security has a maturity beyond the earlier of (x) 60 days and (y) the subsequent Distribution Date, the issuer thereof must also have at the time of such investment a long-term credit rating of "AAA" by Standard & Poor's and (iii) such Reinvestment Agreement must (x) provide that it is terminable by the purchaser without premium or penalty or (y) satisfy the Rating Condition with respect to Standard & Poor's; and

(h) investments in any money market fund or similar investment vehicle (including those for which the Trustee or its affiliates may act as manager or advisor, whether or not for a fee) having at the time of investment therein a credit rating of "P-1" by Moody's and "A-1+" by Standard & Poor's; *provided* that any such fund is rated "Aaa/MR1+" by Moody's; *provided*, *further*, that (i) if such security has a maturity beyond the earlier of (x) 60 days and (y) the subsequent Distribution Date, the issuer thereof must also have at the time of such investment a long-term credit rating of "AAAm" or "AAAm/G" by Standard & Poor's and (ii) payments in respect of such fund or vehicle are not subject to any material amount of deduction or withholding in respect of tax under Sections 871 and 881 of the Code, taking into account the American Jobs Creation Act of 2004 and any amendments promulgated hereafter;

provided that none of the foregoing investments or securities will constitute Eligible Investments if such investment or security has a Standard & Poor's Rating with a "p", "pi", "q", "r", or "t" subscript; and, in each case (other than clause (a)), (i) with a stated maturity (giving effect to any applicable grace period) later than the Business Day immediately preceding the Distribution Date next following the Due Period in which the date of investment occurs and (ii) either (1) will be treated as indebtedness for U.S. federal income tax purposes and is not a United States real property interest as defined under Section 897 of the Code, or (2) the Issuer has received advice from Cadwalader, Wickersham & Taft LLP or an Opinion of Counsel of other nationally-recognized U.S. tax counsel experienced in such matters to the effect that such investment will not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or otherwise subject the Issuer to U.S. federal income tax on a net income tax basis; *provided* that Eligible Investments may not include (i) any Interest-Only

Security, (ii) any security purchased at a price in excess of 100% of the par value thereof, (iii) any investment the income from which is or will be subject to deduction or withholding for or on account of any withholding or similar tax unless the payor is required to make "gross-up" payments that ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding been required, (iv) any security whose repayment is subject to substantial non-credit related risk as determined in the judgment of the Collateral Manager, (v) any Asset-Backed Security, (vi) except with respect to investments described in clause (c), any Floating Rate Collateral Debt Security whose interest rate is inversely or otherwise not proportionately related to an interest rate index or is calculated as other than the sum of an interest rate index *plus* a spread or (vii) any security that is the subject of an Offer. Eligible Investments may be obligations of any of, and may be purchased from, the Trustee, the Collateral Manager and their respective Affiliates, and may include obligations for which the Trustee or an Affiliate thereof or the Collateral Manager or an Affiliate thereof receives compensation for providing services.

Payment Account

The Trustee will deposit into a single, segregated account established and maintained by the Trustee under the Indenture (the "**Payment Account**") for the benefit of the Issuer, and, to the extent provided for under the Indenture, the Secured Parties. Except as provided in the Indenture, the only permitted withdrawal from or application of funds on deposit in, or otherwise standing to the credit of, the Payment Account will be to pay the interest on, and the principal of the Notes on behalf of the Issuer in accordance with their terms and the provisions of the Indenture and, to pay on behalf of the Issuer Administrative Expenses and other amounts specified therein, each in accordance with the Priority of Payments. The Trustee agrees to give the Co-Issuers, the Credit Default Swap Counterparty and the Hedge Counterparties prompt notice if the Payment Account or any funds on deposit therein, or otherwise standing to the credit of the Payment Account, will become subject to any writ, order, judgment, warrant of attachment, execution or similar process. The Co-Issuers will have legal, equitable or beneficial interest in the Payment Account but such entitlement will be subject to the Priority of Payments.

Custodial Account

The Trustee will, prior to the Closing Date, cause the Custodian to establish a securities account (the "**Custodial Account**") in the name of the Trustee for the benefit of the Issuer, and to the extent provided for under the Indenture, the Secured Parties, into which the Trustee will from time to time cause Collateral Debt Securities to be credited. All Collateral Debt Securities from time to time standing to the credit of, the Custodial Account will be held by the Trustee as part of the Collateral and will be applied in accordance with the terms of the Indenture.

Uninvested Proceeds Account

On the Closing Date, the Trustee will deposit into a single, segregated account established and maintained by the Trustee for the benefit of the Issuer and, to the extent provided in the Indenture, the Secured Parties under the Indenture (the "**Uninvested Proceeds Account**") all Uninvested Proceeds.

The Collateral Manager on behalf of the Issuer may direct the Trustee to, and upon such direction the Trustee will, invest funds in the Uninvested Proceeds Account in (a) Collateral Debt Securities (including any accrued interest related thereto), (b) Eligible Investments or (c) U.S. Agency Securities designated by the Collateral Manager or transfer funds into the Synthetic Security Counterparty Account required to effect acquisition of Synthetic Securities; *provided* that after the Distribution Date relating to the first Distribution Date as of which the Rating Confirmation has been received, the Issuer will not be permitted to hold any U.S. Agency Securities unless such U.S. Agency Securities in the Uninvested Proceeds Account would be eligible for purchase by the Issuer as a Collateral Debt Security on the Ramp-Up Completion Date (in which case such investment will be deemed to be a Collateral Debt Security). Neither the Collateral Manager nor the Trustee will in any way be held liable by reason of any insufficiency of such Uninvested Proceeds Account resulting from any loss relating to any such investment.

The Trustee will, at least one Business Day prior to the Distribution Date relating to the Determination Date as of which a Ratings Confirmation Failure occurs, transfer Uninvested Proceeds to the Payment Account to the extent such funds are required to cure any Ratings Confirmation Failure, and then transfer any remaining Uninvested Proceeds to the Principal Collection Account to be treated as Principal Proceeds. If there is no Ratings Confirmation

Failure, on the Business Day prior to the Distribution Date relating to the first Determination Date after the 30th day following the delivery of the Ramp-Up Notice, the Trustee will transfer any Uninvested Proceeds remaining to the Principal Collection Account to be treated as Principal Proceeds.

Interest and other income from such investments will be deposited in the Uninvested Proceeds Account, any gain realized from such investments will be credited to the Uninvested Proceeds Account, and any loss resulting from such investments will be charged to the Uninvested Proceeds Account. Prior to each Distribution Date, investment earnings on Eligible Investments and U.S. Agency Securities in the Uninvested Proceeds Account will be transferred to the Interest Collection Account and treated as Interest Proceeds on the immediately following Distribution Date.

"**U.S. Agency Securities**" means obligations of (i) the U.S. Treasury, (ii) any U.S. federal agency or (iii) (A) the Federal National Mortgage Association, (B) the Student Loan Marketing Association or (C) the Federal Home Loan Mortgage Corporation, in each case with a stated maturity on or prior to the Stated Maturity of the Notes. For purposes of this definition, "U.S. Agency Securities" will also include obligations of any U.S. state government and agency and any department thereunder.

Interest Reserve Account

On the Closing Date, an amount equal to U.S.$2,850,000 will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties under the Indenture (the "**Interest Reserve Account**"). On or before the first Distribution Date, amounts on deposit in the Interest Reserve Account will, at the discretion of the Collateral Manager and upon Issuer order, be withdrawn and released to the Interest Collection Account or the Principal Collection Account to makes payments on the Offered Securities to the extent that the funds available for payment thereof in accordance with the Priority of Payments are insufficient. Any amounts remaining in the Interest Reserve Account after any such release will be designated as Principal Proceeds, transferred to the Principal Collection Account and applied as set forth under "*Description of the Notes—Priority of Payments—Principal Proceeds*." All funds on deposit in the Interest Reserve Account will be invested in Eligible Investments.

Expense Account

On the Closing Date, an amount equal to U.S.$150,000 will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties under the Indenture (the "**Expense Account**"). In addition, on each Distribution Date on which the balance of the Expense Account is less than U.S.$150,000, additional amounts will be deposited therein to the extent funds are available therefore in accordance with the Priority of Payments to the extent necessary to cause the balance of all Eligible Investments and cash in the Expense Account immediately after such deposit to equal U.S.$150,000. Amounts on deposit in the Expense Account may be withdrawn from time to time to pay accrued and unpaid Administrative Expenses (other than the fees and expenses of the Trustee) of the Co-Issuers and any other unpaid expenses not paid on the Closing Date and not otherwise paid from the Closing Date Expense Account. All funds on deposit in the Expense Account will be invested in Eligible Investments. If at any time the amount deposited in the Expense Account exceeds U.S.$150,000, the Trustee will transfer such amounts in excess of U.S.$ 150,000 to the Interest Collection Account.

Closing Date Expense Account

On the Closing Date, an amount equal to U.S.$2,823,010 will be deposited by the Trustee into a single, segregated account established and maintained by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties under the Indenture (the "**Closing Date Expense Account**"). Any amount deposited therein on the Closing Date will be used for the payment of fees and expenses accrued as of the Closing Date at the direction of the Collateral Manager at any time on or prior to the second Distribution Date following the Closing Date. On the Business Day prior to the second Distribution Date following the Closing Date any amounts remaining in the Closing Date Expense Account will be designated as Interest Proceeds or Principal Proceeds at the Collateral Manager's discretion, transferred to the Interest Collection Account or Principal Collection Account, as applicable, and applied by the Trustee on behalf of the Issuer to make payments in

accordance with the Priority of Payments and the Closing Date Expense Account will be closed. All funds on deposit in the Closing Date Expense Account will be invested in Eligible Investments.

Periodic Interest Reserve Account

Prior to the Closing Date, the Trustee will establish a single, segregated account established and maintained by the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the Secured Parties under the Indenture (the "**Periodic Interest Reserve Account**"). On the Closing Date, an amount equal to U.S.$1,000,000 will be deposited by the Trustee into the Periodic Interest Reserve Account. On the Business Day prior to each Distribution Date through the Distribution Date occurring in October 2011, the Trustee will cause the balance of the Periodic Interest Reserve Amount to be released from the Periodic Interest Reserve Account for distribution as Interest Proceeds in accordance with the Priority of Payments on the related Distribution Date. On each Distribution Date before October 2011, in accordance with the Priority of Payments the Trustee will deposit any such amount at the direction of the Collateral Manager. See "*Description of the Notes—Priority of Payments.*" On the Distribution Date occurring in October 2011 or on the date of the Mandatory Redemption, Optional Redemption, Tax Redemption, Auction Call Redemption or Clean-Up Call Redemption of the Notes, if applicable, any amount in the Periodic Interest Reserve Account will be transferred to the Principal Collection Account and will be applied by the Trustee on behalf of the Issuer to make payments in accordance with the Priority of Payments on the related Distribution Date. All funds on deposit in the Periodic Interest Reserve Account will be invested in Eligible Investments.

Synthetic Security Counterparty Accounts

The Trustee will cause to be established a single, segregated securities account for each Defeased Synthetic Security (each such account, a "**Synthetic Security Counterparty Account**"), which will be held in the name of the Trustee for the benefit of the Issuer and, to the extent provided for under the Indenture, the related Synthetic Security Counterparty and over which the Trustee will have exclusive control and the sole right of withdrawal in accordance with the applicable Defeased Synthetic Security and the Indenture. The Trustee will create a separate sub-account of the Synthetic Security Counterparty Account for each Synthetic Security Agreement entered into by the Issuer. The Issuer will also grant to the Trustee for the benefit of the other Secured Parties, subject to the prior lien of the relevant Synthetic Security Counterparty, a security interest in any Synthetic Security Collateral or other amounts standing to the credit of a Synthetic Security Counterparty Account. Upon the termination of a Defeased Synthetic Security, the prior lien of the related Synthetic Security Counterparty over any Synthetic Security Collateral standing to the credit of the related Synthetic Security Counterparty Account will be automatically released, and any remaining Synthetic Security Collateral credited to such Synthetic Security Counterparty Account will become subject to a first ranking lien in favor of the Secured Parties.

Except for investment earnings on the Synthetic Security Collateral, the Issuer will not have any legal, equitable or beneficial interest in any of the Synthetic Security Counterparty Accounts other than in accordance with the Indenture, the applicable Defeased Synthetic Security and applicable law. Upon the establishment of any Synthetic Security Counterparty Account, the Issuer will notify the relevant Synthetic Security Counterparty of the Trustee's security interest therein and obtain the Synthetic Security Counterparty's written acknowledgement of such security interest. The fact that the terms of a Defeased Synthetic Security do not require the Issuer immediately to deposit Synthetic Security Collateral in the related Synthetic Security Counterparty Account will not prevent the establishment of such Account.

Upon the purchase of any Synthetic Security Collateral, the Issuer will, by an order of the Issuer executed by the Collateral Manager, instruct the Trustee to deposit such Synthetic Security Collateral in the related Synthetic Security Counterparty Account. In addition, upon any amount becoming due and payable by the Issuer under a Defeased Synthetic Security, the Issuer will, by an order of the Issuer executed by the Collateral Manager, instruct the Trustee to withdraw such amount from the related Synthetic Security Counterparty Account and pay such amount to the applicable Synthetic Security Counterparty.

All deposits into, and payments made out of, the Synthetic Security Counterparty Account will be made without regard to either Priority of Payments or the occurrence of any Event of Default (other than an Event of Default described in clause (f) or (g) of the definition of "*Event of Default*"). The Trustee will be entitled to receive and rely

upon, and will act in accordance with any instruction of the Collateral Manager (acting on behalf of the Issuer), with respect to all withdrawals, deposits and other actions to be taken pursuant to the Synthetic Security Counterparty Account, and such instructions of the Collateral Manager (acting on behalf of the Issuer), will include such information as the Trustee reasonably may require.

Amounts credited to a Synthetic Security Counterparty Account will be invested in Synthetic Security Collateral until they are withdrawn by the Trustee at the direction of the Collateral Manager on behalf of the Issuer and applied to the payment of any amounts payable by the Issuer to the related Synthetic Security Counterparty in accordance with the terms of such Defeased Synthetic Security. In particular:

(i) Interest payments and redemption premium on the Synthetic Security Collateral will constitute property of the Issuer and will be paid to the Trustee and deposited into the Interest Collection Account for application as Interest Proceeds in accordance with the Priority of Payments. Principal payments on the Synthetic Security Collateral prior to the termination of the Defeased Synthetic Security will be held in the applicable Synthetic Security Counterparty Account and invested in Eligible Investments until reinvested in Synthetic Security Collateral in accordance with the terms of the Indenture and the related Defeased Synthetic Security at the direction of the Collateral Manager on behalf of the Issuer.

(ii) In the event a Defeased Synthetic Security structured as a credit default swap is terminated prior to its scheduled maturity without the occurrence of a Credit Event, the Collateral Manager on behalf of the Issuer will cause such portion of the related Synthetic Security Collateral or other amounts deposited in the Synthetic Security Counterparty Account pursuant to the Indenture that, in each case, is required to make any termination payment owed to the related Synthetic Security Counterparty (other than any Defaulted Synthetic Termination Payment owing to such Synthetic Security Counterparty) to be delivered to the related Synthetic Security Counterparty and will cause the remaining related Synthetic Security Collateral (if any) to the extent not required to be pledged to the related Synthetic Security Counterparty to be released from the lien of the related Synthetic Security Counterparty and delivered to the Trustee free of such lien.

(iii) In the event that no Credit Event under a Defeased Synthetic Security structured as a credit default swap has occurred prior to the termination or scheduled maturity of the Defeased Synthetic Security, upon the termination or scheduled maturity of the Defeased Synthetic Security, the related Synthetic Security Counterparty's lien on the Synthetic Security Collateral (if any) related to the applicable Defeased Synthetic Security will be released and the Collateral Manager on behalf of the Issuer will take or cause the taking of any and all other actions necessary to create in favor of the Trustee a valid, perfected, first-priority security interest in such released Synthetic Security Collateral under applicable law and regulations (including without limitation Articles 8 and 9 of the Uniform Commercial Code in effect at the time of such release).

(iv) Upon the occurrence of a Credit Event under a Defeased Synthetic Security structured as a credit default swap, at the direction of the Collateral Manager (acting on behalf of the Issuer), the Trustee will instruct the custodian to deliver the portion of the related Synthetic Security Collateral (if any) and/or other amounts deposited in the Synthetic Security Counterparty Account pursuant to the Indenture that is necessary to satisfy the Issuer's payment obligations in respect of Remaining Exposure thereunder to the related Synthetic Security Counterparty upon delivery of the relevant Deliverable Obligations to the Issuer.

(v) In the event that the Issuer is required to deliver the Synthetic Security Collateral to the related Synthetic Security Counterparty or to liquidate the Synthetic Security Collateral and deliver cash with regard to any Defeased Synthetic Security, any market risk on the liquidation of the Synthetic Security Collateral will be allocated between the Issuer and the related Synthetic Security Counterparty in accordance with the Underlying Instruments relating to such Defeased Synthetic Security.

(vi) Any Synthetic Security Collateral released from the lien of the related Synthetic Security Counterparty which satisfies the definition of Eligible Investments will be treated as Eligible

Investments and any Synthetic Security Collateral released from the lien of the related Synthetic Security Counterparty which satisfies the definition of Collateral Debt Security will be treated as a Collateral Debt Security and in either case may be retained by the Trustee or sold by the Collateral Manager subject to the restrictions set forth herein, and the Collateral Manager will instruct the Trustee with respect to such treatment of Synthetic Security Collateral. Any cash received upon the maturity or liquidation of the Synthetic Security Collateral released to the Trustee will be deemed to be Principal Proceeds.

The Collateral Manager on behalf of the Issuer will direct the Trustee in writing to withdraw any other amounts held in a Synthetic Security Counterparty Account after payment of all amounts owing from the Issuer to the related Synthetic Security Counterparty in accordance with the terms of the related Defeased Synthetic Security from such Synthetic Security Counterparty Account and deposit such amounts in the Principal Collection Account for application as Principal Proceeds in accordance with the terms of the Indenture.

Except for interest and redemption premium on the Synthetic Security Collateral credited to a Synthetic Security Counterparty Account payable to the Issuer in accordance with the foregoing, amounts contained in a Synthetic Security Counterparty Account will not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests and the Standard & Poor's CDO Monitor Test, the Pro Rata Payment Conditions or the Eligibility Criteria, but the Defeased Synthetic Security that relates to the Synthetic Security Counterparty Account will be considered an asset of the Issuer for such purposes.

Issuer Collateral Accounts

The Trustee, on behalf of the Issuer, will, prior to the Closing Date, cause to be established one or more securities accounts under the Indenture which will be held in the name of the Trustee in trust for the benefit of the Secured Parties (individually or collectively, as the context may require, the "**Issuer Collateral Account**"). At the direction of the Collateral Manager the Trustee will, on behalf of the Issuer, deposit into the Issuer Collateral Account any premiums received from the Credit Default Swap Counterparty in accordance with the terms of the Credit Default Swap Agreement and the underlying CDS Agreement Transactions. If at any time such amounts in the Issuer Collateral Account credited to payments under the Credit Default Swap Agreement exceed any related collateral requirements set forth thereunder, such excess will be withdrawn from the Issuer Collateral Account at the direction off the Collateral Manager and deposited to the Interest Collection Account. If the terms of any Synthetic Security require the Synthetic Security Counterparty to secure its obligations with respect to such Synthetic Security, at the time the Issuer enters into such Synthetic Security, the Trustee will, on behalf of the Issuer, at the direction of the Collateral Manager, create a sub-account of the Issuer Collateral Account for the benefit of the Secured Parties and the Issuer and credit thereto all funds and other property that are received from the related Synthetic Security Counterparty to secure the obligations of such Synthetic Security Counterparty in accordance with the terms of the related Synthetic Securities.

Amounts on deposit in an Issuer Collateral Account will be invested in Synthetic Security Collateral that satisfies paragraphs (6), (7), (8) and (9) of the Eligibility Criteria as directed by the Collateral Manager (acting on behalf of the Issuer), and in accordance with the applicable Synthetic Security. Income received on amounts on deposit in each Issuer Collateral Account will be withdrawn from such account and paid to the related Synthetic Security Counterparty or the Issuer in accordance with the applicable Synthetic Security.

Posted collateral on deposit in each Issuer Collateral Account will not be included in the Collateral and will not be available to make payments under the Notes other than as a result of an event of default, default or termination event (howsoever described) under the related Synthetic Security caused by the related Synthetic Security Counterparty. Amounts contained in any Issuer Collateral Account will not be considered to be an asset of the Issuer for purposes of any of the Collateral Quality Tests or the Pro Rata Payment Conditions, but otherwise will be considered assets of the Issuer for all purposes.

Upon the occurrence of an event of default, default or termination event (howsoever described) under the related Synthetic Security, amounts contained in the related Issuer Collateral Account will, as directed by the Collateral Manager (acting on behalf of the Issuer), be withdrawn by the Trustee and applied to the payment of any termination payment or other amount payable by the related Synthetic Security Counterparty to the Issuer as a result of such event of default, default or termination event (howsoever described). Any excess amounts held in an Issuer

Collateral Account after payment of all amounts owing from the related Synthetic Security Counterparty to the Issuer as a result of such event of default, default or termination event (howsoever described) will be withdrawn from such Issuer Collateral Account and paid to the related Synthetic Security Counterparty in accordance with the applicable Synthetic Security.

THE CREDIT DEFAULT SWAP AGREEMENT

General

On or prior to the Closing Date, the Issuer will enter into an ISDA Master Agreement (Multicurrency—Cross Border) (together with the schedule and any confirmations thereto, the "**Credit Default Swap Agreement**") with Lehman Brothers Special Financing Inc. (in such capacity, the "**Credit Default Swap Counterparty**"), under which the Issuer and the Credit Default Swap Counterparty will on the Closing Date and prior to the Ramp-Up Completion Date enter into or terminate Synthetic Securities in the form of credit default swap transactions (each, a "**CDS Agreement Transaction**") with respect to specified Reference Obligations under which, subject to the limitations set forth in the Eligibility Criteria, the Credit Default Swap Counterparty will act as buyer and the Issuer will act as seller of protection. Each CDS Agreement Transaction will constitute a "**Synthetic Security**" for all purposes of the Indenture.

The Collateral Manager will only direct the Issuer to enter into CDS Agreement Transactions with the Credit Default Swap Counterparty that themselves satisfy, and with respect to which all Reference Obligations would satisfy, if acquired directly by the Issuer, the definition of "Collateral Debt Security" (as of the effective date of the relevant CDS Agreement Transaction). In addition, each CDS Agreement Transaction will require the Issuer to pay Floating Payments upon the occurrence of a Floating Amount Event and, at the buyer's election, will require physical settlement upon the occurrence of a Credit Event thereunder by the Credit Default Swap Counterparty's delivery of the Deliverable Obligation and the Issuer's payment of a Physical Settlement Amount. Any CDS Agreement Transaction included in the Collateral on the Closing Date satisfies the requirements of the definition of "Collateral Debt Security" (including the Eligibility Criteria) and certain other requirements set forth in the Indenture.

Each of the CDS Agreement Transactions is subject to and incorporates the 2003 ISDA Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") (as so supplemented and as the same may be amended, modified or otherwise supplemented from time to time, the "**Credit Derivatives Definitions**").

Each CDS Agreement Transaction will generally terminate on the last to occur of (a) five Business Days following the earlier of (i) the legal final maturity date of the related Reference Obligation and (ii) the Final Amortization Date, (b) the last Delivery Date under such CDS Agreement Transaction, (c) the last date on which any Floating Payments are due and payable, (d) the last day on which any additional payments to be made by the Credit Default Swap Counterparty in respect of reimbursement payments are due and payable and (e) the first anniversary (for RMBS Securities and CMBS Securities) or the third anniversary (for CDO Securities), as applicable, of the related Floating Rate Payer Payment Date (the last such date in respect of any escrowed amount under such CDS Agreement Transaction). The Notional Amount of each CDS Agreement Transaction will be reduced in an amount equal to each payment of principal paid to the holders of the related Reference Obligation (each such reduction, a "**Principal Amortization**") and by certain other amounts. In addition, the Notional Amount of any CDS Agreement Transaction may, with the consent of the Credit Default Swap Counterparty, be reduced in whole or in part (any such reduction, a "**CDS Agreement Transaction Termination**").

Each CDS Agreement Transaction will be entered into under a confirmation and the terms of such CDS Agreement Transaction will be reflected in the relevant confirmation and its Annex A. Accordingly, a sale or other disposition in whole or in part of a CDS Agreement Transaction will result in an amendment of the Annex A to the relevant confirmation.

It is currently expected that the aggregate Notional Amount of CDS Agreement Transactions will be approximately equal to U.S.$200,000,000 on the Closing Date and the Issuer will be the seller of protection under all such CDS Agreement Transactions. All of the CDS Agreement Transactions will be subject to the Collateral Quality Tests and the Eligibility Criteria to the extent described herein.

Payments to the Credit Default Swap Counterparty in respect of any Floating Payments, Physical Settlement Amounts and termination payments payable upon the termination of an individual CDS Agreement Transaction will be made on the date when such payment is due without regard to the Priority of Payments. Such payments will be

funded for such purpose by the Issuer applying amounts standing to the credit of the Synthetic Security Counterparty Account. Payments to the Credit Default Swap Counterparty in respect of any termination payments payable upon the termination in full of the Credit Default Swap Agreement will be made on a Distribution Date subject to and in accordance with the Priority of Payments. See "*Description of the Notes—Priority of Payments*."

The obligations of the Issuer to pay a Credit Default Swap Counterparty will exist irrespective of whether the Credit Default Swap Counterparty suffers a loss on a Reference Obligation upon the occurrence of a Credit Event. The Issuer will have no rights of subrogation under the CDS Agreement Transactions.

Credit Events

All CDS Agreement Transactions will be documented by a confirmation that is substantially in the form of the most recent version of the "Credit Derivative Transaction on Mortgage-Backed Security with Pay-As-You-Go or Physical Settlement (Form I) (Dealer Form)" or the "Credit Derivative Transaction on Collateralized Debt Obligation with Pay-As-You-Go or Physical Settlement (Dealer Form)" template published by ISDA prior to the Closing Date, with the elections set forth below, each of which features a pay-as-you-go settlement and optional physical settlement, the former designed for use primarily with RMBS Securities and CMBS Securities and the latter designed for use primarily with CDO Securities.

The Credit Events applicable to each CDS Agreement Transaction may be:

1. "**Failure to Pay Principal**."

This Credit Event will occur upon the occurrence of the following:

(i) a failure by the Reference Obligor (or any insurer thereof) to pay an expected amount of principal on the earlier of the Final Amortization Date or the legal final maturity date of the related Reference Obligation, as the case may be, or

(ii) payment on any such day of an actual amount of principal that is less than the expected amount of principal on such date;

provided that the failure by the Reference Obligor (or any insurer thereof) to pay any such amount in respect of principal in accordance with the foregoing will not constitute a Failure to Pay Principal if such failure has been remedied within any grace period applicable to such payment obligation under the Underlying Instruments relating to the Reference Obligation or, if no such grace period is applicable, within three Business Days after the day on which the expected principal amount was scheduled to be paid.

"**Final Amortization Date**" means the first to occur of (i) the date on which the Notional Amount of the CDS Agreement Transaction is reduced to zero and (ii) the date on which the assets securing the Reference Obligation or designated to fund amounts due in respect of the Reference Obligation are liquidated, distributed or otherwise disposed of in full and the proceeds thereof are distributed or otherwise disposed of in full.

2. "**Writedown**."

This Credit Event will occur if at any time any of the following occurs:

(i) (A) a writedown or applied loss (however described in the Underlying Instruments) resulting in a reduction in the outstanding principal amount (other than as a result of a scheduled or unscheduled payment of principal); or

(B) the attribution of a principal deficiency or realized loss (however described in the Underlying Instruments) to the Reference Obligation resulting in a reduction or subordination of the current interest payable on the Reference Obligation;

(ii) the forgiveness of any amount of principal by the holders of the Reference Obligation pursuant to an amendment to the Underlying Instruments resulting in a reduction in the outstanding principal amount of the Reference Obligation; or

(iii) if Implied Writedown is applicable and the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) above to occur in respect of the Reference Obligation, an Implied Writedown Amount being determined in respect of the Reference Obligation by the Credit Default Swap Counterparty in its capacity as calculation agent;

provided that if the Credit Default Swap Counterparty holds the Reference Obligation, the Credit Default Swap Counterparty will not vote to approve any writedown or applied loss (as set forth in clause (i)(A) above); *provided*, *further*, that if the Credit Default Swap Counterparty votes for any writedown or applied loss, then any related writedown or loss amount will not be a Floating Amount and will not be payable by the Issuer; and *provided*, *further*, that no payment will be made under any CDS Agreement Transaction in connection with an Implied Writedown Amount or related reimbursement amount (other than with respect to any CDS Agreement Transaction the Reference Obligation of which is a CDO Security), and for the avoidance of doubt, any references in any CDS Agreement Transaction to Implied Writedown, Implied Writedown Reimbursement Amount and Aggregate Implied Writedown Amount (each as described therein) will be disregarded (other than with respect to any CDS Agreement Transaction the Reference Obligation of which is a CDO Security).

3. "**Distressed Ratings Downgrade**" (as applicable to CDO Securities and RMBS Securities).

This Credit Event will occur if the Reference Obligation:

(i) if publicly rated by Moody's, (A) is downgraded to "Caa2" or below by Moody's or (B) has the rating assigned to it by Moody's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "Baa3" or higher by Moody's immediately prior to the occurrence of such withdrawal, it will not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "Caa1" by Moody's within three calendar months after such withdrawal;

(ii) if publicly rated by Standard & Poor's, (A) is downgraded to "CCC" or below by Standard & Poor's or (B) has the rating assigned to it by Standard & Poor's withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Standard & Poor's immediately prior to the occurrence of such withdrawal, it will not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Standard & Poor's within three calendar months after such withdrawal; or

(iii) if publicly rated by Fitch, (A) is downgraded to "CCC" or below by Fitch or (B) has the rating assigned to it by Fitch withdrawn and, in either case, not reinstated within five Business Days of such downgrade or withdrawal; *provided* that if such Reference Obligation was assigned a public rating of "BBB-" or higher by Fitch immediately prior to the occurrence of such withdrawal, it will not constitute a Distressed Ratings Downgrade if such Reference Obligation is assigned a public rating of at least "CCC+" by Fitch within three calendar months after such withdrawal.

4. "**Failure to Pay Interest**" (as applicable to CDO Securities), means the occurrence of an Interest Shortfall Amount or Interest Shortfall Amounts (calculated on a cumulative basis) in excess of the relevant Payment Requirement.

A Writedown, a Failure to Pay Principal or, if applicable, a Distressed Ratings Downgrade or a Failure to Pay Interest, in respect of a Reference Obligation will allow the protection buyer to deliver a Credit Event Notice under the related CDS Agreement Transaction.

Upon the satisfaction of the Conditions to Settlement, Credit Events under each CDS Agreement Transaction will be physically settled; *provided* that in the case of a Writedown, a Failure to Pay Principal or a Failure to Pay Interest, the protection buyer may elect to receive a Floating Payment from the protection seller.

For purposes of the foregoing:

"**Aggregate Implied Writedown Amount**" means the greater of (i) zero and (ii) the aggregate of all Implied Writedown Amounts *minus* the aggregate of all Implied Writedown Reimbursement Amounts.

"**Current Period Implied Writedown Amount**" means, in respect of a Reference Obligation calculation period, an amount determined as of the last day of such Reference Obligation calculation period equal to the greater of: (i) zero; and (ii) the product of (A) the Implied Writedown Percentage and (B) the greater of (1) zero and (2) the lesser of (x) the Pari Passu Amount and (y) the product of (I) the Pari Passu Amount *plus* the Senior Amount and (II) an amount equal to one *minus* the Overcollateralization Ratio.

"**Implied Writedown Amount**" means, (i) if the Underlying Instruments do not provide for writedowns, applied losses, principal deficiencies or realized losses as described in (i) of the definition of "Writedown" to occur in respect of the Reference Obligation, on any Reference Obligation payment date, an amount determined by the Calculation Agent equal to the excess, if any, of the Current Period Implied Writedown Amount over the Previous Period Implied Writedown Amount, in each case in respect of the calculation period to which such Reference Obligation payment date relates, and (ii) in any other case, zero.

"**Implied Writedown Percentage**" means (i) the outstanding principal amount *divided* by (ii) the Pari Passu Amount.

"**Overcollateralization Ratio**" means, in respect of a Reference Obligation calculation period: (i) if the most recent servicer report sets out a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations on the Reference Obligation (subject to certain adjustments as described in the Underlying Instruments) to (B) the Pari Passu Amount *plus* the Senior Amount, then such ratio; or (ii) if the ratio cannot be determined under (i) but the most recent servicer report for one or more senior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the senior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation to (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or (iii) if the ratio cannot be determined under (ii) but the most recent servicer report for one or more junior Related Obligations (if any) sets out such a ratio, then a ratio equal to the ratio of (A) the product of (1) such ratio determined with respect to the junior Related Obligation ranking closest in priority of payment to the Reference Obligation for which such a ratio is set out, and (2) the aggregate outstanding principal balance of such Related Obligation and any other Related Obligations ranking in priority of payment either *pari passu* with or senior to such Related Obligation (including the Reference Obligation) and (B) the sum of the Pari Passu Amount *plus* the Senior Amount with respect to such Reference Obligation; or (iv) if the ratio cannot be determined under (iii), then a ratio representing the ratio of (A) the aggregate asset pool balance securing the payment obligations under the Reference Obligation to (B) the Pari Passu Amount *plus* the Senior Amount.

"**Pari Passu Amount**" means, as of any date of determination, the aggregate of the outstanding principal amount of the Reference Obligation and the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking *pari passu* in priority with the Reference Obligation.

"**Payment Requirement**" means the amount specified as such in the related confirmation or its equivalent in the relevant currency or currencies in which a Reference Obligation related to a CDS Agreement Transaction is denominated or, if "Payment Requirement" is not so specified, U.S.$10,000 or its equivalent in the relevant currency or currencies in which a Reference Obligation related to a CDS Agreement Transaction is denominated, in either case as of the occurrence of the relevant "Failure to Pay Interest."

"**Previous Period Implied Writedown Amount**" means, in respect of a Reference Obligation calculation period, the Current Period Implied Writedown Amount as determined in relation to the last day of the immediately preceding Reference Obligation calculation period.

"**Related Obligations**" means, in relation to the Reference Obligation, an obligation of the Reference Entity that is also secured by the Underlying Assets but ranks senior or junior to the Reference Obligation in priority of payment.

"**Senior Amount**" means, as of any day, the aggregate outstanding principal balance of all obligations of the Reference Entity secured by the Underlying Assets and ranking senior in priority to the Reference Obligation.

Floating Payments

Each CDS Agreement Transaction is designed to replicate the risk profile of a long position in Asset-Backed Securities or CDO Securities. Asset-Backed Securities have inherent risks that differ in nature to corporate credit risk, most notably the fact that the obligor is relying on the timely receipt of cashflows from the underlying assets (and therefore has limited control over its ability to pay investors). Distressed scenarios can occur where the cash-flows of the Asset-Backed Security are adversely affected without triggering an event of default under the terms thereof. Each CDS Agreement Transaction requires the protection seller to pay floating amounts to the protection buyer in amounts equal to (subject to any adjustments set forth in the relevant confirmation to reflect any applicable percentage or reference price) any principal shortfalls, written down amounts and interest shortfalls under the Reference Obligation (calculated, in the case of principal shortfalls and interest shortfalls, as the expected amount less the actual amount received) upon the occurrence of, respectively, a Principal Shortfall, Writedown or Interest Shortfall (any such payment, a "**Floating Payment**").

Certain reimbursements in respect of such Floating Payments paid by the Reference Obligor to holders of the Reference Obligation within 365 days (for RMBS Securities and CMBS Securities) or three years (for CDO Securities), as applicable, after the earlier of the legal final maturity and the Final Amortization Date of the related Reference Obligation, will be paid by the Credit Default Swap Counterparty to the Issuer (any such payment, (a) if made in respect of an amount received as a result of a Writedown or Principal Shortfall, a "**Principal Reimbursement**" or (b) if made in respect of an amount received as a result of an Interest Shortfall, an "**Interest Reimbursement**").

Generally, on each day falling five Business Days after a Reference Obligation payment date, the buyer of protection will be required to pay to the seller of protection with respect to each CDS Agreement Transaction an amount equal to the product of (i) the applicable fixed rate *multiplied by* (ii) an amount equal to the Notional Amount on the last day of the related Reference Obligation calculation period *multiplied by* (iii) the actual number of days in the related Reference Obligation calculation period *divided by* 360.

Under each CDS Agreement Transaction, the parties to the Credit Default Swap Agreement will elect to cap the interest shortfall risk being transferred to the protection seller by limiting amounts to be paid by the protection seller to the protection buyer to the amount of premium payable by the protection buyer under the CDS Agreement Transaction on the first premium payment date immediately following the Reference Obligation payment date on which the relevant interest shortfall occurred.

The premium payable to the Issuer by the Credit Default Swap Counterparty under a CDS Agreement Transaction will be at the quoted premium rate *minus* an agreed-upon intermediation fee.

For purposes of the foregoing:

"**Actual Interest Amount**" means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, payment by or on behalf of the issuer of the Reference Obligation of an amount in respect of interest due under the Reference Obligation (including, without limitation, any deferred interest or defaulted interest but excluding payments in respect of prepayment penalties, yield maintenance provisions or principal, except that the Actual Interest Amount will include any payment of principal representing capitalized interest) to the holder(s) of the Reference Obligation in respect of the Reference Obligation.

"**Expected Interest Amount**" means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, the amount of current interest that would accrue during the related calculation period calculated using the Reference Obligation coupon on a principal balance of the Reference Obligation equal to:

(a) the outstanding principal amount taking into account any reductions due to a principal deficiency balance or realized loss amount (however described in the Underlying Instruments) that are attributable to the Reference Obligation *minus*

(b) the Aggregate Implied Writedown Amount (if any)

and that will be payable on the related payment date assuming for this purpose that sufficient funds are available therefor in accordance with the Underlying Instruments. Except as provided in the previous sentence, the Expected Interest Amount will be determined without regard to (i) unpaid amounts in respect of accrued interest on prior Reference Obligation Payment Dates, or (ii) any prepayment penalties or yield maintenance provisions.

"**Floating Amount Event**" means a Writedown, a Failure to Pay Principal or an Interest Shortfall.

"**Interest Shortfall**" means, with respect to any payment date under the Reference Obligation related to a CDS Agreement Transaction, either (a) the non-payment of an Expected Interest Amount or (b) the payment of an Actual Interest Amount that is less than the Expected Interest Amount.

Physical Settlement

Each of the CDS Agreement Transactions will have optional physical settlement. Accordingly, upon the occurrence of a Credit Event, the buyer of protection may deliver to the seller of protection the Deliverable Obligations specified in the notice of physical settlement and the seller of protection will pay to the buyer of protection the agreed Physical Settlement Amount that corresponds to the Deliverable Obligations that the buyer of protection has delivered. Each CDS Agreement Transaction will provide that the buyer of protection, when providing a notice of physical settlement, may specify an amount (the "**Exercise Amount**") that is less than the Notional Amount as of the date on which such notice of physical settlement is delivered (calculated as though physical settlement in respect of all previously delivered Notices of Physical Settlement has occurred in full). If such Exercise Amount is less than the Notional Amount as of such date, the rights and obligations of the parties under the CDS Agreement Transaction will continue in respect of the remaining Notional Amount and the buyer of protection may deliver additional Notices of Physical Settlement with respect to the initial Credit Event or with respect to any other Credit Event at any time thereafter.

In addition, each CDS Agreement Transaction will provide that only Reference Obligations may constitute Deliverable Obligations. Pursuant to clause (ii) of the definition of "Collateral Debt Security," Deliverable Obligations constitute Collateral Debt Securities. Accordingly, upon receipt of Deliverable Obligations the Issuer may hold Deliverable Obligations as Collateral Debt Securities and such Deliverable Obligations will be subject to the provisions relating to the disposition of Collateral Debt Securities set forth herein. See "*Security for the Notes—Dispositions of Collateral Debt Securities*."

The "**Physical Settlement Amount**" for CDS Agreement Transactions will be an amount equal to (a) the product of the Exercise Amount and an agreed reference price (which is currently expected to be 100% under the majority of the CDS Agreement Transactions) *minus* (b) the sum of (without duplication): (i) the product of (A) the aggregate of all Implied Writedown Amounts with respect to the relevant Reference Obligation determined immediately prior to the relevant delivery and (B) the relevant Exercise Percentage and (ii) the product of (A) the aggregate principal amount of the Reference Obligation which is subject to a Writedown (as the same may be reduced by any reimbursement obligations of the buyer of protection under the relevant CDS Agreement Transaction) and (B) the relevant Exercise Percentage. For purposes of the foregoing, "**Exercise Percentage**" means, with respect to a notice of physical settlement, a percentage equal to the original face amount of the Deliverable Obligations specified in such notice of physical settlement *divided by* an amount equal to (i) the initial face amount of the Reference Obligation *minus* (ii) the aggregate of the original face amount of all Deliverable Obligations specified in all previously delivered Notices of Physical Settlement.

If the buyer of protection delivers Deliverable Obligations in an amount greater than the Deliverable Obligations specified in the notice of physical settlement, the seller of protection will not be required to pay more than the Physical Settlement Amount that corresponds to the Deliverable Obligations specified in the notice of physical settlement. The Credit Default Swap Counterparty is expected to seek to eliminate its credit exposure to the Reference Obligations by entering into back-to-back hedging transactions.

Where the buyer of protection has delivered a notice of physical settlement but does not deliver in full the Deliverable Obligations (including, without limitation, as a result of the illegality or impossibility of physical settlement) on or prior to the physical settlement date, then such notice of physical settlement will be deemed not to have been delivered. In no event will full or partial cash settlement apply.

Ratings Provisions

The Credit Default Swap Counterparty and each Synthetic Security Counterparty must satisfy the Synthetic Security Counterparty Ratings Requirement or take the following steps to cure such failure. If on any date the Credit Default Swap Counterparty or any Synthetic Security Counterparty fails to satisfy the Synthetic Security Counterparty Ratings Requirement (as notified to the Trustee in writing), the Credit Default Swap Counterparty or Synthetic Security Counterparty, as applicable, will, at its sole option and expense and while continuing to perform its obligations under the Indenture, take the actions described under subclause (w) below (within 30 days in the case of a Moody's Collateralization Event or within 10 days in the case of an S&P Collateralization Event) or take one of the actions described under subclause (x) or (y) below (within 30 days in the case of a Moody's Collateralization Event or within 60 days in the case of an S&P Collateralization Event). If on any date a Credit Default Swap Ratings Event occurs with respect to the Credit Default Swap Counterparty or any Synthetic Security Counterparty, or Standard & Poor's withdraws all of the ratings of the Credit Default Swap Counterparty or any Synthetic Security Counterparty, the Credit Default Swap Counterparty or Synthetic Security Counterparty, as applicable, will, at its sole option and expense and while continuing to perform its obligations under the Indenture, within 10 Business Days of such Credit Default Swap Ratings Event or ratings withdrawal, take the actions described under subclause (w) below and, within 60 Business Days of such Credit Default Swap Ratings Event or ratings withdrawal, take one of the actions described under subclause (x), (y) or (z) below:

(w) post cash or collateral according to the terms of the Credit Support Annex;

(x) assign or transfer all of its rights and obligations under the related Synthetic Security to a counterparty that satisfies the Synthetic Security Counterparty Ratings Requirement. Upon successful consummation of any such assignment, the related Credit Default Swap Counterparty's or Synthetic Security Counterparty's, as applicable, obligations to post collateral contemplated by subclause (w) above will terminate and the Issuer will release its security interest in, and return to the related Credit Default Swap Counterparty or Synthetic Security Counterparty, as applicable, any then-posted collateral;

(y) cause an entity who satisfies the Synthetic Security Counterparty Ratings Requirement to issue in favor of the Issuer (a) a credit support of such Credit Default Swap Counterparty's or Synthetic Security Counterparty's obligations under the related Synthetic Security in form and substance that satisfies the Rating Condition or (b) an eligible guarantee; or

(z) take other steps as Standard & Poor's may require to satisfy the Rating Condition.

If the Credit Swap Counterparty or Synthetic Security Counterparty fails within the required time period to take one of the actions described above, a Termination Event will be deemed to have occurred with respect to which the Credit Default Swap Counterparty or Synthetic Security Counterparty, as applicable, will be the sole "**Affected Party**."

For purposes of the foregoing, "**Credit Support Annex**" means an ISDA Credit Support Annex, dated as of the date of the Credit Default Swap Agreement, pursuant to which the Credit Default Swap Counterparty will transfer cash collateral to the Issuer in respect of its obligations thereunder.

For purposes of the foregoing, "**Synthetic Security Counterparty Ratings Requirement**" means, with respect to a Synthetic Security Counterparty, a requirement which will be satisfied if (i) either (A) the unsecured, unguaranteed and otherwise unsupported long term senior debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least "A1" by Moody's (and, if rated "A1", such rating is not on watch for possible downgrade) and no short-term rating is available from Moody's, or (B)(1) the unsecured, unguaranteed and otherwise unsupported long term senior debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least "A2" by Moody's (and, if rated "A2", such rating is not on watch for possible downgrade) and (2) the unsecured, unguaranteed and otherwise unsupported short term debt obligations of such Rating Determining Party are rated at least "P-1" by Moody's (and, if rated "P-1", such rating is not on watch for possible downgrade), and (ii) the unsecured, unguaranteed and otherwise unsupported short term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated "A-1" by Standard & Poor's, or if the Rating Determining Party does not have any such short-term debt ratings, the unsecured, unguaranteed and otherwise unsupported senior long-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated at least "A+" by Standard & Poor's. Failure to comply with the ratings set forth above (i) with respect to Moody's will be known as a "**Moody's Collateralization Event**" and (ii) with respect to Standard and Poor's will be known as an "**S&P Collateralization Event**".

For purposes of the foregoing, "**Credit Default Swap Ratings Event**" means, with respect to a Synthetic Security Counterparty, if the unsecured, unguaranteed and otherwise unsupported short term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated below "A-2" by Standard & Poor's, or if the Rating Determining Party does not have any such short-term debt ratings, the unsecured, unguaranteed and otherwise unsupported senior long-term debt obligations of the Rating Determining Party with respect to the related Synthetic Security Counterparty are rated below "BBB+" by Standard & Poor's.

Conditions to Settlement

In order for a Physical Settlement Amount to be due from seller of protection to the buyer of protection in respect of a CDS Agreement Transaction, the Conditions to Settlement must be satisfied in relation to the relevant Reference Obligation. The "**Conditions to Settlement**" in relation to a Reference Obligation are that:

(i) a Credit Event has occurred with respect to that Reference Obligation during the period from (and including) the effective date thereof to (and including) the applicable scheduled termination date of the related CDS Agreement Transaction;

(ii) the protection buyer has delivered a Credit Event Notice to the protection seller that is effective during the period from and including the effective date to and including the date that is 14 calendar days after the scheduled termination date or any later date permitted under the terms of the CDS Agreement Transaction (the "**Notice Delivery Period**");

(iii) the protection buyer has delivered the Notice of Publicly Available Information to the protection seller that is effective during the Notice Delivery Period; and

(iv) the protection buyer has delivered a notice of physical settlement to the protection seller that is effective no later than 30 calendar days after the first date on which both the Credit Event Notice and the Notice of Publicly Available Information are effective.

For purposes of the foregoing:

"**Credit Event Notice**" means an irrevocable written notice from the protection buyer to the protection seller that describes a Credit Event that occurred during the Notice Delivery Period. A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. A notice provided in respect of a Floating Payment may also satisfy the requirement of a Credit Event Notice.

"**Notice of Publicly Available Information**" means an irrevocable written notice from the protection buyer to the protection seller that, consistent with the requirements of the Credit Derivatives Definitions (as modified by the Form-Approved Synthetic Security) cites publicly available information reasonably confirming the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred.

The protection buyer is the only party which may deliver a Credit Event Notice and a Notice of Publicly Available Information.

Amendment of the Credit Default Swap Agreement

No material amendment, modification or waiver in respect of the Credit Default Swap Agreement may be entered into by the Issuer and the Credit Default Swap Counterparty unless (i) a copy of such proposed amendment, modification or waiver has been delivered to the Collateral Manager no less than 10 Business Days prior to the proposed effective date thereof and (ii) such material amendment, modification or waiver satisfies the Rating Condition. Upon termination of the Credit Default Swap Agreement pursuant to the terms thereof (other than as a result of an "Event of Default" or "Termination Event" with respect to which the Issuer is the "Defaulting Party" or the sole "Affected Party"), the Issuer will use reasonable efforts to enter into a replacement Credit Default Swap Agreement that (a) either (i) satisfies the Rating Condition or (ii) is a Form-Approved Synthetic Security and (b) satisfies the requirements of the Indenture. In addition, the Credit Default Swap Agreement will not be amended if such amendment would materially adversely affect any Class of Notes unless (A) notice of such amendment has been delivered by the Issuer (or the Trustee on behalf of the Issuer) to the Noteholders of each such Class materially adversely affected thereby, (B) a Majority of the Noteholders of each such Class has not, within 10 Business Days after receipt of such notice, informed the Issuer that such Class objects to such amendment and (C) such material amendment, modification or waiver satisfies the Rating Condition.

Termination of the Credit Default Swap Agreement

The Credit Default Swap Agreement will be subject to termination by the Issuer or the Credit Default Swap Counterparty, whether or not the Notes have been paid in full prior to such termination, upon certain events of default and termination events, as defined in the Credit Default Swap Agreement.

Events of default under the Credit Default Swap Agreement include, among other things, the occurrence of (i) certain events of bankruptcy, insolvency, conservatorship, receivership or reorganization of the Issuer or the Credit Default Swap Counterparty or (ii) a failure on the part of the Issuer or the Credit Default Swap Counterparty to make any payment under the Credit Default Swap Agreement within the applicable grace period.

"**Termination Events**" under (and as defined in) the Credit Default Swap Agreement will include:

(i) a change in applicable law making it illegal for either the Issuer or the Credit Default Swap Counterparty to be a party to, or perform an obligation under, the Credit Default Swap Agreement;

(ii) certain tax events or a change in tax law affecting the Issuer or the Credit Default Swap Counterparty;

(iii) a redemption in full of the Notes in accordance with the Indenture;

(iv) an Event of Default under the Indenture followed by the liquidation in full of the Collateral;

(v) amendment of the Indenture without consent of the Credit Default Swap Counterparty; and

(vi) failure by the Issuer to comply with certain collateral requirements.

The Issuer has agreed to use reasonable efforts to enter into a substitute credit default swap agreement on similar terms to the extent that the Issuer is able to enter into such an agreement (but there is no guarantee that it will be able to do so and it may only do so provided that the Issuer is not the defaulting party or affected party under the Credit Default Swap Agreement). Amounts payable upon any early termination of the Credit Default Swap Agreement will be based substantially upon general loss valuation methodology. If any net termination payment is

payable by the Issuer to the Credit Default Swap Counterparty in connection with the occurrence of any such early termination or Notional Amount reduction, such amount, together with interest on such amount for the period from and including the date of termination to but excluding the date of payment, will be payable on the next succeeding Distribution Date to the extent funds are available for such purpose in accordance with the Priority of Payments (and any portion of such termination payment not paid on such Distribution Date will be payable on the first Distribution Date on which such amount is required to be paid in accordance with the Priority of Payments).

Notwithstanding anything herein to the contrary, the Issuer will not be prevented from entering into Credit Default Swap Agreement Transactions of other types of securities satisfying the Eligibility Criteria subject to rating agency conditions and the form approved documentation.

THE CREDIT DEFAULT SWAP COUNTERPARTY

The information appearing in this section has been prepared by the Credit Default Swap Counterparty and has not been independently verified by the Co-Issuers, the Initial Purchasers, the Trustee, the Collateral Manager or any other person or entity.

Lehman Brothers Special Financing Inc. ("**LBSF**"), a Delaware corporation and a wholly-owned subsidiary of Lehman Brothers Inc., which is a wholly-owned subsidiary of LBHI, is Lehman Brothers' principal dealer in a broad range of over-the-counter derivative products including interest rate, currency, credit and mortgage derivatives. LBSF benefits from a full guarantee by LBHI.

Lehman Brothers Holdings Inc. ("**LBHI**"), was incorporated in December 29, 1983 and its principal executive offices are located at 745 Seventh Avenue, New York, New York, 10019, telephone number: +1 (212) 526-7000. LBHI, together with its consolidated subsidiaries (collectively, "**Lehman Brothers**"), is an innovator in global finance and serves the financial needs of institutional clients and individuals, corporations, municipalities and government entities worldwide. Lehman Brothers provides a vast array of equities and fixed income sales, trading and research, investment banking services and investment management and advisory services. LBHI is currently rated "A+" by Standard & Poor's for long-term senior debt, "A-1" by Standard & Poor's for short-term debt, "A1" by Moody's for long-term senior debt and "P-1" by Moody's for short-term debt.

THE COLLATERAL MANAGER

The information appearing in this section (other than the information contained under the subheading "**General**") has been prepared by the Collateral Manager and has not been independently verified by the Co-Issuers, the Initial Purchasers, the Trustee or any other person. Accordingly, the Collateral Manager assumes the responsibility for the accuracy, completeness or applicability of such information.

General

Certain administrative and advisory functions with respect to the Collateral will be performed by the Collateral Manager under the Collateral Management Agreement to be entered into between the Issuer and the Collateral Manager and dated as of the Closing Date as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof (the "**Collateral Management Agreement**"). In accordance with the Collateral Quality Tests and the Coverage Tests (if applicable), and other requirements set forth in the Indenture, and in accordance with restrictions and guidelines in the Collateral Management Agreement, the Collateral Manager will select the portfolio of Collateral Debt Securities and Eligible Investments, and the Collateral Manager will instruct the Trustee with respect to any disposition or tender of a Collateral Debt Security and investment in Eligible Investments. Pursuant to the terms of the Collateral Management Agreement, the Collateral Manager will monitor the Collateral Debt Securities and provide the Issuer with certain information received from the Collateral Administrator, as described below, with respect to the composition of the Collateral Debt Securities, any disposition or tender of a Collateral Debt Security. In addition, pursuant to the terms of the Collateral Administration Agreement (the "**Collateral Administration Agreement**"), dated as of the Closing Date by and among the Issuer, the Collateral Manager and LaSalle Bank National Association, as collateral administrator (the "**Collateral Administrator**"), the Issuer will retain the Collateral Administrator to prepare certain reports with respect to the Collateral Debt Securities. The compensation paid to the Collateral Administrator by the Issuer for such services will be in addition to the fees paid to the Collateral Manager and to the Collateral Administrator in its capacity as Trustee, and will be treated as an expense of the Issuer under the Indenture and will be subject to the priorities set forth under *"Description of the Notes—Priority of Payments."* The Collateral Manager will also monitor the Hedge Agreements.

The Indenture and the Collateral Management Agreement place significant restrictions on the Collateral Manager's ability to advise the Issuer to buy and sell securities for inclusion in the Collateral, and the Collateral Manager is subject to compliance with such restrictions. Accordingly, during certain periods or in certain specified circumstances, the Issuer may be unable to buy or sell securities or to take other actions which the Collateral Manager might consider in the best interests of the Issuer, the Noteholders and the Preference Shareholders.

The Collateral Manager and its Affiliates may engage in other business and furnish investment management, advisory and other types of services to other clients whose investment policies differ from those followed by the Collateral Manager on behalf of the Issuer, as required by the Indenture. The Collateral Manager may make recommendations to or effect transactions for such other clients which may differ from those effected with respect to the Collateral Debt Securities. Some of the Collateral Debt Securities purchased by the Issuer on or prior to the Closing Date may have been held by other clients or Affiliates of the Collateral Manager. The Issuer purchased such Collateral Debt Securities only to the extent (a) such purchases were made at fair market value (as determined by the Collateral Manager, acting in accordance with the Standard of Care, at the time such Collateral Debt Security was originally acquired) and otherwise on arms' length terms, (b) the Collateral Manager determined that such purchases were consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law and (c) such purchases otherwise comply with the Investment Advisers Act of 1940. After the Closing Date, the Collateral Manager, acting for and on behalf of the Issuer, may direct the Trustee to engage in securities transactions with the Collateral Manager or any of its Affiliates as principal or agent or for funds or accounts for which it or any of its Affiliates acts as Collateral Manager; *provided* that (i) the Board of Directors of the Issuer has received from the Collateral Manager such information relating to such purchase, sale, entry, assignment or termination as the Board of Directors may reasonably require and has approved such transaction and the price or comparable payment terms in advance of settlement of such transaction and (ii) if any such transaction is entered into with one of the Initial Purchasers or any affiliates or Affiliates or the Collateral Manager, the purchase price or amount to be paid is not greater than, or sale price or amount to be received is not

less than, (A) if such transaction is of a type issued by the related issuer and owned by persons other than the Issuer or one of the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager, an amount equal, (i) if purchased or paid for by the Issuer, to the lower, and (ii) if sold or received by the Issuer, to the higher, in each case, of the bona fide bids to purchase such security or enter into, assign or terminate such securities transaction or obtained by the Collateral Manager at the time of such purchase, disposition, entry, assignment or termination from any two dealers (which will not be any of the Initial Purchasers or any affiliates or Affiliates of the Collateral Manager) unaffiliated with each other and the Collateral Manager and chosen by the Collateral Manager, or (B) if two such bids are not obtained or if such security is not of a type owned or entered into by such other persons, an amount equal to the original acquisition price paid by the Issuer or such the Initial Purchaser or affiliate or Affiliate of the Collateral Manager therefor, as applicable, less any repayment of principal made with respect thereto, *provided*, *further*, that for the sake of clarity, that any such transaction will nevertheless be conducted on an arm's length basis and on terms as favorable to the Issuer as would be the case if it were not with one of the Initial Purchasers or any affiliate or Affiliate of the Collateral Manager; *provided*, *further*, that such transactions adhere to the principals and requirements set forth in the last preceding sentence. The Trustee will be under no obligation to inquire or determine whether any such securities transactions adhere to the principals and requirements referred to above.

The Collateral Manager, certain principals of the Collateral Manager, certain Affiliates of the Collateral Manager or certain client accounts for which the Collateral Manager or its Affiliates act as an investment adviser (or any combination of the foregoing) will acquire up to 25% of the Preference Shares on the Closing Date. In addition, the Collateral Manager, its Affiliates and accounts or funds for which the Collateral Manager or any Affiliate thereof acts as investment adviser may at times own Notes of one or more Classes and/or Preference Shares. At any given time, the Collateral Manager and its Affiliates will not be entitled to vote the Offered Securities held by any of such Collateral Manager, its Affiliates and accounts for which such Collateral Manager or, to the Collateral Manager's knowledge, any Affiliate thereof acts as investment adviser (and for which such Collateral Manager or such Affiliate has discretionary authority) with respect to any assignment or termination of, any of the express rights or obligations of the Collateral Manager under the Collateral Management Agreement or the Indenture (including the exercise of any rights to remove such Collateral Manager or terminate the Collateral Management Agreement or approve or object to a Replacement Manager), or any amendment or other modification of the Collateral Management Agreement or the Indenture increasing the rights or decreasing the obligations of the Collateral Manager. However, at any given time the Collateral Manager and its Affiliates will be entitled to vote Notes and/or Preference Shares held by them and by such accounts with respect to all other matters. See "*Risk Factors—Certain Conflicts of Interest*."

Description of the Collateral Manager

Lehman Brothers Asset Management LLC, a Delaware limited liability company with its principal offices at 190 South LaSalle Street, Suite 2400, Chicago, Illinois 60603 ("**LBAM**" or the "**Collateral Manager**"), is a wholly-owned subsidiary of Lehman Brothers Holdings, Inc. and is part of the Asset Management Group in the Investment Management Division of Lehman Brothers Holdings, Inc. LBAM and its predecessor have been utilizing a quantitative risk-based approach to managing investments across the fixed income continuum since 1981. As of March 31, 2007, LBAM had approximately U.S.$84.6 billion in total assets under management. LBAM's clients include corporations, insurance and banking organizations, foundations, funds and individuals.

The Collateral Manager is registered as an investment adviser under the Advisers Act. Additional information regarding the Collateral Manager can be obtained from Part I of its most recent Form ADV, which is on file with the SEC. Copies of Part I of the Collateral Manager's Form ADV may also be inspected at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, and copies of such material can be obtained from the Public Reference Section of the SEC at the same address at prescribed rates. Purchasers of the Offered Securities may request a copy of the Collateral Manager's Form ADV, including Part II, from the Collateral Manager. Additional information about the Collateral Manager is available upon request to the Collateral Manager.

Portfolio Strategy

LBAM relies on an extensive use of quantitative models and methodologies and the rigorous application of those models and methodologies to portfolio management. LBAM also utilizes thorough, internally generated and fundamental research applied to portfolios by an experienced ABS portfolio management team. LBAM employs

proprietary models and systems to manage risk consistent with investment objectives and constraints and also employs a highly diversified approach for managing individual issuer credit risk.

LBAM expects, within the limitations imposed by the Indenture, to pursue the same investment principles in its management of the Collateral Debt Securities as it has adopted historically. LBAM may, however, within its sole discretion, pursue any strategy consistent with the requirements imposed by the Indenture, and there can be no assurance that such strategy will not change from time to time in the future.

Biographies

Set forth below is information regarding certain persons who are currently employed by the Collateral Manager, although such persons may not necessarily continue to be so employed during the entire term of the Collateral Management Agreement and/or may not continue to perform services for the Collateral Manager under the Collateral Management Agreement.

Asset Class Management

Bradley C. Tank

Board Member, Chairman, Chief Executive Officer and Managing Director, joined Lincoln Capital Management, the predecessor to LBAM, in 2003, and Lehman Brothers Inc. in 2002 after 23 years experience in trading and asset management. Brad is the Global Head of Fixed Income Asset Management and Co-Head of Institutional Asset Management for LBAM, and Co-Chair of Lehman Brothers Alternative Investment Management. He is a member of LBAM's Steering Committee and a member of the investment team setting overall portfolio strategy. From 1990 to 2002, Brad was Director of Fixed Income for Strong Capital Management in Wisconsin. He was also a member of the Office of the CEO and headed the institutional and intermediary distribution. In 1997, Brad was named "Runner Up" for Morningstar Mutual Fund Manager of the Year. From 1982 to 1990, he was a Vice President at Salomon Brothers in the government, mortgage and financial institutions areas. Brad earned a BBA and an MBA from the University of Wisconsin.

Terrence J. Glomski

Managing Director, joined Lincoln Capital, the predecessor to LBAM, in 1992. Terry is a portfolio manager responsible for structured products. He is a member of LBAM's Steering Committee and serves on the Investment Grade Strategy Committee and the Structured Products Team. In addition, Terry is a member of the Business Process and Systems Committee. Previously, he was a fixed income portfolio manager with Franklin Savings Association. Prior to that, Terry was a co-founder and Vice President of Banking Decision Systems, a consultant for financial institutions on quantitative fixed income portfolio techniques. He received his BS in Economics and Finance and his Master's in Quantitative Economics from the University of Illinois at Chicago. Terry serves on the Lehman Brothers Analytics Advisory Council.

Thomas A. Sontag

Managing Director, joined Lincoln Capital, the predecessor to LBAM, in 2004. Tom is a portfolio manager responsible for active and index portfolios and is a member of the Investment Grade Strategy Committee and the Structured Products Team. Before joining Lincoln Capital, Tom served as a portfolio manager with Strong Capital Management for six years. His responsibilities included co-managing five mutual funds as well as separate institutional accounts. Prior experience includes working in the Fixed Income Divisions of Bear Stearns (1986 to 1998 as a Managing Director) and Goldman Sachs (1982 to 1985). Tom earned a BBA and an MBA from the University of Wisconsin where he was a participant in the Applied Securities Analysis Program.

Gary T. Cox

Senior Vice President, Structured Products Manager, joined Lincoln Capital in 2003 and Lehman Brothers Japan Inc. in 2000 in the Asia Fixed Income and Derivatives Group in Tokyo. Gary is responsible for the marketing and delivery of LBAM's investment capabilities through structured product. He is a member of LBAM's Steering Committee. Previously, he worked for West LB (Tokyo) in the Derivatives and Fixed Income Group and as an

auditor in the Financial Institutions group with KPMG. Gary has a BA from the University of Manitoba and received his Chartered Accountant designation from the Canadian Institute of Chartered Accountants.

Research

Laura M. Ladewski

Senior Vice President, joined Lincoln Capital, the predecessor to LBAM, in 2004. Laura is a senior asset-backed credit analyst and a member of the Investment Grade Credit Team. Prior to joining Lincoln Capital, she had over 10 years of credit analysis and on-going credit monitoring of asset-backed securities at Zurich Scudder Investment, Allstate Insurance and Duff & Phelps. Most recently, Laura was VP of Structured Products at Asset Allocation and Management Company. She received a BS in Finance from the University of Illinois and an MBA from the Kellogg School of Management at Northwestern University. Laura has been awarded the Chartered Financial Analyst designation.

David M. Brown

Senior Vice President, re-joined Lincoln Capital, the predecessor to LBAM, in January 2003. Dave is head of investment grade research and co-head of investment grade corporate strategies. He is a member of the Investment Grade Strategy Committee and Investment Grade Credit Team, and is responsible for investment grade research including cash instruments and bonds. He has specific research responsibilities and covers the automotive, bank and finance, aerospace and defense and retail sectors. Dave initially joined Lincoln Capital in 1991 after graduating from the University of Notre Dame with a BA in Government and subsequently received his MBA in Finance from Northwestern University. Prior to his return, he was a senior credit analyst at Zurich Scudder Investments and later a credit analyst and portfolio manager at Deerfield Capital. Dave has been awarded the Chartered Financial Analyst designation.

Jeffery R. Boutin

Vice President, joined Lincoln Capital, the predecessor to LBAM, in 2003. As senior credit analyst in the cash management group, Jeffrey is responsible for analyzing, recommending, and monitoring asset-backed investments for short term and money market portfolios. He has been analyzing fixed income securities since 1996 with particular focus on the asset-backed sector. Jeffrey had previously worked as an asset-backed administrator for Banc One Capital Markets and, prior to that, he was a credit analyst at Freedom Capital Management and State Street Global Advisors. He has a BS in Finance from Central Connecticut State University and received his MBA from the University of Hartford. Jeffrey is a member of the American Securitization Forum.

Thanos Bardas

Senior Vice President, joined Lincoln Capital, the predecessor to LBAM, in 1998. Thanos serves as a co-portfolio manager on multiple portfolios. He is a member of the investment team setting overall portfolio strategy and serves on specialty investment grade teams. Thanos graduated with honors from Aristotle University, Greece, earned his MS from the University of Crete, Greece, and holds a PhD in Theoretical Physics from State University of New York at Stony Brook.

C. Reid Turner

Senior Vice President, joined Lincoln Capital, the predecessor to LBAM, in 1999. Reid is a quantitative analyst involved in various aspects of the investment process. Currently, he is managing a special project and serves as the Head of Applications Development responsible for internal software systems. Reid is a member of the Business Process and Systems Committee. Prior to joining Lincoln Capital, he spent five years as a Research Scientist at US West Advanced Technologies and three years as an Instructor/Teaching Assistant at the University of Colorado. Reid also has three years experience with First Wachovia National Bank in credit analysis and corporate lending. He has a BA in English and Economics from the University of North Carolina, an MA in Computer Science, and a PhD in Software Engineering from the University of Colorado.

Michael J. Rupp

Research Analyst, joined Lincoln Capital, the predecessor to LBAM, in 2000. Mike is an asset-backed credit analyst and a member of the Investment Grade Credit Team. Prior to joining Lincoln Capital, he spent two years at Franklin Resources as a municipal bond trader while in the Management Training Program. Mike received his BS in Management from Purdue University and is currently pursuing his Master's degree at The University of Chicago.

Trading

Richard V. Schneider

Vice President, joined Lincoln Capital, the predecessor to LBAM, in 1998. Rick trades asset-backed and commercial mortgage-backed securities across all investment grade portfolios. He also has responsibility for monitoring and trading cash equivalents and is a member of the Structured Products Team. Prior to joining Lincoln Capital, Rick was an investment executive at PaineWebber. He has a BS in Mathematics and an MBA from the University of Notre Dame.

Bliss McMahon

Trader, re-joined Lincoln Capital, the predecessor to LBAM, in 2005 after completing her graduate studies. Bliss is a member of the Products team, focusing on the trading of asset-backed securities and collateralized debt obligations. She initially worked at Lincoln Capital as part of its investment grade product team from 2001 to 2003. Prior to joining Lincoln Capital in 2001, Bliss worked in the Chicago futures markets where she focused on trade execution and research. She holds a BA in International Affairs from The George Washington University in Washington DC. Bliss has also earned an MBA from the University of Chicago and holds an MS in Financial Markets and Trading from the Illinois Institute of Technology.

THE COLLATERAL MANAGEMENT AGREEMENT

As compensation for the performance of its obligations as Collateral Manager under the Collateral Management Agreement, the Collateral Manager will receive a fee (the "**Collateral Management Fee**"), to the extent of the funds available for such purpose in accordance with the Priority of Payments or to the extent certain conditions are met.

The "**Collateral Management Fee**" means the fee payable quarterly in arrears on each Distribution Date to the Collateral Manager in an amount (as certified by the Collateral Manager to the Trustee) equal to 0.05% *per annum* (computed on the basis of a 360-day year of twelve 30-day months) of the Quarterly Asset Amount for such Distribution Date; *provided* that the Collateral Management Fee will be payable on each Distribution Date only to the extent of funds available for such purpose in accordance with the Priority of Payments. Any portion of the Collateral Management Fee due but unpaid on a Distribution Date as a result of the operation of the Priority of Payments will be deferred and will be payable on each subsequent Distribution Date on which funds are available therefor in accordance with and subject to the Priority of Payments until paid in full, but will not accrue interest. Any Collateral Management Fee accrued but not paid prior to the resignation or removal of a Collateral Manager will be payable to such Collateral Manager on the Distribution Date immediately following the effectiveness of such resignation or removal.

The Collateral Manager will be responsible for the ordinary expenses incurred in the performance of its obligations under the Collateral Management Agreement; *provided*, *however*, that the Issuer will be responsible for the payment, without duplication, of extraordinary expenses incurred by the Collateral Manager in the performance of such obligations which are not in the normal course for the Collateral Manager in its role as an institutional investment manager, including but not limited to the following reasonable expenses and costs of: (i) any expenditures incurred by the Collateral Manager in negotiating, entering into, assigning, terminating, effecting or directing purchases, repurchases and sales of Collateral Debt Securities, Eligible Investments and Synthetic Security Collateral, negotiating with issuers of Collateral Debt Securities as to proposed modifications or waivers, taking action or advising the Trustee with respect to the Issuer's exercise of any rights and remedies in connection with the Collateral Debt Securities, Eligible Investments and Synthetic Security Collateral, including in connection with an Offer or Defaulted Security, participating in committees or other groups formed by creditors of an issuer of Collateral Debt Securities, (ii) legal advisors, accountants, auditors, recordkeepers, consultants and other professionals retained by the Issuer (or by the Collateral Manager on Issuer's behalf), in connection with the services provided by the Collateral Manager pursuant to the Collateral Management Agreement or pursuant to the other transaction documents, including fees and expenses of Rating Agencies incurred in connection with obtaining ratings for Collateral or expenses incurred in consulting with and providing each Rating Agency with any information in connection with its maintenance of the ratings of the Notes and Preference Shares (outside of the ordinary course of business), (iii) legal advisors, consultants and other professionals retained by the Issuer (or by the Collateral Manager on the Issuer's behalf) for the restructuring of, or enforcement of rights under or with respect to, the Collateral, (iv) reasonable travel expenses (airfare, meals, lodging and other transportation) undertaken in connection with the performance by the Collateral Manager of its duties pursuant to the Collateral Management Agreement, the Indenture or the other transaction documents, (v) amounts payable to the Collateral Administrator pursuant to the Collateral Administration Agreement, (vi) any fees for bookkeeping, accounting or record keeping services obtained or maintained with respect to the Issuer (including those services rendered at the Collateral Manager's request), (vii) the preparation of any reports by the Collateral Manager to Holders of the Offered Securities, (viii) any fees for audit or quality checks with respect to the Collateral and (ix) fees and expenses of auditors incurred in connection with any consolidation review with respect to the Issuer. Such expenses will be paid by the Issuer in accordance with and subject to the limitations contained in the Indenture. Any compensation, fees and expenses paid to any subsidiary or Affiliate of the Collateral Manager will be borne and paid by the Collateral Manager, and will only be reimbursed by the Issuer if such amounts would have been reimbursed had the Collateral Manager performed such obligations itself (including, but not limited to, services by such Affiliates that would be billed as disbursements in the ordinary course of the Collateral Manager's business).

The Collateral Manager will not be liable to the Co-Issuers, the Trustee, the Preference Share Paying Agent, the Noteholders, the Preference Shareholders, any Hedge Counterparty, the Initial Purchasers or any of their respective affiliates, partners, shareholders, officers, directors, employees, agents, accountants and attorneys for any loss

incurred as a result of the actions taken or recommended by the Collateral Manager under the Collateral Management Agreement or the Indenture, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of its obligations thereunder. The Collateral Manager and its Affiliates and each of their respective partners, shareholders, members, officers, directors, managers, employees, agents, accountants and attorneys will be entitled to indemnification by the Issuer under certain circumstances (as specified in the Collateral Management Agreement, including, without limitation, in connection with the accumulation of the Collateral Debt Securities under the warehousing facility), which will be paid in accordance with the Priority of Payments. None of the Collateral Manager, its Affiliates and each of their respective members, managers, directors, officers, stockholders, partners, agents and employees will be subject to any liability for any mistake of judgment in performing its obligations hereunder in accordance with the standard of care set forth in the Collateral Management Agreement.

The Collateral Manager may not assign its rights or obligations under the Collateral Management Agreement (i)(A) without the consent of the Issuer, (B) without the satisfaction of the Rating Condition, (C) if such assignment will in and of itself cause the Issuer, the Co-Issuer or the pool of Collateral to become subject to income or withholding tax that would not have been imposed but for such assignment and (D) without the satisfaction of the requirements set forth in the Collateral Management Agreement, if applicable, or (ii) if holders of a majority in aggregate principal amount of Notes of the Controlling Class or holders of a majority in aggregate principal amount of the Preference Shares (in each case excluding Collateral Manager Securities) object to such assignment, except that pursuant to the Collateral Management Agreement the Collateral Manager may, in certain limited circumstances set forth therein, assign all of its rights and responsibilities thereunder to an Affiliate without the consent of the Issuer, the Trustee or any Noteholder. In addition, the Collateral Manager may, pursuant to the Collateral Management Agreement, enter into arrangements pursuant to which its Affiliates or third parties may perform certain services on behalf of the Collateral Manager, but such arrangements will not relieve the Collateral Manager from any of its duties or obligations thereunder. Any compensation, fees and expenses paid to any subsidiary or Affiliate will be borne and paid by the Collateral Manager, and will only be reimbursed by the Issuer if such amounts would have been reimbursed had the Collateral Manager performed such obligations itself (including, but not limited to, services by such Affiliates that would be billed as disbursements in the ordinary course of the Collateral Manager's business).

The Collateral Manager may resign upon 90 calendar days' prior written notice (or such shorter period as is acceptable to the Issuer) to the Issuer, the Trustee, the Rating Agencies, the Credit Default Swap Counterparty and each Hedge Counterparty; *provided* that (i) no such resignation will be effective unless a Replacement Manager is appointed as described below and (ii) the Collateral Manager will have the right to resign immediately if, due to a change in applicable law or regulation, the performance by the Collateral Manager of its duties under the Indenture and the Collateral Management Agreement would be a violation of such law or regulation.

The Collateral Management Agreement provides that so long as any Class A Notes or Class B Notes are outstanding, and if the Class A/B Overcollateralization Ratio is less than 100% for a period of more than 180 consecutive days, the Collateral Manager may be removed without "cause" upon not less than 90 calendar days' prior written notice to the Collateral Manager, the Trustee, the Rating Agencies, the Credit Default Swap Counterparty and each Hedge Counterparty, by no less than 66⅔% of the Controlling Class of Notes.

The Collateral Management Agreement also provides that the Collateral Manager may at any time be removed for cause upon 15 Business Days' prior written notice by the Issuer, given at any time when a Collateral Manager Termination Event (as defined below) has occurred and is continuing, which will effect such removal, at the direction of (i) holders of at least 66⅔% in Aggregate Outstanding Amount of the Controlling Class of Notes and (ii) holders of at least 66⅔% of the Preference Shares (in each case, excluding any Collateral Manager Securities).

"**Collateral Manager Securities**" means Notes or Preference Shares, as the case may be, beneficially owned by the Collateral Manager or any Affiliates thereof or by an account or fund for which the Collateral Manager or, to the Collateral Manager's knowledge, an Affiliate thereof acts as the investment advisor (with discretionary authority).

For purposes of the Collateral Management Agreement, the occurrence at any time of any of the following events constitutes a "**Collateral Manager Termination Event**":

(1) the Collateral Manager knowingly and willfully causes, or knowingly and willfully takes any action that it knows will cause a breach of any provision of the Collateral Management Agreement or any term of the Indenture applicable to it (not including a willful breach or knowing violation that results from a good faith dispute on alternative courses of action or interpretation of instructions);

(2) the Collateral Manager breaches in any material respect any provision of the Collateral Management Agreement or any terms of the Indenture applicable to it and fails to cure such breach within 45 days after notice of such failure is given to the Collateral Manager unless, if such failure is remediable, the Collateral Manager has taken action that the Collateral Manager believes will remedy, and that does in fact remedy, such failure within 120 days after notice of such failure is given to the Collateral Manager; *provided* that such breach could reasonably be expected to have a material adverse effect on the holders of the Notes;

(3) the Collateral Manager (A) ceases to be able to, or admits in writing its inability to, pay its debts when and as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or takes advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property or (E) is adjudicated as insolvent or to be liquidated;

(4) (A) the occurrence of an act by the Collateral Manager that constitutes fraud or criminal activity in the performance of its obligations under the Collateral Management Agreement; or (B) the Collateral Manager or any of its executive officers who are primarily responsible for the administration of the Collateral being indicted for a felony offense materially related to advisory services with respect to the Collateral; *provided* that any indictment arising from practices that have become the subject of contemporaneous actions against multiple investment advisers will not constitute a Collateral Manager Termination Event for purposes of this clause (4) (1) unless such indictment otherwise meets the requirements of this clause (4) and (2) until more than 120 days have expired since the commencement of such indictment during which period the Collateral Manager has failed to cure such indictment; *provided*, *further*, that for purposes of this clause (2), an indictment will be deemed to be cured if (I) the Collateral Manager enters into an agreement of settlement with any authority that has commenced an indictment, which agreement is entered into without prejudice to the Collateral Manager or without admission of fault or wrongdoing by the Collateral Manager or (II) the Collateral Manager removes direct responsibility for the administration of the Collateral from each employee of the Collateral Manager that is the subject of the applicable indictment;

(5) an Event of Default under the Indenture (other than an Event of Default referred to in clauses (c), (d), (e), (f) and (g) of the definition thereof) as a result of a breach by the Collateral Manager under the Collateral Management Agreement or any applicable section of the Indenture;

(6) either of the Co-Issuers or the pool of Collateral becomes an investment company required to be registered under the Investment Company Act resulting from actions taken or recommended by the Collateral Manager and such requirement has not been eliminated after a period of 45 calendar days; or

(7) the Collateral Manager consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another person and either (A) at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee person fails to assume all the obligations of such party under the Collateral Management Agreement by operation of law or pursuant to an agreement reasonably satisfactory to the Issuer or (B) the resulting, surviving or transferee person lacks the capacity to perform the obligations of the Collateral Manager under the Collateral Management Agreement and the Indenture.

Upon the removal, termination or resignation of the Collateral Manager, a successor Collateral Manager (the "**Replacement Manager**") will be appointed as follows:

(1) if the Collateral Manager has been removed for cause, within 30 calendar days a Majority of the Aggregate Outstanding Amount of the Controlling Class or a Majority-in-Interest of the Preference Shares (excluding in each such calculation any and all Collateral Manager Securities) may nominate a Replacement Manager satisfying the Replacement Manager Conditions;

(2) if the Collateral Manager has been removed or has resigned for any reason other than cause, then within 30 calendar days, the Collateral Manager, a Majority of the Controlling Class, or a Majority-in-Interest of Preference Shares (excluding in each such calculation any and all applicable Collateral Manager Securities) may nominate a Replacement Manager satisfying the Replacement Manager Conditions;

(3) if at least 66⅔% of the Controlling Class and 66⅔% of the Preference Shares select a Replacement Manager nominated pursuant to clauses (1) or (2) above, such Replacement Manager will be deemed to be approved. If no Replacement Manager is approved, a second vote by the voters entitled to vote in the first vote will be taken within 30 calendar days and will include on the ballot the nominated Replacement Manager receiving the highest number of total votes from the first process. The nominated Replacement Manager receiving the highest number of votes will be appointed Replacement Manager, *provided*, *however*, that if the Collateral Manager was removed for cause, all Collateral Manager Securities will be excluded from any vote and calculation set forth in this clause (3); and

(4) notwithstanding clauses (1) through (3) above, at any time when an Event of Default has occurred and is continuing under the Indenture and the Collateral Manager has been removed or terminated or has resigned, a Majority of the Controlling Class (excluding from such calculation any Collateral Manager Securities) may appoint a Replacement Manager.

No removal, resignation or termination of the Collateral Manager or the termination of the Collateral Management Agreement will be effective unless (a) the Replacement Manager has agreed in writing to assume all of the Collateral Manager's duties and obligations pursuant to the Collateral Management Agreement or any successor agreement and (b) the following requirements for the Replacement Manager are met: (1) it is an established institution which is legally qualified and has the capacity to act as Collateral Manager under the Collateral Management Agreement, as successor to the Collateral Manager thereunder in the assumption of all of the responsibilities, duties and obligations of the Collateral Manager thereunder and under the applicable terms of the Indenture, (2) its appointment and its performance of the duties specified in the Collateral Management Agreement or any successor agreement (x) will not cause the Issuer or the Co-Issuer or the pool of Collateral to become required to register under the provisions of the Investment Company Act and (y) will not cause the Issuer or the Co-Issuer or the pool of Collateral to become subject to income or withholding tax that would not have been imposed but for such appointment, (3) the Rating Condition has been satisfied with respect to such appointment and (4) such Replacement Manager has been approved by a Majority of the Controlling Class or otherwise as set forth in the Collateral Management Agreement (collectively, the "**Replacement Manager Conditions**").

No Replacement Manager may be proposed unless such Replacement Manager is prepared and able to assume the duties of the Collateral Manager within 60 calendar days after the date of notice of termination or resignation, and the Collateral Manager will not be released from its obligations under the Collateral Management Agreement until such Replacement Manager has assumed the duties of Collateral Manager. The Issuer, the Trustee, the retiring Collateral Manager and the Replacement Manager will take such action consistent with the Collateral Management Agreement and the terms of the Indenture as will be necessary to effect any such succession.

Any Person into which the Collateral Manager may be merged or converted, or with which it may be consolidated, or any person resulting from any merger, conversion or consolidation to which the Collateral Manager will be a party, or any person succeeding to all or substantially all of the business or assets of the Collateral Manager, will be the successor of the Collateral Manager under the Collateral Management Agreement without execution or filing of any paper with any party hereto or any further act on the part of any of the parties hereto except where an instrument of transfer or assignment is required by law to effect such succession, anything herein to the contrary notwithstanding, *provided* that (i) unless such person is an Affiliate of the Collateral Manager, the

Rating Condition is satisfied with respect to such merger, conversion, consolidation, or succession and (ii) the requirements set forth in the Collateral Management Agreement will have been satisfied, if applicable.

Pursuant to the Collateral Management Agreement, the Collateral Manager has agreed, subject to the terms and conditions of the Collateral Management Agreement and the Indenture, to perform its obligations under the Collateral Management Agreement with reasonable care and in good faith, and in a manner consistent with the procedures and practices followed by an institutional manager of national standing relating to assets of the nature and character of the Collateral, using a degree of skill and attention no less than that which the Collateral Manager customarily exercises with respect to comparable assets that it manages for others in accordance with its existing practices and procedures relating to assets of the nature and character of the Collateral (the "**Standard of Care**"). In each instance where the Collateral Manager is required by the Indenture or the applicable agreements to exercise its judgment, it will do so in accordance with the standard specified in the Standard of Care.

Pursuant to the Indenture, the Trustee is entitled to exercise the rights and remedies of the Issuer under the Collateral Management Agreement (a) upon the occurrence of an Event of Default until such time, if any, as such Event of Default is cured or waived, (b) upon the occurrence of a Collateral Manager Termination Event specified in the Collateral Management Agreement pursuant to which the Issuer is entitled to remove the Collateral Manager for cause or (c) upon a default in the performance, or breach, of any covenant, representation, warranty or other agreement of the Collateral Manager under the Collateral Management Agreement or in any certificate or writing delivered pursuant thereto if (i) holders of at least 25% in Aggregate Outstanding Amount of the Notes of any Class give notice of such default or breach to the Trustee and the Collateral Manager and (ii) such default or breach (if remediable) continues for a period of 30 days.

The Collateral Management Agreement may not be supplemented, amended or modified in any manner except by a written agreement executed by all the parties to the Collateral Management Agreement and only if the Rating Condition is satisfied. Additionally, the Noteholders will receive prior written notice of any supplement, amendment or modification to the Collateral Management Agreement.

For so long as any of the Notes are listed on certain stock exchanges, the Issuer will cause a copy of any amendment or modification to the Collateral Management Agreement to be sent to any such stock exchange.

In certain circumstances, the interests of the Issuer and/or the holders of the Offered Securities with respect to matters as to which the Collateral Manager is advising the Issuer may conflict with the interests of the Collateral Manager and its Affiliates. See "*Risk Factors—Certain Conflicts of Interest*."

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion summarizes certain of the material U.S. federal income tax consequences of the purchase, beneficial ownership, and disposition of Offered Securities.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of an Offered Security that is:

- an individual who is a citizen or a resident of the United States, for U.S. federal income tax purposes;
- a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons have the authority to control all of its substantial decisions.

For purposes of this summary, a "**Non-U.S. Holder**" is a beneficial owner of an Offered Security that is:

- a nonresident alien individual for U.S. federal income tax purposes;
- a foreign corporation for U.S. federal income tax purposes;
- an estate whose income is not subject to U.S. federal income tax on a net income basis; or
- a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons have the authority to control all of its substantial decisions.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. This summary addresses only holders that purchase Offered Securities at initial issuance and beneficially own such Offered Securities as capital assets and not as part of a "straddle," "hedge," "synthetic security" or a "conversion transaction" for federal income tax purposes, or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as banks, thrifts, or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark-to-market treatment; mutual funds or real estate investment trusts; small business investment companies; S corporations; investors that hold their Offered Securities through a partnership or other entity treated as a partnership for U.S. federal tax purposes; investors whose functional currency is not the U.S. Dollar; certain former citizens or residents of the United States; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities, or persons holding the Offered Securities in tax-deferred or tax-advantaged accounts; or "controlled foreign corporations" or a "passive foreign investment companies" for U.S. federal income tax purposes). This summary also does not address the tax consequences to shareholders, or other equity holders in, or beneficiaries of, a holder, or any state, local or foreign tax consequences of the purchase, ownership or disposition of the Offered Securities.

The following summary was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. The following summary was written in connection with the promotion or marketing by the Initial Purchasers of the Offered Securities.

PROSPECTIVE PURCHASERS OF OFFERED SECURITIES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OFFERED SECURITIES, AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION TO WHICH THEY MAY BE SUBJECT.

U.S. Federal Tax Treatment of the Issuer

The Code provides a specific exemption from U.S. federal income tax on a net income basis for foreign corporations which restrict their activities in the United States to trading in stocks and securities (and any other activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees or through a resident broker, commission agent, custodian or other agent. This particular exemption does not apply to foreign corporations that are engaged in activities in the United States other than trading in stocks and securities (and any other activity closely related thereto) for their own account or that are dealers in stocks and securities.

The Issuer intends to rely on the above exemption and does not intend to operate so as to be subject to U.S. federal income taxes on its net income. However, if it were determined that the Issuer were engaged in a trade or business in the United States for federal income tax purposes, and the Issuer had taxable income that was effectively connected with such U.S. trade or business, the Issuer would be subject under the Code to the regular U.S. corporate income tax on such effectively connected taxable income (and possibly to a 30% branch profits tax as well). The balance of this summary assumes that the Issuer is not subject to U.S. federal income tax on its net income. The imposition of such a tax liability would materially affect the Issuer's financial ability to repay the Offered Securities.

U.S. Federal Tax Treatment of U.S. Holders of Notes

The Class A-1 Notes, Class S Notes and the Class A-2 Notes will, and the Class B Notes should, be treated as indebtedness for U.S. federal income tax purposes and the Issuer intends to take the position that the Class C Notes and the Class D Notes constitute indebtedness for U.S. federal, state, and local income and franchise tax purposes. The Indenture requires the Noteholders to agree to take the position that the Notes constitute indebtedness for U.S. federal, state and local income and franchise tax purposes. The Issuer's characterizations will be binding on U.S. Holders. Nevertheless, the IRS could assert, and a court could ultimately hold, that one or more Classes of Notes are equity in the Issuer. If any Notes are treated as equity in, rather than debt of, the Issuer for U.S. federal income tax purposes, there may be adverse tax consequences to any U.S. Holder of such Notes. Except as otherwise indicated, the balance of this summary assumes that all of the Notes are treated as debt of the Issuer for U.S. federal, state and local income and franchise tax purposes. In the event such Notes are treated as equity in the Issuer, prospective investors in the Notes should consult their tax advisors regarding the U.S. federal, state and local income and franchise tax consequences to the Notes and the Issuer.

For U.S. federal income tax purposes, the Issuer, and not the Co-Issuer, will be treated as the issuer of the Notes.

U.S. Federal Tax Treatment of U.S. Holders of the Class A Notes and the Class B Notes

Stated Interest. U.S. Holders of the Class A Notes and the Class B Notes will include in gross income payments of stated interest accrued or received on the Class A Notes and the Class B Notes, in accordance with their usual method of tax accounting, as ordinary interest income.

Sale, Exchange and Retirement of the Class A Notes and the Class B Notes. In general, a U.S. Holder of a Class A Note or a Class B Note will have a basis in such Note equal to the cost of such Note reduced by payments of principal of such Note. Upon a sale, exchange, or retirement of a Class A Note or a Class B Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement (less any accrued and unpaid interest, which will be taxable as such) and the holder's tax basis in such

Note. Such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

U.S. Federal Tax Treatment of U.S. Holders of the Class C Notes and the Class D Notes

Original Issue Discount. The Issuer will treat the Class C Notes and the Class D Notes as issued with original issue discount ("**OID**") for U.S. federal income tax purposes. The total amount of such discount with respect to a Class C Note or a Class D Note will equal the sum of all payments to be received under such Note less its issue price (the first price at which a substantial amount of the Class C Notes or the Class D Notes were sold to investors). A U.S. Holder of a Class C Note or a Class D Note will be required to include OID in income as it accrues. The amount of OID accruing in any accrual period will generally equal the stated interest accruing in that period (whether or not currently due) *plus* any additional amount representing the accrual under a constant yield method of any additional OID represented by the excess of the principal amount of the Class C Notes or the Class D Notes over their issue price. Accruals of any such additional OID will be based on the weighted average life of the Class C Notes or the Class D Notes rather than their stated maturity. It is possible the IRS could assert and a court could ultimately hold that some other method of accruing OID on the Class C Notes or the Class D Notes should apply. U.S. Holders of the Class C Notes and the Class D Notes may be required to include OID in advance of the receipt of cash attributable to such income. Accruals of OID will be calculated by assuming that interest will be paid over the life of the Class C Notes and the Class D Notes based on the value of LIBOR used in setting interest for the first Distribution Date, and then adjusting the accrual for each subsequent Distribution Date based on the difference between the value of LIBOR used in setting interest for that subsequent Distribution Date and the assumed rate.

Sale and Retirement of the Class C Notes and the Class D Notes. In general, a U.S. Holder of a Class C Note or a Class D Note will have a basis in such Note equal to the cost of such Note (i) increased by any amount includable in income by such U.S. Holder as OID, and (ii) reduced by any payments received on such Note. Upon a sale, exchange, or retirement of a Class C Note or a Class D Note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement and the U.S. Holder's tax basis in such Note. Such gain or loss will be long term capital gain or loss if the U.S. Holder held the Note for more than one year at the time of disposition. In certain circumstances, U.S. Holders that are individuals may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

U.S. Federal Tax Treatment of Tax-Exempt U.S. Holders of Notes

U.S. Holders that are tax-exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Notes unless (i) the Notes constitute "debt financed property" (as defined in the Code) of that entity or (ii) in the case of any Notes that are treated as indebtedness for federal income tax purposes, such entity also owns more than 50 percent of the Preference Shares and any Notes that are treated as equity in the Issuer for U.S. federal income tax purposes.

U.S. Federal Tax Treatment of Non-U.S. Holders of the Notes

In general, payments on the Notes to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Notes by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, (ii) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied or (iii) such Non-U.S. Holder fails to provide the relevant correct, complete and executed U.S. Internal Revenue Service Form W-8 which eliminates U.S. federal withholding tax.

U.S. Federal Tax Treatment of U.S. Holders of Preference Shares

The Issuer intends to take the position that the Preference Shares constitute equity interests in the Issuer for U.S. federal, state and local income and franchise tax purposes, and the balance of this summary assumes that the Preference Shares are so treated.

Investment in a Passive Foreign Investment Company. The Issuer will constitute a "passive foreign investment company" (a "**PFIC**") for federal income tax purposes, and U.S. Holders of the Preference Shares (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation," described below) will be considered shareholders in a PFIC. U.S. Holders may desire to make an election to treat the Issuer as a "qualified electing fund" (a "**QEF**") with respect to such U.S. Holder. Generally, a U.S. Holder makes a QEF election on IRS Form 8621, attaching a copy of such form to its U.S. federal income tax return for the first taxable year for which it held its Preference Shares. If a U.S. Holder makes a timely QEF election with respect to the Issuer, the electing U.S. Holder will be required in each taxable year to include in gross income (i) as ordinary income, such U.S. Holder's *pro rata* share of the Issuer's ordinary earnings and (ii) as long term capital gain, such U.S. Holder's *pro rata* share of the Issuer's net capital gain, whether or not distributed. A U.S. Holder will not be eligible for the dividends received deduction in respect of such income or gain. In addition, any losses of the Issuer in a taxable year will not be available to such U.S. Holder and may not be carried back or forward in computing the Issuer's ordinary earnings and net capital gain in other taxable years. If applicable, the rules pertaining to a "controlled foreign corporation" discussed below, generally override those pertaining to a PFIC with respect to which a QEF election is in effect.

In certain cases in which a QEF does not distribute all of its earnings in a taxable year, the electing U.S. Holder may also be permitted to elect to defer payment of some or all of the taxes on the QEF's income, subject to a non-deductible interest charge on the deferred amount. In addition, the Issuer may use proceeds from the sale of Collateral Debt Securities to purchase replacement Collateral Debt Obligations or to retire other classes of Notes. As a result, in any given year, the Issuer may have substantial amounts of earnings for U.S. federal income tax purposes that are not distributed on the Preference Shares. Thus, absent an election to defer payment of taxes, U.S. Holders that make a QEF election with respect to the Issuer may owe tax on significant "phantom" income.

The Issuer will provide, upon request, all information and documentation that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes.

A U.S. Holder of a Preference Share (other than certain U.S. Holders that are subject to the rules pertaining to a "controlled foreign corporation," described below) that does not make a timely QEF election will be required to report any gain on the disposition of any Preference Shares as ordinary income, rather than capital gain, and to compute the tax liability on such gain and any "Excess Distribution" (as defined below) received in respect of the Preference Shares as if such items had been earned ratably over each day in the U.S. Holder's holding period (or a certain portion thereof) for the Preference Shares. An "**Excess Distribution**" is the amount by which distributions during a taxable year in respect of a Preference Share exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period for the Preference Share). The U.S. Holder will be subject to tax on such items at the highest ordinary income tax rate for each taxable year, other than the current year, in which the items were treated as having been earned, regardless of the rate otherwise applicable to the U.S. Holder. Further, such U.S. Holder will also be liable for a non-deductible interest charge as if such income tax liabilities had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of the Preference Shares as security for a loan may be treated as a taxable disposition of such Preference Shares. In addition, a stepped-up basis in the Preference Shares will not be available upon the death of an individual U.S. Holder.

In many cases, the U.S. federal income tax on any gain on disposition or receipt of Excess Distributions is likely to be substantially greater than the tax if a timely QEF election is made. **A U.S. HOLDER OF A PREFERENCE SHARE SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO SUCH PREFERENCE SHARE.**

Investment in a Controlled Foreign Corporation. The Issuer will constitute a "controlled foreign corporation" ("**CFC**") if more than 50% of the equity interests in the Issuer, measured by reference to combined voting power or value, is owned directly, indirectly, or constructively by "United States shareholders." For this purpose, a United

States shareholder is any United States person that possesses directly, indirectly, or constructively 10% or more of the combined voting power of all classes of equity in the Issuer. It is likely that the Preference Shares will be treated as voting securities. In this case, a U.S. Holder of Preference Shares possessing directly, indirectly, or constructively 10% or more of the sum of the aggregate outstanding principal amount of the voting Preference Shares of the Issuer would be treated as a United States shareholder. If more than 50% of the Preference Shares of the Issuer, determined with respect to aggregate value or aggregate outstanding principal amount, are owned directly, indirectly, or constructively by such United States shareholders, the Issuer would be treated as a CFC.

If, for any given taxable year, the Issuer is treated as a CFC, a United States shareholder of the Issuer would be required to include as ordinary income an amount equal to that person's *pro rata* share of the Issuer's "subpart F income" at the end of such taxable year. Among other items, and subject to certain exceptions, "subpart F income" includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is likely that, if the Issuer were to constitute a CFC, all or most of its income would be subpart F income.

If the Issuer is treated as a CFC and a U.S. Holder is treated as a United States shareholder of the Issuer, the Issuer would not be treated as a PFIC with respect to such U.S. Holder for the period during which the Issuer remains a CFC and such U.S. Holder remains a United States shareholder of the Issuer (the "qualified portion" of the U.S. Holder's holding period for the Preference Shares). As a result, to the extent the Issuer's subpart F income includes net capital gains, such gains would be treated as ordinary income to the United States shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the QEF rules. If the qualified portion of such U.S. Holder's holding period for the Preference Shares subsequently ceases (either because the Issuer ceases to be a CFC or the U.S. Holder ceases to be a United States shareholder), then solely for purposes of the PFIC rules, such U.S. Holder's holding period for the Preference Shares would be treated as beginning on the first day following the end of such qualified portion, unless the U.S. Holder had owned any Preference Shares for any period of time prior to such qualified portion and had not made a QEF election with respect to the Issuer. In that case, the Issuer would again be treated as a PFIC which is not a QEF with respect to such U.S. Holder and the beginning of such U.S. Holder's holding period for the Preference Shares would continue to be the date upon which such U.S. Holder acquired the Preference Shares, unless the U.S. Holder makes an election to recognize gain with respect to the Preference Shares and a QEF election with respect to the Issuer.

Indirect Interests in PFICs and CFCs. The Issuer intends to purchase only Collateral Debt Securities that are treated by their issuers as indebtedness for U.S. federal income tax purposes. However, the treatment of certain of the Collateral Debt Securities purchased by the Issuer as indebtedness is uncertain. If the Issuer owns a Collateral Debt Security issued by a non-U.S. corporation that is treated as equity for U.S. federal income tax purposes, U.S. Holders of Preference Shares and any Note that is treated as equity in the Issuer could be treated as owning an indirect equity interest in a PFIC or a CFC and could be subject to certain adverse tax consequences.

In particular, a U.S. Holder of an indirect equity interest in a PFIC is treated as owning the PFIC directly. The U.S. Holder, and not the Issuer, would be required to make a QEF election with respect to each indirect interest in a PFIC. However, certain PFIC information statements are necessary for U.S. Holders that have made QEF elections, and there can be no assurance that the Issuer can obtain such statements from a PFIC, and thus there can be no assurance that a U.S. Holder will be able to make the election with respect to any indirectly-held PFIC. Accordingly, if the U.S. Holder has not made a QEF election with respect to the indirectly-held PFIC, the U.S. Holder would be subject to the adverse consequences described above under "*—Investment in a Passive Foreign Investment Company*" with respect to any excess inclusions of such indirectly-held PFIC, any gain indirectly realized by such U.S. Holder on the sale by the Issuer of such PFIC, and any gain indirectly realized by such U.S. Holder on the sale by the U.S. Holder of its Preference Shares or Notes (which may arise even if the U.S. Holder realizes a loss on such sale). Moreover, if the U.S. Holder has made a QEF election with respect to the indirectly-held PFIC, the U.S. Holder would be required to include in income the U.S. Holder's *pro rata* share of the indirectly-owned PFIC's ordinary earnings and net capital gain as if the indirectly-owned PFIC were owned directly, and the U.S. Holder would not be permitted to use any losses or other expenses of the Issuer to offset such ordinary earnings and/or net capital gains.

Accordingly, if any of the Collateral Debt Securities are treated as equity interests in a PFIC, U.S. Holders could experience significant amounts of phantom income with respect to such interests. Other adverse tax consequences may arise for U.S. Holders that are treated as owning indirect interests in CFCs. U.S. Holders should

consult their own tax advisors regarding the tax issues associated with such investments in light of their own individual circumstances.

Distributions on Preference Shares. The treatment of actual distributions of cash on the Preference Shares, in very general terms, will vary depending on whether a U.S. Holder has made a timely QEF election (as described above). See "*—Investment in a Passive Foreign Investment Company*." If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent will not be taxable to U.S. Holders. Distributions in excess of such previously taxed amounts will be taxable to U.S. Holders as ordinary income upon receipt, to the extent of any remaining amounts of untaxed current and accumulated earnings and profits of the Issuer. Distributions in excess of previously taxed amounts and any remaining current and accumulated earnings and profits of the Issuer will be treated first as a nontaxable return of capital and then as capital gain.

In the event that a U.S. Holder does not make a timely QEF election then, except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the Preference Shares may constitute Excess Distributions, taxable as previously described. See "*—Investment in a Passive Foreign Investment Company*."

Sale, Redemption, or other Disposition of Preference Shares. In general, a U.S. Holder of a Preference Share will recognize gain or loss upon the sale, redemption, or other disposition of a Preference Share equal to the difference between the amount realized and such U.S. Holder's adjusted tax basis in the Preference Share. Initially, a U.S. Holder's tax basis for a Preference Share will equal the amount paid for the Preference Share. Such basis will be increased by amounts taxable to such U.S. Holder by reason of a QEF election, or by reason of the CFC rules, as applicable, and decreased by actual distributions from the Issuer that are deemed to consist of such previously taxed amounts or are treated as a nontaxable reduction to the U.S. Holder's tax basis for the Preference Share (as described above). Except as discussed below, such gain or loss will be long-term capital gain or loss if the U.S. Holder held the Preference Share for more than one year at the time of the disposition. In certain circumstances, U.S. Holders who are individuals (or whose income is taxable to U.S. individuals) may be entitled to preferential treatment for net long-term capital gains; however, the ability of U.S. Holders to offset capital losses against ordinary income is limited.

If a U.S. Holder does not make a timely QEF election as described above, any gain realized on the sale, redemption, or other disposition of a Preference Share (or any gain deemed to accrue prior to the time a non-timely QEF election is made) will be taxed as ordinary income and subject to an additional tax reflecting a deemed interest charge under the special tax rules described above. See "*—Investment in a Passive Foreign Investment Company*."

If the Issuer is treated as a CFC and a U.S. Holder is treated as a "United States shareholder" therein, then any gain realized by such U.S. Holder upon the disposition of a Preference Share, other than gain subject to the PFIC rules, if applicable, would be treated as ordinary income to the extent of the U.S. Holder's *pro rata* share of the Issuer's current and accumulated earnings and profits. In this regard, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

Transfer Reporting Requirements. A U.S. Holder (including a tax exempt entity) that purchases the Preference Shares for cash would be required to file an IRS Form 926 or similar form with the IRS, if (i) such person is treated as owning, directly or by attribution, immediately after the transfer at least 10% by vote or value of the Issuer or (ii) if the amount of cash transferred by such person (or any related person) to the Issuer during the 12-month period ending on the date of such transfer, exceeds U.S.$100,000. U.S. Holders should consult their tax advisors with respect to this or any other reporting requirement which may apply with respect to their acquisition of the Preference Shares.

U.S. Federal Tax Treatment of Tax-Exempt U.S. Holders of Preference Shares

U.S. Holders that are tax-exempt entities should not be subject to the tax on unrelated business taxable income in respect of the Preference Shares unless the Preference Shares constitute "debt financed property" (as defined in the Code) of that entity.

U.S. Federal Tax Treatment of Non-U.S. Holders of Preference Shares

In general, payments on the Preference Shares to a Non-U.S. Holder and gain realized on the sale, exchange or retirement of the Preference Shares by a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax, unless (i) such income is effectively connected with a trade or business conducted by such Non-U.S. Holder in the United States, or (ii) in the case of gain, such Non-U.S. Holder is a nonresident alien individual who holds the Preference Shares as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Under certain circumstances, the Code requires "information reporting" annually to the IRS and to each holder, and "backup withholding" with respect to certain payments made on or with respect to the Offered Securities. Backup withholding generally does not apply with respect to certain holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. Backup withholding will apply to a U.S. Holder only if the U.S. Holder (i) fails to furnish its Taxpayer Identification Number ("**TIN**") which, for an individual would be his or her Social Security Number, (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that it has failed to properly report payments of interest and dividends, or (iv) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. The application for exemption is available by providing a properly completed IRS Form W-9.

A Non-U.S. Holder that provides the applicable IRS Form W-8BEN or Form W-8IMY, together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating that the Non-U.S. Holder is not a United States person will not be subject to IRS reporting requirements and U.S. backup withholding.

The payment of the proceeds on the disposition of a Note or a Preference Share by a holder to or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the holder either certifies its status as a Non-U.S. Holder under penalties of perjury on the applicable IRS Form W-8BEN or Form W-8IMY (as described above) or otherwise establishes an exemption. The payment of the proceeds on the disposition of a Note or a Preference Share by a Non-U.S. Holder to or through a non-U.S. office of a non-U.S. broker will not be subject to backup withholding or information reporting unless the non-U.S. broker is a "U.S. Related Person" (as defined below). The payment of proceeds on the disposition of a Note or a Preference Share by a Non-U.S. Holder to or through a Non-U.S. office of a U.S. broker or a U.S. Related Person generally will not be subject to backup withholding but will be subject to information reporting unless the holder certifies its status as a Non-U.S. Holder under penalties of perjury or the broker has certain documentary evidence in its files as to the Non-U.S. Holder's foreign status and the broker has no actual knowledge to the contrary.

For this purpose, a "**U.S. Related Person**" is (i) a "controlled foreign corporation" for U.S. federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the broker has been in existence) is derived from activities that are effectively connected with the conduct of a U.S. trade or business, or (iii) a foreign partnership if at any time during its tax year one or more of its partners are United States persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax and may be refunded (or credited against the holder's U.S. federal income tax liability, if any), *provided* that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or agreement.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE OFFERED SECURITIES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX

IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

Cayman Islands Tax Considerations

This discussion is a general summary of present law, which is subject to prospective and retroactive changes. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

(i) Payments in respect of the Offered Securities will not be subject to taxation in the Cayman Islands, no withholding will be required on such payments to any holder of an Offered Security, and gains derived from the sale of Offered Securities will not be subject to Cayman Islands income, capital gains or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(ii) No stamp duty is payable in respect of the transfer of the Notes or Preference Shares. However, a stamp duty may be payable if Notes or Preference Shares are executed in or brought into the Cayman Islands; and

(iii) Certificates evidencing the Notes and Preference Shares, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Note or Preference Share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for, and obtained, an undertaking from the Governor In Cabinet of the Cayman Islands substantially in the following form:

"The Tax Concessions Law (1999 Revision) Undertaking as to Tax Concessions

In accordance with Section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with:

Ceago ABS CDO 2007-1, Ltd., "the Company"

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations;

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the 25th day of June, 2007.

Governor In Cabinet"

The Cayman Islands does not have a double tax treaty arrangement with the U.S. or any other country.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES OR THE PREFERENCE SHARES UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain duties on persons who are fiduciaries of "employee benefit plans" (as defined in Section 3(3) of ERISA) that are subject to ERISA ("**ERISA Plans**") and of entities whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entities. These duties include investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and liquidity needs and all of the facts and circumstances of the investment, including the availability of a public market for the investment. In addition, certain U.S. federal, state, local and non-U.S. laws may impose similar duties on fiduciaries of governmental, church and non-U.S. plans, which are not subject to ERISA.

Any fiduciary of an ERISA Plan, of an entity whose underlying assets include assets of ERISA Plans by reason of an ERISA Plan's investment in such entity, or of a governmental, church or non-U.S. plan that is subject to fiduciary standards similar to those of ERISA ("**plan fiduciary**"), that proposes to cause such a plan or entity to purchase Offered Securities should determine whether, under the general fiduciary standards of ERISA or other applicable law, an investment in the Offered Securities is appropriate for such plan or entity. In determining whether a particular investment is appropriate for an ERISA Plan, U.S. Department of Labor regulations provide that the fiduciaries of an ERISA Plan must give appropriate consideration to, among other things, the role that the investment plays in the ERISA Plan's portfolio, taking into consideration whether the investment is designed reasonably to further the ERISA Plan's purposes, an examination of the risk and return factors, the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to the anticipated cashflow needs of the ERISA Plan and the projected return of the total portfolio relative to the ERISA Plan's funding objectives. Before investing the assets of an ERISA Plan in Offered Securities, a fiduciary should determine whether such an investment is consistent with the foregoing regulations and its fiduciary responsibilities, including any specific restrictions to which such fiduciary may be subject.

Section 406(a) of ERISA and Section 4975 of the Code prohibit certain transactions ("**prohibited transactions**") involving the assets of ERISA Plans or plans described in Section 4975(e)(1) of the Code (together with ERISA Plans, "**Plans**") and certain persons (referred to as "Parties-In-Interest" in ERISA and as "Disqualified Persons" in Section 4975 of the Code) having certain relationships to such plans and entities. A Party-In-Interest or Disqualified Person who engages in a nonexempt prohibited transaction may be subject to non-deductible excise taxes and other penalties and liabilities under ERISA and/or the Code.

Each of the Issuer, the Co-Issuer, each Initial Purchaser and the Collateral Manager as a result of their own activities or because of the activities of an affiliate, may be considered a Party-In-Interest or a Disqualified Person with respect to certain Plans. Accordingly, prohibited transactions within the meaning of Section 406 of ERISA and/or Section 4975 of the Code may arise if Notes or Preference Shares are acquired by a Plan with respect to which any of the Issuer, the Co-Issuer, each Initial Purchaser, the Trustee, the Collateral Manager, the obligors on the Collateral Debt Securities or any of their respective affiliates is a Party-In-Interest or Disqualified Person. In addition, if a Party-In-Interest or Disqualified Person with respect to a Plan owns or acquires a beneficial interest in the Issuer or the Co-Issuer, the acquisition or holding of Notes by or on behalf of the Plan could be considered to constitute an indirect prohibited transaction. Moreover, the acquisition or holding of Notes or other indebtedness issued by the Issuer or the Co-Issuer by or on behalf of a Party-In-Interest or Disqualified Person with respect to a Plan that owns or acquires a beneficial interest in the Issuer or the Co-Issuer, as the case may be, also could give rise to an indirect prohibited transaction. Certain statutory or administrative exemptions from the prohibited transaction rules could be applicable. Included among these exemptions are PTE 90-1, regarding investments by insurance company pooled separate accounts; PTE 91-38, regarding investments by bank collective investment funds; PTE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTE 96-23, regarding investments by certain in-house asset managers; and PTE 95-60, regarding investments by insurance company general accounts. In addition to the foregoing, it should also be noted that the recently enacted Pension Protection Act of 2006 contains a new statutory exemption from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code for transactions involving certain parties in interest or disqualified persons who are such merely because they are a service provider to a Plan, or because they are related to a service provider.

Generally, the new exemption would be applicable if the party to the transaction with the Plan is a party in interest or a disqualified person to the Plan but is not (i) an employer, (ii) a fiduciary who has or exercises any discretionary authority or control with respect to the investment of the Plan assets involved in the transaction, (iii) a fiduciary who renders investment advice (within the meaning of ERISA and Section 4975 of the Code) with respect to those assets, or (iv) an affiliate of (i), (ii) or (iii). Any fiduciary relying on this new statutory exemption (Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code) and purchasing and holding securities on behalf of a Plan will be deemed to represent that (x) the fiduciary has made a good faith determination that the Plan is paying no more than, and is receiving no less than, adequate consideration in connection with the transaction and (y) the party in interest nor any affiliate thereof does not directly or indirectly exercise any discretionary authority or control or render investment advice (as defined above) with respect to the assets of the Plan which such fiduciary is using to purchase the Notes, both of which are necessary preconditions to utilizing this new exemption. Even if the conditions specified in one or more of the foregoing exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. If a purchase of a Note or Preference Share were to be a nonexempt prohibited transaction, the purchase might have to be rescinded.

Governmental plans, certain church plans and non-U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or Section 4975 of the Code, may nevertheless be subject to federal, state, local or non-U.S. laws or regulations that are similar to Section 406 of ERISA and Section 4975 of the Code (a "**Similar Law**").

The United States Department of Labor, the government agency primarily responsible for administering the ERISA fiduciary rules and the prohibited transaction rules under ERISA and the Code, has issued a regulation (the "**Plan Asset Regulation**") that, under specified circumstances, requires plan fiduciaries and entities with certain specified relationships to a Plan, to "look through" investment vehicles (such as the Issuer) and treat as an "asset" of the Plan an undivided interest in each underlying investment made by such investment vehicle. Certain aspects of the Plan Asset Regulation have been modified by Section 3(42) of ERISA. The Plan Asset Regulation as modified by Section 3(42) of ERISA provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant, then the "look-through" rule will not apply to such entity. "Benefit Plan Investors" are defined in Section 3(42) of ERISA to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (2) any plan described in and subject to Section 4975 of the Code, and (3) any entity whose underlying assets include plan assets by reason of a plan's investment in the entity. Equity participation by Benefit Plan Investors in an entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, having discretionary authority or control over the assets of the entity or providing investment advice with respect to the assets of the entity for a fee, direct or indirect (such as the Collateral Manager), or any affiliates of such persons) is held by Benefit Plan Investors.

The Co-Issuers believe that, at the time of their issuance, the Class A Notes, Class S Notes and Class B Notes should be treated as indebtedness without substantial equity features for purposes of the Plan Assets Regulation. However, there can be no assurance that the Class A Notes, Class S Notes and Class B Notes would be characterized by the United States Department of Labor or others as indebtedness and not as equity interests on the date of issuance or at any given time thereafter. In addition, the status of the Class A Notes, Class S Notes and Class B Notes as indebtedness could be affected, subsequent to their issuance, by certain changes in the structure or financial condition of the Co-Issuers.

The Issuer intends to prohibit the acquisition of Preference Shares by Benefit Plan Investors (including for this purpose insurance company general accounts any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or wholly-owned subsidiaries thereof). Each Original Purchaser of a Preference Share will be required, and each transferee of a Preference Share will be required (or in certain cases will be deemed), to represent and warrant that it is not, and is not acting on behalf of (and, for so long as it holds any such Preference Share or any interest therein, will not be, and will not be acting on behalf of), a Benefit Plan Investor (including, for this purpose, the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each Original Purchaser or transferee of a Preference Share that is a governmental, church or non-U.S. plan subject to any Similar Law will be required (or in certain cases will be deemed) to represent and warrant that its purchase and ownership of such Preference Share will not result in a non-exempt violation of Similar Law.

The Issuer intends to prohibit the acquisition of Class C Notes and Class D Notes by Benefit Plan Investors (including for this purpose insurance company general accounts any of the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or wholly-owned subsidiaries thereof). Each Original Purchaser of a Class C Note or a Class D Note will be required, and each transferee of a Class C Note or a Class D Note will be required (or in certain cases will be deemed), to represent and warrant that it is not, and is not acting on behalf of (and, for so long as it holds any such Class C Note or Class D Note or any interest therein, will not be, and will not be acting on behalf of), a Benefit Plan Investor (including, for this purpose the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). See "*Transfer Restrictions*."

If for any reason the assets of the Issuer are deemed to be "plan assets" of a Plan subject to Title I of ERISA or Section 4975 of the Code, certain transactions that either of the Co-Issuers might enter into, or may have entered into, in the ordinary course of its business might constitute non-exempt "prohibited transactions" under Section 406 of ERISA or Section 4975 of the Code and might have to be rescinded. In addition, if the assets of the Issuer are deemed to be "plan assets" of a Plan subject to Title I of ERISA or Section 4975 of the Code, the payment of certain of the fees to the Collateral Manager might be considered to be a non-exempt "prohibited transaction" under Section 406 of ERISA or Section 4975 of the Code. Moreover, if the underlying assets of the Issuer were deemed to be assets constituting "plan assets," (i) the assets of the Issuer could be subject to ERISA's reporting and disclosure requirements, (ii) a fiduciary causing a Benefit Plan Investor to make an investment in the equity of the Issuer could be deemed to have delegated its responsibility to manage the assets of the Benefit Plan Investor, (iii) various providers of fiduciary or other services to the Issuer, and any other parties with authority or control with respect to the Issuer, could be deemed to be Plan fiduciaries or otherwise Parties in Interest or Disqualified Persons by virtue of their provision of such services, and (iv) it is not clear that Section 404(b) of ERISA, which generally prohibits plan fiduciaries from maintaining the indicia of ownership of assets of plans subject to Title I of ERISA outside the jurisdiction of the district courts of the United States, would be satisfied in all instances.

The sale of any Offered Security to a Plan or a plan subject to Similar Law (a "**Similar Law Plan**") is in no respect a representation by the Issuer, either Initial Purchaser, the Collateral Manager or any of their affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans or Similar Law Plans generally or any particular Plan or Similar Law Plan, or that such an investment is appropriate for Plans or Similar Law Plans generally or any particular Plan or Similar Law Plan.

EACH ORIGINAL PURCHASER AND EACH TRANSFEREE OF A CLASS A NOTE, CLASS S NOTE OR CLASS B NOTE OR AN INTEREST THEREIN WILL BE DEEMED TO REPRESENT AND WARRANT EITHER THAT (A) IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY NOTE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS ANY OFFERED SECURITY OR INTEREST THEREIN WILL NOT BE) ACTING ON BEHALF OF, AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA, A PLAN DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR AN ENTITY DEEMED TO HOLD THE ASSETS OF ANY OF THE FOREGOING PURSUANT TO 29 C.F.R. 2510.3-101, SECTION 3(42) OF ERISA OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF SUCH NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OR THE CODE (OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR LAW).

EACH ORIGINAL PURCHASER OF A CLASS C NOTE OR A CLASS D NOTE AND EACH TRANSFEREE OF A CLASS C NOTE OR A CLASS D NOTE WILL BE REQUIRED (OR IN CERTAIN CASES WILL BE DEEMED), TO REPRESENT AND WARRANT THAT IT IS NOT (AND, FOR SO LONG AS IT HOLDS SUCH CLASS C NOTE OR CLASS D NOTE, WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND, FOR SO LONG AS IT HOLDS SUCH CLASS C NOTE OR CLASS D NOTE, WILL NOT BE ACTING ON BEHALF OF), A BENEFIT PLAN INVESTOR (INCLUDING, FOR THIS PURPOSE THE GENERAL ACCOUNT OF AN INSURANCE COMPANY THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA OR A WHOLLY-OWNED

SUBSIDIARY THEREOF). EACH ORIGINAL PURCHASER OR TRANSFEREE OF A CLASS D NOTE THAT IS A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO ANY SIMILAR LAW WILL BE REQUIRED (OR IN CERTAIN CASES WILL BE DEEMED) TO REPRESENT AND WARRANT THAT ITS PURCHASE AND OWNERSHIP OF SUCH CLASS D NOTE WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAW.

EACH ORIGINAL PURCHASER OF A PREFERENCE SHARE WILL BE REQUIRED, AND EACH TRANSFEREE OF A PREFERENCE SHARE WILL BE REQUIRED (OR IN CERTAIN CASES WILL BE DEEMED), TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE), AND IS NOT (AND FOR SO LONG AS IT HOLDS ANY PREFERENCE SHARE OR ANY INTEREST THEREIN WILL NOT BE) ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR (INCLUDING, FOR THIS PURPOSE THE GENERAL ACCOUNT OF AN INSURANCE COMPANY THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA OR A WHOLLY-OWNED SUBSIDIARY THEREOF). EACH ORIGINAL PURCHASER OR TRANSFEREE OF A PREFERENCE SHARE THAT IS A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO ANY SIMILAR LAW WILL BE REQUIRED (OR IN CERTAIN CASES WILL BE DEEMED) TO REPRESENT AND WARRANT THAT ITS PURCHASE AND OWNERSHIP OF SUCH PREFERENCE SHARE WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAW.

ANY FIDUCIARY THAT PROPOSES TO CAUSE A PLAN OR SIMILAR LAW PLAN TO PURCHASE OFFERED SECURITIES, SHOULD CONSULT WITH ITS OWN LEGAL AND TAX ADVISORS WITH RESPECT TO THE POTENTIAL APPLICABILITY OF ERISA, THE CODE AND SIMILAR LAW TO SUCH INVESTMENTS, THE CONSEQUENCES OF SUCH AN INVESTMENT UNDER ERISA, THE CODE AND SIMILAR LAW AND THE ABILITY TO MAKE THE REPRESENTATIONS DESCRIBED ABOVE. MOREOVER, SUCH PLAN FIDUCIARY SHOULD DETERMINE WHETHER, UNDER THE GENERAL FIDUCIARY STANDARDS OF ERISA OR OTHER APPLICABLE LAW, AN INVESTMENT IN THE OFFERED SECURITIES IS APPROPRIATE, TAKING INTO ACCOUNT THE OVERALL INVESTMENT POLICY OF THE PLAN OR SIMILAR LAW PLAN AND THE COMPOSITION OF THE PLAN'S OR SIMILAR LAW PLAN'S INVESTMENT PORTFOLIO.

It should be noted that an insurance company's general account may be deemed to include assets of ERISA Plans under certain circumstances, *e.g.*, where an ERISA Plan purchases an annuity contract issued by such an insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993). An insurance company considering the purchase of Offered Securities with assets of its general account or a wholly-owned subsidiary thereof should consider such purchase and the insurance company's ability to make the representations described above in light of *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank*, Section 401(c) of ERISA and 29 C.F.R. §2550.401c.

The discussion of ERISA and Section 4975 of the Code contained in this Offering Memorandum, is, of necessity, general, and does not purport to be complete. Moreover, the provisions of ERISA and Section 4975 of the Code are subject to extensive and continuing administrative and judicial interpretation and review. Therefore, the matters discussed above may be affected by future regulations, rulings and court decisions, some of which may have retroactive application and effect.

PLAN OF DISTRIBUTION

The Offered Securities are being offered by Lehman Brothers Inc. and Lehman Brothers International (Europe) (collectively, in such capacity, the "**Initial Purchasers**") to prospective purchasers from time to time in individually negotiated transactions at varying prices to be determined in each case at the time of sale, within the United States (with respect to the Initial Purchasers only) to "qualified purchasers" (for purposes of Section 3(c)(7) of the Investment Company Act) that are also "qualified institutional buyers" (as defined in Rule 144A) in reliance on Rule 144A or, in the case of the Preference Shares sold on the Closing Date, "Institutional Accredited Investors" (as defined in Section 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and outside the United States in reliance on Regulation S. A portion of the Offered Securities may be purchased by the Collateral Manager and its Affiliates, or funds or accounts managed by the Collateral Manager and its Affiliates, directly from the Issuer.

The purchase agreement to be entered into among the Co-Issuers and the Initial Purchasers with respect to the Notes and the Preference Shares (the "**Securities Purchase Agreement**") will provide that the obligations of the Initial Purchaser to purchase the Securities are subject to approval of legal matters by counsel and to other conditions.

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Accordingly, in connection with sales outside the United States and the Initial Purchasers have agreed that, except as permitted by the Securities Purchase Agreement, they will not offer or sell the Securities within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, and it will have sent to each dealer to which it sells Securities during the 40-day restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of this offering, an offer or sale of Securities within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each Initial Purchaser will represent and warrant in the Securities Purchase Agreement that it will not offer or sell any Securities and will not distribute the Offering Memorandum or any other document in connection with the offering of the Securities to persons in the United Kingdom except to persons who (I) are outside of the United Kingdom, or (II) who are in the United Kingdom and (A) have professional experience in matters relating to investments; or (B) are persons falling within Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or are persons to whom this Offering Memorandum or any other such document may otherwise lawfully be issued or passed on (all such person together being referred to as "**Relevant Persons**"). Any investment of investment activity to which the Offering Memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Each Initial Purchaser and their affiliates may have had in the past and may in the future have business relationships and dealings with one or more issuers of the Collateral Debt Securities and their affiliates and may own equity or debt securities issued by such issuers or their affiliates. The Initial Purchasers or their respective affiliates may have provided and may in the future provide investment banking services to an issuer of Collateral Debt Securities or its affiliates and may have received or may receive compensation for such services. In addition, the Initial Purchasers and their affiliates may buy securities from and sell securities to an issuer of Collateral Debt Securities or its affiliates for its own account or for the accounts of its customers.

An Initial Purchaser or one or more of its affiliates may also act as counterparty with respect to one or more Synthetic Securities. In addition, an affiliate of either Initial Purchaser may act as Hedge Counterparty under a Hedge Agreement. Risks associated with the Initial Purchasers acting in such capacities and other potential conflicts of interest involving the Initial Purchasers are described under "*Risk Factors—Certain Conflicts of Interest—Conflicts of Interest Involving the Initial Purchasers*."

The Issuer has agreed to indemnify each Initial Purchaser against certain liabilities, including liabilities under the Securities Act and has agreed to contribute to payments that such Initial Purchaser may be required to make in respect thereof.

The Offered Securities are offered when, as and if issued, subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to approval of certain legal matters by counsel and certain other conditions.

The Offered Securities will constitute new classes of securities with no established trading market. Such a market may or may not develop, but none of the Initial Purchasers is under any obligation to make such a market, and if either Initial Purchaser makes such a market it may discontinue any market-making activities with respect to the Notes or the Preference Shares at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, no assurances can be made as to the liquidity of or the trading market for the Notes or the Preference Shares.

The Initial Purchasers may be contacted at their principal office at 745 Seventh Avenue, New York, New York 10019, telephone number: +1 (212) 526-7000, Attention: Collateralized Debt Obligations Group, Attention: Ceago ABS CDO 2007-1, Ltd., or at Lehman Brothers International (Europe), 25 Bank Street, London, England, Attention: Collateralized Debt Obligations Group, re: Ceago ABS CDO 2007-1, Ltd.

SETTLEMENT AND CLEARING

Global Securities

Investors may hold their interests in a Regulation S Global Security directly through Euroclear or Clearstream, Luxembourg, if they are Participants in such systems, or indirectly through organizations which are Participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in Regulation S Global Securities on behalf of their Participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in such Regulation S Global Security in customers' securities accounts in the depositaries' names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are Participants in such system, or indirectly through organizations which are Participants in such system.

So long as the depository for a Global Security, or its nominee, is the registered holder of such Global Security, such depository or such nominee, as the case may be, will be considered the absolute owner or holder of such Global Security for all purposes under the Indenture and Participants as well as any other persons on whose behalf Participants may act (including Euroclear and Clearstream, Luxembourg and account holders and Participants therein) will have no rights under the related Security, the Indenture or the Preference Share Paying Agency Agreement. Owners of beneficial interests in a Global Security will not be considered to be the owners or holders of the related Security, any Note under the Indenture or any Preference Share under the Preference Share Paying Agency Agreement. In addition, no beneficial owner of an interest in a Global Security will be able to exchange or transfer that interest, except in accordance with the applicable procedures of the depository and (in the case of a Regulation S Global Security) Euroclear or Clearstream, Luxembourg (in addition to those under the Indenture or the Preference Share Paying Agency Agreement (as the case may be)), in each case to the extent applicable (the "**Applicable Procedures**").

Payments or Distributions on a Global Security

Payments or distributions on an individual Global Security (as the case may be) registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the Global Security. None of the Issuer, the Trustee, the Note Registrar, the Preference Share Registrar, the Preference Share Paying Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

With respect to the Global Securities, the Issuer expects that the depository for any Global Security or its nominee, upon receipt of any payment or distribution on such Global Security (as the case may be), will immediately credit the accounts of Participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of the depository or its nominee. The Issuer also expects that payments by Participants to owners of beneficial interests in such Global Securities held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the name of nominees for such customers. Such payments will be the responsibility of such Participants.

Transfers and Exchanges for Definitive Securities

Interests in a Global Security will be exchangeable or transferable, as the case may be, for a Definitive Security if (a) DTC notifies the Issuer that it is unwilling or unable to continue as depository for such Security, (b) DTC ceases to be a "Clearing Agency" registered under the Exchange Act, and a successor depository is not appointed by the Issuer within 90 days, (c) the transferee of an interest in such Global Security is required by law to take physical delivery of securities in definitive form, (d) in the case of a Global Note, there is an Event of Default under the Notes or (e) the transferee is otherwise unable to pledge its interest in a Global Security. Because DTC can only act on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in a Global Security to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may require that such interest in a Global Security be exchanged for a Definitive Security.

Upon the occurrence of any of the events described in the preceding sentence, the Issuer will cause Definitive Securities bearing an appropriate legend regarding restrictions on transfer to be delivered. The Trustee will not execute and deliver a Definitive Security without the specified legend, unless there is delivered to the Issuer and the Trustee such satisfactory evidence, which may include an opinion of U.S. counsel, as may reasonably be required by the Issuer or the Trustee that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act or the Investment Company Act. Definitive Securities will be exchangeable or transferable for interests in other Definitive Securities as described herein. See "*Form, Registration and Transfer*."

Cross-Border Transfers and Exchanges

Subject to compliance with the transfer restrictions applicable to the Securities described under "*Transfer Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, Luxembourg, as the case may be, will if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in a Regulation S Global Security in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg Participants and Euroclear Participants may not deliver instructions directly to the depositaries of Euroclear or Clearstream, Luxembourg.

Because of time zone differences, cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Regulation S Global Security by or through a Euroclear or Clearstream, Luxembourg participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised the Co-Issuers that it will take any action permitted to be taken by a holder of the relevant Offered Security (including, without limitation, the presentation of such Offered Security for exchange as described above) only at the direction of one or more Participants to whose account with DTC interests in the related Global Security are credited and only in respect of such portion of the aggregate principal amount of the Notes or the Preference Shares (as the case may be) as to which such Participant or Participants has or have given such direction.

DTC, Euroclear and Clearstream

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("**Indirect Participants**").

The information herein concerning DTC, Clearstream, Luxembourg and Euroclear and their book-entry systems has been obtained from sources believed to be reliable, but none of the Co-Issuers and the Initial Purchasers takes any responsibility for the accuracy or completeness thereof.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in Global Securities among Participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Co-Issuer and the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Offered Securities.

Representations by Original Purchaser

Each Original Purchaser of a Note will be deemed to acknowledge, represent to and agree with the Co-Issuers and the Initial Purchasers, and each purchaser of a Preference Share will be required in a Subscription Agreement to acknowledge, represent to and agree with the Issuer and the Initial Purchasers, as follows:

(1) *No Governmental Approval*. The purchaser understands that the Offered Securities have not been approved or disapproved by the SEC or any other governmental authority or agency of any jurisdiction and that neither the SEC nor any other governmental authority or agency has passed upon the accuracy or adequacy of this Offering Memorandum. The purchaser further understands that any representation to the contrary is a criminal offense.

(2) *Certification Upon Transfer*. If required by the Indenture or the Preference Share Paying Agency Agreement, the purchaser will, prior to any sale, pledge or other transfer by it of any Offered Security (or any interest therein), deliver to the Issuer and the Note Registrar (or, in the case of a Preference Share, the Preference Share Registrar) duly executed transferor and transferee certifications in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as applicable, and such other certificates and other information as the Issuer, the Trustee (in the case of the Notes) or the Preference Share Paying Agent (in the case of the Preference Shares) may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Memorandum and in the Indenture or the Preference Share Paying Agency Agreement, as applicable.

(3) *Minimum Denomination*. The purchaser agrees that no Offered Security (or any interest therein) may be sold, pledged or otherwise transferred in a denomination of less than the applicable minimum denomination set forth herein.

(4) *Securities Law Limitations on Resale*. The purchaser understands that the Offered Securities have not been registered under the Securities Act and, therefore, cannot be offered or sold in the United States or to U.S. Persons unless they are registered under the Securities Act or unless an exemption from registration is available and that the certificates representing the Offered Securities will bear a legend setting forth such restriction. The purchaser understands that neither the Issuer nor (in the case of the Notes) the Co-Issuer has any obligation to register the Offered Securities under the Securities Act or to comply with the requirements for any exemption from the registration requirements of the Securities Act (other than to supply information specified in Rule 144A(d)(4) of the Securities Act as required by the Indenture).

(5) *Status; Investment Intent*. In the case of a purchaser of a Restricted Global Note (or any interest therein) or a Restricted Preference Share, it is a Qualified Institutional Buyer or, in the case of Preference Shares, an Institutional Accredited Investor, in each case that is a Qualified Purchaser and it is acquiring such Notes or Preference Shares for its own account for investment purposes and not with a view to the distribution thereof (except in accordance with Rule 144A). In the case of a purchaser of a beneficial interest in a Regulation S Global Security, it is not a U.S. Person and is purchasing such interest for its own account and not for the account or benefit of a U.S. Person.

(6) *Purchaser Sophistication; Non-Reliance; Suitability; Access to Information*. The purchaser (a) has such knowledge and experience in financial and business matters that the purchaser is capable of evaluating the merits and risks (including for tax, legal, regulatory, accounting and other financial purposes) of its prospective investment in Offered Securities, (b) is financially able to bear such risk, (c) in making such investment, is not relying on the advice or recommendations of either Initial Purchaser, the Issuer, the Co-Issuer, the Collateral Manager or any of their respective affiliates (or any representative of any of the foregoing) and (d) has determined that an investment in Offered Securities is suitable and appropriate for it. The purchaser has received, and has reviewed the contents of, this Offering Memorandum. The purchaser has had access to such

financial and other information concerning the Issuer and the Offered Securities as it has deemed necessary to make its own independent decision to purchase Offered Securities including the opportunity, at a reasonable time prior to its purchase of Offered Securities to ask questions and receive answers concerning the Issuer, the Co-Issuer and the terms and conditions of the offering of the Offered Securities.

(7) *Certain Resale Limitations.* The purchaser is aware that no Offered Security (nor any interest therein) may be offered or sold, pledged or otherwise transferred:

(a) in the United States or to a U.S. Person, except to a transferee (i) (A) which the seller reasonably believes is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or (B) which, solely in the case of a Restricted Preference Share, is entitled to take delivery of such Offered Security in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act) and (ii) that is a Qualified Purchaser; or

(b) to a transferee acquiring an interest in a Regulation S Global Security, or any Definitive Note or Definitive Preference Share issued in respect thereof (any such Security a "**Regulation S Security**"), except to a transferee that is not a U.S. Person and is acquiring such interest in an offshore transaction (within the meaning of Regulation S) in accordance with Rule 903 or Rule 904 of Regulation S.

In addition, the purchaser is aware that (i) no Preference Share may be sold or transferred to a Benefit Plan Investor (as defined in paragraph (13) below and including, for this purpose, the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary of such a general account), (ii) no Class C Note or Class D Note may be transferred to a Benefit Plan Investor (including, for this purpose, the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary of such a general account) and (iii) each transfer of an Offered Security must be made in compliance with the other requirements set forth in the Indenture or the Preference Share Paying Agency Agreement, as applicable, and in accordance with any other applicable securities laws of any relevant jurisdiction.

(8) *Limited Liquidity.* The purchaser understands that there is no market for the Offered Securities and that there can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Offered Securities with liquidity of investment or that such market will continue for the life of the Offered Securities. It further understands that, although either Initial Purchaser may from time to time make a market in one or more Classes of Notes or Preference Shares, none of the Initial Purchasers is under any obligation to do so and, following the commencement of any such market-making, may discontinue the same at any time. Accordingly, the purchaser must be prepared to hold its Offered Securities for an indefinite period of time or until the Stated Maturity.

(9) *Board of Directors*. The purchaser acknowledges and understands that following the Closing Date the Collateral Manager may, on behalf of the Issuer, direct the Trustee to purchase Collateral Debt Securities from any Affiliates of the Collateral Manager or from the Initial Purchasers or affiliates or to sell Collateral Debt Securities to any Affiliates of the Collateral Manager or to the Initial Purchasers or affiliates. Such purchases will be subject to the approval of the Board of Directors of the Issuer as described in the Offering Memorandum. The purchaser by its purchase of Offered Securities will be deemed to have approved each consent and other action taken by the Board of Directors of the Issuer.

(10) *Investment Company Act*. If the purchaser is a U.S. Person that is an entity that would be an investment company but for the exception provided for in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (any such entity, an "**excepted investment company**") (a) all of the beneficial owners of outstanding securities (other than short-term paper) of such entity (such beneficial owners determined in accordance with Section 3(c)(1)(A) of the Investment Company Act) that acquired such securities on or before April 30, 1996 ("**pre-amendment beneficial owners**") and (b) all pre-amendment beneficial owners of the outstanding securities (other than short-term paper) of any excepted investment company that, directly or

indirectly, owns any outstanding securities of such entity, have consented to such entity's treatment as a Qualified Purchaser in accordance with the Investment Company Act.

(11) *Withholding Certification*. The purchaser understands that each of the Co-Issuers, the Trustee or any Paying Agent will require certification acceptable to it (i) as a condition to the payment of principal of and interest on any Offered Securities without, or at a reduced rate of, U.S. withholding or backup withholding tax, and (ii) to enable each Co-Issuer, the Trustee and any Paying Agent to determine their duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold from payments in respect of such Offered Securities or the holder of such Offered Securities under any present or future law or regulation of the Cayman Islands or the United States or any present or future law or regulation of any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation. Such certification may include U.S. federal income tax forms (such as IRS Form W-8BEN (Certification of Foreign Status of Beneficial Owner), IRS Form W-8IMY (Certification of Foreign Intermediary Status), IRS Form W-9 (Request for Taxpayer Identification Number and Certification), or IRS Form W-8ECI (Certification of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with Conduct of a U.S. Trade or Business) or any successors to such IRS forms). In addition, each Co-Issuer, the Trustee or any Paying Agent may require certification acceptable to it to enable the Issuer to qualify for a reduced rate of withholding in any jurisdiction from or through which the Issuer receives payments on its assets. Each purchaser agrees to provide any certification requested pursuant to this paragraph and to update or replace such form or certification in accordance with its terms or its subsequent amendments.

(12) *Tax Treatment*. The purchaser hereby agrees that, for purposes of U.S. federal, state and local income and franchise tax and any other income taxes, (i) the Issuer will be treated as a corporation, (ii) the Notes will be treated as indebtedness of the Issuer, and (iii) the Preference Shares will be treated as equity in the Issuer; the purchaser agrees to such treatment and agrees to take no action inconsistent with such treatment, unless required by law.

(13) *ERISA*. In the case of a purchaser of a Class A Note, Class S Note or Class B Note, either (a) it is not (and for so long as it holds any Class A Note, Class S Note or Class B Note or any interest therein will not be), and is not acting on behalf of (and for so long as it holds such Note will not be acting on behalf of), (i) an employee benefit plan that is subject to Title I of ERISA, (ii) a plan subject to Section 4975 of the Code, (iii) a governmental, church or non-U.S. plan which is subject to any Similar Law (any such entity, a "**Plan**") or (iv) an entity which is deemed to hold the assets of any of the foregoing pursuant to 29 C.F.R. Section 2510.3-101, Section 3(42) of ERISA or otherwise or (b) its purchase and ownership of such Class A Note, Class S Note or Class B Note will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, will not result in a non-exempt violation of any Similar Law). In addition, if the purchaser is, or is acting on behalf of, a Plan subject to Title I of ERISA or a Plan that is not subject to Title I of ERISA but is subject to provisions of a Similar Law, the fiduciaries of such Plan or such Similar Law Plan, as applicable, represent and warrant that they have been informed of and understand the Issuer's investment objectives, policies and strategies and that the decision to invest such Plan's or Similar Law Plan's assets in Offered Securities was made with appropriate consideration of relevant investment factors with regard to such Plan or Similar Law Plan, as the case may be, and is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under Title I of ERISA or such Similar Law.

Each Original Purchaser and each transferee of a Class C Note or a Class D Note will represent and warrant, or in certain circumstances be deemed to represent and warrant, that it is not (and for so long as it holds such Class C Note or Class D Note, will not be) and is not acting on behalf of (and for so long as it holds such Class C Note or Class D Note, will not be acting on behalf of), a Benefit Plan Investor (as defined in Section 3(42) of ERISA) and including, for this purpose the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each Original Purchaser or transferee of a Class C Note or a Class D Note that is a governmental, church or non-US plan subject to any Similar Law will be required (or in certain cases will be deemed) to represent and warrant that its purchase and ownership of such Class C Note or Class D Note will not result in a non-exempt violation of any Similar Law.

Each purchaser or transferee of a Class C Note or a Class D Note understands and agrees that no sale, pledge or other transfer of such security may be made to a Benefit Plan Investor (including, for this purpose the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each such purchaser and transferee will further represent and warrant that it understands and agrees that the information supplied above will be utilized to determine whether Benefit Plan Investors own the Class C Notes or the Class D Notes both upon the original issuance of the such securities and upon any subsequent transfer of any such securities.

Each Original Purchaser of a Preference Share will be required, and each transferee of a Preference Share will be required (or in certain cases will be deemed) to represent and warrant that it is not, and is not acting on behalf of (and, for so long as it holds any such Note or any interest therein, will not be, and will not be acting on behalf of), a Benefit Plan Investor (including, for this purpose, the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly-owned subsidiary thereof). Each Original Purchaser or transferee of a Preference Share that is a governmental, church or non-U.S. plan subject to any Similar Law will be required (or in certain cases will be deemed) to represent and warrant that its purchase and ownership of such Preference Share will not result in a non-exempt violation of Similar Law.

Each purchaser or transferee of Preference Share understands and agrees that no sale, pledge or other transfer of such security may be made to a Benefit Plan Investor (including, for this purpose the general account of an insurance company the underlying assets of which constitute "plan assets" under Section 401(c) of ERISA or a wholly owned subsidiary thereof). Each such purchaser and transferee will further represent and warrant that it understands and agrees that the information supplied above will be utilized to determine whether Benefit Plan Investors own Preference Shares upon the original issuance of the such securities and upon any subsequent transfer of any such securities.

(14) *Limitations on Flow-Through Status*. Each purchaser is (a) either not a Flow-Through Investment Vehicle or it is a Flow-Through Investment Vehicle that is a Qualifying Investment Vehicle and (b) if it is a Qualifying Investment Vehicle, (x) it has only one class of securities outstanding (other than any nominal share capital the distributions in respect of which are not correlated to or dependent upon distributions on, or the performance of, the Offered Securities) and (y) either (1) none of the beneficial owners of its securities is a U.S. Person or (2) some or all of the beneficial owners of its securities are U.S. Persons and each such beneficial owner has certified to the purchaser that such owner is a Qualified Purchaser.

A purchaser of a Note or Preference Share is a "**Flow-Through Investment Vehicle**" if: (i) in the case of a purchaser that would be an investment company but for the exception in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, the amount of the purchaser's aggregate investment in the Notes and the Preference Shares exceeds 40% of the total assets (determined on a consolidated basis with its subsidiaries) of the purchaser, (ii) any person owning any equity or similar interest in the purchaser has the ability to control an investment decision of the purchaser (other than a general partner or similar entity) or to determine on an investment-by-investment basis, the amount of such person's contribution to any investment made by the purchaser, (iii) the purchaser was organized or reorganized for the specific purpose of acquiring any Notes or Preference Shares or (iv) additional capital or similar contributions were specifically solicited from any person owning an equity or similar interest in the purchaser for the purpose of enabling the purchaser to purchase any Notes or Preference Shares.

A "**Qualifying Investment Vehicle**" means a Flow-Through Investment Vehicle as to which all of the beneficial owners of any securities issued by the Flow-Through Investment Vehicle have made, and as to which (in accordance with the document pursuant to which the Flow-Through Investment Vehicle was organized or the agreement or other document governing such securities) each such beneficial owner must require any transferee of any such security to make, to the Issuer or the Issuers, as the case may be, and the Note Registrar (or, with respect to the Preference Shares, the Preference Share Registrar) each of the representations set forth herein and in (a) the Indenture, (b) a Subscription Agreement or (c) the transfer certificate pursuant to which Notes or Preference Shares were transferred to such Flow-Through Investment Vehicle (in each case, with appropriate modifications to reflect the indirect nature of their interests in the Notes or the Preference Shares).

(15) *Certain Transfers Void.* The purchaser agrees that (a) any sale, pledge or other transfer of a Security (or any interest therein) made in violation of the transfer restrictions contained in this Offering Memorandum

and the Indenture or the Preference Share Paying Agency Agreement, as applicable, or made based upon any false or inaccurate representation made by the purchaser or a transferee to the Issuer, will be void and of no force or effect and (b) none of the Issuer, the Trustee and the Note Registrar (in the case of the Notes) or the Preference Share Paying Agent and the Preference Share Registrar (in the case of the Preference Shares) has any obligation to recognize any sale, pledge or other transfer of any such security (or any interest therein) made in violation of any such transfer restriction or made based upon any such false or inaccurate representation.

(16) *Reliance on Representations, etc.* The purchaser acknowledges that the Issuer, the Initial Purchasers and the Trustee (solely for purposes of complying with its obligations under the Indenture with respect to the Notes) or the Preference Share Paying Agent (solely for purposes of complying with its obligations under the Preference Share Paying Agency Agreement with respect to the Preference Shares) will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties by it in connection with its purchase of the Offered Securities are no longer accurate, the purchaser will promptly notify the Issuer and the Initial Purchasers.

(17) *Cayman Islands*. The purchaser is not a member of the public in the Cayman Islands.

(18) *Legend*. Each purchaser of a Note (or any beneficial interest therein) understands and agrees that a legend in substantially the following form will be placed on each Note:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (A "QUALIFIED INSTITUTIONAL BUYER") WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE INDENTURE REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER RELEVANT JURISDICTION. NEITHER OF THE CO-ISSUERS NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES THEREUNDER (THE "INVESTMENT COMPANY ACT").

NO TRANSFER OF A NOTE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT, (II) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER AS SPECIFIED IN RULE 3c-5 PROMULGATED UNDER THE INVESTMENT COMPANY ACT, (III) A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER OR A KNOWLEDGEABLE EMPLOYEE OR (IV) A COMPANY OWNED EXCLUSIVELY BY QUALIFIED PURCHASERS AND/OR KNOWLEDGEABLE EMPLOYEES (ANY PERSON DESCRIBED IN CLAUSES (I) THROUGH (IV), A "QUALIFIED PURCHASER"), (B) SUCH TRANSFER WOULD HAVE THE EFFECT OF REQUIRING EITHER OF THE CO-ISSUERS OR THE COLLATERAL TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT, (C) SUCH TRANSFER WOULD BE MADE TO A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE INDENTURE) OR (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED BY THE APPLICABLE TRANSFER CERTIFICATE (IF ANY) ATTACHED AS AN EXHIBIT TO THE INDENTURE REFERRED TO BELOW.

THIS NOTE AND ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED ONLY IN PERMITTED DENOMINATIONS SPECIFIED IN THE INDENTURE. ACCORDINGLY, AN INVESTOR IN THIS NOTE MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

In addition, the legend set forth on any Restricted Note will also have the following:

IF, NOTWITHSTANDING THE RESTRICTIONS ON TRANSFER CONTAINED IN THE INDENTURE, THE ISSUER DETERMINES THAT ANY BENEFICIAL OWNER OF A RESTRICTED NOTE (OR ANY INTEREST THEREIN) (A) IS A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND (B) IS NOT BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER, THEN THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER, THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO SUCH RESTRICTED NOTE (OR INTEREST THEREIN) TO A PERSON THAT IS BOTH A QUALIFIED INSTITUTIONAL BUYER AND A QUALIFIED PURCHASER, WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH BENEFICIAL OWNER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (1) UPON DIRECTION FROM THE ISSUER, THE TRUSTEE (ON BEHALF OF AND AT THE EXPENSE OF THE ISSUER) SHALL CAUSE SUCH BENEFICIAL OWNER'S INTEREST IN SUCH NOTE TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY THE TRUSTEE, OR AN INVESTMENT BANK SELECTED BY THE TRUSTEE, IN ACCORDANCE WITH SECTION 9-610(b) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK) TO A PERSON THAT CERTIFIES TO THE TRUSTEE, THE CO-ISSUERS AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS BOTH (I) A QUALIFIED INSTITUTIONAL BUYER AND (II) A QUALIFIED PURCHASER AND (2) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF SUCH NOTE (OR INTEREST THEREIN) HELD BY SUCH BENEFICIAL OWNER.

IN ADDITION, NO TRANSFER OF THIS NOTE (OR ANY INTEREST HEREIN) MAY BE MADE (AND NEITHER THE TRUSTEE NOR THE NOTE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF SUCH TRANSFER WOULD BE MADE TO A U.S. PERSON THAT IS (A) A DEALER DESCRIBED IN PARAGRAPH (A)(1)(ii) OF RULE 144A WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF ISSUERS THAT ARE NOT AFFILIATED PERSONS OF THE DEALER OR (B) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, UNLESS INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE SOLELY BY THE FIDUCIARY, TRUSTEE OR SPONSOR OF SUCH PLAN. THE TRANSFEREE, AND EACH ACCOUNT FOR WHICH IT IS PURCHASING, IS REQUIRED TO HOLD AND TRANSFER AT LEAST THE MINIMUM DENOMINATIONS OF THE NOTES.

In addition, a legend in substantially the following form will be placed on each Class A Note, Class S Note and Class B Note:

EACH HOLDER OF THIS NOTE OR AN INTEREST HEREIN IS DEEMED TO REPRESENT AND WARRANT EITHER (A) THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR AN ENTITY WHICH IS DEEMED TO HOLD THE ASSETS OF ANY OF THE FOREGOING

PURSUANT TO 29 C.F.R. 2510.3-101, SECTION 3(42) OF ERISA OR OTHERWISE OR (B) ITS PURCHASE AND OWNERSHIP OF THIS NOTE WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA AND/OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENT, CHURCH OR NON-U.S. PLAN, WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SUCH SIMILAR LAW).

In addition, a legend in substantially the following form will be placed on each Class C Note and Class D Note:

BY ACCEPTING A BENEFICIAL INTEREST IN THIS NOTE, EACH HOLDER OF A BENEFICIAL INTEREST IN THIS NOTE IS DEEMED TO REPRESENT AND WARRANT THAT SUCH HOLDER IS NOT (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE OR AN INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") (INCLUDING FOR THIS PURPOSE THE GENERAL ACCOUNT OF AN INSURANCE COMPANY ANY OF THE UNDERLYING ASSETS OF WHICH CONSTITUTE "PLAN ASSETS" UNDER SECTION 401(c) OF ERISA OR A WHOLLY-OWNED SUBSIDIARY THEREOF). EACH HOLDER THAT IS A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO ANY SIMILAR LAW WILL BE DEEMED TO REPRESENT AND WARRANT THAT ITS PURCHASE AND OWNERSHIP OF SUCH CLASS D NOTE WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY FEDERAL, STATE, LOCAL OR NON-US LAW OR REGULATION THAT IS SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

In addition, the legend set forth on any Global Note will also have the following:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (DTC) TO THE NOTE REGISTRAR FOR REGISTRATION OF TRANSFER OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

In addition, a legend in substantially the following form will be placed on each Class C Note and Class D Note:

THE FOLLOWING INFORMATION IS PROVIDED PURSUANT TO UNITED STATES TREASURY REGULATION SECTION 1.1275-3(b): THIS NOTE HAS BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR U.S. FEDERAL INCOME TAX PURPOSES. THE HOLDER OF THIS NOTE MAY OBTAIN THE INFORMATION DESCRIBED IN UNITED STATES TREASURY REGULATION 1.1275-3(b)(1)(i) FROM THE INITIAL PURCHASERS AT 745 SEVENTH AVENUE, NEW YORK, NEW YORK 10019, ATTENTION: CEAGO ABS CDO 2007-1, LTD., BEGINNING NO LATER THAN 10 DAYS AFTER ITS ISSUANCE.

In addition, the legend set forth on any Regulation S Note will also have the following:

THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN MAY NOT BE HELD BY A U.S. PERSON AT ANY TIME.

(19) *Legend for Preference Shares*. The purchaser understands and agrees that a legend in substantially the following form will be placed on each certificate representing any Preference Shares:

THE PREFERENCE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER

JURISDICTION, AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (A QUALIFIED INSTITUTIONAL BUYER) WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), PURCHASING FOR ITS OWN ACCOUNT, TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON THE EXEMPTION FROM SECURITIES ACT REGISTRATION PROVIDED BY RULE 144A OR (2) TO AN INSTITUTIONAL ACCREDITED INVESTOR (MEETING THE DESCRIPTION SET FORTH IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (3) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (B) IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER RELEVANT JURISDICTION. NEITHER THE ISSUER NOR THE COLLATERAL HAS BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES THEREUNDER (THE "INVESTMENT COMPANY ACT").

NO TRANSFER OF A PREFERENCE SHARE (OR ANY INTEREST THEREIN) MAY BE MADE (AND NEITHER THE ISSUER NOR THE PREFERENCE SHARE REGISTRAR WILL RECOGNIZE ANY SUCH TRANSFER) IF (A) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE WHO IS A U.S. PERSON THAT IS NOT (I) A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT, (II) A COMPANY EACH OF WHOSE BENEFICIAL OWNERS IS A QUALIFIED PURCHASER, (III) A "KNOWLEDGEABLE EMPLOYEE" WITH RESPECT TO THE ISSUER AS SPECIFIED IN RULE 3C-5 PROMULGATED UNDER THE INVESTMENT COMPANY ACT OR (IV) A COMPANY OWNED EXCLUSIVELY BY KNOWLEDGEABLE EMPLOYEES (ANY PERSON DESCRIBED IN CLAUSES (I) THROUGH (IV), A QUALIFIED PURCHASER), (B) SUCH TRANSFER WOULD BE MADE TO A BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF ERISA AND INCLUDING FOR THIS PURPOSE THE GENERAL ACCOUNT OF AN INSURANCE COMPANY THE UNDERLYING ASSETS OF WHICH CONSTITUTE PLAN ASSETS UNDER SECTION 401(c) OF ERISA OR A WHOLLY OWNED SUBSIDIARY THEREOF), (C) SUCH TRANSFER WOULD BE MADE TO A TRANSFEREE THAT IS A U.S. PERSON THAT IS A FLOW-THROUGH INVESTMENT VEHICLE OTHER THAN A QUALIFYING INVESTMENT VEHICLE (EACH AS DEFINED IN THE TRANSFER CERTIFICATE ATTACHED TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT), (D) SUCH TRANSFER WOULD BE MADE TO A PERSON WHO IS OTHERWISE UNABLE TO MAKE THE CERTIFICATIONS AND REPRESENTATIONS REQUIRED OR DEEMED TO BE MADE PURSUANT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT REFERRED TO HEREIN OR (E) IN THE CASE OF A TRANSFEREE WHO ACQUIRES AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE, UNLESS THE TRANSFEREE EXECUTES AND DELIVERS TO THE PREFERENCE SHARE PAYING AGENT, THE ISSUER AND THE COLLATERAL MANAGER A LETTER IN THE FORM ATTACHED AS A SEPARATE EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. AN INTEREST IN A REGULATION S GLOBAL PREFERENCE SHARE MAY BE HELD ONLY THROUGH EUROCLEAR OR CLEARSTREAM, LUXEMBOURG. ACCORDINGLY, AN INVESTOR IN THE PREFERENCE SHARES MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE PREFERENCE SHARES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED IN THE UNITED STATES OR TO U.S. PERSONS ONLY IF THE PURCHASER IS (a)(1) A QUALIFIED INSTITUTIONAL BUYER, AN INSTITUTIONAL ACCREDITED INVESTOR OR A PERSON ENTITLED TO TAKE DELIVERY OF SUCH PREFERENCE SHARE PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (2) A QUALIFIED PURCHASER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (b) ACQUIRING THE SECURITIES FOR ITS OWN ACCOUNT, AND IN AN AMOUNT NOT LESS THAN THE MINIMUM DENOMINATION SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT. THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN MAY BE TRANSFERRED TO A

PERSON WHO ACQUIRES A BENEFICIAL INTEREST IN A REGULATION S PREFERENCE SHARE CERTIFICATE UPON RECEIPT BY THE PREFERENCE SHARE PAYING AGENT OF (1) A TRANSFER CERTIFICATE FROM THE TRANSFEROR SUBSTANTIALLY IN THE FORM SPECIFIED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT AND (2) A LETTER IN THE FORM ATTACHED AS AN EXHIBIT TO THE PREFERENCE SHARE PAYING AGENCY AGREEMENT TO THE EFFECT THAT SUCH TRANSFEREE WILL NOT TRANSFER SUCH INTEREST EXCEPT IN COMPLIANCE WITH THE TRANSFER RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT (INCLUDING THE REQUIREMENT THAT ANY SUBSEQUENT TRANSFEREE OF AN INTEREST IN REGULATION S PREFERENCE SHARES EXECUTE AND DELIVER SUCH LETTER AS A CONDITION TO ANY SUBSEQUENT TRANSFER). IF, NOTWITHSTANDING THE RESTRICTIONS SET FORTH IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THE ISSUER DETERMINES THAT ANY HOLDER OF THIS SECURITY OR AN INTEREST HEREIN (I) IS A U.S. PERSON AND (II) IS NOT BOTH (A) A QUALIFIED INSTITUTIONAL BUYER OR AN INSTITUTIONAL ACCREDITED INVESTOR AND (B) A QUALIFIED PURCHASER, THE ISSUER MAY REQUIRE, BY NOTICE TO SUCH HOLDER THAT SUCH HOLDER SELL ALL OF ITS RIGHT, TITLE AND INTEREST TO THIS SECURITY (OR INTEREST HEREIN) TO A PERSON THAT IS (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER WITH SUCH SALE TO BE EFFECTED WITHIN 30 DAYS AFTER NOTICE OF SUCH SALE REQUIREMENT IS GIVEN. IF SUCH HOLDER FAILS TO EFFECT THE TRANSFER REQUIRED WITHIN SUCH 30-DAY PERIOD, (X) UPON WRITTEN DIRECTION FROM THE ISSUER, THE PREFERENCE SHARE PAYING AGENT SHALL, AND IS HEREBY IRREVOCABLY AUTHORIZED BY SUCH HOLDER TO, CAUSE SUCH HOLDER'S INTEREST IN THIS SECURITY TO BE TRANSFERRED IN A COMMERCIALLY REASONABLE SALE (CONDUCTED BY THE PREFERENCE SHARE PAYING AGENT IN ACCORDANCE WITH SECTION 9-610 OF THE UCC AS IN EFFECT IN THE STATE OF NEW YORK AS APPLIED TO SECURITIES THAT ARE SOLD ON A RECOGNIZED MARKET OR THAT ARE THE SUBJECT OF WIDELY DISTRIBUTED STANDARD PRICE QUOTATIONS) TO A PERSON THAT CERTIFIES TO THE PREFERENCE SHARE PAYING AGENT, THE ISSUER AND THE COLLATERAL MANAGER, IN CONNECTION WITH SUCH TRANSFER, THAT SUCH PERSON IS BOTH (1) A QUALIFIED INSTITUTIONAL BUYER AND (2) A QUALIFIED PURCHASER AND (Y) PENDING SUCH TRANSFER, NO FURTHER PAYMENTS WILL BE MADE IN RESPECT OF THE INTEREST IN THIS SECURITY HELD BY SUCH HOLDER, AND THE INTEREST IN THIS SECURITY SHALL NOT BE DEEMED TO BE OUTSTANDING FOR THE PURPOSE OF ANY VOTE OR CONSENT OF THE HOLDERS OF THE PREFERENCE SHARES. THE ISSUER ALSO MAY REQUIRE ANY HOLDER OF THIS PREFERENCE SHARE WHOSE INVESTMENT IN THE PREFERENCE SHARES CONSTITUTES IN WHOLE OR IN PART AN INVESTMENT BY A BENEFIT PLAN INVESTOR OR A CONTROLLING PERSON (AS DEFINED IN THE PREFERENCE SHARE PAYING AGENCY AGREEMENT) AND IS DETERMINED TO EXCEED THE PERCENTAGE OF ITS INVESTMENT THAT IT REPORTED AS SUCH IN THE RELATED NOTE PURCHASE AGREEMENT OR TRANSFER CERTIFICATE, AS APPLICABLE, TO SELL ITS PREFERENCE SHARES.

AN INTEREST IN THIS PREFERENCE SHARE MAY NOT BE SOLD OR TRANSFERRED TO A PERSON THAT IS, OR IS ACTING ON BEHALF OF, A BENEFIT PLAN INVESTOR AT ANY TIME. EACH TRANSFEREE IS DEEMED TO REPRESENT AND WARRANT THAT IT IS NOT (AND FOR SO LONG AS IT HOLDS ANY PREFERENCE SHARE OR AN INTEREST THEREIN, WILL NOT BE) AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY PREFERENCE SHARE OR INTEREST THEREIN, WILL NOT BE ACTING ON BEHALF OF) A BENEFIT PLAN INVESTOR. THE ISSUER MAY REQUIRE ANY HOLDER OF AN INTEREST IN THIS PREFERENCE SHARE WHO IS DETERMINED TO BE A BENEFIT PLAN INVESTOR TO SELL ITS INTEREST IN THIS PREFERENCE SHARE.

EACH PURCHASER OR TRANSFEREE OF A PREFERENCE SHARE THAT IS A GOVERNMENTAL, CHURCH OR NON-US PLAN SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") WILL BE DEEMED TO REPRESENT AND WARRANT THAT

ITS PURCHASE AND OWNERSHIP OF A PREFERENCE SHARE WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAW.

In addition, the following will be inserted in the case of Global Preference Shares:

THIS PREFERENCE SHARE CERTIFICATE REPRESENTS GLOBAL PREFERENCE SHARES DEPOSITED WITH DTC ACTING AS DEPOSITORY, AND REGISTERED IN THE NAME OF CEDE & CO., A NOMINEE OF DTC, AND CEDE & CO., AS HOLDER OF RECORD, SHALL BE ENTITLED TO RECEIVE ALL DISTRIBUTIONS, OTHER THAN THE FINAL REDEMPTION AMOUNTS, BY WIRE TRANSFER OF IMMEDIATELY AVAILABLE FUNDS. THE STATEMENTS IN THE LEGEND RELATING TO DTC SET FORTH ABOVE ARE AN INTEGRAL PART OF THE TERMS OF THESE PREFERENCE SHARES AND BY ACCEPTANCE THEREOF EACH HOLDER AGREES TO BE SUBJECT TO AND BOUND BY THE TERMS AND PROVISIONS SET FORTH IN SUCH LEGEND.

UPON ANY SUCH EXCHANGE OR TRANSFER OF A BENEFICIAL INTEREST IN THIS PREFERENCE SHARE CERTIFICATE FOR A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR FOR A RESTRICTED PREFERENCE SHARE CERTIFICATE OR UPON ANY EXCHANGE OR TRANSFER OF A DEFINITIVE PREFERENCE SHARE CERTIFICATE OR A RESTRICTED PREFERENCE SHARE CERTIFICATE FOR AN INTEREST IN THIS PREFERENCE SHARE CERTIFICATE IN ACCORDANCE WITH THE PREFERENCE SHARE PAYING AGENCY AGREEMENT, THIS GLOBAL CERTIFICATE SHALL BE ENDORSED TO REFLECT THE CHANGE OF THE PRINCIPAL AMOUNT EVIDENCED HEREBY.

(20) *Hedging Transactions*. In the case of a purchase of a Global Preference Share, the purchaser agrees that it will not engage in hedging transactions with regard to such Global Preference Share unless in compliance with the Securities Act.

Investor Representations on Resale

Except as provided below, each transferor and transferee of an Offered Security will be required to deliver a duly executed transferee certificate in the form of the relevant exhibit attached to the Indenture or the Preference Share Paying Agency Agreement, as the case may be, and such other certificates and other information as the Issuer, the Co-Issuer, the Trustee or the Preference Share Paying Agent may reasonably require to confirm that the proposed transfer complies with the transfer restrictions contained in this Offering Memorandum and the Indenture or the Preference Share Paying Agency Agreement, as applicable.

An owner of a beneficial interest in a Restricted Global Note may transfer such interest in the form of a beneficial interest in such Restricted Global Note without the provision of written certification, *provided* that such transfer is made (a) to a transferee that (i) is a Qualified Institutional Buyer, purchasing for its own account, to whom notice is given that the resale, pledge or other transfer is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A that is a Qualified Purchaser and (ii) is not a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle), (b) in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (c) only in accordance with the Applicable Procedures.

An owner of a beneficial interest in a Global Preference Share may transfer such interest in the form of a beneficial interest in such Global Preference Share without the provision of written certification, *provided* that (a) such transfer is not made to a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) or for the account or benefit of a U.S. Person or a Flow-Through Investment Vehicle (other than a Qualifying Investment Vehicle) and such transfer is effected in an offshore transaction as required by Regulation S and only in accordance with the Applicable Procedures.

Each transferee of a beneficial interest in a Global Security will be deemed to make the applicable representations and warranties described herein.

Each transferee of an Offered Security that is required to deliver a transfer certificate will be required, pursuant to such transferee certificate, and each transferee that is not required to deliver a certificate will be deemed (a) to acknowledge, represent to and agree with the Co-Issuers and the Trustee (in the case of a Note) or the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) as to the matters set forth in each of paragraphs (1) through (19) above (other than paragraphs (5) and (6) above) as if each reference therein to "the purchaser" were instead a reference to the transferee and (b) to further represent to and agree with the Co-Issuers and the Trustee (in the case of a Note) or to the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) as follows:

(1) In the case of a transferee which takes delivery of a Restricted Security (or a beneficial interest therein), it is a Qualified Institutional Buyer and also a Qualified Purchaser and is acquiring such Restricted Security (or beneficial interest therein) for its own account and is aware that such transfer is being made to it in reliance on Rule 144A (or, solely in the case of a Restricted Definitive Preference Share, in accordance with another exemption from the registration requirements of the Securities Act (subject to the delivery of such certifications, legal opinions or other information as the Issuer may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act)). In addition, if such transferee is acquiring a beneficial interest in a Restricted Global Note, it (i) is not a dealer described in paragraph (a)(1)(ii) of Rule 144A unless such purchaser owns and invests on a discretionary basis at least U.S.$25,000,000 in securities of issuers that are not affiliated persons of the dealer, (ii) is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan and (iii) it will provide written notice of the foregoing, and of any applicable restrictions on transfer, to any transferee.

(2) In the case of a transferee which takes delivery of a Regulation S Security (or a beneficial interest therein), it is not a U.S. Person and (i) is acquiring such Regulation S Security (or beneficial interest therein) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (ii) is acquiring such Regulation S Security for its own account and not for the account or benefit of a U.S. Person, (iii) is not acquiring, and has not entered into any discussions regarding its acquisition of, such Regulation S Security while it is in the United States or any of its territories or possessions, (iv) understands that such Regulation S Security is being sold without registration under the Securities Act by reason of an exemption that depends, in part, on the accuracy of these representations and (v) understands that such Regulation S Security may not, absent an applicable exemption, be transferred without registration and/or qualification under the Securities Act and applicable state securities laws and the laws of any other applicable jurisdiction.

(3) It acknowledges that the foregoing acknowledgements, representations and agreements will be relied upon by the Co-Issuers and the Trustee (in the case of a Note) or the Issuer and the Preference Share Paying Agent (in the case of a Preference Share) for the purpose of determining its eligibility to purchase Offered Securities. It agrees to provide, if requested, any additional information that may be required to substantiate or confirm its status as a Qualified Institutional Buyer, an Institutional Accredited Investor or under the exception provided pursuant to Section 3(c)(7) of the Investment Company Act, to determine compliance with ERISA and/or Section 4975 of the Code or to otherwise determine its eligibility to purchase Offered Securities.

LISTING AND GENERAL INFORMATION

1. This Offering Memorandum does not constitute a prospectus for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its regulated market. There can be no assurance that such listing will be approved or maintained.

2. For 14 days following the date of this Offering Memorandum, copies of the Issuer Charter, the Certificate of Formation and the Limited Liability Company Agreement of the Co-Issuer, the Administration Agreement, the Indenture, the Preference Share Paying Agency Agreement, the Collateral Administration Agreement, form of Subscription Agreements, the Collateral Management Agreement and the Hedge Agreements will be available for inspection and the transfer certificates will be available for inspection at the offices of the Irish Paying Agent located in Dublin, Ireland and at the offices of the Issuer. The Issuer is not required by Cayman Islands law and the Issuer does not intend, to publish annual reports and accounts. The Co-Issuer is not required by Delaware state law, and the Co-Issuer does not intend, to publish annual reports and accounts. The Indenture, however, requires the Issuer to provide the Trustee with a written certificate, on an annual basis, that to the best of its knowledge following review of the activities of the prior year, no Event of Default has occurred or if there has been an Event of Default, the certificate will set forth the nature and status thereof, including actions undertaken to remedy the same.

3. Copies of the Issuer Charter, the Certificate of Formation and the Limited Liability Company Agreement of the Co-Issuer, the Administration Agreement, form of Subscription Agreements, the resolutions of the Board of Directors of the Issuer authorizing the issuance of the Notes and Preference Shares and the execution of the Indenture, the Preference Share Paying Agency Agreement, the Collateral Administration Agreement, the Collateral Management Agreement and the Hedge Agreement and the resolutions of the Board of Directors of the Co-Issuer authorizing the issuance of the Notes and the Indenture and the resolution of the Issuer authorizing the Issuance of the Preference Shares will be available for inspection during the term of the Notes in the city of Chicago, Illinois at the office of the Trustee and at the office of the Irish Paying Agent located in Dublin, Ireland.

4. So long as any Notes or Preference Shares are listed on the Irish Stock Exchange, copies of the monthly reports and quarterly note valuation reports with respect to the Offered Securities and the Collateral Debt Securities will be prepared by the Issuer in accordance with the Indenture and will be obtainable free of charge upon request in Ireland at the offices of the Irish Paying Agent located in Dublin, Ireland. The monthly reports will be prepared each month (excluding any month in which a quarterly note holder report is prepared), beginning with the monthly report for November 2007, and the quarterly note valuation reports will be prepared with respect to each January, April, July and October beginning in January 2008.

5. Each of the Co-Issuers represents that there has been no material adverse change in its financial position since its date of incorporation.

6. Neither of the Co-Issuers is involved in any litigation or arbitration proceedings relating to claims on amounts which are material in the context of the issue of the Offered Securities, nor, so far as either of the Co-Issuers is aware, is any such litigation or arbitration involving it pending or threatened.

7. The issuance of the Offered Securities will be authorized by the Board of Directors of the Issuer on or before the Closing Date. The issuance of the Notes will be authorized by the Sole Member of the Co-Issuer on or before the Closing Date.

8. According to the rules and regulations of the Irish Stock Exchange, the Notes and the Preference Shares will be freely transferable and therefore no transaction made on the Irish Stock Exchange will be cancelled.

9. Offered Securities sold in offshore transactions in reliance on Regulation S and represented by Global Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the Common Code Numbers, the CUSIP (CINS) Numbers and the International Securities Identification Numbers (ISIN) for Offered Securities.

Security	CUSIP	Common Code	ISIN
Class A-1 Notes			
Rule 144A	14984X AA6	031676100	US14984XAA63
Regulation S	G1990M AA2	031661714	USG1990MAA20
Class S Notes			
Rule 144A	14984X AB4	031676444	US14984XAB47
Regulation S	G1990M AB0	031661773	USG1990MAB03
Class A-2 Notes			
Rule 144A	14984X AC2	031676703	US14984XAC20
Regulation S	G1990M AC8	031661722	USG1990MAC85
Class B Notes			
Rule 144A	14984X AD0	031677114	US14984XAD03
Regulation S	G1990M AD6	031661749	USG1990MAD68
Class C Notes			
Rule 144A	14984X AE8	031677602	US14984XAE85
Regulation S	G1990M AE4	031661757	USG1990MAE42
Class D Notes			
Rule 144A	14984X AF5	031682347	US14984XAF50
Regulation S	G1990M AF1	031661765	USG1990MAF17
Preference Shares			
Rule 144A	14984Y 106	031705894	US14984Y1064
Institutional Accredited Investors	14984Y 205	N/A	US14984Y2054
Regulation S	G1991L 105	031705908	KYG1991L1059

10. Since the date of organization of the Co-Issuers, the Co-Issuers have not commenced operations and no annual accounts or reports have been prepared as of the date of the listing particulars.

LEGAL MATTERS

Certain legal matters with respect to the Offered Securities will be passed upon for the Issuer by Cadwalader, Wickersham & Taft LLP, New York, New York. Certain matters with respect to Cayman Islands corporate law and tax law will be passed upon for the Issuer by Maples and Calder. Certain legal matters with respect to the Collateral Manager will be passed upon by Bell, Boyd & Lloyd LLC, Chicago, Illinois. Certain legal matters with respect to the Initial Purchasers will be passed upon by Cadwalader, Wickersham & Taft LLP, New York, New York.

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EXHIBIT A

FORM OF PURCHASER AND TRANSFEREE LETTER
FOR GLOBAL PREFERENCE SHARES

Date _____

Ceago ABS CDO 2007-1, Ltd.
c/o Deutsche Bank (Cayman) Limited
P.O. Box 1984
Boundary Hall, Cricket Square,
Grand Cayman KY1-1004
Cayman Islands
Attention: The Directors

LaSalle Bank National Association
181 West Madison Street, 32nd Floor
Chicago, Illinois 60602
Attention: CDO Trust Services Group—Ceago ABS CDO 2007-1, Ltd.

Lehman Brothers Asset Management LLC
190 South LaSalle Street, Suite 2400
Chicago, Illinois 60603
Attention: CDO Portfolio Management Group

Deutsche Bank (Cayman) Limited
P.O. Box 1984
Boundary Hall, Cricket Square,
Grand Cayman KY1-1104
Cayman Islands

Ladies and Gentlemen:

Reference is made to the Preference Shares Offering Memorandum (the "**Offering Memorandum**") relating to the offering by Ceago ABS CDO 2007-1, Ltd. (the "**Issuer**") of Preference Shares, par value U.S.$0.01 per share. Terms used but not defined herein have the respective meanings given to such terms in the Offering Memorandum.

The Offering Memorandum provides that (i) Preference Shares offered and sold outside the United States may be offered to non-U.S. Persons which are not Benefit Plan Investors, in reliance upon Regulation S under the Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) Preference Shares offered and sold outside of the United States and will be issued in the form of one or more Global Preference Shares ("**Global Preference Shares**"). The Global Preference Shares shall be deposited with, and registered in the name of, DTC (or its nominee). The Preference Shares that we purchase (the "**Purchased Preference Shares**") will be represented by an interest in a Global Preference Share.

We acknowledge that this letter must be delivered to the Issuer, the Preference Share Paying Agent and the Collateral Manager as a condition to the transfer of the Purchased Preference Shares.

In consideration of the foregoing, we agree with the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that prior to any sale, assignment, pledge or other transfer of any of the Purchased Preference Shares (or any interest therein) to any transferee, we will cause the transferee to, if required by the Preference Share Paying Agency Agreement, make the applicable certifications to the Issuer, the Preference Share Paying Agent and the Collateral Manager set forth in the Transfer Certificate (as defined in the Preference Share Paying Agency Agreement).

We represent and warrant to the Issuer, the Preference Share Paying Agent and the Preference Share Registrar that (x) we are not a Benefit Plan Investor and (y) we will not transfer our interest in the Preference Share to a Benefit Plan Investor.

We understand that this letter will be relied upon by the Issuer, the Initial Purchasers, the Preference Share Paying Agent, the Preference Share Registrar and the Collateral Manager for the purpose of ensuring that subsequent transferees have notice of, and are subject to, the transfer restrictions applicable to the Preference Shares and described in the Offering Memorandum. We agree to indemnify and hold harmless the Issuer, the Initial Purchasers, the Preference Share Paying Agent, the Collateral Manager and the Preference Share Registrar and each of their respective affiliates from and against any loss, damage or liability to the extent due to or arising out of a breach of any representation, warranty or agreement made by us in this letter.

We covenant that we will not cause the filing of a petition in bankruptcy against the Issuer before one year and one day have elapsed since the payment in full of the Notes or, if longer, the applicable preference period then in effect plus one day.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York (including, without limitation, Sections 5-1401 and 5-1402 of the General Obligations Law of the State of New York) applicable to agreements made and to be performed therein without regard to conflict of laws principles.

Very truly yours,

NAME OF HOLDER

By: _____
Name:
Title:

A signed copy of this letter agreement must be faxed to LaSalle Bank National Association at +1 (312) 896-5097, Attention: CDO Trust Services Group—Ceago ABS CDO 2007-1, Ltd., Lehman Brothers Asset Management LLC at +1 (312) 559-0143, Attention: CDO Portfolio Management Group and Deutsche Bank (Cayman) Limited at +1 (345) 949-5223.

SCHEDULE A

Part I

Moody's Recovery Rate Matrix

(see definition of "Applicable Recovery Rate")

A. ABS Type Diversified Securities

Percentage of Total Capitalization	Moody's Rating at Origination					
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**
>70%	85%	80%	70%	60%	50%	40%
≤ 70%, > 10%	75%	70%	60%	50%	40%	30%
≤ 10%	70%	65%	55%	45%	35%	25%

B. ABS Type Residential Securities

Percentage of Total Capitalization	Moody's Rating at Origination					
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**
> 70%	85%	80%	65%	55%	45%	30%
≤ 70%, > 10%	75%	70%	55%	45%	35%	25%
≤ 10%, > 5%	65%	55%	45%	40%	30%	20%
≤ 5%, > 2%	55%	45%	40%	35%	25%	15%
≤ 2%	45%	35%	30%	25%	15%	10%

C. ABS Type Undiversified Securities

Percentage of Total Capitalization	Moody's Rating at Origination					
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**
> 70%	85%	80%	65%	55%	45%	30%
≤ 70%, > 10%	75%	70%	55%	45%	35%	25%
≤ 10%, > 5%	65%	55%	45%	35%	25%	15%
≤ 5%, > 2%	55%	45%	35%	30%	20%	10%
≤ 2%	45%	35%	25%	20%	10%	5%

D. Low-Diversity CDO Securities

Percentage of Total Capitalization	Moody's Rating at Origination					
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**
> 70%	80%	75%	60%	50%	45%	30%
≤ 70%, > 10%	70%	60%	55%	45%	35%	25%
≤ 10%, > 5%	60%	50%	45%	35%	25%	15%
≤ 5%, > 2%	50%	40%	35%	30%	20%	10%
≤ 2%	30%	25%	20%	15%	7%	4%

E. High-Diversity CDO Securities

Percentage of Total Capitalization	Moody's Rating at Origination					
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**
> 70%	85%	80%	65%	55%	45%	30%
≤ 70%, > 10%	75%	70%	60%	50%	40%	25%
≤ 10%, > 5%	65%	55%	50%	40%	30%	20%
≤ 5%, > 2%	55%	45%	40%	35%	25%	10%
≤ 2%	45%	35%	30%	25%	10%	5%

F. If the Collateral Debt Security is a Synthetic Security (other than a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security), the recovery rate thereof will by assigned by Moody's upon the acquisition of such Synthetic Security by the Issuer.

G. If the Collateral Debt Security is a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security, the recovery rate thereof will be the same as the Moody's recovery rate of the underlying Reference Obligation.

"**ABS Type Diversified Securities**" means (1) Automobile Securities; (2) Car Rental Receivable Securities; (3) Credit Card Securities; (4) Student Loan Securities; and (5) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Diversified Securities" in connection therewith.

"**ABS Type Residential Securities**" means (1) Prime RMBS Securities; (2) Mid-Prime RMBS Securities; (3) Sub-Prime RMBS Securities; (4) Manufactured Housing Securities; (5) Time Share Securities and (6) any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Residential Securities" in connection therewith.

"**ABS Type Undiversified Securities**" means each Specified Type of Asset-Backed Securities, other than (a) ABS Type Diversified Securities, (b) ABS Type Residential Securities or (c) CDO Securities; and any other type of Asset-Backed Securities that become a Specified Type after the Closing Date as described below and are designated as "ABS Type Undiversified Securities" in connection therewith.

"**High-Diversity CDO Securities**" means CDO Securities that represent a diversified pool of obligor credit risk having a Moody's diversity score higher than 20 or, if a Moody's asset correlation is provided instead of a Moody's diversity score, a Moody's asset correlation is lower than 15%.

"**Low-Diversity CDO Securities**" means CDO Securities that represent a relatively undiversified pool of obligor credit risk having a Moody's diversity score of 20 or lower or, if a Moody's asset correlation is provided instead of a Moody's diversity score, a Moody's asset correlation is 15% or higher.

Part II

Standard & Poor's Recovery Rate Matrix

A. If the Collateral Debt Security (other than a Synthetic Security, CMBS Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security or is a U.S. Agency Guaranteed Security or a U.S. Agency Security, the recovery rate is as follows, *provided* that for purposes of the Standard & Poor's recovery rate matrix, the applicable rating will be the Standard & Poor's Rating of the Collateral Debt Security at the time of issuance:

Standard & Poor's Rating at Origination	Stress Case for Liability Rating of						
Assets	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-", "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-", "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-", "BBB" or "BBB+"	50.0%	55.0%	65.0%	75.0%	85.0%	85.0%	85.0%
"BB-", "BB" or "BB+"	45.0%	50.0%	55.0%	65.0%	75.0%	75.0%	75.0%
"B-", "B" or "B+"	25.0%	30.0%	50.0%	55.0%	65.0%	65.0%	50.0%
"CCC+" and below	0.0%	0.0%	0.0%	0.0%	5.0%	10.0%	10.0%

B. If the Collateral Debt Security (other than a Synthetic Security, CMBS Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) (1) is not the senior-most tranche of securities issued by the issuer of such Collateral Debt Security or (2) is the senior-most tranche of securities issued by the issuer of such Collateral Debt Security and such Collateral Debt Security has a Standard & Poor's Rating of "BBB-" or below, the recovery rate is as follows, *provided* that for purposes of the Standard & Poor's recovery rate matrix, the applicable rating will be the Standard & Poor's Rating of the Collateral Debt Security at the time of issuance:

Standard & Poor's Rating at Origination	Stress Case for Liability Rating of						
Assets	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**
"AAA"	65.0%	75.0%	80.0%	85.0%	85.0%	85.0%	85.0%
"AA-", "AA" or "AA+"	55.0%	65.0%	75.0%	80.0%	80.0%	80.0%	80.0%
"A-", "A" or "A+"	40.0%	45.0%	55.0%	65.0%	80.0%	80.0%	80.0%
"BBB-", "BBB" or "BBB+"	30.0%	35.0%	40.0%	45.0%	50.0%	60.0%	70.0%
"BB-", "BB" or "BB+"	10.0%	10.0%	10.0%	25.0%	35.0%	40.0%	50.0%
"B-", "B" or "B+"	3.0%	5.0%	5.0%	10.0%	10.0%	20.0%	25.0%
"CCC+" and below	0.0%	0.0%	0.0%	0.0%	3.0%	5.0%	5.0%

C. If the Collateral Debt Security is a CMBS Security, the recovery rate is as follows:

Standard & Poor's Rating at Origination	Stress Case for Liability Rating of						
Assets	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**
"AAA"	80.0%	85.0%	90.0%	90.0%	90.0%	90.0%	90.0%
"AA-", "AA" or "AA+"	70.0%	75.0%	85.0%	90.0%	90.0%	90.0%	90.0%
"A-", "A" or "A+"	60.0%	65.0%	75.0%	85.0%	90.0%	90.0%	90.0%
"BBB-", "BBB" or "BBB+"	45.0%	50.0%	55.0%	60.0%	65.0%	70.0%	75.0%
"BB-", "BB" or "BB+"	35.0%	40.0%	45.0%	45.0%	50.0%	50.0%	50.0%
"B-", "B" or "B+"	20.0%	25.0%	30.0%	35.0%	35.0%	40.0%	40.0%
"CCC+" and below	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

D. If such Collateral Debt Security is a Mortgage Finance Company Security, the recovery rate will be as specified below:

Mortgage Finance Company Security	Recovery Rate
Senior Secured	40%
Senior Unsecured	25%
Subordinated	15%

E. If the Collateral Debt Security is a Synthetic Security (other than a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security) or an Excepted Security, the recovery rate thereof will by assigned by Standard & Poor's upon the acquisition of such Synthetic Security by the Issuer.

F. If the Collateral Debt Security is a CDS Agreement Transaction or other Synthetic Security structured as a credit default swap that is entered into pursuant to a Form-Approved Synthetic Security, the recovery rate thereof will be the same as the Standard & Poor's recovery rate of the underlying Reference Obligation.

G. If the Collateral Debt Security is a REIT Debt Security, the recovery rate will be 40%.

H. If the Collateral Debt Security (other than a Synthetic Security, REIT Debt Security, Mortgage Finance Company Security, Excepted Security or REIT Debt Security guaranteed by a corporate guarantor) is guaranteed by (1) an insurance company that has been assigned an Insurer Financial Enhancement Rating ("FER") by Standard & Poor's (including Collateral Debt Securities guaranteed by a monoline financial insurance company that has been assigned a FER), the recovery rate will be 50% and (2) a company that has not been assigned an Insurer FER by Standard & Poor's the recovery rate will be 40%.

SCHEDULE B

STANDARD & POOR'S ASSET CLASSES

Part A

1. Consumer ABS
   Automobile Loan Receivable Securities
   Automobile Lease Receivable Securities
   Car Rental Receivables Securities
   Credit Card Securities
   Student Loan Securities

2. Consumer ABS
   Aircraft Leasing Securities
   Cargo Securities
   Equipment Leasing Securities
   Small Business Loan Securities
   Restaurant and Food Services Securities
   Tobacco Bonds

3. Non-RE-REMIC RMBS
   Manufactured Housing Loan Securities

4. Non-RE-REMIC CMBS
   CMBS—Conduit
   CMBS—Credit Tenant Lease
   CMBS—Large Loan
   CMBS—Single Borrower
   CMBS—Single Property

5. CDO Cashflow Securities
   Cashflow CBO—at least 80% High Yield Corporate
   Cashflow CBO—at least 80% Investment Grade Corporate
   Cashflow CLO—at least 80% High Yield Corporate
   Cashflow CLO—at least 80% Investment Grade Corporate

6. REITs
   REIT—Multifamily & Mobile Home Park
   REIT—Retail
   REIT—Hospitality
   REIT—Office
   REIT—Industrial
   REIT—Healthcare
   REIT—Warehouse
   REIT—Self Storage
   REIT—Mixed Use

7. Real Estate Operating Companies

Part B

Residential Mortgages
   Residential "A"
   Residential "B/C"
   Home equity loans

Part C

Specialty Structured

- Stadium Financings
- Project Finance
- Future flows

SCHEDULE C

STANDARD & POOR'S TYPES OF ASSET-BACKED SECURITIES INELIGIBLE FOR NOTCHING

The following types of Asset-Backed Securities are not eligible to be notched in accordance with Part II of Schedule D unless otherwise agreed to by Standard & Poor's. Accordingly, the Standard & Poor's Rating of such Asset-Backed Securities must be determined pursuant to clause (i) or (ii) of the definition of "Standard & Poor's Rating" in this Offering Memorandum. This Schedule may be modified from time to time by Standard & Poor's and its applicability should be confirmed with Standard & Poor's prior to use.

1. Non-U.S. Structured Finance Securities
2. Guaranteed Securities
3. CDOs of Structured Finance and Real Estate Securities
4. CBOs of CDOs
5. CLOs of Distressed Debt
6. Mutual Fund Fee Securities
7. Catastrophe Bonds
8. First Loss Tranches of any Securitization
9. Synthetics
10. Synthetic CBOs
11. Combination Notes
12. RE-REMICS
13. Market value CDOs
14. Net Interest Margin Securities (NIMs)
15. Any asset class not listed in Part II of Schedule D
16. Interest-Only Securities
17. Structured Settlement Securities Tobacco
18. CDOs of Trust Preferred Securities
19. Hedge Fund CDOs

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SCHEDULE D

PART I

MOODY'S NOTCHING OF ASSET-BACKED SECURITIES

The following notching conventions are appropriate for Standard & Poor's-only rated tranches. The figures represent the number of notches to be subtracted from the Standard & Poor's rating. (For example, a "1" applied to a Standard & Poor's rating of "BBB" implies a Moody's rating of "Baa3.")

ASSET CLASS	"AAA" to "AA-"	"A+" TO "BBB-"	Below "BBB-"
Asset-Backed			
Agricultural and Industrial Equipment loans	1	2	3
Aircraft and Auto leases and Car Rental Receivable Securities	2	3	4
Arena and Stadium	1	2	3
Financing Auto loan	1	2	3
Boat, Motorcycle, RV, Truck	1	2	3
Computer, Equipment and Small-ticket item leases	1	2	3
Consumer Loans	1	3	4
Credit Card	1	2	3
Cross-border transactions	1	2	3
Entertainment Royalties	1	2	3
Floorplan	1	2	3
Franchise Loans	1	2	4
Future Receivables	1	1	2
Health Care Receivables	1	2	3
Manufactured Housing	1	2	3
Mutual Fund Fees	1	2	4
Small Business Loans	1	2	3
Stranded Utilities	1	2	3
Structured Settlements	1	2	3
Student Loan	1	2	3
Tax Liens	1	2	3
Time Share Securities	1	2	3
Trade Receivables	2	3	4

ASSET CLASS	"AAA"	"AA+" TO "BBB-"	Below "BBB-"
Jumbo	1	2	3
Alt-A or mixed pools	1	3	4
HEL (including Residential A, Residential B&C, Prime RMBS Securities, Mid-Prime RMBS Securities and Sub-Prime RMBS Securities)	1	2	3

The following notching conventions are with respect to Fitch:

Residential Mortgage Related	"AAA"	"AA+" TO "BBB-"	Below "BBB-"
Jumbo	1	2	3
Alt-A or mixed pools	1	3	5
HEL (including Residential A, Residential B&C, Prime RMBS Securities, Mid-Prime RMBS Securities and Sub-Prime RMBS Securities)	No notching	No notching	No notching

For dual-rated Jumbo A or Alt-A transactions, take the lower of the two ratings on the security, apply the appropriate single-rated notching guideline as set forth in the definition of Moody's Rating, then go up by ½ notch. For dual-rated HEL (including Residential A, Residential B&C, Prime RMBS Securities, Mid-Prime RMBS Securities and Sub-Prime RMBS Securities) transactions, apply the Standard & Poor's-only rated tranche notching guidelines as set forth above.

The following CMBS notching conventions are with respect to Standard & Poor's and Fitch.

ASSET CLASS	Tranche Rated by Fitch and S&P; no tranche in deal rated by Moody's	Tranche Rated by Fitch and/or S&P; at least one other tranche in deal rated by Moody's
Commercial Mortgage-Backed Securities		
Conduit[(1)]	2 notches from lower of Fitch/S&P	1.5[(2)] notches from lower of Fitch/S&P
Credit Tenant Lease	Follow corporate notching practice	Follow corporate notching practice
Large Loan	*No Notching Permitted*	*No Notching Permitted*

(1) For this purpose, conduits are defined as fixed rate, sequential pay, multi-borrower transactions having a Herfindahl score of 40 or higher at the loan level with all collateral (conduit loans, A notes, large loans, CTLs and any other real estate collateral) factored in.

(2) A 1.5 haircut implies, for example, that if the S&P/Fitch rating were BBB, then the Moody's rating factor would be halfway between the Baa3 and Ba1 rating factors.

PART II

STANDARD & POOR'S NOTCHING OF ASSET-BACKED SECURITIES

The Standard & Poor's Rating of a Collateral Debt Security that is not of a type specified on Schedule C and that has not been assigned a rating by Standard & Poor's may be determined as set forth below.

A. If such Collateral Debt Security is rated by Moody's and Fitch, the Standard & Poor's Rating of such Collateral Debt Security will be the Standard & Poor's equivalent of the rating that is the number of subcategories specified in Table A below the lowest of the ratings assigned by Moody's and Fitch.

B. If the Collateral Debt Security is rated by Moody's or Fitch, the Standard & Poor's Rating of such Collateral Debt Security will be the Standard & Poor's equivalent of the rating that is one subcategory below the rating that is the number of subcategories specified in Table A below the rating assigned by Moody's or Fitch.

This Schedule may be modified from time to time by Standard & Poor's and its applicability should be confirmed with Standard & Poor's prior to use.

TABLE A

	Asset-Backed Securities issued prior to August 1, 2001		**Asset-Backed Securities issued on or after August 1, 2001**	
	(Lowest) current rating is:		(Lowest) current rating is:	
	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent
1. Consumer ABS Automobile Loan Receivable Securities Automobile Lease Receivable Securities Car Rental Receivables Securities Credit Card Securities Healthcare Securities Student Loan Securities	-1	-2	-2	-3
2. Commercial ABS Cargo Securities Equipment Leasing Securities Franchise Securities Aircraft Leasing Securities Small Business Loan Securities Restaurant and Food Services Securities Tobacco Litigation Securities	-1	-2	-2	-3
3. Non-Re-REMIC RMBS Manufactured Housing Loan Securities	-1	-2	-2	-3
4. Non-Re-REMIC CMBS CMBS—Conduit CMBS—Credit Tenant Lease CMBS—Large Loan CMBS—Single Borrower CMBS—Single Property	-1	-2	-2	-3

	Asset-Backed Securities issued prior to August 1, 2001		Asset-Backed Securities issued on or after August 1, 2001	
	(Lowest) current rating is:		(Lowest) current rating is:	
	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent	"BBB-" or its equivalent or higher	Below "BBB-" or its equivalent
5. CDO/CLO Cashflow Securities Cash Flow CBO—at least 80% High Yield Corporate Cash Flow CBO—at least 80% Investment Grade Corporate Cash Flow CLO—at least 80% High Yield Corporate Cash Flow CLO—at least 80% Investment Grade Corporate	-1	-2	-2	-3
6. REITs REIT—Multifamily & Mobile Home Park REIT—Retail REIT—Hotel REIT—Hospitality REIT– Office REIT—Industrial REIT—Healthcare REIT—Warehouse REIT—Self Storage REIT—Mixed Use	-1	-2	-2	-3
7. Specialty Structured Stadium Financings Project Finance Future flows	-3	-4	-3	-4
8. Residential Mortgages Residential "A" Residential "B/C" Home equity loans	-1	-2	-2	-3
9. Real Estate Operating Companies	-1	-2	-2	-3

As of December 10, 2001

SCHEDULE E

RATINGS DEFINITIONS

The "**Moody's Rating**" of any Collateral Debt Security will be determined as follows:

(i) (x) if such Collateral Debt Security is publicly rated by Moody's, the Moody's Rating will be such rating, or (y) if such Collateral Debt Security is not publicly rated by Moody's, but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Moody's assign a rating to such Collateral Debt Security, the Moody's Rating will be the rating so assigned by Moody's;

(ii) with respect to an Asset-Backed Security or REIT Debt Security, if such Asset-Backed Security or REIT Debt Security is not publicly rated by Moody's and Moody's has not assigned a rating according to (i)(y) above, then the Moody's Rating of such Asset-Backed Security or REIT Debt Security may be determined using any one of the methods below:

(A) with respect to any ABS Type Residential Security not publicly rated by Moody's, if such ABS Type Residential Security is publicly rated by Standard & Poor's, then the Moody's Rating thereof will be (i) one subcategory below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is "AAA"; (ii) two rating subcategories (or, in the case of Alt-A or mixed pool RMBS Securities, three rating subcategories) below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "AAA" but above "BB+"; and (iii) three rating subcategories (or, in the case of Alt-A or mixed pool RMBS Securities, four rating subcategories) below the Moody's equivalent rating assigned by Standard & Poor's if the rating assigned by Standard & Poor's is below "BBB-";

(B) with respect to any CMBS Conduit Security that does not have a Moody's rating, (x) if Moody's has rated a tranche or class of CMBS Conduit Security senior to the relevant Issue, then the Moody's Rating thereof will be one and one-half rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's for purposes of determining the Moody's Rating Factor and one rating subcategory below the Moody's equivalent rating assigned by Standard & Poor's for all other purposes and (y) if Moody's has not rated any such tranche or Class and Standard & Poor's has rated the subject CMBS Conduit Security, then the Moody's Rating thereof will be two rating subcategories below the Moody's equivalent rating assigned by Standard & Poor's;

(C) with respect to notched ratings on any other type of Asset-Backed Securities, the Moody's Rating will be determined in conjunction with the notching conventions set forth in Part I of Schedule A; and

(D) with respect to any other type of Asset-Backed Securities or REIT Debt Securities designated as a Specified Type after the date hereof upon notification from the Collateral Manager to the Trustee and written confirmation by Moody's to the Issuer, the Trustee and the Collateral Manager that such designation satisfies the Rating Condition, pursuant to any method specified by Moody's;

(iii) with respect to any Mortgage Finance Company Security or corporate guarantees on Asset-Backed Securities or REIT Debt Securities, if such Mortgage Finance Company Securities or corporate guarantees are not publicly rated by Moody's but another security or obligation of the issuer or guarantor thereof (an "other security") is publicly rated by Moody's, and no rating has been assigned in accordance with clause (i) above, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be determined as follows:

(A) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is also a senior secured

obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be the rating of the other security;

(B) if the Mortgage Finance Company Security or corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is a senior secured obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be one rating subcategory below the rating of the other security;

(C) if the Mortgage Finance Company Security or corporate guarantee is a subordinated obligation of the issuer, guarantor or obligor and the other security is a senior secured obligation that is:

(D) rated "Ba3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be three rating subcategories below the rating of the other security; or

(E) rated "B1" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be two rating subcategories below the rating of the other security;

(F) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is a senior unsecured obligation that is:

(G) rated "Baa3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be the rating of the other security; or

(H) rated "Ba1" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be one rating subcategory above the rating of the other security;

(I) if the Mortgage Finance Company Security or corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is also a senior unsecured obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be the rating of the other security;

(J) if the Mortgage Finance Company Security or corporate guarantee is a subordinated obligation of the issuer, guarantor or obligor and the other security is a senior unsecured obligation that is:

(K) rated "B1" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be two rating subcategories below the rating of the other security; or

(L) rated "B2" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be one rating subcategory below the rating of the other security;

(M) if the Mortgage Finance Company Security or corporate guarantee is a senior secured obligation of the issuer, guarantor or obligor and the other security is a subordinated obligation that is:

(N) rated "Baa3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be one rating subcategory above the rating of the other security;

(O) rated below "Baa3" but not rated "B3" by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be two rating subcategories above the rating of the other security; or

(P) rated "B3" by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "B2";

(Q) if a corporate guarantee is a senior unsecured obligation of the issuer, guarantor or obligor and the other security is a subordinated obligation that is:

(R) rated "Baa3" or higher by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be one rating subcategory above the rating of the other security; or

(S) rated "Ba1" or lower by Moody's, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will also be one rating subcategory above the rating of the other security; and

(T) if the Collateral Debt Security is a subordinated obligation of the issuer, guarantor or obligor and the other security is also a subordinated obligation, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be the rating of the other security;

(iv) with respect to Mortgage Finance Company Securities or corporate guarantees issued by U.S., U.K. or Canadian issuers or guarantors or by any other Qualifying Foreign Obligor, if such Mortgage Finance Company Security or corporate guarantee does not have a Moody's Rating, and no other security or obligation of the issuer or guarantor thereof is rated by Moody's, then the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee may be determined using any one of the methods below:

(A) if such Mortgage Finance Company Security or corporate guarantee is publicly rated by Standard & Poor's, then the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be (x) one rating subcategory below the Moody's equivalent of the rating assigned by Standard & Poor's if such security is rated "BBB-" or higher by Standard & Poor's and (y) two subcategories below the Moody's equivalent of the rating assigned by Standard & Poor's if such security is rated "BB+" or lower by Standard & Poor's; and

(B) if such Mortgage Finance Company Security or corporate guarantee is not publicly rated by Standard & Poor's but another security or obligation of the issuer is publicly rated by Standard & Poor's (a "parallel security"), then the Moody's equivalent of the rating of such parallel security will be determined in accordance with the methodology set forth in subclause (A) above, and the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be determined in accordance with the methodology set forth in clause (iii) above (for such purpose treating the parallel security as if it were rated by Moody's at the rating determined pursuant to this subclause (B));

(C) if such Mortgage Finance Company Security or corporate guarantee does not have a Moody's Rating or is not publicly rated by Standard & Poor's, and no other security or obligation of the guarantor has a Moody's Rating or is publicly rated by Standard & Poor's, then the Issuer or the Collateral Manager on behalf of the Issuer, may present such Mortgage Finance Company Security or corporate guarantee to Moody's for an estimate of such Collateral Debt Security's rating factor, from which its corresponding Moody's rating may be determined, which will be its Moody's Rating;

(D) with respect to a Mortgage Finance Company Security or corporate guarantee issued by a U.S. corporation, if (1) neither the issuer nor any of its affiliates is subject to reorganization or bankruptcy proceedings, (2) no debt securities or obligations of the issuer are in

default, (3) none of the issuer, guarantor or any of their affiliates have defaulted on any debt during the past two years, (4) the issuer or guarantor has been in existence for the past five years, (5) the issuer or guarantor is current on any cumulative dividends, (6) the fixed-charge ratio for the issuer or guarantor exceeds 125% for each of the past two fiscal years and for the most recent quarter, (7) the issuer or guarantor had a net annual profit before tax in the past fiscal year and the most recent quarter and (8) the annual financial statements of the issuer or guarantor are unqualified and certified by a firm of independent accountants of national reputation, and quarterly statements are unaudited but signed by a corporate officer, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "B3";

(E) with respect to a Mortgage Finance Company Security or corporate guarantee issued by a non-U.S. issuer, if (1) none of the issuer, guarantor or any of their affiliates is subject to reorganization or bankruptcy proceedings and (2) no debt security or obligation of the issuer or guarantor has been in default during the past two years, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "Caa2"; and

(F) if a debt security or obligation of the issuer or guarantor has been in default during the past two years, the Moody's Rating of such Mortgage Finance Company Security or corporate guarantee will be "Ca";

provided that (I) in respect of any U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, if such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security is not assigned a Moody's Rating pursuant to clause (i) above, the Moody's Rating will be the rating assigned to the relevant guarantor of such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security by Moody's, (II) the Moody's Rating of any Moody's Notching Approved Security will be one rating subcategory below the Moody's equivalent rating that would be applicable to such Collateral Debt Security if determined in accordance with the foregoing, (III) the ratings of no more than 10% of the Aggregate Principal Balance of all Collateral Debt Securities may be assigned rating factors derived via notching from single-rated instruments, (IV) with respect to any one Rating Agency, the single-rated notched bucket for Collateral Debt Securities may be no larger than 7.5% of the Aggregate Principal Balance of all Collateral Debt Securities, (V) the Aggregate Principal Balance of Collateral Debt Securities the Moody's Rating of which is based on a Standard & Poor's rating may not exceed 20% of the Aggregate Principal Balance of all Collateral Debt Securities, and the balance of the Collateral Debt Securities must be rated by Moody's or assigned Moody's rating estimates, (VI) other than for the purposes of paragraphs (5) and (26) of the Eligibility Criteria, if a Collateral Debt Security (A) is placed on a watch list for possible upgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security will be two rating subcategories above the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list and (B) if a Collateral Debt Security is placed on a watch list for possible downgrade by Moody's, the Moody's Rating applicable to such Collateral Debt Security will be two rating subcategories (or, in the case of a Collateral Debt Security that has a Moody's Rating of "Aaa", one rating subcategory) below the Moody's Rating applicable to such Collateral Debt Security immediately prior to such Collateral Debt Security being placed on such watch list and (VII) the Moody's Rating of any Form-Approved Synthetic Security will be the Moody's Rating that would be applicable to the related Reference Obligation if determined in accordance with the foregoing. Additional criteria with respect to the determination of the Moody's Rating will be set forth in the Indenture.

The "**Standard & Poor's Rating**" of:

(1) any Asset-Backed Security or REIT Debt Security will be determined as follows:

(i) if Standard & Poor's has assigned a rating to such Collateral Debt Security either publicly or privately (*provided* that with respect to a private or confidential rating, consent of the party that obtained such rating will be provided to Standard & Poor's), the Standard & Poor's Rating will be the rating assigned thereto by Standard & Poor's (or, in the case of a REIT Debt Security, the issuer credit rating assigned by Standard & Poor's);

(ii) if such Collateral Debt Security is not rated by Standard & Poor's but the Issuer or the Collateral Manager on behalf of the Issuer has requested that Standard & Poor's assign a rating to such Collateral Debt Security, the Standard & Poor's Rating will be the rating so assigned by Standard & Poor's;

provided that if the Issuer or the Collateral Manager on behalf of the Issuer applies to Standard & Poor's for a credit estimate of such Collateral Debt Security for purposes of obtaining a Standard & Poor's Rating, such credit estimate will be requested prior to or upon acquisition of the Collateral Debt Security and will be re-applied for on each one-year anniversary of such credit estimate; and *provided*, *further*, that pending receipt from Standard & Poor's of such rating, (x) if such Collateral Debt Security is of a type listed on Schedule C or is not eligible for notching in accordance with Part II of Schedule D, such Collateral Debt Security will have a Standard & Poor's Rating of "CCC-" and (y) if such Collateral Debt Security is not of a type listed on Schedule C and is eligible for notching in accordance with Part II of Schedule D, the Standard & Poor's Rating of such Collateral Debt Security will be the rating assigned in accordance with Part II of Schedule D until such time as Standard & Poor's will have assigned a rating thereto;

(iii) if such Collateral Debt Security is a Collateral Debt Security that has not been assigned a rating by Standard & Poor's pursuant to clause (i) or (ii) above, but is guaranteed by a corporate guarantee (which meets the then-current publicly-available guarantee criteria of Standard & Poor's), the issuer of which is rated by Standard & Poor's, the Standard & Poor's Rating will be the rating so assigned to such guarantor; or

(iv) if such Collateral Debt Security is a Collateral Debt Security that has not been assigned a rating by Standard & Poor's pursuant to clause (i), (ii) or (iii) above, and is not of a type listed on Schedule C, the Standard & Poor's Rating of such Collateral Debt Security will be the rating determined in accordance with Part II of Schedule D; *provided* that if any Collateral Debt Security will, at the time of its purchase by the Issuer, be on watch for a possible upgrade or downgrade by Moody's, the Standard & Poor's Rating of such Collateral Debt Security will be one subcategory above or below, respectively, the rating otherwise assigned to such Collateral Debt Security in accordance with Part II of Schedule D;

(2) any Mortgage Finance Company Security will be determined as follows:

(i) if there is an issuer credit rating of the issuer of such Mortgage Finance Company Security, or a guarantor that unconditionally and irrevocably guarantees the full payment of principal and interest on such Collateral Debt Security (with such form of guarantee meeting Standard & Poor's then-current criteria for guarantees), then the Standard & Poor's Rating of such Mortgage Finance Company Security will be the issuer rating of such issuer or such guarantor assigned by Standard & Poor's (regardless of whether there is a published rating by Standard & Poor's on the Mortgage Finance Company Security held by the Issuer) (*provided* that with respect to a private or confidential rating, consent of the party that obtained such rating will be provided to Standard & Poor's);

(ii) if the criteria set forth in clause (i) above does not apply, then the Issuer or the Collateral Manager on behalf of the Issuer, may apply to Standard & Poor's for a corporate credit estimate of the issuer, which will be the Standard & Poor's Rating of such Mortgage Finance Company Security; *provided* that pending receipt from Standard & Poor's of such estimate, such Collateral Debt Security will have a Standard & Poor's Rating of "CCC " if the Collateral Manager believes that such estimate will be at least "CCC " and the Aggregate Principal Balance of all Collateral Debt Securities having a Standard & Poor's Rating by reason of this proviso does not exceed 5.0% of the Aggregate Principal Balance of all Collateral Debt Securities; *provided*, *further*, that such credit estimate will expire after one year at which time the Collateral Manager may reapply for a new credit estimate,

(iii) with respect to any Synthetic Security the Reference Obligation of which is a Mortgage Finance Company Security, the Standard & Poor's Rating of such Synthetic Security will be the rating assigned thereto by Standard & Poor's in connection with the acquisition thereof by the Issuer upon request of the Issuer or the Collateral Manager;

(iv) if such Mortgage Finance Company Security is not rated by Standard & Poor's, but another security or obligation of the issuer is rated by Standard & Poor's and neither the Issuer nor the Collateral Manager obtains a Standard & Poor's Rating for such Mortgage Finance Company Security pursuant to clause (ii) above, then the Standard & Poor's Rating of such Mortgage Finance Company Security will be determined as follows: (A) if there is a rating by Standard & Poor's on a senior secured obligation of the issuer, then the Standard & Poor's Rating of such Mortgage Finance Company Security

will be one subcategory below such rating; (B) if there is a rating on a senior unsecured obligation of the issuer by Standard & Poor's, then the Standard & Poor's Rating of such Mortgage Finance Company Security will equal such rating; and (C) if there is a rating on a subordinated obligation of the issuer by Standard & Poor's, then the Standard & Poor's Rating of such Mortgage Finance Company Security will be one subcategory above such rating if such rating is higher than "BB+", and will be two subcategories above such rating if such rating is "BB+" or lower;

(v) if a debt security or obligation of the issuer of such Mortgage Finance Company Security has been in default during the past two years, the Standard & Poor's Rating of such Mortgage Finance Company Security will be "D"; or

(vi) if there is no issuer credit rating published by Standard & Poor's and such Mortgage Finance Company Security is not rated by Standard & Poor's, and no other security or obligation of the issuer is rated by Standard & Poor's and neither the Issuer nor the Collateral Manager obtains an Standard & Poor's Rating for such Mortgage Finance Company Security pursuant to subclause (ii) above, then the Standard & Poor's Rating of such Mortgage Finance Company Security may be determined using any one of the methods provided below:

(A) if such Mortgage Finance Company Security is publicly rated by Moody's, then the Standard & Poor's Rating of such Mortgage Finance Company Security will be (1) one subcategory below the Standard & Poor's equivalent of the public rating assigned by Moody's if such Mortgage Finance Company Security is rated "Baa3" or higher by Moody's and (2) two subcategories below the Standard & Poor's equivalent of the public rating assigned by Moody's if such Mortgage Finance Company Security is rated "Ba1" or lower by Moody's;

(B) if such Mortgage Finance Company Security is not publicly rated by Moody's but a security with the same ranking is publicly rated by Moody's then the Standard & Poor's Rating of such parallel security will be determined in accordance with the methodology set forth in subclause (A) above, and the Standard & Poor's Rating of such Mortgage Finance Company Security will be determined in accordance with the methodology set forth in clause (iv) above (for such purposes treating the parallel security as if it were rated by Standard & Poor's at the rating determined pursuant to this subclause (B)); or

(3) any Form-Approved Synthetic Security will be determined based upon the Standard & Poor's Rating of the related Reference Obligation as determined in accordance with subclauses (b)(i) and (b)(ii) above;

provided that in regard to subclauses clauses (i) and (ii) of Section (a) above and clauses (i) through (vi) of Section (b) above and, to the extent any of the such clauses apply to the Reference Obligation of a Form-Approved Synthetic Security, subclause (c) above, (1) if a Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) (x) is placed on a watch list for possible upgrade by Standard & Poor's, the Standard & Poor's Rating applicable to such Collateral Debt Security will be one rating subcategory above the Standard & Poor's Rating applicable to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) immediately prior to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) being placed on such watch list or (y) is placed on a watch list for possible downgrade by Standard & Poor's, the Standard & Poor's Rating applicable to such Collateral Debt Security will be one rating subcategory below the Standard & Poor's Rating applicable to such Collateral Debt Security (or, in the case of a Form-Approved Synthetic Security, the related Reference Obligation) immediately prior to such Collateral Debt Security or Reference Obligation (as applicable) being placed on such watch list, (2) the Rating of not more than 20% of the Aggregate Principal Balance of all Collateral Debt Securities may be determined pursuant to clause (iv) of Section (a), clause (vi) of Section (b) above or (to the extent clauses (iv) of Section (a) and (vi) of Section (b) above are applicable thereto) clause (c); *provided*, *further*, that in respect of any U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security, the Standard & Poor's Rating will be the rating assigned to the relevant guarantor of such Collateral Debt Security by Standard & Poor's if such U.S. Agency Guaranteed Security or FHLMC/FNMA Guaranteed Security is not assigned a Standard & Poor's Rating pursuant to clause (i) of Section (a) above and such security is not rated by Moody's.

SCHEDULE F

HYPOTHETICAL DISCOUNTED MARGIN AND AMORTIZATION TABLES FOR THE NOTES

The discounted margin on the Notes will depend primarily on (a) the price at which such Notes are purchased by an investor and (b) the rate, timing and amount of interest and principal payments on such Notes. The average lives of the Notes will depend primarily on the timing of principal payments, including redemption payments, on the Notes. The rate, timing and amount of payments on the Notes will in turn depend, in varying degrees, on the amount and timing of defaults, credit events and/or losses on the Collateral Debt Securities and other factors which are impossible to predict accurately. Potential defaults, credit events and losses on Collateral Debt Securities may be caused by a number of factors, including deterioration in general economic conditions which may (i) adversely affect the performance of certain Asset-Backed Securities or (ii) result in the deterioration of the underlying securitized assets. See "*Risk Factors*" for a description of additional risk factors affecting defaults and losses on the Collateral Debt Securities. **There can be no assurance that actual loss severity experience will not be worse than that reflected in the assumptions described under "Modeling Assumptions" below.** None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchasers or any of their respective affiliates makes any representation as to the particular factors that may affect the rate and timing of such defaults, credit events or losses on the Collateral Debt Securities, or as to the amount of any such credit event or loss which may occur. Investors are urged to consider their own assumptions regarding defaults, credit events, losses and timing of payments and how such defaults, credit events, losses and timing of payments may impact the yield on the Notes.

The projected discounted margins and amortization tables with respect to the Notes (the "Tables") provided below are presented on a hypothetical basis for illustrative purposes only and are based on an extensive set of assumptions, the most significant of which are described below under "Modeling Assumptions." Prospective purchasers should be aware that the realization of the assumptions on which the projections below are based is subject to significant uncertainties and contingencies. For example, the actual level of LIBOR from time to time, defaults, the level and timing of recoveries and prepayments may be significantly different from the assumptions.

Prospective investors in the Notes should make their own determination of various assumptions and the impact of such assumptions upon the results shown in the Tables. None of the Issuer, the Trustee, the Paying Agent, the Collateral Manager, the Initial Purchasers or any of their respective affiliates makes any representation that the assumptions used in creating the Tables below will be representative of actual experience.

The assumptions on which the projections below are based are necessarily arbitrary, do not reflect historical experience with respect to assets similar to the Collateral Debt Securities and do not constitute a prediction as to future events. Accordingly, because of the uncertainties and subjective judgments inherent in such projections and because events and circumstances frequently do not occur as expected, there can be no assurance that the hypothetical results represented below in the Tables will be realized. The actual returns on the Notes will differ, and may differ materially, from those illustrated below. Prospective purchasers of the Notes or the Preference Shares should be aware that they may not receive a return equal to their initial investment and may lose their entire investment in such Notes or Preference Shares.

The results shown below in the Tables are based on the Modeling Assumptions described herein. There can be no assurance, however, that the actual portfolio of Collateral Debt Securities held by the Issuer throughout its life will not differ from the anticipated initial Collateral Debt Securities used to calculate the returns presented, and any difference between the actual portfolio of Collateral Debt Securities and the anticipated initial Collateral Debt Securities could significantly change the returns presented below.

With respect to the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes and the Class D Notes, discounted margins are expressed as a spread over LIBOR and are calculated on a quarterly, actual/360 basis.

Modeling Assumptions

(1) The Closing Date is August 15, 2007.

(2) The Ramp-Up Completion Date coincides with the Closing Date.

(3) Defaults (or Credit Events with respect to the Synthetic Securities) on the outstanding Principal Balance of Collateral Debt Securities occur quarterly at the assumed annual default rate (as shown in the Tables) commencing with the Due Period immediately preceding the Distribution Date occurring in January 2010. Scheduled interest payments (or premium payments with respect to Synthetic Securities) and any principal payments (or Principal Amortization with respect to Synthetic Securities) on the Collateral Debt Securities are calculated after applying defaults (or Credit Events, as applicable) in the related Due Period.

(4) Interest is paid on the outstanding principal balance of each Class of Notes at the applicable Interest Rate. Distribution Dates occur on the 6th day of each January, April, July and October (and are not adjusted for non-Business Days), commencing in January 2008.

(5) The Notes are issued at par.

(6) The Collateral Debt Securities are assumed to have an aggregate outstanding Principal Balance of approximately U.S.$1,008,000,000 as of the Closing Date and, in the absence of defaults and Credit Events, pay principal (or with respect to Synthetic Securities the Principal Amortization occurs) according to the related hypothetical amortization schedule presented in paragraph 23 below. The initial Collateral Debt Securities are comprised of U.S.$723,000,000 of Floating Rate Collateral Debt Securities bearing interest at three-month LIBOR plus approximately 1.139% *per annum* payable quarterly (accruing interest based upon an actual/360 calendar day basis), U.S.$85,000,000 of Fixed Rate Collateral Debt Securities bearing interest of approximately 5.853% *per annum* payable quarterly (accruing interest based upon an 30/360 calendar day basis), and U.S.$200,000,000 of Notional Amount of Synthetic Securities with an applicable fixed rate of 1.139% *per annum* payable quarterly (accruing interest based upon an actual/360 calendar day basis). Each Synthetic Security is a CDS Agreement Transaction. The coupon and amortization of the actual portfolio of Collateral Debt Securities may differ substantially from these hypothetical assumptions. Notwithstanding the assumptions above, on the first Distribution Date, Interest Proceeds are assumed to be U.S.$25,819,568.

(7) In connection with the interest rate cap agreement, the issuer pays to the Hedge Counterparty a premium amount on the Closing Date, and the Hedge Counterparty makes payments to the Issuer to the extent three-month LIBOR exceeds 8% based on the notional balance specified in the table below. Hedge Counterparty makes all required payments to the Issuer.

(8) In connection with the interest rate swap agreement, the issuer pays to the Hedge Counterparty a fixed annual rate of 5.123%, and the Hedge Counterparty makes payments to the Issuer equal to three-month LIBOR each an amortizing notional balance specified in the table below.

(9) Each Credit Event is physically settled. Concurrently with the related Credit Event (i) principal recoveries are received in an amount equal to 65% of the Notional Amount of the Defaulted Synthetic Securities and (ii) to the extent Synthetic Security Counterparty Account funds are liquidated to fund settlement payment such amounts are liquidated at par. Principal recoveries on Defaulted Collateral Debt Securities (other than Synthetic Securities) are received one year after default at a recovery rate of 65% of the principal balance of the Defaulted Collateral Debt Securities. Recoveries projected to be received after the Auction Redemption Call Date are assumed to be received on such date. Pending recovery, the Calculation Amount equals the aggregate principal balance of Defaulted Securities multiplied by 30%.

(10) The initial Synthetic Security Counterparty Account balance is U.S.$200,000,000 and earns interest at a *per annum* rate of three-month LIBOR.

(11) For each Distribution Date, the Collateral Management Fees are paid as described under “The Collateral Management Agreement” and accrue on a 30/360 calendar basis.

(12) For each Distribution Date, the sum of the fees and expenses of the Trustee, the Collateral Administrator, the Preference Share Paying Agent, the Administrator and payment of other accrued and unpaid Administrative Expenses of the Co Issuers are calculated according to an annual rate of 0.01% (30/360 calendar basis) *per annum* of the Quarterly Asset Amount as of the related Determination Date (subject to a minimum of U.S.$60,000 *per annum*) plus U.S.$150,000 annually.

(13) There are no taxes or filing and registration fees owed by the Co-Issuers.

(14) Collateral Manager does not make any deposits to the Periodic Interest Reserve Account on the Closing Date or any Distribution Date.

(15) No termination payments arise under the Credit Default Swap Agreement. The Issuer does not enter into any Hedge Agreements.

(16) No Tax Redemption, Ratings Confirmation Failure, Additional Issuance of Securities, Termination Event under the Credit Default Swap Agreement (other than an Auction Call Redemption), Senior Swap Discretionary Payment, withdrawal from the Interest Reserve Account, withdrawal from the Closing Date Expense Account, Clean-Up Call Redemption, Optional Redemption, Event of Default, Discretionary Trading Loss Event, or Reinvestment Period Loss Event occurs.

(17) No sales of Collateral Debt Securities occur (other than Defaulted Securities).

(18) The Collateral Quality Tests are always satisfied.

(19) There are no Equity Securities, Deferred Interest PIK Bonds or Negative Amortization Securities. Overcollateralization Haircut Amount in each period is assumed to be U.S. $13,500,000.

(20) The Issuer or the Co-Issuers, as the case may be, redeem the Notes and the Preference Shares pursuant to an Auction Call Redemption on the Note Acceleration Date. No reverse turbo pursuant to Priority of Payments-Interest Proceeds (16) is modeled on the Auction Call Date, and the Collateral is sold at par on such date. The net hedge receipts are assumed to be U.S.$409,291.

(21) There is no requirement in connection with any Auction Call Redemption that the proceeds of the Auction are sufficient to pay the Total Redemption Amount.

(22) For each period, interest is assumed to accrue at the rate of three-month LIBOR minus 0.25% *per annum* on the principal amounts recovered in that period, payable quarterly (accruing interest based upon an actual/360 calendar day basis).

(23) The amortization schedules for the Collateral Debt Securities acquired on the Closing Date, the notional balances for the Interest Rate Hedge Agreement, and the assumed three-month LIBOR are as follows:

Closing Date/ Distribution Date	Approximate Cumulative Floating Rate Collateral Debt Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Approximate Cumulative Synthetic Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Approximate Cumulative Fixed Rate Collateral Debt Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Interest Rate Hedge Agreement Notional Amount ($) (Swap)	Interest Rate Hedge Agreement Notional Amount ($) (Cap)	Approximate 3-Month LIBOR
8/15/2007	0.00%	0.00%	0.00%	85,000,000	-	5.46%
1/6/2008	0.07%	0.01%	0.07%	85,000,000	-	4.87%
4/6/2008	0.29%	0.02%	0.29%	85,000,000	-	4.74%
7/6/2008	0.32%	0.02%	0.32%	85,000,000	-	4.73%
10/6/2008	0.34%	0.03%	0.34%	85,000,000	-	4.77%
1/6/2009	0.35%	0.03%	0.35%	85,000,000	15,000,000	4.84%
4/6/2009	1.07%	5.94%	1.07%	79,000,000	15,000,000	4.90%
7/6/2009	2.81%	10.21%	2.81%	75,000,000	15,000,000	4.98%
10/6/2009	5.45%	13.74%	5.45%	72,000,000	15,000,000	5.05%
1/6/2010	6.64%	15.94%	6.64%	71,000,000	15,000,000	5.12%

Closing Date/ Distribution Date	Approximate Cumulative Floating Rate Collateral Debt Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Approximate Cumulative Synthetic Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Approximate Cumulative Fixed Rate Collateral Debt Security Amortization Schedule (as a % of initial Principal Balance of such Collateral Debt Securities)	Interest Rate Hedge Agreement Notional Amount ($) (Swap)	Interest Rate Hedge Agreement Notional Amount ($) (Cap)	Approximate 3-Month LIBOR
4/6/2010	8.65%	17.97%	8.65%	68,000,000	15,000,000	5.17%
7/6/2010	12.99%	22.76%	12.99%	65,000,000	15,000,000	5.22%
10/6/2010	18.08%	26.49%	18.08%	61,000,000	15,000,000	5.27%
1/6/2011	23.97%	30.38%	23.97%	58,000,000	15,000,000	5.33%
4/6/2011	27.27%	34.21%	27.27%	55,000,000	15,000,000	5.37%
7/6/2011	30.76%	37.85%	30.76%	52,000,000	15,000,000	5.39%
10/6/2011	32.00%	41.26%	33.51%	49,000,000	15,000,000	5.30%
1/6/2012	33.51%	44.44%	36.59%	-	15,000,000	5.38%
4/6/2012	36.59%	47.49%	39.81%	-	15,000,000	5.45%
7/6/2012	39.81%	50.83%	41.94%	-	15,000,000	5.45%
10/6/2012	41.94%	56.32%	46.49%	-	15,000,000	5.45%
1/6/2013	46.49%	59.49%	48.98%	-	15,000,000	5.53%
4/6/2013	48.98%	63.75%	51.17%	-	15,000,000	5.61%
7/6/2013	51.17%	84.15%	53.17%	-	15,000,000	5.59%
10/6/2013	53.17%	97.73%	56.05%	-	15,000,000	5.58%
1/6/2014	56.05%	98.02%	65.51%	-	15,000,000	5.67%
4/6/2014	65.51%	98.25%	65.70%	-	15,000,000	5.75%
7/6/2014	65.70%	98.45%	65.84%	-	15,000,000	5.66%
10/6/2014	65.84%	98.62%	82.94%	-	15,000,000	5.59%
1/6/2015	82.94%	98.78%	83.10%	-	15,000,000	5.68%
4/6/2015	83.10%	98.90%	83.21%	-	15,000,000	5.75%
7/6/2015	83.21%	98.99%	83.71%	-	15,000,000	5.73%
10/6/2015	83.71%	99.08%	83.75%	-	15,000,000	5.71%
1/6/2016	84.50%	99.16%	84.23%	-	15,000,000	5.77%
4/6/2016	85.78%	99.24%	84.23%	-	15,000,000	5.83%
7/6/2016	87.81%	99.31%	84.23%	-	15,000,000	5.83%
10/6/2016	89.85%	99.37%	84.23%	-	15,000,000	5.83%
1/6/2017	91.88%	99.43%	84.23%	-	15,000,000	5.91%
4/6/2017	93.91%	99.48%	84.23%	-	15,000,000	5.98%
7/6/2017	95.94%	99.53%	84.23%	-	15,000,000	5.85%
10/6/2017	97.97%	99.57%	100.00%	-	15,000,000	5.76%
1/6/2018	100.00%	99.61%	100.00%	-	15,000,000	5.83%
4/6/2018	100.00%	99.65%	100.00%	-	15,000,000	5.90%
7/6/2018	100.00%	99.68%	100.00%	-	-	5.87%
10/6/2018	100.00%	99.71%	100.00%	-	-	5.84%
1/6/2019	100.00%	99.74%	100.00%	-	-	5.92%
4/6/2019	100.00%	100.00%	100.00%	-	-	5.99%

Hypothetical Discount Margin of the Class A-1 Notes
(Stated as a Spread to 3-Month LIBOR)

	Constant Annual Default Rate of Collateral Debt Securities				
Price	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
99.50%	0.53%	0.53%	0.53%	0.53%	0.53%
99.60%	0.50%	0.50%	0.50%	0.50%	0.50%
99.70%	0.48%	0.48%	0.48%	0.48%	0.48%
99.80%	0.45%	0.45%	0.45%	0.45%	0.45%
99.90%	0.43%	0.43%	0.43%	0.43%	0.43%
100.00%	0.40%	0.40%	0.40%	0.40%	0.40%
100.10%	0.37%	0.37%	0.37%	0.37%	0.37%
100.20%	0.35%	0.35%	0.35%	0.35%	0.35%
100.30%	0.32%	0.32%	0.32%	0.32%	0.32%
100.40%	0.30%	0.30%	0.30%	0.30%	0.30%
100.50%	0.27%	0.27%	0.27%	0.27%	0.27%

Hypothetical Amortization of the Class A-1 Notes
(% of Original Principal Balance of the Class A-1 Notes After Each Distribution Date Shown)

	Constant Annual Default Rate of Collateral Debt Securities				
Closing Date/ Distribution Date	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%
October 6, 2008	99.7%	99.7%	99.7%	99.7%	99.7%
October 6, 2009	93.7%	93.7%	93.7%	93.7%	93.7%
October 6, 2010	80.9%	80.9%	80.9%	80.9%	80.8%
October 6, 2011	66.4%	66.2%	66.0%	65.5%	63.1%
October 6, 2012	0.0%	0.0%	0.0%	0.0%	0.0%
Average Life (Years)	4.40	4.39	4.38	4.38	4.34
Principal Window[(1)]	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14

(1) Calculated on the basis of a 360-day year consisting of twelve 30-day months.

Hypothetical Discount Margin of the Class A-2 Notes
(Stated as a Spread to 3-Month LIBOR)

	Constant Annual Default Rate of Collateral Debt Securities				
Price	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
99.50%	2.38%	2.38%	2.38%	2.38%	2.38%
99.60%	2.36%	2.36%	2.36%	2.36%	2.35%
99.70%	2.33%	2.33%	2.33%	2.33%	2.33%
99.80%	2.30%	2.30%	2.30%	2.30%	2.30%
99.90%	2.28%	2.28%	2.28%	2.28%	2.28%
100.00%	2.25%	2.25%	2.25%	2.25%	2.25%
100.10%	2.22%	2.22%	2.22%	2.22%	2.22%
100.20%	2.20%	2.20%	2.20%	2.20%	2.20%
100.30%	2.17%	2.17%	2.17%	2.17%	2.17%
100.40%	2.14%	2.14%	2.14%	2.14%	2.15%
100.50%	2.12%	2.12%	2.12%	2.12%	2.12%

Hypothetical Amortization of the Class A-2 Notes
(% of Original Principal Balance of the Class A-2 Notes After Each Distribution Date Shown)

	Constant Annual Default Rate of Collateral Debt Securities				
Closing Date/ Distribution Date	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%
October 6, 2008	99.7%	99.7%	99.7%	99.7%	99.7%
October 6, 2009	93.7%	93.7%	93.7%	93.7%	93.7%
October 6, 2010	80.9%	80.9%	80.9%	80.9%	80.8%
October 6, 2011	66.4%	66.2%	66.0%	67.7%	80.8%
October 6, 2012	0.0%	0.0%	0.0%	0.0%	0.0%
Average Life (Years)	4.40	4.43	4.43	4.45	4.65
Principal Window[(1)]	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14

(1) Calculated on the basis of a 360-day year consisting of twelve 30-day months.

Hypothetical Discount Margin of the Class B Notes
(Stated as a Spread to 3-Month LIBOR)

	Constant Annual Default Rate of Collateral Debt Securities				
Price	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
99.50%	3.64%	3.64%	3.64%	3.64%	3.63%
99.60%	3.61%	3.61%	3.61%	3.61%	3.61%
99.70%	3.58%	3.58%	3.58%	3.58%	3.58%
99.80%	3.55%	3.55%	3.55%	3.55%	3.55%
99.90%	3.53%	3.53%	3.53%	3.53%	3.53%
100.00%	3.50%	3.50%	3.50%	3.50%	3.50%
100.10%	3.47%	3.47%	3.47%	3.47%	3.47%
100.20%	3.45%	3.45%	3.45%	3.45%	3.45%
100.30%	3.42%	3.42%	3.42%	3.42%	3.42%
100.40%	3.39%	3.39%	3.39%	3.39%	3.40%
100.50%	3.36%	3.36%	3.36%	3.36%	3.37%

Hypothetical Amortization of the Class B Notes
(% of Original Principal Balance of the Class B Notes After Each Distribution Date Shown)

	Constant Annual Default Rate of Collateral Debt Securities				
Closing Date/ Distribution Date	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%
October 6, 2008	99.7%	99.7%	99.7%	99.7%	99.7%
October 6, 2009	93.7%	93.7%	93.7%	93.7%	93.7%
October 6, 2010	80.9%	80.9%	80.9%	80.9%	80.8%
October 6, 2011	66.4%	66.2%	66.0%	67.7%	80.8%
October 6, 2012	0.0%	0.0%	0.0%	0.0%	0.0%
Average Life (Years)	4.40	4.43	4.43	4.45	4.65
Principal Window[(1)]	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14

(1) Calculated on the basis of a 360-day year consisting of twelve 30-day months.

Hypothetical Discount Margin of the Class C Notes
(Stated as a Spread to 3-Month LIBOR)

	Constant Annual Default Rate of Collateral Debt Securities				
Price	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
99.50%	7.15%	7.15%	7.15%	7.15%	7.14%
99.60%	7.12%	7.12%	7.12%	7.12%	7.11%
99.70%	7.09%	7.09%	7.09%	7.09%	7.08%
99.80%	7.06%	7.06%	7.06%	7.06%	7.06%
99.90%	7.03%	7.03%	7.03%	7.03%	7.03%
100.00%	7.00%	7.00%	7.00%	7.00%	7.00%
100.10%	6.97%	6.97%	6.97%	6.97%	6.97%
100.20%	6.94%	6.94%	6.94%	6.94%	6.94%
100.30%	6.91%	6.91%	6.91%	6.91%	6.92%
100.40%	6.88%	6.88%	6.88%	6.88%	6.89%
100.50%	6.85%	6.85%	6.85%	6.85%	6.86%

Hypothetical Amortization of the Class C Notes
(% of Original Principal Balance of the Class C Notes After Each Distribution Date Shown)

	Constant Annual Default Rate of Collateral Debt Securities				
Closing Date/ Distribution Date	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%
October 6, 2008	99.7%	99.7%	99.7%	99.7%	99.7%
October 6, 2009	93.7%	93.7%	93.7%	93.7%	93.7%
October 6, 2010	80.9%	80.9%	80.9%	80.9%	80.8%
October 6, 2011	66.4%	66.2%	66.0%	67.7%	80.8%
October 6, 2012	0.0%	0.0%	0.0%	0.0%	0.0%
Average Life (Years)	4.40	4.43	4.43	4.45	4.65
Principal Window[(1)]	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14

(1) Calculated on the basis of a 360-day year consisting of twelve 30-day months.

Hypothetical Discount Margin of the Class D Notes
(Stated as a Spread to 3-Month LIBOR)

	Constant Annual Default Rate of Collateral Debt Securities				
Price	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
99.50%	9.16%	9.15%	9.15%	9.15%	5.85%
99.60%	9.12%	9.12%	9.12%	9.12%	5.82%
99.70%	9.09%	9.09%	9.09%	9.09%	5.79%
99.80%	9.06%	9.06%	9.06%	9.06%	5.76%
99.90%	9.03%	9.03%	9.03%	9.03%	5.73%
100.00%	9.00%	9.00%	9.00%	9.00%	5.70%
100.10%	8.97%	8.97%	8.97%	8.97%	5.67%
100.20%	8.94%	8.94%	8.94%	8.94%	5.64%
100.30%	8.91%	8.91%	8.91%	8.91%	5.61%
100.40%	8.88%	8.88%	8.88%	8.88%	5.58%
100.50%	8.85%	8.85%	8.85%	8.85%	5.55%

Hypothetical Amortization of the Class D Notes
(% of Original Principal Balance of the Class D Notes After Each Distribution Date Shown)

	Constant Annual Default Rate of Collateral Debt Securities				
Closing Date/ Distribution Date	**0.00%**	**0.50%**	**1.00%**	**1.50%**	**2.00%**
Closing Date	100.0%	100.0%	100.0%	100.0%	100.0%
October 6, 2008	99.7%	99.7%	99.7%	99.7%	99.7%
October 6, 2009	93.7%	93.7%	93.7%	93.7%	93.7%
October 6, 2010	80.9%	80.9%	80.9%	80.9%	80.8%
October 6, 2011	66.4%	66.2%	66.0%	67.7%	80.8%
October 6, 2012	0.0%	0.0%	0.0%	0.0%	21.0%
Average Life (Years)	4.40	4.43	4.43	4.45	NA
Principal Window[(1)]	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to 5.14	0.39 to NA

(1) Calculated on the basis of a 360-day year consisting of twelve 30-day months.

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SCHEDULE G

HYPOTHETICAL YIELD ON THE PREFERENCE SHARES

The yield on the Preference Shares will depend primarily on (a) the price at which the Preference Shares are purchased by investors and (b) the rate, timing and amount of any payments and the final distribution on the Preference Shares. The timing and amount of payments on the Preference Shares will depend significantly on the amount and timing of defaults and losses on the Collateral Debt Securities and other factors which are impossible to predict accurately. Potential defaults and losses on Collateral Debt Securities may be caused by a number of factors, including the deterioration of the financial condition of specific issuers, deterioration in general economic conditions which may affect specific issuers or groups of issuers and deterioration in the general availability of financing sources to issuers seeking to refinance maturing Collateral Debt Securities. See "*Risk Factors*" for a description of additional risk factors affecting defaults and losses on the Collateral Debt Securities.

There can be no assurance that actual default or loss severity experience will not be worse than reflected in the loss assumptions described under "Modeling Assumptions" in Schedule F. None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchasers or any of their respective affiliates makes any representation as to the particular factors that may affect the rate and timing of such defaults, credit events or losses on the Collateral Debt Securities, or as to the amount of any such credit event or loss which may occur. Investors are urged to consider their own assumptions regarding defaults, credit events, losses and timing of payments and how such defaults, credit events, losses and timing of payments may impact the yield on the Preference Shares.

Prospective investors in the Preference Shares should make their own determination of various assumptions and the impact of such assumptions upon the expected yield of the Preference Shares, as the case may be. None of the Issuer, the Co-Issuer, the Trustee, the Collateral Manager, the Initial Purchasers or any of their respective affiliates makes any representation that the assumptions used in creating the projected yield table (the "Yield Table") described below will be representative of actual experience. The assumptions on which the projections below are based are necessarily arbitrary, do not reflect historical experience with respect to assets similar to the Collateral Debt Securities and do not constitute a prediction as to future events. Accordingly, because of the uncertainties and subjective judgments inherent in such projections and because events and circumstances frequently do not occur as expected, there can be no assurance that the hypothetical yields represented below will be realized. The actual returns on the Preference Shares will differ, and may differ materially, from those illustrated below. **Investors should be aware that, in practice, payments to holders of the Preference Shares will not be made evenly through the life of the transaction and that, because such payments are dependent upon the returns realized on the Collateral Debt Securities after taking into account the Issuer's obligations to the holders of the Notes and payment of various expenses in the manner described under "*Description of the Notes—Priority of Payments*" herein, the returns to holders of the Preference Shares may fluctuate considerably from one Distribution Date to another.**

The results shown in the Yield Table are presented on a hypothetical basis for illustrative purposes only and are based on an extensive set of assumptions, certain of which are described herein. Prospective purchasers should be aware that the realization of the assumptions on which the projections below are based is subject to significant uncertainties and contingencies. For example, the actual level of one-month LIBOR from time to time, the portion of the portfolio that experiences defaults, the level and timing of recoveries with respect to any portion of the portfolio that defaults and the portion of the portfolio that experiences prepayment may be significantly different from the assumptions.

The results shown in the Yield Table below are based on the Modeling Assumptions in Schedule F. The hypothetical yield for the Preference Shares is calculated on an annual basis. The actual portfolio of the Collateral Debt Securities held by the Issuer throughout the period during which the Preference Shares remain outstanding will differ from the hypothetical Collateral Debt Securities used to calculate the returns presented and differences between the actual portfolio and the hypothetical Collateral Debt Securities could significantly change the returns presented below.

Hypothetical Yield on the Preference Shares

	Constant Annual Default Rate of Collateral Debt Securities										
Scenario	0.00%	0.20%	0.40%	0.60%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
Base Case	34.0%	31.8%	29.2%	26.6%	23.9%	20.8%	17.3%	13.0%	7.4%	-0.3%	-11.1%

APPENDIX A

INDEX OF DEFINED TERMS

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