UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-32275

ACCREDITED HOME LENDERS HOLDING CO.

(Exact name of registrant as specified in its charter)

Delaware	**04-3669482**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

15090 Avenue of Science
San Diego, California 92128
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 858-676-2100

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ or No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ or No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ or No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ or No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2005 was $926,982,848.

The number of outstanding shares of the registrant's common stock as of March 13, 2006 was 21,462,309.

INCORPORATION BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2006 Annual Meeting of Stockholders, subsequent to the date hereof, are incorporated by reference into Parts II and III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2005. Financial statements required to be included in Item 8 contained in Part II of this Annual Report on Form 10-K are incorporated by reference therein from ITEM 8 of the Annual Report on Form 10-K for the year ended December 31, 2005 filed by Accredited Mortgage Loan REIT Trust filed with the Securities and Exchange Commission on April 12, 2005 (File No. 333-109964-02).

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SERVICE MARKS AND TRADE NAMES

Accredited Home Lenders®, Home Funds Direct®, Axiom Financial Services®, FRONTDOOR® and their related logos are registered service marks of Accredited Home Lenders, Inc., a wholly-owned subsidiary of the registrant.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. When used in this report, statements which are not historical in nature, including the words "anticipate," "estimate," "should," "expect," "believe," "intend" and similar expressions are intended to identify forward-looking statements. They also include statements containing a projection of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this report are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

- changes in demand for, or value of, mortgage loans due to the attributes and mix of the loans we originate; the characteristics of our borrowers; and fluctuations in the real estate market, interest rates or the market in which we sell or securitize our loans;
- the degree and nature of our competition;
- a general deterioration in economic or political conditions;
- our ability to protect and hedge our mortgage loan portfolio against adverse interest rate movements;
- changes in government regulations that affect our ability to originate and service mortgage loans;
- changes in the credit markets, which affect our ability to borrow money to originate mortgage loans;
- our ability to employ and retain qualified employees;
- our ability to adapt to and implement technological changes; and
- the other factors referenced in this report, including, without limitation, under the sections entitled "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and "ITEM 1B. Risk Factors."

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

In this Form 10-K, unless the context requires otherwise, "Accredited," "Company," "we," "our," and "us" means Accredited Home Lenders Holding Co. and its subsidiaries.

PART I

ITEM 1. Business

General Development of Our Business

Accredited Home Lenders Holding Co. is a mortgage company operating throughout the United States (US) and in Canada. Accredited originates, finances, securitizes, services, and sells non-prime mortgage loans secured by residential real estate. Founded in 1990, the company is headquartered in San Diego.

In May 2004, Accredited Home Lenders, Inc., formed a wholly-owned subsidiary, Accredited Mortgage Loan REIT Trust (the "REIT"), a Maryland real estate investment trust, for the purpose of acquiring, holding and managing real estate assets. Our intention is to hold all loans held for investment and related securitized bond financing activities in this trust. The REIT elected to be taxed as a real estate investment trust and to comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, the REIT will generally not be subject to federal or state income tax to the extent that it timely distributes its taxable income to its shareholders and satisfies the real estate investment trust requirements and certain asset, income and share ownership tests are met. In August 2004, the REIT completed a public offering of 3,400,000 9.75% Series A Perpetual Cumulative Preferred Shares ("Series A Preferred Shares"), and in September and October 2004 sold an additional 693,678 Series A Preferred Shares pursuant to the exercise of the underwriters' over-allotment option and a reopening of the public offering.

Accredited formed Accredited Home Lenders Canada ("AHLC"), its first wholly owned Canadian subsidiary in July of 2004 and funded its first Canadian mortgage loan in November that same year. AHLC is a mortgage banking company that originates and finances mortgage loans for Canadian borrowers who are not normally eligible for traditional prime mortgages from the major Canadian banks. AHLC is currently originating mortgage loans in the provinces of Alberta, British Columbia, Manitoba, Ontario and Quebec and has current plans to expand beyond those five provinces.

AHLC employs a staff of Account Executives who actively solicit mortgage loan applications from local mortgage loan brokers. The resulting applications are reviewed in AHLC's headquarters office located in Richmond, British Columbia or the Toronto office where they are reviewed by underwriting and credit personnel and approved or rejected. All funding activities occur in the Richmond British Columbia office. Loan servicing and the liquidation of defaulted properties are handled by third-party vendors.

Major competitors to AHLC include Xceed Mortgage Corp. and Wells Fargo Financial Canada Corporation and to a lesser extent, GMAC Residential Funding of Canada Limited and Firstline Mortgages (a division of CIBC Mortgages, Inc.). Other competitors include Home Trust, Maple Trust, N-Brook and private money. Each of AHLC's competitors specializes in providing mortgage financing for borrowers who do not qualify for traditional prime mortgages.

Description of Our Business

We are a mortgage banking company operating throughout the United States and in Canada that originates, finances, securitizes, services and sells non-prime mortgage loans secured by residential real estate. We focus on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. We originate loans primarily based upon the borrower's willingness and ability to repay the loan and the adequacy of the collateral. Our experienced management team has developed incentive programs, technology

tools and business processes that focus our employees on originating non-prime mortgage loans with the financial and other characteristics that generate profits for us. We believe that this business approach has contributed to our disciplined growth in both origination volume and profits.

In 2005, 90% and 10% of our loan originations were originated through our wholesale and retail channels, respectively. In 2005, approximately 12,000 brokers originated our wholesale loan originations. Prior to funding, each loan we originate is underwritten by our employees to confirm that the loan is priced commensurate with its risk as determined in accordance with our underwriting guidelines. We typically finance mortgage loans initially through one of nine different secured warehouse credit facilities or through an asset backed commercial paper facility. We repay the related borrowings under these credit facilities upon sale or securitization of the loans. As of March 6, 2006, these facilities provided us with approximately $5.2 billion of credit capacity.

We conduct an analysis to find and select the optimal loan disposition strategy. We have primarily disposed of our loans in whole loan sales and securitizations. During 2005, 2004 and 2003, we completed four, four, and three securitizations, totaling $4.2 billion, $3.3 billion and $1.2 billion, respectively, which were structured as financings. On all of the loans that we securitize, we retain the rights to service the loans.

We developed incentive programs, technology tools and business processes that reward performance and that we believe result in the optimal balance among these competing factors that are described below. Our incentive programs compensate our employees based upon one or more of these factors. Our technology tools, such as our Revenue Calculator and our profit and loss tools, provide the real-time information that an employee needs to estimate the employee's compensation and simultaneously meet our overall loan quality and profitability goals. Our business processes incorporate cross-departmental review and feedback that are designed to assist each department in maximizing the quality and profitability of each loan originated. We have developed our incentive programs, technology tools and business processes over time, and we are constantly reviewing and updating them to meet our evolving needs. We believe that this business approach has contributed to our disciplined growth in both origination volume and profits.

Our Incentive Program

One of our most distinguishing characteristics is that our incentive structure rewards employees throughout our company based upon the criteria that best align each individual's compensation with our overall objectives.

- *Loan Origination/Origination Support*. Our profit and loss tools promptly allocate to our loan origination teams both profits from performing loans as well as prospective losses from problem loans and recaptured premiums from loans that paid off early. This allocation affects the personal compensation of our loan origination staff. In addition, production managers are compensated on their profit and volume achievements. Because the information can be accessed directly by all origination support personnel through our technology tools, they have an immediate understanding of the financial impact of their decisions and therefore are motivated to act in the manner that benefits themselves and our company.
- *Underwriting*. Bonuses are paid to our underwriting staff based not only upon the number of loans closed per person, but also upon the number of loans we sell at a profit. Loans that do not sell at full or anticipated value or that must be repurchased, count against this measure. Therefore, underwriters are motivated to accurately describe, correctly grade, and approve only loans that can be sold within 120 days of origination and that generate profits for our company.
- *Capital Markets*. Our capital markets staff is compensated based upon their successful execution of the disposition strategy for the mortgage loans that management has formulated for that month. In addition, they are compensated based upon their ability to sell loans that fall outside of the normal underwriting guidelines.

- *Servicing*. Our servicing employees are compensated based upon achieving assigned delinquency targets and loan loss rates, which motivates a proactive collections and liquidations approach.
- *Senior and Executive Management*. Senior managers are compensated based upon our achievement of profit and other financial and operational goals set forth in an operating plan at the beginning of each year and approved by our board of directors. Our compensation committee is required to approve individual bonuses for certain senior managers based upon each manager's contribution to our overall profitability.

We believe our incentive programs enhance our performance by aligning each employee's compensation and each job function with our overall profitability objectives.

Our Technology and Management Tools

Our technology department, in collaboration with our operations department, finance department and business intelligence department, has developed customized versions of commercially available software. Our suite of technology tools enables us to effectively achieve the goals that we have established for our employees individually and for our company as a whole. The principal technology tools that are integral to this effort are:

- *Revenue Calculator*. The Revenue Calculator is our software tool that integrates pricing information from our actual loan sales with our loan origination operations. Our retail loan officer or wholesale account executive inputs information into the Revenue Calculator about the characteristics of the loan and the borrower, including the interest rate, prepayment penalty, fees, the loan-to-value ratio ("LTV"), and the credit score of the borrower. The Revenue Calculator provides each loan origination team with loan price information on a real-time basis. Our loan origination teams can modify various attributes of the loan they are originating to price for the risk we are taking. They can then immediately see how the value of the loan is increased or decreased from the point of view of the secondary market and likewise how their compensation for that loan will be increased or decreased. Each member of our origination team is focused on pricing for the risk we take and producing profitable loans. To maintain the accuracy of our Revenue Calculator, we update this loan pricing model at least monthly, and sometimes more often, based upon actual loan sales and input from loan purchasers.
- *Profit and Loss Tools*. We have additional tools that measure the profitability of various operating units. The Profit Center Report system ("PCR") provides comprehensive revenue and expense information for each operating unit, including a full allocation of corporate expenses. The Problem Loan Report system ("PLR") generates reports that allocate losses on loans back to the team that originated such loans. These reports also show the profit and loss of every other team in that team's division, the total division, every other division in our company and our company as a whole, allowing each unit to compare its performance to that of the other units. Each team's operations and sales managers are also compensated on their team's profitability and have a strong incentive and the necessary information to reduce expenses and increase the value of their loan production.
- *Origination Systems*. We use a combination of vendor provided and in-house applications that we have configured for our use and are using in our workflow processes. These data systems combine all the information regarding a loan, flag any potential underwriting problems, enable documentation and electronic transmittal, facilitate the loan closing process, and populate our enterprise data warehouse. See "—Our Underwriting Process and Guidelines."

We have designed these tools to enhance our compliance with laws, including laws regarding unfair loans or "predatory" lending. For example, our Revenue Calculator contains controls that are designed to eliminate economic incentives to our employees for structuring loans that are unfair to the borrower. As loan features are changed to increase the cost of the loan to the borrower, the impact of the changes on the value given to the loan by the Revenue Calculator decreases and in some cases is capped. This feature discourages our employees from originating loans that might be characterized as unfair or predatory. In addition, we have established limits on the total fees payable by the borrower to us and to our independent brokers, which have been incorporated into our

loan origination systems. Accordingly, each member of the origination team is focused on originating loans that we believe are fair relative to the risk we assume and the benefit we seek to provide to our borrowers. We endeavor to input the laws, rules and regulations into our technology tools, thereby substantially reducing human error as a source of non-compliance. In addition, our loan underwriters are required to make a determination that each loan we originate is beneficial to the borrower.

Our Business Processes—Teamwork and Checks And Balances

We have two principal components to our business. We originate and underwrite loans, and we sell or securitize and service our loans. We have an integrated approach to these activities that encourages teamwork and the sharing of information across divisions. Our approach also promotes slightly different goals for different divisions that results in meaningful, real-time, daily checks and balances throughout our organizational structure.

Sharing information among our divisions gives each team the information it needs to optimize its performance. For example, our credit committee determines our underwriting guidelines and is composed of the Director of Capital Markets (who is responsible for loan disposition), the Director of Operations (who is responsible for underwriting and servicing, and maintaining underwriting guidelines), Director of Credit Risk and the President and Chief Operating Officer (who is responsible for, among other things, loan production). Others invited to make contributions to these policies may include the Director of Corporate Underwriting, the Manager of the Inventory Control Unit (which deals with problem loans), and the Director of Internal Audit and Quality Control. Our secondary marketing committee includes the Director of Operations, the Director of Capital Markets, the Secondary Marketing Manager, the Executive Vice President, as well as the Chief Financial Officer and Chief Executive Officer, to ensure that balance sheet considerations, secondary market considerations, loan performance objectives and marketing matters are all taken into account. These committees share information to optimize decisions, but the decisions are still made by functional managers.

Each division manager has access to division and team-level information from all other divisions. In addition to the incentives we provide to each division manager to achieve division-level profit objectives, the sharing of information also motivates each division to maximize its own profit compared to that of other divisions within the framework of our company's overall goals.

We have structured our incentive system to emphasize both the importance of each division individually and also cross-division cooperation. Our account executives and loan officers are rewarded based upon originating profitable loans and our underwriting teams are rewarded based upon producing quality loans. For example, origination team personnel can process and present loans, but if the loans do not meet the quality standards of the corporate underwriting teams or the profit objectives of the origination team and division, the loans will not be approved or, if approved, will not be eligible for bonuses or commissions.

These checks and balances have been built into our origination and underwriting processes and are bolstered by our incentive programs and technology tools. Our loan officers and account executives work closely with our underwriting group to ensure that the loan applications that they originate meet the quality standards necessary to make it through the underwriting and funding process. The first step is a comprehensive underwriting by the origination team supporting our account executives and loan officers. Then, before the loan documents can be prepared, the loan is reviewed and audited by a corporate underwriter who does not report to the origination team. When the team has gathered any required conditions (sometimes called stipulations), loan documents are reviewed by the documents and funding team or a corporate underwriter before funding. After funding the loan documents are reviewed by our documents and funding teams again to ensure accuracy, to make corrections to the documents if necessary and to reflect any changes that may have been made by the closing agent.

We use our Revenue Calculator at various stages to determine the potential value of the loan, particularly if any of the loan's attributes have changed. While the Revenue Calculator assigns a prospective value for a loan, the loan is still underwritten by each team and reviewed by one of our corporate underwriters to assure that the information in the Revenue Calculator is accurate and represents a correct value assessment of the loan.

Accordingly, the interest rate and maximum loan amount are determined based upon our underwriting and quality standards, risk assessment, the benefit to the borrower, and our Revenue Calculator's prediction of the value of each loan. Our profit and loss tools promptly allocate both profits from performing loans as well as prospective losses from problem loans to the team that originated them. This allocation affects the personal compensation of our loan origination staff.

We believe that our commitment to originating high-quality loans strengthens our relationships with warehouse line providers, whole loan purchasers, rating agencies and others with whom we do business.

Mortgage Loan Origination

We have been originating non-prime mortgage loans since 1990 and have been funding such loans since 1993. In 2005, we originated $16.6 billion in mortgage loans in the United States and Canada. In 2005, 90% and 10% of our loan originations were originated through our wholesale and retail channels, respectively. In 2005, our wholesale loan originations were originated through approximately 12,000 brokers. As of December 31, 2005 these independent brokers throughout the United States and Canada work with 536 account executives in our 14 wholesale divisions. In 2005 and 2004 our top ten brokers represented in the aggregate approximately 6% of our total loan origination volume. As of December 31, 2005 our retail channel originates mortgages through our 418 loan officers working in our 46 retail locations and generates leads primarily through telemarketing, direct mail and the Internet.

The following table summarizes information regarding our total loan originations during the years ended December 31:

	2005	2004	2003
Aggregate Loan Production			
Total originations (in thousands of dollars)	$16,582,640	$12,422,190	$7,958,309
Average principal balance per loan	$ 153,120	$ 136,997	$ 127,323
Combined weighted average initial LTV	90.2%	90.6%	89.1%
Net cost to originate(1)	1.6%	1.9%	2.1%
Aggregate Loan Production by Borrower Purpose			
Cash-out refinance, including debt consolidation	51.2%	51.2%	52.4%
Purchase	47.0%	45.3%	38.5%
Rate and/or term refinance	1.8%	3.5%	9.1%
Wholesale Loan Production (2)			
Total originations (in thousands of dollars)	$14,947,003	$11,217,528	$7,118,369
Percentage of total originations	90.1%	90.3%	89.4%
Average principal balance per wholesale loan	$ 155,917	$ 139,577	$ 128,727
Average volume production per account executive (in thousands of dollars)	$ 30,808	$ 26,666	$ 23,416
Combined weighted average initial LTV	91.1%	91.4%	89.7%
Retail and Other Loan Production			
Total originations (in thousands of dollars)	$ 1,635,637	$ 1,204,662	$ 838,869
Percentage of total originations	9.9%	9.7%	10.5%
Average principal balance per retail loan	$ 131,548	$ 116,878	$ 116,542
Average volume production per loan officer (in thousands of dollars)	$ 4,246	$ 3,650	$ 3,884
Combined weighted average initial LTV(3)	82.7%	83.4%	84.4%

(1) Net cost to originate loans is defined as total operating expenses, less loan servicing related costs, plus yield spread premiums, less points and fees collected, all prior to any deferrals of origination costs for accounting purposes.
(2) Represents wholesale originations and loans purchased from others.
(3) Not inclusive of loans brokered to other lenders, in 2003.

Wholesale Channel

Our wholesale channel originates non-prime mortgage loans through relationships with businesses that broker mortgage loans, including small mortgage bankers, local banks and businesses that only broker mortgage loans. We provide a variety of mortgage products to help these brokers provide better service to their borrowers. These brokers rely upon our account executives and our regional processing teams whom we believe provide consistently superior customer service.

The mortgage brokers we work with identify borrowers and help them complete loan applications and obtain the necessary documentation. They act as our liaison with the borrower during the lending process. Our regional processing teams underwrite each application and determine the interest rate and other loan terms for acceptable applications. The regional processing team, following corporate underwriting approval, funds the loan with the help of one of our divisional documents and funding teams upon acceptance by the borrower and satisfaction of all conditions to the loan. By relying upon brokers to market our products and to assist the borrower throughout the loan application process, we can increase loan volume through the wholesale channel without increasing marketing, labor and other overhead costs associated with attracting new borrowers to the same extent as those we incur in connection with our retail loan production.

While account executives are the main sources for new brokers, new brokers also enter our wholesale network from other sources. A broker must provide business references, a current copy of the license under which the broker operates, a W-9 form and an executed mortgage originator agreement. Our broker administration unit screens brokers, prevents loans from proceeding in our loan origination systems for brokers whose licenses have expired, and prevents loans from funding if the broker has been disapproved.

Mortgage brokers receive compensation in the form of points and fees paid by borrowers, yield spread premium paid by the lender, or a combination of these items. The loan programs we offer brokers are comparable to those offered by our competitors; however, we believe we compete for brokers primarily based upon the quality of the service we provide, particularly those with whom we cultivate key account relationships. We guarantee turn-around times, we offer coherent, presentable approvals, personal contact and a comprehensive menu of products for our customers, and we endeavor to make it easier to do business with us than with our competitors. In exchange, we minimize yield spread premium to mortgage brokers, we avoid unwarranted credit exceptions, and we charge for the risk we take. We believe that our focus on quality service and reliability will enable us to increase our loan originations.

We believe that one of the keys to our success is exceeding the expectations of our customers, whom we view as both brokers and borrowers for our wholesale operations. Accordingly, we are focused on improving our responsiveness to our customers. We intend to continue to:

- add high-quality account executives to service wholesale brokers and their customers throughout our nationwide network;
- provide specialized service levels to our top brokers, whom we call our “key accounts,” for each account executive;
- focus on using technology and improving our processes to make our loan origination process more efficient; and
- invest in the training and development of sales and operations personnel.

Our continued efforts to increase the profitability of our wholesale channel will center on the following initiatives. We will:

- maintain policies and procedures designed to originate loans that adequately compensate us for the risk we take;
- reduce our general and administrative costs by re-engineering our work flow process and improving our use of technology; and
- improve the productivity of our account executives.

Retail Channel

Historically, a lesser percentage of our loan originations have been originated through our retail channel, Home Funds Direct. Home Funds Direct originates mortgage loans through two different organizational structures: branch and centralized retail.

As of December 31, 2005, our branch retail division originated non-prime mortgage loans through 42 branch locations throughout the United States, with 14 of the branches located in California. Our branch retail loan officers interact with borrowers in our branch locations, primarily through telemarketing, direct mail and Internet solicitations. Our branch retail loan officers are also encouraged to develop some personal loan referral sources. The proximity of the branch offices to certain of our prospective borrowers is helpful in closing the loans. As part of our efforts to manage the credit risk of loans originated in our branch retail offices, all loan underwriting, closing, funding and shipping are done centrally out of one of two divisional processing centers located in Anaheim, California and Burtonsville, Maryland. A typical branch retail office consists of approximately seven employees, including a branch manager, five loan officers and one loan processor.

We also originate loans through our four centralized retail offices, which, as of December 31, 2005, were located in California, Texas, Georgia and Kansas. Our centralized retail division operates with little expectation that there will be face-to-face contact with the borrower. The marketing concept is for loan officers in our centralized retail branches to use telemarketing and direct mail to reach prospective borrowers in target markets. These locations have a larger group of experienced personnel, and have the ability to fully process and underwrite loans, subject to our corporate underwriting oversight policies.

Correspondent Channel—Loans Purchased From Others

Although we periodically purchase loans funded by other parties, we have made minimal purchases in recent years as we have found our wholesale and retail channels to be more profitable. However, we maintain the capability so that when attractive individual loans, small pools of loans, or other unique opportunities are presented, we can evaluate and close transactions.

Our Underwriting Process and Guidelines

Each mortgage loan that we originate is underwritten prior to loan closing in accordance with our underwriting guidelines. We have developed underwriting processes and criteria that we believe generate high-quality non-prime loans. Our underwriting guidelines are designed to help us evaluate a borrower's credit history, his or her capacity, willingness and ability to repay the loan, and the value and adequacy of the collateral. In addition, we review credit scores derived from the application of one or more nationally recognized credit-scoring models. Our underwriting philosophy is to analyze the overall situation of the borrower and to take into account compensating factors that may be used to offset certain areas of weakness, including employment stability, number of years at residence and disposable income. Based upon this analysis and the information derived from the Revenue Calculator, we determine loan terms and conditions to produce loans that we believe are appropriately priced and sized, meet our quality standards, and are profitable. In addition, our underwriters must determine what we believe to be a benefit to the borrower for each loan they underwrite. Our underwriting process and guidelines require a rigorous application review and documentation designed to maximize the value of our mortgage loans.

Our Underwriting Personnel. All of our loan underwriting is performed by our underwriting personnel, and we do not delegate underwriting authority to any broker or third party. Each loan origination team underwrites our loans subject to the final approval of our corporate underwriters. In addition to the daily supervision of all underwriting decisions, these corporate underwriters conduct regular training sessions on emerging trends in production, as well as provide feedback to the loan origination teams from the monthly problem loan reports. Each corporate underwriting manager reports, not through the loan origination organization, but to the Director

of Underwriting, who in turn reports to the Director of Operations. Our corporate underwriters generally have a minimum of ten years of industry experience, and many have been with us for more than five years. Our Directors of Underwriting and Operations each have over 20 years of industry experience.

Our Underwriting Guidelines. Our underwriting guidelines are established by our credit committee, which is composed of the Director of Capital Markets, the Director of Operations and the President and Chief Operating Officer. Others invited to make contributions to these policies include the Director of Underwriting, the Director of Credit Risk, the Manager of the Inventory Control Unit, and the Director of Internal Audit and Quality Control. To the extent that an individual loan application does not meet our published underwriting guidelines, our loan origination teams and underwriters can make underwriting exceptions. Any losses on loans are allocated back to the origination team by our profit and loss accountability system. Loan exceptions are tracked in our data warehouse and the performance of loans with and without exceptions is monitored. We may, from time to time, apply underwriting criteria that are either more stringent or more flexible depending upon the economic conditions of a particular geographic market. We may, and have, also added non-traditional mortgage products such as loans with a 40 year amortization schedule.

Loan Applications and Credit Reports. Each prospective borrower completes a mortgage loan application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. At least one credit report on each applicant from an independent, nationally recognized credit reporting company is required. The credit report typically contains information relating to such matters as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions, or judgments.

Property Appraisals. A full appraisal of the property proposed to be pledged as collateral for the loan is generally required in connection with the origination of each first priority loan and each second priority loan greater than $50,000. Appraisals are performed by licensed, third-party, fee-based appraisers and include, among other things, an inspection of the exterior and interior of the subject property. Appraisals are also required to address neighborhood conditions, site and zoning status and the condition and value of improvements. Following each appraisal, the appraiser prepares a report, which includes a reproduction costs analysis, when appropriate, based upon the current cost of constructing a similar home and market value analysis based upon recent sales of comparable homes in the area. Appraisals generally conform to the Uniform Standards of Professional Appraisal Practice and must be on forms acceptable to Freddie Mac and Fannie Mae. Every appraisal is reviewed by our appraisal review department, by one of our qualified underwriters before the mortgage loan is funded, or by a non-affiliated appraisal review firm. The appraisal may not be more than 180 days old on the day the loan is funded. A second full appraisal is required for combined loan amounts and/or property values greater than $1,000,000. For second priority loans of $50,000 or less, "drive-by" appraisals alone are acceptable. The standard appraisal may be waived in favor of an Insured Automated Value Model (AVM) with a physical inspection, provided the loan meets certain criteria. The Insured AVM is effective for the life of the loan, is transferable, and provides an unbiased opinion of the property value. The Insured AVM process includes a Property Condition Report which is a drive-by inspection that verifies the collateral is conforming. The insurance certificate provides protection that minimizes loss severity in the event of Foreclosure.

Income and Assets Verification. Our underwriting guidelines require verification or evaluation of the income of each applicant pursuant to our "Full Documentation," "Lite Documentation" or "Stated Income" programs. Under each of these programs, we review the loan applicant's source of income, calculate the amount of income from sources indicated on the loan application or similar documentation, and calculate debt service-to-income ratios to determine the applicant's ability to repay the loan. Under the Full Documentation program, applicants are generally required to submit the most current year-to-date pay stubs and written verification of income signed by the employer, Forms W-2 or 1040 and, in the case of self-employed applicants, the most recent two years completed tax returns, signed year-to-date profit and loss statement, or bank statements, in each case covering the preceding two years. Personal bank statements are acceptable as Full Documentation, with the preceding 24 months as "Alt2" documentation type or the preceding 12 months as "Alt1." Under the Lite Documentation

program, applicants must be self-employed and are required to submit personal bank statements covering the preceding six months. Under the Stated Income program, applicants are evaluated based upon income as stated in the mortgage loan application. Under all programs, we may verify by telephone employment, business and income, and self-employed applicants may be required to submit a business license.

Verification of the source of funds, if any, required to be paid by the applicant at closing is generally required under all documentation programs in the form of a standard verification of deposit, two months' consecutive bank statements or other acceptable documentation. Twelve months' mortgage payment or rental history must be verified by the related lender or landlord on required programs.

Credit Classifications. A critical function of our underwriting process is to identify the level of credit risk associated with each applicant for a mortgage loan. We have established five principal classifications, "A+" to "C," with respect to the credit profile of potential borrowers, and we assign a rating to each loan based upon these classifications. We have a sixth, generally inactive credit classification, called "C-", which may be for a borrower with a current or recent foreclosure or bankruptcy. This sixth credit classification can be used on an exception basis with approval from executive management, and in 2005, 2004 and 2003, 0.3%, 0.2% and 0.1%, respectively, of our loans had this credit grade. We assign credit grades by analyzing mortgage payment history, consumer credit history, credit score, bankruptcy history, and debt-to-income ratio. Our standard for assigning credit grades are stricter for Lite Documentation and Stated Income programs than for Full Documentation programs, and we discourage credit grades below "B" for Lite Documentation and Stated Income programs.

Underwriting Tools. We have tools that help each loan origination team underwrite, document, and track each loan. These tools integrate the line item detail of the credit reports we receive from the credit reporting agencies, our own analysis of an applicant's income, and a comprehensive review of the total credit profile of the borrower and any exceptions made to our credit policies. The product of these tools, in addition to the information they contribute to our database, is a four-page review of each loan that is placed at the beginning of each loan file. Third-party underwriters and purchasers of our loans make comprehensive use of these reports in their review of our loan files. These tools are used by all of the origination teams, as well as by corporate underwriting, our documents and funding teams, our post-closing and shipping departments, and other functional units within our company. The data provided is transferred into our enterprise data warehouse. We use software provided by ProClarity and Informatica to make this information readily available to management.

We have deployed an automated decision system. However, we continue to use our staff to audit credit, income and appraisal documentation to ensure that loans approved in the automated system are consistent with our underwriting guidelines. Furthermore, we anticipate that many loans will not align with the matrix compliance features of an automated underwriting system, and such loans will be reassigned to a more traditional underwriting process. Our intention in adopting this technology is to increase the level of our loan originations without having to correspondingly increase the number of underwriters.

Internal Audit and Quality Control. The Internal Audit and Quality Control department consists of 15 members located at our headquarters. The Director of Internal Audit and Quality Control reports to the CEO and Board of Directors and has direct access to the Audit Committee. The seven members of the department with internal audit and Sarbanes Oxley (SOX) compliance responsibilities conduct operational and financial audits of our business processes and coordinates with applicable business units to ensure the Company meets SOX 404 compliance. The Internal Audit staff has a total of 70 years of industry/audit experience for an average of 10 years. The six members of the department with quality control responsibilities have a total of 147 years for an average of 25 years of underwriting or industry related experience.

On behalf of the Board of Directors, the Internal Audit Department evaluates and supports the manner in which management upholds its responsibilities to: (1) safeguard the assets and income of the Company, (2) provide for reliable and timely financial statement and reporting of other critical information and (3) maintain compliance with ethical standards, policies, plans and procedures of the Company and with applicable laws and

regulations. To accomplish these objectives, the Internal Audit Department reviews the system of internal controls and reports control deficiencies to senior management and the Audit Committee. An annual risk assessment is performed to determine the audit schedule, which is submitted for review and approval by the Audit Committee. The audit programs are developed to focus on perceived risks and opportunities for improving business and control processes. Additionally, to ensure compliance with SOX requirements, SOX testing activities are coordinated between Internal Audit, the SOX Compliance Manager, external resources, the Controller and the CFO. Deficiencies noted during the review of SOX testing are assessed for immediate remediation and results are reported to the Audit Committee and Disclosure Committee of the Corporation.

Each month, the Quality Control department reviews and re-underwrites a statistical sampling of all of the loans that are originated. The initial sample focuses on any loan with a first payment default or where fraud is suspected. The Quality Control department re-underwrites these loans, re-verifies the sources of income, re-verifies employment, and reviews the appraisals to ensure collateral values for the loans are supported. When fraud is suspected, the Quality Control department undertakes a comprehensive re-underwriting of not only that loan, but other targeted loans connected by broker, appraiser, or other parties to the transaction. Discretionary loan reviews are also performed monthly on non-performing assets. In addition, the Quality Control department performs specific loan tests to verify that loan originations comply with relevant regulatory requirements. The tests focus on verifying proper completion of borrower disclosures and other loan documentation, correct processing of all legally required documentation, and compliance with time frames imposed by applicable laws. All findings of the Quality Control department are reported on a regular basis to members of senior management, including the CEO, COO and Director of Operations and the Audit Committee of the Board of Directors. Management analyzes the results of the monthly Quality Control reviews as well as performance trends and servicing issues. Based upon this analysis, corrective actions are taken.

Loan Programs. We offer a range of non-prime mortgage and to a lesser degree Alt-A loan programs, including a variety of loan programs for first and second mortgages and several niche programs for 100% combined LTV ("CLTV") and second mortgages. The key distinguishing features of each program are the documentation required, the LTV, the mortgage and consumer credit payment history, the property type and the credit score necessary to qualify under a particular program. Nevertheless, each program relies upon our analysis of each borrower's ability to repay, the risk that the borrower will not repay us, the fees and rates we charge, the value of the collateral, the benefit we believe we are providing to the borrower, and the loan amounts relative to the risk we believe we are taking.

In general, our LTV maximums decrease with credit quality, and, within each credit classification, our LTV maximums vary depending on the property type. Our LTV maximums for loans secured by owner-occupied properties are higher than for loans secured by properties that are not owner-occupied. Our LTV maximums for Lite Documentation and Stated Income Programs are generally lower than the LTV maximums for corresponding Full Documentation programs. Our maximum debt service-to-income ratios range from 50% to 55% for Full Documentation Programs and from 45% to 55% for Lite Documentation and Stated Income Programs.

Our niche programs provide higher LTV's and CLTV's to borrowers in higher credit grades. Credit grades may be determined by the same criteria as in our standard programs, but may also be determined only on the basis of mortgage credit or credit score. Niche programs may be restricted as to property and occupancy types and documentation requirements.

Our loans in the US have payment schedules based upon an interest rate that is (1) constant over the life of the loan, commonly referred to as "fixed-rate mortgages" or "FRMs," or (2) fixed for the initial six-months, two, three, five or seven years and adjusts after the initial fixed period and every six months thereafter, sometimes referred to as "adjustable-rate loans" or "ARMs." Generally, the payments on our fixed-rate loans are calculated to fully repay the loans in 15 or 30 years. In the case of "balloon" loans, the payments are based on a 30-year or 40 year repayment schedule, with the unpaid principal balance due in a "balloon" payment at the end of 15 years or 30 years. The payments on our adjustable-rate loans are calculated to fully repay the loans in 30 years, with

payment amount adjustments following interest rate adjustments. We currently offer five different ARMs programs: 2/28, 3/27, 5/25, 7/23 and 6-month. ARMs with a two-year initial fixed-rate period are commonly referred to as "2/28's." ARMs with a three-year initial fixed-rate period are commonly referred to as "3/27's." ARMs with an initial interest rate effective for the first six-month period are commonly referred to as "6-month" ARMs. Each of these ARM programs are also offered with a 40 year amortization period with a balloon feature that is due in 30 years. Our fixed-rate mortgages or adjustable-rate loans may have initial interest-only periods, typically five years, during which the monthly payments are limited to the amounts required to pay accrued interest due on the loans. At the end of the interest-only periods, the monthly payments are adjusted to fully repay the loans over their remaining 25-year terms. We expect the 40 year program to be a very popular option with our borrowers in the coming year. We do not currently offer, or expect to offer, an interest only option in conjunction with the 40 year due in 30 amortization program.

The interest rate adjustment on adjustable-rate loans is determined by adding a "margin" to an "index" rate, subject to certain adjustment limitations. The "margin" is a percentage established at loan origination. The "index" for ARMs is six-month LIBOR, which is determined as of a specified time prior to the interest adjustment date. It is common during the initial fixed-rate period of an ARM to allow the borrower to pay a rate lower than the margin plus the index at loan origination. Over time, the rate may adjust upward such that, eventually, the interest rate will equal the index plus the entire margin. Such adjustments to the interest rate are generally limited to no more than 1.5% at each adjustment date, and the interest rates may not be adjusted above or below a maximum and minimum amount specified in the loan documents. The goal is to acclimate the borrower to the repayment obligation, yet be able to achieve the fully indexed interest rate over time.

Our mortgage loans are made for the purpose of enabling our borrowers to purchase homes, refinance existing mortgage loans, consolidate debt and/or obtain cash for whatever purposes the borrowers' desire. Our residential mortgage loans are secured by one-to-four unit primary residences, one-unit second homes, or one-to-four unit investment properties. Eligible property types are deemed to include single-family detached homes, semi-detached and attached homes, row or town homes, individual condominiums, individual units in planned-unit developments, manufactured housing, and leasehold estates. These collateral types are consistent with the Freddie Mac Seller-Servicer Guide for describing mortgage eligibility requirements. The mortgaged properties may be owner-occupied, second or vacation homes, or non-owner-occupied investment properties.

A substantial portion of our US loans include prepayment penalties. In 2005, 2004 and 2003, 75.8%, 82.9%, and 88.4%, respectively, of the loans we originated contained such penalties. Borrowers who agree to prepayment penalties generally receive lower interest rates and/or lower loan fees on their mortgage loans. Borrowers always retain the right to refinance their loans, but may have to pay a charge of up to six-months interest on 80% of the outstanding principal balance or 5% of the outstanding principal balance on the loan. Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and, prior to July 1, 2003, we relied on the federal Alternative Mortgage Transactions Parity Act (the "Parity Act") and related rules issued by the Office of Thrift Supervision (the "OTS") to preempt limitations on prepayment penalties in certain states. The Parity Act was enacted to extend to financial institutions other than federally-chartered depository institutions, the federal preemption which federally-chartered depository institutions enjoy. However, on September 25, 2002, the OTS released a rule that, as of July 1, 2003, ended our ability to rely on the Parity Act to preempt state restrictions on prepayment penalties, requiring us to comply with such restrictions. This may place us at a competitive disadvantage relative to financial institutions that continue to enjoy federal preemption of such state restrictions and are able to charge prepayment penalties without regard to such restrictions. As a result, they may be able to offer loans with more attractive interest rate and loan fee structures than we are able to offer. See "ITEM 1B. Risk Factors—Statutory and Regulatory Risks—We are no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, and we may be unable to compete effectively with financial institutions that are exempt from such restrictions." Additionally, all of our loans originated in Canada include prepayment penalty clauses.

Loan Production by Product Type. The following table sets forth information about our US loan production based upon product type during the years ended December 31:

Product Type	2005	2004	2003
ARM			
2/28	50.3%	46.9%	16.2%
3/27	3.1	20.3	50.3
Forty-year	16.9	—	—
Other	1.0	0.6	—
Subtotal	71.3	67.8	66.5
FRM			
Fifteen-year	0.7	1.4	1.8
Thirty-year	15.9	21.5	21.3
Balloons	11.1	8.0	9.2
Other	1.0	1.3	1.2
Subtotal	28.7	32.2	33.5
Total	100.0%	100.0%	100.0%

Product Type by Payment Feature	2005	2004	2003
Standard			
Adjustable	58.8%	54.8%	66.0%
Fixed	27.5	31.0	33.5
Subtotal	86.3	85.8	99.5
Interest-Only			
Adjustable	12.6	13.0	0.5
Fixed	1.1	1.2	—
Subtotal	13.7	14.2	0.5
Total	100.0%	100.0%	100.0%

Loan Production by Borrower's Credit Score. The following table sets forth information about our US loan production based upon borrowers' credit scores obtained from one or more of the three principal credit bureaus during the years ended December 31:

Credit Score	2005	2004	2003
Greater than 800	0.2%	0.1%	0.1%
751 to 800	4.0	3.3	2.8
701 to 750	11.8	10.5	9.0
651 to 700	27.4	27.7	25.2
601 to 650	30.6	33.9	34.0
551 to 600	16.1	16.3	19.5
501 to 550	9.6	7.9	9.1
451 to 500	0.2	0.1	0.2
Less than 451	0.1	0.2	0.1
Total	100.0%	100.0%	100.0%

Loan Production by Lien Position. The following table sets forth information about our US loan production based upon lien position during the years ended December 31:

Lien Position	2005	2004	2003
Firsts	90.9%	91.4%	92.8%
Seconds	9.1	8.6	7.2
Total	100.0%	100.0%	100.0%

Loan Production by Collateral Type. The following table sets forth information about our US loan production based upon collateral type during the years ended December 31:

Type of Collateral	2005	2004	2003
Single-Family Residence-Detached	68.4%	70.9%	74.6%
Multi-Unit/2 to 4	10.6	7.3	5.5
PUD	11.5	13.2	12.1
Condo	7.0	6.7	6.0
Other	2.5	1.9	1.8
Total	100.0%	100.0%	100.0%

Financing For Loan Originations

We typically finance mortgage loans initially through one of nine different secured warehouse credit facilities or through an asset backed commercial paper facility. We repay the related borrowings under these credit facilities upon sale or securitization of the loans. As of March 6, 2006, we had approximately $4.2 billion in warehouse credit facilities, all of which are committed and $1.0 billion of capacity available through the asset backed commercial paper facility. Maintaining a diversified group of lenders helps us from becoming dependent upon any one source of capital. See "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." Our interest expense on warehouse financing as a percentage of total interest expense during 2005, 2004 and 2003 was 38.2%, 46.0% and 55.7%, respectively.

Starting in the second quarter of 2005, Accredited began issuing commercial paper in the form of short-term secured liquidity notes ("SLNs") with initial maturities ranging from one to 180 days and also issued $40.0 million of subordinated notes maturing on May 25, 2010. In order to issue the debt, Accredited established a special purpose, bankruptcy remote Delaware statutory trust. The trust entered into agreements with third parties who act as back-up liquidity providers. The SLNs bear interest at customary commercial paper market rates, which vary depending on the prevailing market conditions. The capacity of this facility at December 31, 2005, was $1.0 billion of which $767.5 million was outstanding. For the year ended December 31, 2005, the average borrowings outstanding under this facility were $829.7 million, and the weighted average interest rate for the seven months the program was in place was approximately 3.97%. The facility is collateralized by mortgage loans held for sale or securitization and certain restricted cash balances.

Interest Generated By Warehoused Loans

We generate a portion of our total revenues from the interest we receive on a loan from the time we originate the loan until the time we sell or securitize the loan. This interest income as a percentage of total interest income for 2005, 2004 and 2003 was 35.2%, 43.1% and 57.3%, respectively. This income is partially offset by our borrowing costs under our warehouse credit facilities used to fund our loans for the same period.

Loan Disposition Strategy

We generate revenue primarily through the disposition of the loans we originate. We use a diversified loan disposition strategy to convert the quality loans we originate into revenue for our company. This strategy includes whole loan sales, loan sales with retained interests and securitizations. In 2005, 2004 and 2003, we sold and securitized a total of $15.7 billion $11.6 billion and $7.3 billion, respectively, of loans. Of these amounts, 73.0%, 71.7% and 83.1%, respectively, were whole loan sales and 27.0%, 28.3% and 16.9%, respectively, were securitized in transactions structured as a financing. Loan sales generated gain on sale revenues of $313.1 million, $283.6 million and $225.2 million, accounting for 55.1%, 60.4% and 66.5%, respectively, of our total net revenues for 2005, 2004 and 2003. We completed no securitizations structured as a sale during these periods.

Loan Disposition by Purchaser. Highlighting our diversified disposition strategy, the table below shows our primary purchasers for the year ended December 31, 2005 with comparative amounts for the years ended December 31, 2004 and 2003, their purchases of our whole loan sales, except as otherwise noted, and their purchases as a percentage of total loan sales and securitizations in each of the years ended December 31:

Name	2005	%	2004	%	2003	%
			(dollars in millions)			
Household Mortgage Services	$ 2,714.4	17.3%	$ 2,190.1	19.0%	$1,664.2	22.8%
Friedman Billings Ramsey (FBR)	1,762.0	11.2	—	—	—	—
Residential Funding Corporation	1,555.4	9.9	192.8	1.7	308.2	4.2
Goldman Sachs	1,288.9	8.2	46.5	0.4	460.1	6.3
Morgan Stanley Mortgage Capital Inc	1,133.9	7.2	2,081.3	18.0	1,095.2	15.0
The CIT Group/Consumer Finance, Inc	579.7	3.7	421.1	3.6	373.0	5.1
Credit-Based Asset Servicing and Securitization LLC (C-BASS)	351.0	2.2	506.5	4.4	10.8	0.1
Credit Suisse Securities	234.2	1.5	472.5	4.1	512.3	7.0
Sovereign Bank	228.6	1.5	298.8	2.6	—	—
Chase Manhattan	186.6	1.2	114.6	1.0	114.2	1.6
All others	1,402.9	9.1	1,958.0	16.9	1,523.0	21.0
Total loan sales	11,437.6	73.0	8,282.2	71.7	6,061.0	83.1
Total securitizations	4,240.2	27.0	3,269.8	28.3	1,236.2	16.9
Total loan sales and securitizations	$15,677.8	100.0%	$11,552.0	100.0%	$7,297.2	100.0%

We evaluate the best disposition strategy for each pool of loans we originate, considering the market demand for our loans, our liquidity needs, our long-term profit objectives and our need to maintain strong relationships with our loan purchasers.

Whole Loan Sales

In a whole loan sale, we sell all right, title and interest in and to a pool of loans in exchange for cash in an amount equal to the full market value of the loans. All of our loan dispositions are made subject to an obligation to repurchase any loan that materially violates standard mortgage industry representations and warranties that we make in connection with our loan dispositions. In 2005, 73.0% of our loan dispositions were through whole loan sales and net gains from these sales were $313.1 million. To execute our whole loan sales strategy, we have established key relationships with a diversified group of sophisticated whole loan purchasers. We believe that this strategy increases our opportunity to sell during changing market conditions. As a result, the purchasers listed above include Wall Street investment banking firms that securitize, non-Wall Street mortgage banking firms, national and international banks that both hold loans and securitize, and large financial services companies that both hold and securitize loans.

Some of our loans are sold pursuant to forward commitments, under which we agree to sell, and a purchaser agrees to buy, a specified volume of loans that meet specified characteristics. We also put pools of loans out to bid, using our knowledge of our various purchasers' preferences to direct pools with certain characteristics to the purchasers most likely to value those characteristics. Prospective purchasers may submit bids on all or portions of the pools that we show them. We select the combination of bids that provides us with the best overall execution results. We continuously monitor the preferences of our purchasers and adjust our origination operations accordingly. Loan officers and account executives use our Revenue Calculator to monitor the loan characteristics that various purchasers value. We believe that this not only improves the salability of our loans, but also improves the price we receive upon the sale of our loans because purchasers tend to pay higher prices for loans that meet their requirements. Our disposition strategy balances our objectives of cultivating our relationships with multiple purchasers while striving to maximize the premiums we receive.

Securitizations

As part of our diversified financing strategy, we access the asset-backed securitization market to provide long-term financing for our mortgage loans. In a securitization, we may sell or transfer a pool of loans to a trust and retain a residual interest for the right to receive future cash flow. The trust raises the cash purchase price of the loan pool by selling asset-backed securities, or notes, representing senior interests in the loans. The purchasers of these interests receive the principal collected on the loans plus a fixed or adjustable interest rate as stated in the particular note. The residual interest we retain entitles us to receive the interest income generated on the principal amount of the loans in the trust minus the interest paid to the purchasers of the loan interests, servicing, trust and other fees and losses on the loans, provided that certain overcollateralization requirements are met. Depending upon the structure of the asset-backed securities and the performance of the underlying mortgage loans, excess cash flow may not begin to be distributed to us for 12 months or more. As a result of the overcollateralization and certain other credit enhancement features, the trust is able to issue investment-grade, asset-backed securities.

While we continue to generate the majority of our earnings and cash flows from whole loan sales, securitizations will continue to contribute significantly to earnings and cash flows. Our securitization transactions will continue to be legally structured as sales, but for accounting purposes will be structured as financings. Accordingly, the loans remain on our balance sheet and debt securities issued in the securitization replace the warehouse debt originally associated with the securitized mortgage loans. We record interest income on the mortgage loans and interest expense on the debt securities, as well as ancillary fees, over the life of the securitization, instead of recognizing a gain or loss upon closing of the securitization. This "portfolio-based" accounting closely matches the recognition of income with the actual receipt of cash payments.

During 2005, 2004 and 2003, we completed a total of four, four and three securitizations structured as financings in which debt securities totaling $4.2 billion, $3.3 billion and $1.2 billion, respectively, were issued. In 2004 we formed our REIT subsidiary to hold our investment in securitized assets.

Derivative Policies

See "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

General Description of REIT's Assets; Investment Policy

Retained Interests

Each retained interest owned by us represents ownership of the related securitization trust and the right to receive excess cash flow generated by the trust. This excess cash flow is derived from two sources: excess interest and return of over-collateralization.

Each retained interest is subordinate in right of payment to the related securitization noteholders. Each retained interest is in a "first loss position," and the related securitization trust does not contain a source of funds to protect us against losses on the related mortgage loans.

Excess interest

Excess interest, if any, consists of interest collections on the related mortgage loans each month after (i) payment of related administrative fees, reimbursements and expenses, including servicing fees, backup servicing fees, trustee fees and expenses and insurer premium, and reimbursements and indemnification of the trustee and the insurer and (ii) payment of required distributions to holders of the related underlying notes.

Excess interest is generally required, among other things, to be used to distribute principal with respect to the related notes until the related notes reach the required over-collateralization amount (as described below).

Principal

Principal collections on the related mortgage loans will generally be distributed to the securitization noteholders in order to maintain the required level of over-collateralization for that securitization trust. To the extent that the over-collateralization amount has been permitted to step down (as described below), principal collections may instead be distributed to the related retained interest until the new required over-collateralization amount has been achieved.

Over-Collateralization

"Over-collateralization" for each securitization is the excess, if any, of the outstanding principal balance of the mortgage loans in the related mortgage pool over the principal balance of the related notes. Over-collateralization in each securitization trust is generally achieved by applying available excess interest in the initial years of operation of the securitization trust to make additional payments of principal on the related notes as necessary to maintain the over-collateralization amount at its required level. In some transactions the required over-collateralization amount was fully funded on the securitization's closing date. If the level of over-collateralization applicable to a securitization trust in future periods falls below the applicable required over-collateralization amount, cash flows derived from excess interest thereafter will be applied to pay principal and interest on the related notes (and not be available to make distributions with respect to the related retained interests) unless and until once again the applicable required over-collateralization amount is reached.

The required over-collateralization amount for each mortgage pool may increase if delinquencies or losses on the related mortgage pool were to exceed certain specified levels. The required over-collateralization amount may decrease based upon the satisfaction of certain tests. No distributions will be made from the proceeds of the related mortgage loans to the related retained interest until the then-applicable required over-collateralization amount has been established and maintained.

Generally, to the extent that the cash flows which would otherwise be paid to a retained interest are being directed to the related notes to achieve or maintain the applicable required over-collateralization amount, the related retained interest will not receive any distribution from the related securitization trust. In addition, because the application of the cash flows to each retained interest are dependent upon the performance of the related mortgage loans, there may be material variations in the amount, if any, of the cash flow distributed on each retained interest from period to period, and there may be extended periods when no cash flow is received with respect to each retained interest. Any such variations in the rate or timing of receipt of distributions on each retained interest may adversely affect our ability to make dividend payments on the Series A Preferred Shares.

As described below under "The Mortgage Pools", prepayments of principal and realized losses on the related mortgage loans will reduce the aggregate outstanding principal balance of such mortgage loans and

therefore will reduce the aggregate amount of excess interest that could be generated by the mortgage loans. The aggregate amount of excess interest generated by the mortgage loans in a mortgage pool will decrease more significantly as a result of principal payments and realized losses on those mortgage loans with relatively high interest rates. If prepayments or liquidations occur with more frequency on mortgage loans in a mortgage pool having relatively higher interest rates than on mortgage loans in a mortgage pool having relatively lower interest rates, and the foregoing results in any of the related notes having their interest rate limited by any applicable available funds cap rate, then no excess interest will be generated by the portion of the aggregate principal balance of such mortgage loans equal to the principal balance of such class of notes. Reductions of the amount of excess interest generated by the mortgage loans in a mortgage pool will in turn reduce the aggregate amount of distributions on the related retained interests. In addition, the notes may be entitled to recover the amount of interest not paid on such classes because of the application of the applicable available funds cap rate, which may result in a reduction of the amount of excess interest that could be included among the amounts that may remain available for distribution to the holders of the retained interests.

Distributions on the retained interests in respect of principal collections on the mortgage loans are also sensitive to the rate and timing of principal payments and realized losses on the mortgage loans in the related mortgage pool. A rapid rate of principal payments on the mortgage loans in a mortgage pool could have the effect of accelerating distributions in respect of principal collections on the related retained interests, and a slow rate of payment could have the effect of decelerating distributions in respect of principal collections on the related retained interests. Generally, the retained interests will not be entitled to receive any distributions until the required over-collateralization amount has been met. Realized losses on the mortgage loans in the related mortgage pool will have the effect of reducing the over-collateralization, and therefore reducing the amount ultimately payable on the related retained interests.

Mortgage Loan Servicing

Once we originate or purchase a mortgage loan, our servicing department begins the administrative process of servicing the loan, seeking to ensure that the loan is repaid in accordance with its terms. We start this process for every loan, whether we will service the loan for a matter of weeks before it is sold servicing-released or for its life in a servicing-retained transaction. Our servicing department is divided into loan administration, customer service and asset management units. In addition, the investor reporting unit of our finance and accounting department performs the servicing-related functions of reporting on all other servicing activities, and in the case of loans serviced for others, accounting for and remitting all funds collected through servicing activities.

Administration and Servicing

Our loan administration unit is responsible for boarding each loan into our servicing operations and technology systems. For loans on which the monthly payments include amounts to be escrowed for the future payment of real estate taxes and insurance premiums, our escrow administration unit ensures the proper accounting for such funds and the timely payment of the taxes and premiums. For loans which do not have tax and insurance escrows, the loan administration unit ensures that the properties securing the loans are properly insured at all times and that real estate taxes are paid to avoid foreclosures by taxing authorities. This unit is also responsible for the various administrative tasks involved in the transfer of servicing when loans are sold servicing-released, including notifying borrowers, insurers and taxing authorities.

Our payment processing unit is responsible for the physical receipt of and initial accounting for all loan payments from borrowers. We encourage our borrowers to establish automatic payment from their bank accounts, which we arrange at no cost to the borrower. Our customer service unit is responsible for processing payoff requests, re-conveyances, handling all inbound calls and other communications from borrowers. For loans with adjustable interest rates, the customer service unit ensures that the adjustments are properly made and timely identified to the related borrowers.

Collection and Enforcement

Our asset management unit is responsible for all phases of the collection and enforcement of delinquent and defaulted loans. The inherent risk of delinquency and loss associated with non-prime loans requires hands-on active communication with our borrowers from origination through liquidation. Borrower contact is initiated through outbound telephone campaigns, monthly billing statements, and direct mail, which are tailored to reflect the borrower's payment habit, the loan's risk profile and the loan's status. Our collection approach is designed to educate our borrowers on managing their debts to maximize the likelihood of continued timely performance. We establish clear expectations with our borrowers with respect to maintaining contact and working together to resolve any financial problems that may occur. We consider this early intervention a key element of our servicing strategy.

Our front-end loan counselors begin calling borrowers whose accounts are past due between the 1st and 15th day depending upon their payment history. Once contact is established, we verify pertinent information and determine the reason for the delay in payment. For borrowers who are able to make their payments, we offer the ability to pay by phone or through electronic funds transfer. Pay by phone allows the borrower to remit the funds immediately or at an agreed later time in the month and avoids delays using the U.S. postal service. If a borrower indicates a problem that is not temporary or is of a serious nature, the call is promptly referred to a supervisor who will then evaluate the situation and initiate appropriate loss mitigation actions.

When an account becomes thirty-one or forty-five days delinquent (depending upon the investor), the borrower receives a notice of intent to foreclose allowing thirty days, or more if required by applicable state law, to cure the default before the account may be referred for foreclosure. The 30-59 day collection personnel continue active collection campaigns and may offer the borrower relief through a forbearance plan designed to resolve the delinquency in ninety days or less and up to 6 months with supervisor approval. These collectors are seasoned and trained to effectively identify and resolve problems with borrowers before the past due problems escalate.

Accounts moving to sixty or more days delinquent are transferred to the loss mitigation and foreclosure sub-units simultaneously. Our loss mitigation personnel choose a collection strategy that is designed to minimize the loss on a defaulted loan. We may procure updated property value information, the borrower's current credit profile, and review foreclosure and real estate marketing timelines to determine the best alternative to foreclosure. Our loss mitigation personnel continue to actively attempt to resolve the delinquency while our foreclosure personnel begin the foreclosure process. Our loss mitigation tools include payment plans, short sales, and deeds in lieu of foreclosure, stipulated forbearance plans, deferments, reinstatements and modifications.

Delinquent accounts not resolved through collection and loss mitigation activities are foreclosed in accordance with state and local laws. Foreclosure timelines are managed through a timeline report built into the loan servicing system. The report schedules key milestones throughout the foreclosure process, enhancing our ability to monitor and manage the process. Properties acquired through foreclosure are transferred to the real estate owned, or REO, sub-unit to manage eviction and marketing of the properties. Once a property is vacant, it is listed with a local real estate agent who develops a marketing strategy designed to maximize the net recovery upon liquidation. Second opinions on the value of the property are obtained to validate recommendations given by the primary listing agent. Property listings and monthly status reports are reviewed monthly to ensure the properties are properly maintained and actively marketed.

Our loan administration unit also handles hazard and mortgage insurance claims, mortgage bankruptcies, condemnations and other special servicing needs.

Servicing Department Infrastructure

We service our loans using a customized version of a configuration of Interlinq Loan Servicing software provided by Harland Financial Services. We also have additional software modules for the management of bankruptcy, foreclosure and REO processes. Our technology delivers helpful data regarding the loan and the

borrower to the desktops of our servicing personnel. We also have all of our files electronically imaged so that our servicing personnel have access to each file without having to retrieve a paper file.

Monthly incentive plans are in place for all collections, loss mitigation and REO personnel and are tied directly to performance of the servicing portfolio. Both individual and team goals are used to encourage superior results and cooperation between unit members.

Ongoing training for our servicing personnel is provided regularly and covers major relevant topics within the servicing department. In the collection area, supervisors and managers monitor actual telephone calls by each collector on a monthly basis and follow up with one-on-one training and direction. In addition, scripts tailored to typical borrower circumstances are posted at each workstation to ensure the employee asks the appropriate questions for the type of delinquency situation the borrower is experiencing. Outside legal counsel conducts on site classes or seminars for the foreclosure and bankruptcy areas approximately on a quarterly basis. Title company representatives also provide on-site training on title issues from time to time.

All of our servicing functions are administered from our San Diego and Orlando service centers. The Orlando service center was opened in August of 2004 and currently performs primarily customer service and collection functions. Hours of operation for our servicing department are staggered to cover the different time zones where our borrowers and collateral properties are located. Collection personnel also work one or two Saturdays each month, depending upon the day of the week on which each month end falls. Evening and weekend hours are used to facilitate contact with borrowers that are otherwise unavailable during regular business hours.

Our Delinquency and Loss Experience

The following table sets forth information about the delinquency and loss experience of the mortgage loans we service, which are primarily loans we have originated and have been or may be securitized, for each of the years ended December 31.

In general, the table reflects, for 2005, delinquency percentages that are increasing, loss percentages that have held constant, but delinquency and loss levels in dollars that have increased as our servicing portfolio has increased in size. We do not expect to be able to maintain our delinquency and loss ratios at the current level as the average age of our portfolio increases, our product mix changes, and if general economic factors become less favorable.

	2005		2004		2003	
	Amount	Delinquency Percentage(1)	Amount	Delinquency Percentage(1)	Amount	Delinquency Percentage(1)
	(dollars in thousands)					
Total Servicing portfolio	$9,706,153		$6,731,581		$3,695,976	
Delinquencies:						
30-59 days	$ 75,310	0.8%	$ 33,134	0.5%	$ 8,954	0.2%
60-89 days	21,395	0.2%	8,295	0.1%	3,361	0.1%
90 or more days	34,389	0.4%	21,107	0.3%	13,214	0.4%
Foreclosures	79,687	0.8%	40,230	0.6%	28,367	0.8%
Subtotal	210,781	2.2%	102,766	1.5%	53,896	1.5%
Real estate owned(2)	28,928	0.3%	14,357	0.2%	10,699	0.3%
Total	$ 239,709	2.5%	$ 117,123	1.7%	$ 64,595	1.8%
Losses on servicing portfolio(3)	$ 22,193	0.3%	$ 17,505	0.3%	$ 17,678	0.6%

(1) Percentage of servicing portfolio at year-end.

(2) Based on the aggregate principal balance of the mortgage loans secured by mortgaged properties the title to which has been acquired through foreclosure, deed in lieu of foreclosure or similar process.
(3) Percentages based upon average monthly servicing portfolio.

We review our delinquency and loss rates when setting loss reserves for mortgage loans and valuing our mortgage-related securities (see discussion of mortgage-related securities in the Notes to Consolidated Financial Statements). Increases in actual delinquency and loss rates could affect the loss assumptions used in setting loss reserves and valuing our mortgage-related securities. If the loss assumptions used to set loss reserves or to value our mortgage-related securities are increased, it could adversely affect our operating results.

Competition

We face intense competition in the businesses of originating and selling mortgage loans.

Our competitors in mortgage origination include mortgage banking companies, consumer finance companies, diversified financial institutions, commercial banks, credit unions, savings and loans, credit card issuers and insurance finance companies. Many traditional mortgage lenders also offer products similar to those we offer to our borrowers. Fannie Mae and Freddie Mac are also adapting their programs to include non-conforming products and have begun to expand their operations into the non-prime market. We are experiencing increased competition over the Internet. Many of these competitors, including large financial corporations taking advantage of consolidation opportunities in the industry, are substantially larger and have more capital, or have greater access to capital at lower costs than our cost of capital under our warehouse credit facilities, and may have greater technical and marketing resources than we have. Efficiencies in the asset-backed securities market have generally created a desire for increasingly larger transactions, giving companies with greater volumes of originations a competitive advantage.

Competition in the industry can take many forms, including interest rate and cost of a loan, convenience in obtaining a loan, the underwriting requirements for a loan, customer service, amount and type of loan, and marketing and distribution channels. Additional competition has and may continue to lower the rates we can charge borrowers relative to our borrowing costs and potentially lower gains from cash-based whole loan trades and our net interest margin from securitizations. We believe we compete primarily based upon the quality of the service we provide to mortgage brokers, particularly those with whom we cultivate key account relationships. We guarantee turn-around times, offer coherent, presentable approvals, personal contact and a comprehensive menu of products for our customers. We endeavor to make it easier to do business with us than with our competitors. In exchange, we minimize yield spread premium to mortgage brokers, avoid unwarranted credit exceptions, and charge for the risk we take. Accordingly, our competitors may offer better financial terms to potential borrowers and we may be unable or unwilling to originate loans with comparable terms.

We believe that our competitive strengths are:

- *Growth Using Conservative Management Principles*. We focus on originating high-quality loans and generating predominately cash earnings rather than non-cash gain on sale earnings. We have increased our loan originations and revenue every year since inception using our conservative management principles.
- *Profit-Based Business Model and Supporting Tools*. We have created a culture that provides economic incentives to our employees to assess the risk in our loans correctly, report the risk accurately, and price the risk so as to assure both fairness to the borrower and profits to our company. We believe that our profit-oriented philosophy and technology tools give us a competitive advantage by directly rewarding our employees for contributing to our fundamental business goal of sustained profitability.
- *Experience*. We have over 50 managers and executives with over 20 years of experience in consumer finance and non-prime mortgage lending. Each of our 14 wholesale and two retail divisions is run by a seasoned executive who is evaluated and compensated based upon the profitability, including a full allocation of corporate costs and loan losses, of the executive's division.

- *Diversification*. We have diversified our loan origination, financing and disposition channels. Our top ten brokers in 2005 represented in the aggregate approximately 6% of our total loan origination volume. As of December 31, 2005, we had nine separate warehouse facilities in addition to a $1.0 billion asset backed commercial paper facility. In 2005, we sold to an aggregate of 32 whole loan purchasers, and during 2005, 2004 and 2003, we successfully completed a total of eleven independent securitizations.

We believe these strengths enable us to originate better-performing, non-prime loans, and grow a more profitable, more conservatively managed company than many of our competitors.

Our competitive position may be affected by fluctuations in interest rates and general economic conditions. During periods of rising interest rates, competitors that have "locked in" low borrowing costs may have a competitive advantage. During periods of declining interest rates, competitors may solicit our borrowers to refinance their loans. During economic slowdowns or recessions, our borrowers may face new financial difficulties and may be receptive to refinancing offers by our competitors.

Regulation

The mortgage lending industry is highly regulated. Our business is regulated by the federal, state, provincial (Alberta, British Columbia, Manitoba and Ontario) and local government authorities and is subject to federal, state and local laws, rules and regulations, as well as judicial and administrative decisions that impose requirements and restrictions on our business. At the federal level, these laws and regulations include, but are not limited to:

- the Equal Credit Opportunity Act;
- the Federal Truth in Lending Act;
- the Home Ownership and Equity Protection Act;
- the Real Estate Settlement Procedures Act;
- the Fair Credit Reporting Act;
- the Fair Debt Collection Practices Act;
- the Home Mortgage Disclosure Act;
- the Fair Housing Act;
- the Sarbanes-Oxley Act;
- the Gramm-Leach-Bliley Act;
- the Soldiers and Sailors Civil Relief Act; and
- the Telemarketing and Consumer Fraud and Abuse Prevention Act.

These laws, rules and regulations, among other things:

- impose licensing obligations and financial requirements on us;
- limit the interest rates, finance charges, and other fees that we may charge;
- prohibit discrimination;
- impose underwriting requirements;
- mandate disclosures and notices to consumers;
- in some cases, impose assignee liability on the entities that purchase our mortgage loans or on us for loans we purchase;

- mandate internal controls and financial disclosures;
- restrict sharing of personal, non-public information; and
- prohibit certain patterns of unsolicited phone calls, establish time of day restriction on such calls, and require certain disclosures in sales calls.

Our failure to comply with these laws can lead to:

- civil and criminal liability;
- loss of approved status;
- demands for indemnification or loan repurchases from buyers of our loans;
- class action lawsuits; and
- administrative enforcement actions.

We actively analyze and monitor the laws, rules and regulations that apply to our business, as well as the changes to such laws, rules and regulations. We seek to maximize the extent to which we can program the laws, rules and regulations into our technology tools, thereby substantially reducing human error as a source of non-compliance. In addition, user-friendly summaries of relevant laws, rules and regulations are directly distributed to all appropriate personnel, and losses attributable to non-compliance are factored into many of our incentive compensation calculations, thereby encouraging responsibility for compliance throughout our organization, including our loan origination operations. Our compliance with laws, rules and regulations is reviewed, not only by our own quality control department, but also by the warehouse lenders who finance our loans, the institutions that purchase our loans, the investment bankers, rating agencies and insurers that are involved in the securitization of our loans, and the regulating governmental agencies. Because of the national scope of our operations, we are continuously in one stage or another of an audit by one or more governmental agencies, and we do not believe that such audits have ever resulted in findings of material violations or the imposition of significant penalties.

New Areas of Regulation

Regulatory and legal requirements are subject to change, making our compliance more difficult and/or expensive, or otherwise restricting our ability to conduct our business as it is now conducted. In particular, federal, state and local governments have become more active in the consumer protection area in recent years. For example, the federal Gram-Leach-Bliley financial reform legislation imposes additional privacy obligations on us with respect to our applicants and borrowers. Several states are also considering adopting privacy legislation. In addition, several federal, state and local laws, rules and regulations have been adopted, or are under consideration, that are intended to eliminate so-called "predatory" lending practices.

The federal Home Ownership and Equity Protection Act ("HOEPA") identifies a category of mortgage loans and subjects such loans to restrictions not applicable to other mortgage loans. Loans subject to HOEPA consist of loans on which certain points and fees or the annual percentage rate ("APR") exceed specified levels. Liability for violations of applicable law with regard to loans subject to HOEPA would extend not only to us, but to the purchasers of our loans as well. We generally do not make loans that are subject to HOEPA because the purchasers of our loans and/or the lenders that provide financing for our loan origination operations do not want to purchase or finance such loans. On October 1, 2002, the APR and "points and fees" thresholds for determining loans subject to HOEPA were lowered, thereby expanding the scope of loans subject to HOEPA. We anticipate that we will continue to avoid making loans subject to HOEPA, and the lowering of the thresholds beyond which loans become subject to HOEPA may prevent us from making certain loans and may cause us to reduce the APR or the points and fees on loans that we do make. If we decide to relax our restrictions on loans subject to HOEPA because the purchasers of our loans and/or the lenders that provide financing for our loan origination operations

relax their restrictions, we will be subject to greater risks for actual or perceived non-compliance with HOEPA and other applicable laws, including demands for indemnification or loan repurchases from our lenders and loan purchasers, class action lawsuits and administrative enforcement actions.

Laws, rules and regulations have been adopted, or are under consideration, at the state and local levels that are similar to HOEPA in that they impose certain restrictions on loans on which certain points and fees or the APR exceeds specified thresholds, so-called "high cost" loans. The restrictions include prohibitions on "steering" borrowers into loans with high interest rates and away from more affordable products, selling unnecessary insurance to borrowers, "flipping" or repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans. Compliance with some of these restrictions requires lenders to make subjective judgments, such as whether a loan will provide a "net tangible benefit" to the borrower. These restrictions expose a lender to risks of litigation and regulatory sanction no matter how carefully a loan is underwritten. In addition, an increasing number of these laws, rules and regulations seek to impose liability for violations on purchasers of loans, regardless of whether a purchaser knew of or participated in the violation.

In general, it is against our policy to engage in the practices prohibited by these laws, and we could originate "high cost" loans that comply with all the requirements of these laws. However, we have generally avoided originating "high cost" loans because the rating agencies generally will not rate securities backed by such loans and the companies that buy our loans and/or provide financing for our loan origination operations generally do not want to buy or finance such loans. The continued enactment of these laws, rules and regulations may prevent us from making certain loans that we might otherwise make, may cause us to cease operations in certain jurisdictions altogether, and may cause us to reduce the APR or the points and fees on loans that we do make. In addition, the difficulty of managing the risks presented by these laws, rules and regulations may decrease the availability of warehouse financing and the overall demand for non-prime loans, making it difficult to fund, sell or securitize any of our loans. If we decide to relax our restrictions on loans subject to these laws, rules and regulations, we will be subject to greater risks for actual or perceived non-compliance with such laws, rules and regulations, including demands for indemnification or loan repurchases from our lenders and loan purchasers, class action lawsuits, increased defenses to foreclosure of individual loans in default, individual claims for significant monetary damages, and administrative enforcement actions. If nothing else, the growing number of these laws, rules and regulations will increase our cost of doing business, as we are required to develop systems and procedures to ensure that we do not violate any aspect of these new requirements.

Yield Spread Premiums

A substantial portion of our mortgage loans are originated through independent mortgage brokers. Mortgage brokers provide valuable services in the loan origination process and are compensated for their services by receiving fees on loans. Brokers may be paid by the borrower, the lender or both. If a borrower cannot or does not want to pay the mortgage broker's fees directly, the loan can be structured so that the mortgage broker's fees are paid from the proceeds of the loan, or the loan can provide for a higher interest rate or higher fees to the lender. The increased value of a loan with a higher interest rate enables the lender to pay all or a portion of the broker's compensation. This form of compensation is often referred to as a "yield spread premium." Regardless of its label or method of calculation, the payment is intended to compensate the broker for the services actually performed and the facilities actually provided. Competitive forces currently demand that we pay mortgage brokers yield spread premiums on many of the loans we originate.

The federal Real Estate Settlement Procedures Act ("RESPA") prohibits the payment of fees for the mere referral of real estate settlement service business. This law does permit the payment of reasonable value for services actually performed and facilities actually provided unrelated to the referral. On September 18, 2002, the Eleventh Circuit Court of Appeals issued a decision in *Heimmermann v. First Union Mortgage Corp.* that reversed the court's earlier decision in *Culpepper v. Irwin Mortgage Corp.,* in which the court found the yield spread premium payments received by a mortgage broker to be unlawful per se under RESPA. The Department

of Housing and Urban Development ("HUD") had responded to the *Culpepper* decision by issuing a policy statement (2001-1) taking the position that lender payments to mortgage brokers, including yield spread premiums, are not per se illegal. The *Heimmermann* decision eliminated a conflict that had arisen between the Eleventh Circuit and the Eighth and Ninth Circuit Courts of Appeals, with the result that all federal circuit courts, which have considered the issue have aligned with the HUD policy statement and found that yield spread premiums are not prohibited per se. If other circuit courts that have not yet reviewed this issue disagree with the *Heimmermann* decision, there could be a substantial increase in litigation regarding lender payments to brokers and in the potential costs of defending these types of claims and in paying any judgments that might result.

Licensing

We are licensed or registered (or exempt from licensing or registration requirements) by the relevant governmental agencies in all 50 states and in the District of Columbia to originate first and junior priority mortgages.

In the future, we may consider procuring a federal depository institution charter or acquiring an institution with such a charter in order to reduce the volume of state and local laws and regulations with which we must comply. If we proceed with this strategy, however, we will also be subject to a variety of other regulations with which we do not currently have to comply.

Environmental

In the ordinary course of our business, from time to time we foreclose on properties securing loans that are in default. There is a risk that hazardous or toxic waste could be found on these properties and we may be held liable to a governmental entity or to third parties for property damage, personal injury, and investigation and cleanup costs incurred in connection with the contamination. To date, we have been required to perform investigation or clean up activities in only one instance, and we have not been subject to any other environmental claims. This clean up activity has been completed and had no material effect on our business. We cannot assure you, however, that this will remain the case in the future.

Employees

We employed 2,762 full-time employees as of December 31, 2005. None of our employees are represented by a union or covered by a collective bargaining agreement. We believe our relations with our employees are good. We have a policy of conducting a comprehensive employee opinion survey approximately every 24 months. We have conducted five such surveys so far and have won four Peter Barron Stark Awards for Workplace Excellence in 2000, 2001, 2003 and 2005.

Executive Officers

Our executive officers and their ages as of December 31, 2005 are as follows:

James A. Konrath, 59, co-founded our company and has served as our Chairman of the Board and Chief Executive Officer since its formation in 1990. In addition, Mr. Konrath served as our President from 1990 to 1998. Prior to founding our company, Mr. Konrath was the President and Chief Executive Officer of Security Pacific Financial Services, Inc., where he managed over 1,900 people in more than 300 consumer finance offices, from 1986 to 1989. From 1983 to 1986, Mr. Konrath was the President and Chief Executive Officer of Security Pacific Housing Services, where he founded a new subsidiary focused on manufactured housing loans. Mr. Konrath earned his Bachelor of Arts degree in Accounting with a minor in Economics from the University of Wisconsin—Whitewater in 1969.

Joseph J. Lydon, 47, has served as our President and Chief Operating Officer since May 1998 and as a director since July 2004. From February 1997 until that time, Mr. Lydon was our Director of Sales and Marketing. From 1993 to 1997, Mr. Lydon was the Executive Vice President for the western division of Ford

Consumer Finance, a division of The Associates First Capital Corporation. From 1977 to 1993, Mr. Lydon worked at Security Pacific Financial Services, Inc. where he ultimately became a Senior Vice President with full profit and loss responsibilities and oversight of six divisions. Mr. Lydon earned his Bachelor of Science degree in Management from Pepperdine University in 1991.

Stuart D. Marvin, 46, has served as our Executive Vice President since April 2005. Mr. Marvin oversees finance, capital markets and corporate communications. He has over 22 years of experience in the financial services and non-prime mortgage industry. Prior to joining Accredited, he was President, Corporate Operations and Chief Financial Officer for Aegis Mortgage Corporation and a partner at PriceWaterhouse Coopers, LLP focusing on mortgage banking and financial institutions. Mr. Marvin is a Certified Public Accountant and earned a Bachelor of Science degree with honors in accounting from Jacksonville (FL) University in 1982.

John S. Buchanan, 50, has served as our Chief Financial Officer since April 2001. Prior to joining us, Mr. Buchanan was Controller of GreenPoint Credit, a non-prime consumer finance entity, from 1998 to 2001. There, Mr. Buchanan was responsible for accounting, planning, financial analysis, cash management and facilities. From 1992 to 1998, Mr. Buchanan was Senior Vice President and Chief Financial Officer of GreenPoint Credit's predecessor, BankAmerica Housing Services. From 1981 to 1990, Mr. Buchanan worked for Security Pacific Financial Services, Inc. where he ultimately became Vice President of Financial Planning and Analysis. Mr. Buchanan earned his Bachelor of Science degree in Business in 1978 from San Diego State University.

Jeffrey W. Crawford, 51, has served as our Director of Operations since January 1999. Mr. Crawford oversees the corporate underwriting, loan closing, post-closing and asset management/servicing departments. From 1994 to 1999, Mr. Crawford held various positions with Ford Consumer Finance, the most recent of which was Senior Vice President-Division Manager. From 1983 to 1994, Mr. Crawford was the Branch Manager, Director of Credit Scoring Systems, Assistant Vice President Administration and Vice President of Consumer Administration for Security Pacific Financial Services, Inc. Mr. Crawford earned his Bachelor of Science degree in Business from Iowa State University in 1977.

David E. Hertzel, 51, has served as our General Counsel since December 1995. Mr. Hertzel is responsible for regulatory compliance, licensing and qualification, corporate record-keeping, litigation, contract negotiation and all other legal matters. Prior to joining us, Mr. Hertzel was Vice President and Senior Counsel of American Residential Mortgage Corporation, from 1991 to 1994. From 1988 to 1991, he was Vice President and Senior Counsel of Imperial Savings Association. Mr. Hertzel earned his Juris Doctor degree from the University of Utah College of Law in 1980 and is a member of the State Bar of California.

Executive Offices

Our principal executive offices are located at 15090 Avenue of Science, San Diego, California 92128 (telephone number (858) 676-2100).

Access to SEC Filings

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 will be accessible at no cost on our website, http://www.accredhome.com, as soon as reasonably practicable after those reports have been electronically filed or submitted to the SEC. These filings will also be accessible on the SEC's website, http://www.sec.gov.

ITEM 1A. Risk Factors

You should carefully consider the following risks, together with other matters described in this Form 10-K in evaluating our business and prospects. If any of the events referred to below actually occur, our business, financial condition, liquidity and results of operations could suffer. In that case, the trading price of our common stock could decline. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Certain statements in this Form 10-K (including certain of the following risk factors) constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on page 6 of this Form 10-K.

Risks Related to Our Business

We face intense competition that could adversely impact our market share and our revenues.

We face intense competition from finance and mortgage banking companies, Internet-based lending companies where entry barriers are relatively low, and from traditional bank and thrift lenders that have entered the non-prime mortgage industry. As we seek to expand our business further, we will face a significant number of additional competitors, many of whom will be well established in the markets we seek to penetrate. Some of our competitors are much larger, have better name recognition, and have far greater financial and other resources than us.

The government-sponsored entities Fannie Mae and Freddie Mac are also expanding their participation in the non-prime mortgage industry. These government-sponsored entities have a size and cost-of-funds advantage that allows them to purchase loans with lower rates or fees than we are willing to offer. While the government-sponsored entities presently do not have the legal authority to originate mortgage loans, including non-prime loans, they do have the authority to buy loans. A material expansion of their involvement in the market to purchase non-prime loans could change the dynamics of the industry by virtue of their sheer size, pricing power and the inherent advantages of a government charter. In addition, if as a result of their purchasing practices, these government-sponsored entities experience significantly higher-than-expected losses, such experience could adversely affect the overall investor perception of the non-prime mortgage industry.

The intense competition in the non-prime mortgage industry has also led to rapid technological developments, evolving industry standards and frequent releases of new products and enhancements. As mortgage products are offered more widely through alternative distribution channels, such as the Internet, we may be required to make significant changes to our current retail and wholesale structure and information and technology systems to compete effectively. Our inability to continue enhancing our current Internet capabilities, or to adapt to other technological changes in the industry, could significantly harm our business, financial condition, liquidity and results of operations. In addition, we rely on software and other technology-based programs to gather and analyze competitive and other data from the marketplace. Problems with our technology or inability to implement technological changes may, therefore, result in delayed detection of market trends and conditions.

Competition in the industry can take many forms, including interest rates and costs of a loan, less stringent underwriting standards, offering of loan products which we do not offer, convenience in obtaining a loan, customer service, amount and term of a loan and marketing and distribution channels. The need to maintain mortgage loan volume in this competitive environment creates a risk of price competition in the non-prime mortgage industry. Price competition could prevent us from raising rates in response to a rising cost of funds or cause us to lower the interest rates that we charge borrowers, which could adversely impact our profitability and lower the value of our loans. If our competitors adopt less stringent underwriting standards, we will be pressured to do so as well, which would result in greater loan risk without compensating pricing. If we do not relax underwriting standards in response to our competitors, we may lose market share. Any increase in these pricing and underwriting pressures could reduce the volume of our loan originations and sales and significantly harm our business, financial condition, liquidity and results of operations.

Any substantial economic slowdown could increase delinquencies, defaults and foreclosures and reduce our ability to originate loans.

Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit, decreased real estate values, and increased rates of delinquencies, defaults and foreclosures. Any material decline in real estate values would increase the loan-to-value ratios ("LTVs") on loans that we hold pending sale and loans in which we have a residual or retained interest, weaken our collateral coverage and increase the possibility and severity of a loss if a borrower defaults. We originate loans to borrowers who make little or no down payment, resulting in higher LTVs. A lack of equity in the home may reduce the incentive a borrower has to meet his payment obligations during periods of financial hardship, which might result in higher delinquencies, defaults and foreclosures. These factors would reduce our ability to originate loans and increase our losses on loans in which we have a residual or retained interest. In addition, loans we originate during an economic slowdown may not be as valuable to us because potential purchasers of our loans might reduce the premiums they pay for the loans to compensate for any increased risks arising during such periods. Any sustained increase in delinquencies, defaults or foreclosures is likely to significantly harm the pricing of our future loan sales and securitizations and also our ability to finance our loan originations.

We finance borrowers with lower credit ratings. The non-prime loans we originate generally have higher delinquency and default rates than prime mortgage loans, which could result in losses on loans that we hold or that we are required to repurchase, the loss of our servicing rights and damage to our reputation as a loan servicer.

We are in the business of originating, selling, securitizing and servicing non-prime mortgage loans. Non-prime mortgage loans generally have higher delinquency and default rates than prime mortgage loans. Delinquency interrupts the flow of projected interest income from a mortgage loan and default can ultimately lead to a loss if the net realizable value of the real property securing the mortgage loan is insufficient to cover the principal and interest due on the loan. Also, our cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. We bear the risk of delinquency and default on loans beginning when we originate them until we sell them and we continue to bear the risk of delinquency and default after we securitize loans or sell loans with a retained interest. Loans that become delinquent prior to sale or securitization may become unsaleable or saleable only at a discount, and the longer we hold loans prior to sale or securitization, the greater the chance we will bear the costs associated with the loans' delinquency. Factors that may increase the time held prior to sale or securitization include the time required to accumulate loans for securitizations or sales of large pools of loans, the amount and timing of third-party due diligence in connection with sales or securitizations, and defects in the loans.

We also reacquire the risks of delinquency and default for loans that we are obligated to repurchase. Repurchase obligations are typically triggered in loan sale transactions if an early payment default occurs on the loan after sale or in any sale or securitization if the loan materially violates our representations or warranties. During the year ended December 31, 2005 and 2004 loans repurchased totaled $72.3 million and $41.9 million, respectively, pursuant to these obligations. If we experience higher-than-expected levels of delinquency or default in pools of loans that we service, we may lose our servicing rights, which would result in a loss of future servicing income and may damage our reputation as a loan servicer.

We attempt to manage these risks with risk-based mortgage loan pricing and appropriate underwriting policies and loan collection methods. However, if such policies and methods are insufficient to control our delinquency and default risks and do not result in appropriate loan pricing, our business, financial condition, liquidity and results of operations could be significantly harmed. Our total delinquency rate (30 or more days past due, including loans in foreclosure and converted into real estate owned) for our servicing portfolio was 2.5% at December 31, 2005. Historically, our delinquency rate has increased, and may increase in the future, as the mortgage loans in our portfolio age.

An increase in interest rates could result in a reduction in our loan origination volumes, an increase in delinquency, default and foreclosure rates and a reduction in the value of, and income from, our loans.

The following are some of the risks we face related to an increase in interest rates:

- A substantial and sustained increase in interest rates could harm our ability to originate loans because refinancing an existing loan would be less attractive and qualifying for a purchase loan may be more difficult.
- Existing borrowers with adjustable-rate mortgages or higher risk loan products may incur higher monthly payments as the interest rate increases, or experience higher delinquency and default rates.
- If prevailing interest rates increase after we fund a loan, the value that we receive upon the sale or securitization of the loan decreases.
- The cost of financing our mortgage loans prior to sale or securitization is based primarily upon the London Inter-Bank Offered Rate ("LIBOR"). The interest rates we charge on our mortgage loans are based, in part, upon prevailing interest rates at the time of origination, and the interest rates on all of our mortgage loans are fixed for at least the first six months, or two, three or five years. If LIBOR increases after the time of loan origination, our net interest income—which represents the difference between the interest rates we receive on our mortgage loans pending sale or securitization and our LIBOR-based cost of financing such loans—will be reduced. The weighted average cost of financing our mortgage loans, prior to sale or securitization, was 4.56% during the year ended December 31, 2005.
- When we securitize loans or sell loans with retained interests, the value of and the income we receive from the loans held for investment subject to portfolio-based accounting and the mortgage-related securities we retain are also based on LIBOR to the extent the underlying loans have an adjustable interest rate. This is because the income we receive from these mortgage loans and mortgage-related securities is based on the difference between the fixed rates payable on the loans for the first two or three years, and an adjustable LIBOR-based yield payable to the senior security holders or loan purchasers. We also have interest rate risk when the loans become adjustable after their two or three year fixed rate period. This is due to the loan rates resetting every six months, subject to various caps and floors, versus the monthly reset on the rate passed through to the investors in the mortgage-related securities and holders of the securitization bonds.

Accordingly, our business, financial condition, liquidity and results of operations may be significantly harmed as a result of increased interest rates.

Our business may be significantly harmed by a slowdown in the economy or a natural disaster in the states of California or Florida, where we conduct a significant amount of business.

A significant portion of the mortgage loans we have originated, purchased or serviced has been secured by properties in California and Florida. During the year ended December 31, 2005, 19% and 11% of the principal balance of the loans we originated were collateralized by properties located in California and Florida, respectively. At December 31, 2005, 20% and 10% of the unpaid principal balance of loans we serviced were collateralized by properties located in California and Florida, respectively. An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster that is not covered by standard homeowners' insurance policies, such as an earthquake, hurricane or wildfire, could decrease the value of mortgaged properties in these states. This, in turn, would increase the risk of delinquency, default or foreclosure on mortgage loans in our portfolio or that we have sold to others. This could restrict our ability to originate, sell, or securitize mortgage loans, and significantly harm our business, financial condition, liquidity and results of operations.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. When rates change, we expect to record a gain or loss on

derivatives which would be offset by an inverse change in the value of loans held for sale and mortgage-related securities, as reflected in the Interest Rate Simulation Sensitivity Analysis in the section entitled Market Risk in "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." We cannot assure you, however, that our use of derivatives will offset the risks related to changes in interest rates. There have been periods, and it is likely that there will be periods in the future, during which we will not have offsetting gains or losses in loan values after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies, improperly executed and recorded transactions or inaccurate assumptions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. See discussion under Market Risk in "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our business requires a significant amount of cash and if it is not available our business will be significantly harmed.

Our primary sources of cash are our warehouse credit facilities, our commercial paper program and the proceeds from the sales and securitizations of our loans. We require substantial cash to fund our loan originations, to pay our loan origination expenses and to hold our loans pending sale or securitization. Also, as a servicer of loans, we are required to advance delinquent principal and interest payments, unpaid property taxes, hazard insurance premiums, and foreclosure and foreclosure-related costs. Our warehouse and commercial paper program credit facilities also require us to observe certain financial covenants, including the maintenance of certain levels of cash and general liquidity in our company.

As of December 31, 2005, we financed substantially all of our loans through nine separate warehouse lenders and our commercial paper program. Each of these facilities is cancelable by the lender for cause at any time and at least one is cancelable at any time without cause. These facilities generally have a renewable, one-year term. Because these are short-term commitments of capital, the lenders may respond to market conditions, which may favor an alternative investment strategy for them, making it more difficult for us to secure continued financing. If we are not able to renew any of these warehouse credit facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under any of these facilities, or if the lenders do not honor their commitments for any reason, we will have to curtail our loan origination activities. This would result in decreased revenues and profits from loan sales.

The timing of our loan dispositions (which are periodic) is not always matched to the timing of our expenses (which are continuous). This requires us to maintain significant levels of cash to maintain acceptable levels of liquidity. When we securitize our loans or sell our loans with a retained interest, we may not receive any amounts in excess of the principal amount of the loan for up to 12 months or longer. Further, any decrease in demand in the whole loan market such that we are unable to timely and profitably sell our loans could inhibit our ability to meet our liquidity demands.

Our credit facilities contain covenants that restrict our operations and may inhibit our ability to grow our business and increase revenues.

Our credit facilities contain extensive restrictions and covenants that, among other things, require us to satisfy specified financial, asset quality and loan performance tests and may prohibit inter-company dividends in certain circumstances. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. These agreements also contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default.

The covenants and restrictions in our credit facilities may restrict our ability to, among other things:

- incur additional debt;
- make certain investments or acquisitions;
- repurchase or redeem capital stock;
- engage in mergers or consolidations;
- finance loans with certain attributes;
- reduce liquidity below certain levels; and
- hold loans for longer than established time periods.

These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may significantly harm our business, financial condition, liquidity and results of operations.

Our rights to cash flow from our loans held for investment subject to portfolio-based accounting are subordinate to senior interests and may fail to generate any cash flow for us if the mortgage loan payment stream only generates enough cash flow to pay the senior interest holders.

As part of the credit enhancement for our securitizations, the net cash flow that we receive from the loans held for investment generally represents the excess of amounts, if any, generated by the underlying mortgage loans over the amounts required to be paid to the senior security holders or loan purchasers. This excess amount is also calculated after deduction of servicing fees and any other specified expenses related to the sale or securitization. These excess amounts are derived from, and are affected by, the interplay of several factors, including:

- the extent to which the interest rates of the mortgage loans exceed the interest rates payable to the senior security holders or loan purchasers;
- the level of losses and delinquencies experienced on the underlying loans; and
- the extent to which the underlying loans are prepaid by borrowers in advance of scheduled maturities.

Any combination of the factors listed above may reduce the income we receive from and the value of our loans held for investment.

If we do not manage our growth effectively, our financial performance could be harmed.

In recent years, we have experienced rapid growth that has placed, and will continue to place, certain pressures on our management, administrative, operational and financial infrastructure. As of December 31, 2002, we had 1,294 employees and by December 31, 2005, we had 2,762 employees. Many of these employees have very limited experience with us and a limited understanding of our systems and controls. The increase in the size of our operations may make it more difficult for us to ensure that we originate quality loans and that we service them effectively. We will need to attract and hire additional sales, servicing and management personnel in an intensely competitive hiring environment in order to preserve and increase our market share. At the same time, we will need to continue to upgrade and expand our financial, operational and managerial systems and controls. We also intend to continue to grow our business in the future, which could require capital, systems development and human resources beyond what we currently have. We cannot assure you that we will be able to:

- meet our capital needs;
- expand our systems effectively;
- allocate our human resources optimally;

- identify and hire qualified employees;
- satisfactorily perform our servicing obligations; or
- effectively integrate the components of any businesses that we may acquire in our effort to achieve growth.

The failure to manage growth effectively would significantly harm our business, financial condition, liquidity and results of operations.

Our inability to attract and retain qualified employees could significantly harm our business.

We depend upon our wholesale account executives and retail loan officers to attract borrowers by, among other things, developing relationships with financial institutions, other mortgage companies and brokers, real estate agents, borrowers and others. We believe that these relationships lead to repeat and referral business. The market for skilled executive officers, account executives and loan officers is highly competitive and historically has experienced a high rate of turnover. Because of the difficulty in retaining qualified management personnel, we currently recruit college graduates to participate in our management trainee program. If we are unable to retain those trainees for a sufficient period following their training, we may be unable to recapture our costs of training and recruitment. In addition, if a manager leaves our company there is an increased likelihood that other members of his or her team will follow. Competition for qualified account executives and loan officers may lead to increased hiring and retention costs. If we are unable to attract or retain a sufficient number of skilled account executives at manageable costs, we will be unable to continue to originate quality mortgage loans that we are able to sell for a profit, which will reduce our revenues.

We may not be able to continue to sell and securitize our mortgage loans on terms and conditions that are profitable to us.

A substantial portion of our revenues comes from the gains on sale generated by sales of pools of our mortgage loans as whole loans. We make whole loan sales to a limited number of institutional purchasers, some of which may be frequent, repeat purchasers, and others of which may make only one or a few purchases from us. We cannot assure you that we will continue to have purchasers for our loans on terms and conditions that will be profitable to us. Also, even though our mortgage loans are generally marketable to multiple purchasers, certain loans may be marketable to only one or a few purchasers, thereby increasing the risk that we may be unable to sell such loans at a profit.

We also rely on our ability to securitize our mortgage loans to realize a greater percentage of the full economic value of the loans. We cannot assure you, however, that we will continue to be successful in securitizing mortgage loans. Our ability to complete securitizations of our loans will depend upon a number of factors, many of which are beyond our control, including conditions in the credit and securities markets generally, conditions in the asset-backed securities market specifically, the availability of credit enhancements such as financial guarantee insurance, a senior subordinated structure or other means, and the performance of our loans previously held for investment.

An interruption in, or breach of, our information systems may result in lost business.

We rely heavily upon communications and information systems to conduct our business. As we implement our growth strategy and increase our volume of loan production, that reliance will increase. Any failure, interruption or breach in the security of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer loan applications being received, slower processing of applications and reduced efficiency in loan servicing. We cannot assure you that such failures or interruptions will not occur, or if they do occur that they will be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could significantly harm our business.

The success and growth of our business will depend upon our ability to adapt to and implement technological changes.

Our mortgage loan origination business is currently dependent upon our ability to effectively interface with our brokers, borrowers and other third parties and to efficiently process loan applications and closings. The origination process is becoming more dependent upon technological advancement, such as the ability to process applications over the Internet, accept electronic signatures, provide status updates instantly and other customer-expected conveniences that are cost-efficient to our business. In addition, competition and increasing regulation may increase our reliance on technology as a means to improve efficiency. Implementing this new technology and becoming proficient with it may also require significant capital expenditures. As these requirements increase in the future, we will have to fully develop these technological capabilities to remain competitive or our business will be significantly harmed.

If we are unable to maintain and expand our network of independent brokers, our loan origination business will decrease.

A significant majority of our originations of mortgage loans comes from independent brokers. During 2005, 90% of our loan originations were originated through our broker network. Our brokers are not contractually obligated to do business with us. Further, our competitors also have relationships with our brokers and actively compete with us in our efforts to expand our broker networks. Accordingly, we cannot assure you that we will be successful in maintaining our existing relationships or expanding our broker networks, the failure of which could significantly harm our business, financial condition, liquidity and results of operations.

Our financial results fluctuate as a result of seasonality and other timing factors, which makes it difficult to predict our future performance and may affect the price of our common stock.

Our business is generally subject to seasonal trends. These trends reflect the general pattern of housing sales, which typically peak during the spring and summer seasons. Our quarterly operating results have fluctuated in the past and are expected to fluctuate in the future, reflecting the seasonality of the industry. Further, if the closing of a sale of loans is postponed, the recognition of gain from the sale is also postponed. If such a delay causes us to recognize income in the next quarter, our results of operations for the previous quarter could be significantly depressed.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by third parties including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the mortgage broker, another third party or one of our own employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation. Even though we may have rights against persons and entities who made or knew about the misrepresentation, such persons and entities are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered as a result of their actions.

We have controls and processes designed to help us identify misrepresented information in our loan origination operations. We cannot assure you, however, that we have detected or will detect all misrepresented information in our loan originations.

We are subject to losses due to fraudulent and negligent acts in other parts of our operations. If we experience a significant number of such fraudulent or negligent acts, our business, financial condition, liquidity and results of operations would be significantly harmed.

Defective loans may harm our business.

In connection with the sale and securitization of our loans, we are required to make a variety of customary representations and warranties regarding our company and the loans. We are subject to these representations and warranties for the life of the loan and they relate to, among other things:

- compliance with laws;
- regulations and underwriting standards;
- the accuracy of information in the loan documents and loan file; and
- the characteristics and enforceability of the loan.

A loan that does not comply with these representations and warranties may take longer to sell, impact our ability to obtain third party financing, and be unsaleable or saleable only at a discount. If such a loan is sold before we detect a non-compliance, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any such losses, either of which could reduce our cash available for operations and liquidity. We believe that we have qualified personnel at all levels and have established controls to ensure that all loans are originated to the market's requirements, but we cannot assure you that we will not make mistakes, or that certain employees will not deliberately violate our lending policies. We seek to minimize losses from defective loans by correcting flaws if possible and selling or re-selling such loans. We also create allowances to provide for defective loans in our financial statements. We cannot assure you; however, that losses associated with defective loans will not harm our results of operations or financial condition.

If the prepayment rates for our mortgage loans are different than expected, our results of operations may be significantly harmed.

When a borrower pays off a mortgage loan prior to the loan's scheduled maturity, the impact on us depends upon when such payoff or "prepayment" occurs. Our prepayment losses generally occur after we sell or securitize our loans and the extent of our losses depends on when the prepayment occurs. If the prepayment occurs:

- within 12 to 18 months following a whole loan sale, we may have to reimburse the purchaser for all or a portion of the premium paid by the purchaser for the loan, again resulting in a loss of our profit on the loan; or
- after we have securitized the loan or sold the loan in a sale, we lose the future income from that loan.

Prepayment rates on mortgage loans vary from time to time and tend to increase during periods of declining interest rates. Of the securitized loans we serviced during the year ended December 31, 2005, 30.0% were prepaid. We seek to minimize our prepayment risk through a variety of means, including originating a significant portion of loans with prepayment penalties with terms of two to five years. No strategy, however, can completely insulate us from prepayment risks, whether arising from the effects of interest rate changes or otherwise. See "Statutory and Regulatory Risks" below for a discussion of statutes related to prepayment penalties.

We are exposed to environmental liabilities, with respect to properties that we take title to upon foreclosure, that could increase our costs of doing business and harm our results of operations.

In the course of our servicing activities, we may foreclose and take title to residential properties and become subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. Moreover, as the owner or former owner of a contaminated site, we may be

subject to common law claims by third parties based upon damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations would be significantly harmed.

Statutory and Regulatory Risks

The scope of our operations exposes us to risks of noncompliance with an increasing and inconsistent body of complex laws and regulations at the federal, state and local levels.

Because we originate mortgage loans in all 50 states, in the District of Columbia and Canada, we must comply with the laws and regulations, as well as judicial and administrative decisions, of all of these jurisdictions, as well as an extensive body of federal and international laws and regulations. The volume of new or modified laws and regulations has increased in recent years, and, in addition, individual cities and counties have begun to enact laws that restrict non-prime loan origination activities in those cities and counties. The laws and regulations of each of these jurisdictions are different, complex and, in some cases, in direct conflict with each other. As our operations continue to grow, it may be more difficult to comprehensively identify, to accurately interpret and to properly program our technology systems and effectively train our personnel with respect to all of these laws and regulations, thereby potentially increasing our exposure to the risks of noncompliance with these laws and regulations.

For example, certain provisions of Illinois law, known as the Illinois Interest Act, limit the charging of certain fees on mortgage loans with interest rates that exceed a specified threshold. On March 31, 2004, an Illinois appellate court held, in U.S. Bank, National Association, et al., v. Clark, et al., that the Illinois Interest Act was not preempted by federal law. Before this decision, prior case law and published positions of the Illinois Attorney General and the Illinois Office of Banks and Real Estate supported federal preemption of the Illinois Interest Act with respect to first priority mortgage loans. In reliance on that prior authority, some of the first priority mortgage loans we made in Illinois prior to the Clark decision had fees which may have exceeded the limit of the Illinois Interest Act. Damages for violation of the Illinois Interest Act include actual economic damage and an amount equal to twice the total of all interest, discount and charges determined by the loan contract or paid by the obligor, whichever is greater. The Clark decision is currently on appeal to the Supreme Court of Illinois. If the Clark decision is not reversed on appeal, or if legislation overriding the holding of the Clark decision is not enacted, we could be materially and adversely affected by the potential liability from mortgage loans we made prior to the Clark decision which may be found to have been in violation of the Illinois Interest Act.

In addition, recently enacted and changed laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission regulations and stock exchange rules, are creating uncertainties for companies like ours. These new or changed laws, regulations and standards are subject to varying interpretations due, in many cases, to their lack of specificity. As their applications evolve over time and new guidance is provided by regulatory and governing bodies, we may incur higher costs of compliance resulting from ongoing revisions to our disclosure and governance practices.

Our failure to comply with these laws can lead to:

- civil and criminal liability;
- loss of approved status;
- demands for indemnification or loan repurchases from purchasers of our loans;
- class action lawsuits; and administrative enforcement actions.

Stockholder refusal to comply with regulatory requirements may interfere with our ability to do business in certain states.

Some states in which we operate may impose regulatory requirements on our officers and directors and persons holding certain amounts, usually 10% or more, of our common stock. If any person holding such an amount of our stock fails to meet or refuses to comply with a state's applicable regulatory requirements for mortgage lending, we could lose our authority to conduct business in that state.

We may be subject to fines or other penalties based upon the conduct of our independent brokers.

The mortgage brokers from whom we obtain loans are subject to legal obligations which are parallel to, but separate from, the legal obligations that we are subject to as a lender. While these laws may not explicitly hold the originating lenders responsible for the legal violations of mortgage brokers, federal and state agencies have increasingly sought to impose such assignee liability.

For example, the United States Federal Trade Commission ("FTC") entered into a settlement agreement with a mortgage lender in which the FTC characterized a broker that had placed all of its loan production with a single lender as the "agent" of the lender. The FTC imposed a fine on the lender in part because, as "principal," the lender was legally responsible for the mortgage broker's unfair and deceptive acts and practices. Also, the United States Justice Department in the past has sought to hold a non-prime mortgage lender responsible for the pricing practices of its mortgage brokers, alleging that the mortgage lender was directly responsible for the total fees and charges paid by the borrower under the Fair Housing Act even if the lender neither dictated what the mortgage broker could charge nor kept the money for its own account. Accordingly, we may be subject to fines or other penalties based upon the conduct of our independent mortgage brokers.

We are no longer able to rely on the Alternative Mortgage Transactions Parity Act to preempt certain state law restrictions on prepayment penalties, and we may be unable to compete effectively with financial institutions that are exempt from such restrictions.

The value of a mortgage loan depends, in part, upon the expected period of time that the mortgage loan will be outstanding. If a borrower pays off a mortgage loan in advance of this expected period, the holder of the mortgage loan does not realize the full value expected to be received from the loan. However, a prepayment penalty payable by a borrower who repays a loan earlier than expected helps offset the reduction in value resulting from the early payoff. Consequently, the value of a mortgage loan is enhanced to the extent the loan includes a prepayment penalty, and a mortgage lender can offer a lower interest rate and/or lower loan fees on a loan which has a prepayment penalty. Prepayment penalties are an important feature to obtain value on the loans we originate.

Certain state laws restrict or prohibit prepayment penalties on mortgage loans, and we have relied on the federal Alternative Mortgage Transactions Parity Act (the "Parity Act") and related rules issued in the past by the Office of Thrift Supervision (the "OTS") to preempt state limitations on prepayment penalties. The Parity Act was enacted to extend to financial institutions, other than federally chartered depository institutions, the federal preemption which federally chartered depository institutions enjoy. However, on September 25, 2002, the OTS released a new rule that reduced the scope of the Parity Act preemption as of July 1, 2003, preventing us from relying on the Parity Act to preempt state restrictions on prepayment penalties. The elimination of this federal preemption requires us to comply with state restrictions on prepayment penalties. This may place us at a competitive disadvantage relative to financial institutions that will continue to enjoy federal preemption of such state restrictions because such institutions will be able to charge prepayment penalties without regard to state restrictions and thereby may be able to offer loans with interest rate and loan fee structures that are more attractive than we are able to offer.

The increasing number of federal, state and local "anti-predatory lending" laws may restrict our ability to originate, or increase our risk of liability with respect to, certain mortgage loans and could increase our cost of doing business.

In recent years, several federal, state and local laws, rules and regulations have been adopted, or are under consideration, that are intended to eliminate so-called "predatory" lending practices. These laws, rules and regulations impose certain restrictions on loans on which certain points and fees or the annual percentage rate ("APR") exceeds specified thresholds, commonly referred to as "high cost" loans. Some of these restrictions expose a lender to risks of litigation and regulatory sanction no matter how carefully a loan is underwritten. In addition, an increasing number of these laws, rules and regulations seek to impose liability for violations on purchasers of loans, regardless of whether a purchaser knew of or participated in the violation.

We have generally avoided and will continue to avoid originating "high cost" loans because the rating agencies generally will not rate securities backed by such loans, and the companies that buy our loans and/or provide financing for our loan origination operations generally do not want to buy or finance such loans. The continued enactment or adoption of these laws, rules and regulations may prevent us from making certain loans that we would otherwise make, may cause us to cease operations in certain jurisdictions altogether and may cause us to reduce the APR or the points and fees on loans that we do make. In addition, the difficulty of managing the risks presented by these laws, rules and regulations may decrease the availability of warehouse financing and the overall demand for non-prime loans, making it difficult to fund, sell or securitize any of our loans. If we decide to relax our restrictions on loans subject to these laws, rules and regulations, we will be subject to greater risks for actual or perceived non-compliance with such laws, rules and regulations, including demands for indemnification or loan repurchases from our lenders and loan purchasers, class action lawsuits, increased defenses to foreclosure of individual loans in default, individual claims for significant monetary damages, and administrative enforcement actions. If nothing else, the growing number of these laws, rules and regulations will increase our cost of doing business, as we are required to develop systems and procedures to ensure that we do not violate any aspect of these new requirements. Any of the foregoing could significantly harm our business, financial condition, liquidity and results of operations.

Risks Related to Our Capital Structure

Our guarantee of the Series A preferred shares of the REIT is senior to claims of our common stockholders.

Our guarantee of dividend and principal payments on the Series A preferred shares of the REIT is subordinate to all of our existing and future indebtedness but is senior to our common stock. As a result, upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of the Series A preferred shares will be entitled to be paid in full under the guarantee before any payment may be made to holders of our common stock.

We are a holding company and our assets consist primarily of investments in our subsidiaries. Substantially all of our consolidated liabilities have been incurred by our subsidiaries. Therefore, our right to participate in the distribution of assets of any subsidiary upon the latter's liquidation or reorganization will be subject to prior claims of the subsidiary's creditors, including trade creditors, except to the extent that we may be a creditor with recognized claims against the subsidiary, in which case our claims would still be subject to the prior claims of any secured creditor of such subsidiary and of any holder of indebtedness of such subsidiary that is senior to that held by us.

If the REIT fails to maintain its status as a real estate investment trust, the REIT will be subject to federal and state income tax on taxable income at regular corporate rates, and the value of our common stock may be adversely impacted as a result.

The REIT was organized to qualify for taxation as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code"). The REIT has conducted, and intends to continue to conduct, its

operations so as to qualify as a real estate investment trust. Qualification as a real estate investment trust involves the satisfaction of numerous requirements, some on an annual and some on a quarterly basis, established under highly technical and complex provisions of the Code for which there are only limited judicial and administrative interpretations and involves the determination of various factual matters and circumstances not entirely within the REIT's control. For instance, in order to qualify as a real estate investment trust, no more than 50% of the value of the outstanding shares of beneficial interest of the REIT may be beneficially owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) (the "Ownership Test"). Furthermore, each year the REIT must distribute to its shareholders at least 90% of the REIT's taxable income (the "Annual Distribution Requirements"). We cannot assure you that the REIT will at all times satisfy these rules and tests.

If the REIT were to fail to timely meet the Annual Distribution Requirements, satisfy the Ownership Test or otherwise qualify as a real estate investment trust in any taxable year, the REIT would be subject to federal and state income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions, the REIT would also be disqualified from treatment as a real estate investment trust for the four taxable years following the year during which the qualification is lost. This treatment would reduce the REIT's net earnings and cash flow available for distribution to shareholders, including to us as holder of the REIT's common shares, because of its additional tax liability for the years involved. Additionally, distributions to shareholders would no longer be required to be made by the REIT. Accordingly, the REIT's failure to qualify as a real estate investment trust could have a material adverse impact on our financial results and the value of the common stock held by our stockholders.

Moreover, in order to satisfy the Ownership Test, the REIT's Declaration of Trust establishes certain ownership restrictions on its shares of beneficial interest. For example, no individual (as described above) may beneficially own more than 9.8% of the value of the REIT. Even with this restriction, depending on the concentration of ownership of our stock and the relative value in the REIT's common and preferred shares, it is possible that our ownership of the REIT's common shares would cause the REIT to fail to satisfy the Ownership Test. In such a situation, the Declaration of Trust would require that the number of the REIT common shares held by us which causes the REIT to fail to satisfy the Ownership Test be transferred to a charitable trust at a price no greater than the fair market value of the REIT common shares as of such date, and we would have no future beneficial interest in such REIT common shares (including the right to vote or receive dividends on such REIT common shares).

The market price of our common stock could be volatile.

The market price for our common stock may fluctuate substantially due to a number of factors, including:

- the issuance of new equity securities pursuant to a future offering;
- changes in interest rates;
- competitive developments, including announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- variations in quarterly operating results;
- changes in financial estimates and forecasts published by securities analysts;
- the depth and liquidity of the market for our common stock;
- investor perceptions of our company and the mortgage industry generally (including the non-prime and nonconforming mortgage industry); and
- general economic and other national conditions.

Some provisions of our certificate of incorporation and bylaws may deter takeover attempts, which may limit the opportunity of our stockholders to sell their shares at a favorable price.

Some of the provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares possibly at a premium over the then market price.

For example, our board of directors is divided into three classes. At each annual meeting of stockholders, the terms of approximately one-third of the directors will expire, and new directors will be elected to serve for three years. The term of the first class expires at the 2007 annual meeting of stockholders, the term of the second class expires in 2008, and the term of the third class expires in 2006. Thus, it will take at least two annual meetings to effect a change in control of our board of directors because a majority of the directors cannot be elected at a single meeting, which may delay, discourage, prevent or make it more difficult or costly to acquire or effect a change in control, even if such a change in control would be favorable to our stockholders.

In addition, our certificate of incorporation authorizes the board of directors to issue up to 5,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by our board of directors without further action by the stockholders. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. No shares of preferred stock are presently outstanding. The issuance of any preferred stock in the future could diminish the rights of holders of our common stock, and therefore could reduce the value of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of our board of directors to issue preferred stock could delay, discourage, prevent or make it more difficult or costly to acquire or effect a change in control, even if such a change in control would be favorable to our stockholders.

Our bylaws contain provisions that require stockholders to act only at a duly-called meeting and make it difficult for any person other than management to introduce business at a duly-called meeting by requiring such other person to follow certain notice procedures.

Finally, we are also subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder. The preceding provisions of our certificate of incorporation and bylaws, as well as Section 203 of the Delaware General Corporation Law, could discourage potential acquisition proposals, or delay or prevent a change of control and prevent changes in our management, even if such things would be in the best interests of our stockholders.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

Our national headquarters is located in San Diego, CA and includes approximately 275,000 square feet in four buildings located in the same general area. The leases for these premises expire on various dates from December 31, 2006 to May 31, 2016. As of December 31, 2005, we leased an additional 57 properties in 23 states and two locations in Canada. These properties range in size from approximately 500 to 30,900 square feet with original lease terms varying from month-to-month to 8 years. We do not consider any specific leased location to be material to our operations. We believe that equally suitable alternative locations are available in all areas where we currently do business.

ITEM 3. Legal Proceedings

In December 2002, we were served with a complaint and motion for class certification in a class action lawsuit, *Wratchford et al. v. Accredited Home Lenders, Inc.,* brought in Madison County, Illinois under the Illinois Consumer Fraud and Deceptive Business Practices Act, the consumer protection statutes of the other states in which we do business and the common law of unjust enrichment. The complaint alleges that we have a practice of misrepresenting and inflating the amount of fees we pay to third parties in connection with the residential mortgage loans that we fund. The plaintiffs claim to represent a nationwide class consisting of others similarly situated, that is, those who paid us to pay, or reimburse our payments of, third-party fees in connection with residential mortgage loans and never received a refund for the difference between what they paid and what was actually paid to the third party. The plaintiffs are seeking to recover damages on behalf of themselves and the class, in addition to pre-judgment interest, post-judgment interest, and any other relief the court may grant. On January 28, 2005, the court issued an order conditionally certifying (1) a class of Illinois residents with respect to the alleged violation of the Illinois Consumer Fraud and Deceptive Business Practices Act who, since November 19, 1997, paid money to us for third-party fees in connection with residential mortgage loans and never received a refund of the difference between the amount they paid us and the amount we paid the third party and (2) a nationwide class of claimants with respect to an unjust enrichment cause of action included in the original complaint who, since November 19, 1997 paid money to us for third-party fees in connection with residential mortgage loans and never received a refund of the difference between the amount they paid us and the amount we paid the third party. The court conditioned its order limiting the statutory consumer fraud act claims to claimants in the State of Illinois on the outcome of a case pending before the Illinois Supreme Court in which one of the issues is the propriety of certifying a nationwide class based on the Illinois Consumer Fraud and Deceptive Business Practices Act. That case has now been decided in a manner favorable to our position, and, in light of this ruling, we intend to petition the Illinois Supreme Court for a supervisory order reversing the lower court's class certification decision, the lower court having denied our motion for reconsideration of (a) the court's order granting class certification and (b) the court's denial of our request for leave to take an interlocutory appeal of such order. There has not yet been a ruling on that petition or the merits of either the plaintiffs' individual claims or the claims of the class, and the ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable. We intend to continue to vigorously defend this matter and we do not believe it will have a material adverse effect on our business.

In January 2004, we were served with a complaint, *Yturralde v. Accredited Home Lenders, Inc.,* brought in Sacramento County, California. The named plaintiff is a former commissioned loan officer of ours, and the complaint alleges that we violated California and federal law by misclassifying the plaintiff and other non-exempt employees as exempt employees, failing to pay the plaintiff on an hourly basis and for overtime worked, and failing to properly and accurately record and maintain payroll information. The plaintiff seeks to recover, on behalf of himself and all of our other similarly situated current and former employees, lost wages and benefits, general damages, multiple statutory penalties and interest, attorneys' fees and costs of suit, and also seeks to enjoin further violations of wage and overtime laws and retaliation against employees who complain about such violations. We have been served with eleven substantially similar complaints on behalf of certain other former and current employees, which have been consolidated with the *Yturralde* action. We have appealed the court's denial of our motion to compel arbitration of the consolidated cases, and a resolution of that appeal is not expected before mid-2006. In the meantime, discussions are ongoing between the parties regarding potential settlement or mediation of the claims, and we have pursued and effected settlements directly with many current and former employees covered by the allegations of the complaints. A motion to certify a class has not yet been filed, and there has been no ruling on the merits of either the plaintiffs' individual claims or the claims of the putative class. We do not believe these matters will have a material adverse effect on our business, but, at the present time, the ultimate outcome of the litigation and the total amount of liability is not determinable.

In June 2005, we were served with a complaint, *Williams et al. v. Accredited Home Lenders, Inc.,* brought in United States District Court for the Northern District of Georgia. The two named plaintiffs are former commissioned loan officers of ours, and the complaint alleges that we violated federal law by requiring the

plaintiffs to work overtime without compensation. The plaintiffs seek to recover, on behalf of themselves and other similarly situated employees, the allegedly unpaid overtime, liquidated damages, attorneys' fees and costs of suit. A motion to certify a collective class has been filed, but a hearing date has not yet been set. There has been no ruling on the merits of either the plaintiffs' individual claims or the claims of the putative class, and the ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable. We intend to vigorously defend this matter and do not believe it will have a material adverse effect on our business.

In September 2005, we were served with a class action complaint, *Phillips v. Accredited Home Lenders Holding Company, et al.*, brought in the United States District Court, Central District of California. The complaint alleges violations of the Fair Credit Reporting Act in connection with prescreened offers of credit which we have made. The plaintiff seeks to recover, on behalf of her and similarly situated individuals, damages, pre-judgment interest, declaratory and injunctive relief, attorneys' fees, and any other relief the court may grant. On January 4, 2006, plaintiff re-filed the action in response to the court's December 9, 2005, decision granting our motion to (1) dismiss with prejudice plaintiff's claim that our offer of credit failed to include the clear and conspicuous disclosures required by FCRA, (2) strike plaintiff's request for declaratory and injunctive relief, and (3) sever plaintiff's claims as to us from those made against other defendants unaffiliated with us. Plaintiff's remaining claim is that our offer of credit did not meet FCRA's "firm offer" requirement. A motion to certify a class has not yet been filed, and there has been no ruling on the merits of either the plaintiff's individual claims or the claims of the putative class. We intend to vigorously defend this matter. If, however, a class were to be certified and were to prevail on the merits, the potential liability could have a material adverse effect on our business. The ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable.

In addition, because the nature of our business involves the collection of numerous accounts, the validity of liens and compliance with various state and federal lending laws, we are subject to various legal proceedings in the ordinary course of business related to foreclosures, bankruptcies, condemnation and quiet title actions, and alleged statutory and regulatory violations. We are also subject to legal proceedings in the ordinary course of business related to employment matters. We do not believe that the resolution of these lawsuits will have a material adverse effect on our financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our common stock began trading on the NASDAQ National Market® under the symbol "LEND" on February 14, 2003. The following table provides the high and low sales prices of our common stock for the period indicated, as reported by NASDAQ.

	High	Low
Year ended December 31, 2005		
Fourth quarter	$51.70	$31.36
Third quarter	$49.27	$34.31
Second quarter	$46.00	$34.29
First quarter	$50.75	$33.60
Year ended December 31, 2004		
Fourth quarter	$50.49	$32.92
Third quarter	$42.02	$25.50
Second quarter	$39.90	$24.71
First quarter	$43.25	$29.13

As of March 13, 2006, there were 21,462,309 holders of record of our common stock. On March 13, 2006, the last sale price reported on the NASDAQ National Market for our common stock was $47.10 per share.

Dividends

We have not declared or paid any cash dividends on our common stock for the three years ended December 31, 2005, 2004 or 2003. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, tax laws, and other factors as the Board of Directors, in its discretion, deems relevant.

During 2004, the REIT sold an aggregate of 4,093,678 shares of its 9.75% Series A Perpetual Cumulative Preferred Shares in public offerings registered under the Securities Act of 1933. The REIT declared and paid third and fourth quarter cash dividends of $0.3317 per share and $0.609375 per share, respectively, on its 9.75% Series A Perpetual Cumulative Preferred Shares during 2004.

During 2005, the REIT declared and paid first, second, third and fourth quarter cash dividends of $0.609375 per share on its 9.75% Series A Perpetual Cumulative Preferred Shares.

Employee Stock Options

Our stock option plans are part of a broad-based, long-term retention program that is intended to attract and retain talented employees and directors and align stockholder and employee interests.

Pursuant to our 2002 Plan, we may grant options to selected employees, directors and consultants to purchase shares of our common stock at a price not less than the fair market value of the stock at the date of grant. The 2002 Plan provides for the grant of both incentive stock options and non-qualified stock options. Generally, options outstanding vest over periods not exceeding four years and are exercisable for up to ten years from the grant date. The Board of Directors may terminate the 2002 Plan at any time though it must nevertheless honor any stock options previously granted pursuant to the plan.

Additional information regarding our stock option plans and plan activity for 2005, 2004 and 2003 is provided in our consolidated financial statements. See "Notes to Consolidated Financial Statements, Note 13 – Employee Stock and Benefit Plans."

ITEM 6. Selected Financial Data

The following selected operating and balance sheet data for the years ended December 31, 2005, 2004 and 2003 and as of December 31, 2005 and 2004 have been derived from our audited consolidated financial statements, included elsewhere in this report. The selected operating and balance sheet data for the years ended December 31, 2002 and 2001 and as of December 31, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements, not included in this report.

You should read the information below along with other financial information and analysis presented in this report, including the section entitled "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included elsewhere in this report.

	2005	2004	2003	2002	2001
	(dollars in thousands, except per share amounts)				
Statement of Operations data:					
Interest income	$ 610,107	$ 357,081	$ 178,982	$ 67,861	$ 27,714
Interest expense	$ 309,953	$ 134,211	$ 63,562	$ 27,891	$ 15,761
Provision for losses(6)	$ 62,892	$ 47,985	$ 17,165	$ 9,488	$ 2,477
Net interest income after provision(6)	$ 237,262	$ 174,885	$ 98,255	$ 30,482	$ 9,476
Gain on sale of loans(6)	$ 313,105	$ 283,580	$ 225,151	$ 114,696	$ 77,311
Total net revenues	$ 568,573	$ 469,603	$ 338,531	$ 155,219	$ 96,544
Total expenses	$ 301,177	$ 249,880	$ 171,969	$ 107,224	$ 66,562
Net income	$ 155,432	$ 130,778	$ 100,015	$ 28,797	$ 17,399
Basic earnings per share(7)	$ 7.37	$ 6.42	$ 5.61	$ 4.99	$ 3.36
Diluted earnings per share(7)	$ 7.07	$ 6.07	$ 4.97	$ 1.98	$ 1.32
Balance Sheet data:					
Mortgage loans held for sale, net	$ 2,252,252	$ 1,790,134	$1,279,590	$ 972,349	$ 531,698
Loans held for investment, net	$ 7,195,872	$ 4,690,758	$2,086,868	$ 738,917	$ —
Total assets	$ 9,853,246	$ 6,688,377	$3,501,417	$1,802,605	$ 603,038
Credit facilities and other short-term borrowings	$ 2,805,119	$ 2,204,860	$1,515,195	$ 962,285	$ 547,063
Securitization bond financing	$ 6,240,820	$ 3,954,115	$1,724,389	$ 732,823	$ —
Convertible debt	$ —	$ —	$ —	$ 3,000	$ 3,000
Redeemable, convertible preferred stock	$ —	$ —	$ —	$ 5,113	$ 5,113
Minority interest in subsidiary preferred stock	$ 97,922	$ 97,922	$ —	$ —	$ —
Total stockholders' equity	$ 553,412	$ 362,555	$ 212,223	$ 58,009	$ 28,891
Other data:					
Total mortgage loan originations	$16,582,640	$12,422,190	$7,958,309	$4,302,891	$2,324,398
Wholesale originations	$14,947,003	$11,217,528	$7,118,369	$3,900,186	$2,117,250
Retail and other originations	$ 1,635,637	$ 1,204,662	$ 839,940	$ 402,705	$ 207,148
Weighted average coupon rate of mortgage loan originations	7.77%	7.31%	7.65%	8.37%	9.32%
Weighted average credit score(2)	639	639	632	630	619
Total loan sales and securitizations	$15,677,829	$11,552,047	$7,297,206	$3,869,944	$1,939,950
Whole loan sales	$11,437,635	$ 8,282,215	$6,061,019	$3,044,890	$1,640,129
Mortgage loans securitized	$ 4,240,194	$ 3,269,832	$1,236,187	$ 749,215	$ —
Loans sold with retained interests	$ —	$ —	$ —	$ 75,839	$ 299,821
Average premium received on whole loan sales(3)	3.0%	3.7%	4.0%	4.0%	4.4%
Net cost to originate(1)	1.6%	1.9%	2.1%	2.3%	2.7%
Net interest income after provision as a percentage of net revenues(6)	41.7%	37.2%	29.0%	19.6%	9.8%
Total serviced loans at period end	$ 9,706,153	$ 6,731,581	$3,695,976	$2,268,498	$1,301,121
Total number of leased locations at period end	61	63	46	31	27
Total number of employees at period end	2,762	2,694	2,056	1,294	866
Asset Quality Data:					
Total delinquent at period end(4)	2.5%	1.7%	1.8%	2.7%	5.5%
Annual losses on serviced portfolio as a percentage of average serviced assets	0.3%	0.3%	0.6%	0.9%	0.9%
Prepayment speed (CPR) on loans held for investment(5)	30.0%	27.8%	26.5%	27.6%	23.5%

(1) Net cost to originate loans is defined as total operating expenses, less loan servicing related costs, plus yield spread premiums, less points and fees collected, all prior to any deferrals of origination costs for accounting purposes. Refer to our discussion of expenses in Management's Discussion and Analysis of Financial Condition and Results of Operations for the calculation of this percentage.
(2) Represents borrower's credit score at origination obtained from one or more of the three principal credit bureaus.
(3) The average premium received on whole loan sales is computed based on the cash premiums received on whole loan sales, net of gains and losses on related derivatives. Refer to our discussion of gain on sale of loans in Management's Discussion and Analysis of Financial Condition and Results of Operations for the calculation of this percentage.
(4) Delinquent is defined as loans that are 30 or more days delinquent, including loans in foreclosure and loans converted into real estate owned (REO).
(5) The constant prepayment rate (CPR) represents a constant annualized rate of prepayment relative to the then outstanding principal balance of securitized mortgage loans, both on- and off-balance sheet.
(6) We have changed the presentation of our consolidated statement of operations to report provision for losses on repurchases and provision for market reserve on loans held for sale as reductions to gain on sale of loans. Previously these amounts were included in provision for losses. The results for each of the five years ended December 31, 2005 have been reclassified to conform to this presentation.
(7) We have never declared or paid cash dividends on our common stock.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be reviewed in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this document contain forward-looking information that involves risks and uncertainties. Please refer to the section entitled "Forward-Looking Statements" on page 6 of this Form 10-K. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under the section entitled "ITEM 1A. Risk Factors" and elsewhere in this report.

General

Accredited is a mortgage banking company that originates, finances, securitizes, services and sells non-prime mortgage loans secured by residential real estate throughout the United States, and, to a lesser extent, in Canada. We focus on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. We originate our loans primarily through independent mortgage brokers and, to a lesser extent, through our direct sales force in our retail offices. We primarily sell our loans in whole loan sales or we securitize our loans.

On May 4, 2004, we formed a Maryland real estate investment trust, Accredited Mortgage Loan REIT Trust (the "REIT"), for the purpose of acquiring, holding and managing real estate assets. All of the outstanding common shares of the REIT are held by Accredited Home Lenders, Inc., which in turn is a wholly owned subsidiary of Accredited Home Lenders Holding Co. The REIT has elected to be taxed as a real estate investment trust and to comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, the REIT will generally not be subject to federal or state income tax to the extent that it timely distributes its taxable income to its shareholders and satisfies the real estate investment trust requirements and certain asset, income and share ownership tests are met.

Revenue Model

Our operations generate revenues in three ways:

- *Interest income.* We have two primary components to our interest income. We generate interest income over the life of the loan on the loans we have securitized in structures that require financing treatment. This interest is partially offset by the interest we pay on the bonds that we issue to fund these loans. We also generate interest income on loans held for sale and for securitization from the time we originate the loan until the time we sell or securitize the loan. This interest income is partially offset by our borrowing costs under our warehouse credit facilities used to finance these loans.
- *Gain on sale of loans*. We generate gain on sale of loans by selling the loans we originate for a premium.
- *Loan servicing income.* Our loan servicing income represents all contractual and ancillary servicing revenue for loans that Accredited services for others, net of servicing costs and amortization of mortgage servicing rights.

Our revenues also include net gain or loss on mortgage-related securities and derivatives, on our loans held for sale, and some of our loans held for investment, which reflect changes in the value of these instruments based on market conditions.

While we continue to generate the majority of our earnings and cash flows from whole loan sales, securitizations will continue to contribute significantly to earnings and cash flows. Our securitization transactions will continue to be legally structured as sales, but for accounting purposes will be structured as a financing. Accordingly, the loans remain on our balance sheet, retained interests are not created, and debt securities issued in the securitization replace the warehouse debt originally associated with the securitized mortgage loans. We record interest income on the mortgage loans and interest expense on the debt securities, as well as ancillary fees, over the life of the securitization, instead of recognizing a gain or loss upon closing of the securitization. This "portfolio-based" accounting closely matches the recognition of income with the actual receipt of cash payments.

We anticipate that our results of operations may fluctuate on a quarterly and annual basis. The timing and degree of fluctuation will depend upon several factors, including competition, economic slowdowns and increased interest rates in addition to those discussed under "Risk Factors That May Affect Future Results." Although we have experienced growth in recent years, we cannot assure you that we will be able to sustain revenue growth or maintain profitability on a quarterly or annual basis or that our growth will be consistent with predictions or forecasts.

Results Of Operations

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Executive Summary

- Net income was $155.4 million for the year ended December 31, 2005, or $7.07 per diluted share, an increase of 18.9% from $130.8 million, or $6.07 per diluted share in 2004.
- The increase in net income was primarily driven by a 35.7% increase in net interest income after provision and a 10.4% increase in gain on whole loan sales. Whole loan sales of $11.4 billion during the year ended December 31, 2005, resulted in net gains on sale recorded of $313.1 million, representing an average premium of 3.0% in 2005, versus 3.7% for the same period in 2004.
- Mortgage loan origination volume increased 33.5% from $12.4 billion for the year ended December 31, 2004 to $16.6 billion in 2005, and our serviced loans increased 44.2% from $6.7 billion at December 31, 2004 to $9.7 billion at December 31, 2005. This growth was achieved by penetrating new and further developing existing markets from December 31, 2004 to December 31, 2005.

- Origination costs net of points and fees declined to 1.6% during the year ended December 31, 2005 from 1.9% during the same period in 2004.
- Revenue from net interest income after provision increased from 37.2% of total net revenues for the year ended December 31, 2004 to 41.7% in 2005 reflecting the growth in net interest income after provision of 35.7% which outpaced our growth in gain on sale of loans of 10.4%.

Net Revenues

Net revenues and key indicators that affect our net revenues are as follows for the years ended December 31:

	2005	2004	Increase (Decrease)	% Change
		(dollars in thousands)		
Interest income(1)	$ 610,107	$ 357,081	$ 253,026	70.9%
Interest expense(2)	(309,953)	(134,211)	(175,742)	130.9%
Net interest income	300,154	222,870	77,284	34.7%
Provision for losses(3)	(62,892)	(47,985)	(14,907)	31.0%
Net interest income after provision(3)	237,262	174,885	62,377	35.7%
Gain on sale of loans(3)	313,105	283,580	29,525	10.4%
Loan servicing income	10,681	6,689	3,992	59.7%
Other income	7,525	4,449	3,076	69.1%
Total net revenues	$ 568,573	$ 469,603	$ 98,970	21.1%
Net interest income after provision as percentage of net revenues	41.7%	37.2%		
Gain on sale of loans as a percentage of net revenues	55.1%	60.4%		
Mortgage loan originations	$16,582,460	$12,422,190	$4,160,271	33.5%
Whole loan sales	$11,437,635	$ 8,282,215	$3,155,420	38.1%
Mortgage loans securitized	$ 4,240,194	$ 3,269,832	$ 970,362	29.7%
Average inventory of mortgage loans	$ 7,982,176	$ 4,842,375	$3,139,801	64.8%
Interest income as a percentage of average inventory of mortgage loans	7.64%	7.37%		
Average outstanding borrowings	$ 7,551,197	$ 4,643,232	$2,907,965	62.6%

(1) Interest income includes prepayment penalty income and gains and losses from hedging activities.
(2) Interest expense includes gains and losses from hedging activities and amortization of debt issuance costs.
(3) We have changed the presentation of our consolidated statement of operations to report provision for losses on repurchases and provision for market reserve on loans held for sale as reductions to gain on sale of loans. Previously these amounts were included in provision for losses. The results for year ended December 31, 2004 have been reclassified to conform to this presentation.

Interest Income. Interest income increased 70.9% during 2005 from 2004 reflecting the 64.8% increase in our average inventory of mortgage loans during 2005 and an increase in the weighted average interest rates earned on mortgage loans during 2005 when compared to 2004. The increase in our average inventory of mortgage loans is due to higher loan origination volume during 2005 with an increase in loans retained on our balance sheet through four quarterly securitizations.

We currently expect interest income to continue to increase in 2006 primarily from growth in our securitization portfolio.

Interest Expense. The increase in interest expense during 2005 of 130.9% reflects an increase in our average outstanding borrowings, which increased from $4.6 billion during 2004 to $7.6 billion during 2005, or 62.6% and an increase in our average borrowing rates. The average rate on our warehouse lines increased from 3.08% during 2004 to 4.56% during 2005. In addition, the average rates on our securitizations increased from 2.75% during 2004 to 3.87% during 2005.

We currently expect interest expense to increase in 2006 as our borrowings increase to support our expected growth in our loan portfolio.

The components of our net interest margin are as follows for the years ended December 31:

	2005			2004		
	Interest Income (Expense)	Average Balance Outstanding	Average Rate	Interest Income (Expense)	Average Balance Outstanding	Average Rate
	(dollars in thousands)					
Warehouse:						
Interest income	$ 214,809	$2,842,441	7.56%	$154,043	$2,121,098	7.26%
Interest expense	(118,282)	2,593,336	(4.56)	(61,749)	2,005,828	(3.08)
Spread	96,527		3.00%	92,294		4.18%
Securitizations:						
Interest income	395,298	5,139,735	7.69	203,038	2,721,277	7.46%
Interest expense	(191,671)	4,957,861	(3.87)	(72,462)	2,637,404	(2.75)
Spread	203,627		3.82%	130,576		4.71%
Net interest margin	$ 300,154	$7,982,176	3.76%	$222,870	$4,842,375	4.60%

The net interest spread for our warehouse loans declined from 4.18% in 2004 to 3.00% for 2005. This is due to a higher borrowing cost, which is indexed to either One-Month, or overnight LIBOR, which outpaced an increase in the average customer loan rate. This was the result of a flattening yield curve and increased competition from other lenders.

The net interest spread for our securitized loans declined from 4.71% during the year ended December 31, 2004 to 3.82% for the comparable period in 2005. The decline reflects higher cost of borrowings due to market interest rates increasing, partially offset by increases in coupon rate.

Provision for Losses. The provision for losses is comprised of the following for the years ended December 31:

	2005	2004	Increase (Decrease)	% Change
	(dollars in thousands)			
Current year provision for:				
Loans held for investment	$ 50,714	$ 44,008	$ 6,706	15.2%
Real estate owned	12,178	3,977	8,201	206.2%
Total provision for losses	$ 62,892	$ 47,985	$ 14,907	31.1%
Reserve balance at year end:				
Loans held for investment	$ 106,017	$ 60,138	$ 45,879	76.3%
Principal balance at year end:				
Loans held for investment	$7,321,607	$4,744,433	$2,577,174	54.3%
Reserve balance on loans as a percentage of the principal balance at year end	1.5%	1.3%		

The 31.1% increase during 2005 in our total provision for losses results from the 54.3% increase during 2005 in our total mortgage loan principal balance. The increase in the total reserve balance on mortgage loans as a percentage of the principal balance outstanding at year-end from 1.3% at December 31, 2004 to 1.5% at December 31, 2005 is due primarily to higher default assumption used in determining our expected losses and aging of the portfolio.

We currently expect our total provision for losses to increase in 2006 commensurate with our average on-balance sheet loan portfolio and the increase in aged receivables.

Accredited monitors net interest income after provision as a percentage of net revenues in order to track its progress toward producing a predictable earnings stream from our securitization portfolio versus gain on sale revenue. The increase in net interest income after provision as percentage of net revenues from 37.2% in 2004 to 41.7% in 2005 reflects the growth in our securitized loan portfolio.

Gain on Sale of Loans. The components of the gain on sale of loans and the calculation of our average whole loan premium are as follows for the years ended December 31:

	2005		2004	
	Amount	Percentage	Amount	Percentage
	(dollars in thousands)			
Gross gain on whole loan sales	$ 318,871		$ 308,288	
Net gain (loss) on derivatives	21,601		(1,201)	
Loans held for sale valuation allowance(1)	(18,472)		(12,814)	
Net origination points and fees	38,940		32,120	
Direct loan origination expenses	(47,835)		(42,813)	
Total net gain on sale of loans	$ 313,105		$ 283,580	
Gross gain on whole loan sales(2)	$ 318,871	2.8%	$ 308,288	3.7%
Net gain (loss) on derivatives	21,601	0.2	(1,201)	(0.0)
Premium received on whole loan sales	$ 340,472	3.0	$ 307,087	3.7
Less: Net cost to originate(3)		(1.6)		(1.9)
Net profit margin on whole loan sales		1.4%		1.8%
Whole loan sales	$11,437,635		$8,282,215	

(1) The previously reported amounts that were included in provision for loan losses have been reclassified to gain on sale to conform to 2005 presentation.

(2) Reflects the cash premium that we receive on our whole loan sales. The percentage is determined by dividing the gain by whole loan sales.

(3) Net cost to originate loans is defined as total operating expenses, less loan servicing related costs, plus yield spread premiums, less points and fees collected, all prior to any deferrals of origination costs for accounting purposes. Refer to our discussion of expenses below for the calculation of this percentage.

Gain on sale of loans increased 10.4% during 2005 from 2004 due to a higher volume of whole loan sales for cash, enabled by higher loan origination volume during 2005. Our average whole loan premiums, however, net of hedging gains and losses, decreased from 3.7% in 2004 to 3.0% in 2005 primarily from lower interest rate margins reflecting price competition in the non-prime mortgage origination market as money costs increased throughout the year.

Loan Servicing Income. Loan servicing income increased 59.7% during the year ended December 31, 2005 from the comparable period in 2004 due primarily to the increase in assets serviced on an interim basis on behalf of our whole loan sales customers and an increase in ancillary fees earned.

Other Income. Other income increased 179.3% during the year ended December 31, 2005 from the comparable period in 2004 due primarily to increases in interest income on bank accounts.

Operating Expenses. Operating expenses for the years ended December 31 are as follows:

	2005	2004	Increase	% Change
		(dollars in thousands)		
Salaries, wages and benefits	$ 189,801	$ 160,822	$ 28,979	18.0%
General and administrative	55,840	47,505	8,335	17.5%
Occupancy	21,719	18,332	3,387	18.5%
Advertising and promotion	18,860	13,090	5,770	44.1%
Depreciation and amortization	14,957	10,131	4,826	47.6%
Total operating expenses	$ 301,177	$ 249,880	$ 51,297	20.5%
Total serviced loans at period end	$9,706,153	$6,731,581	$2,974,572	44.2%
Total number of employees at period end	2,762	2,694	68	2.5%

Salaries, Wages and Benefits. Salaries, wages and benefits increased 18.0% during 2005 due to 13% growth in the average number of employees during 2005, combined with increased amortization of deferred compensation expense related to the vesting of restricted stock unit grants made in the current and prior periods.

General and Administrative and Occupancy. General and administrative and occupancy expenses increased 17.8% during 2005 and reflect the 33.5% increase in loan origination volume, the 44.2% increase in our servicing portfolio and the 13% increase in the average number of employees.

Advertising and Promotion. Advertising and promotion expenses increased 44.1% during 2005 due primarily to increased spending on referrals and leads to support our growth in retail loan originations.

Depreciation and Amortization. Depreciation and amortization increased 47.6% during the year ended December 31, 2005 due to additional investments in technology and infrastructure to support the increase in our production and the number of employees during 2005.

Net Cost to Originate. We monitor our net cost to originate mortgage loans, as we believe that it provides a measurement of efficiency in our mortgage loan origination process. The calculation of this net cost to originate is as follows for the years ended December 31:

	2005	2004	% Change
	(dollars in thousands)		
Total operating expenses	$ 301,177	$ 249,880	
Add: deferred direct loan origination expenses(1)	65,234	57,113	
Less: servicing cost(2)	(22,753)	(15,344)	
Loan origination expenses	343,658	291,649	
Less: deferred net origination points and fees(3)	(73,150)	(52,819)	
Net cost to originate	$ 270,508	$ 238,830	13.3%
Total mortgage loan originations	$16,582,640	$12,422,190	33.5%
Net cost to originate as percentage of volume	1.6%	1.9%	

(1) Represents the amount of direct expenses incurred and deferred in the period in accordance with Financial Accounting Standard No. 91.

(2) Servicing cost consists of direct expenses and allocated corporate overhead.

(3) Deferred net origination points and fees represent amounts received from borrowers during the period less amounts paid to brokers on all loans originated during the period.

The reduction in our net cost to originate mortgage loans as a percentage of total mortgage loan origination volume from 1.9% in 2004 to 1.6% in 2005 is a result of the 33.5% increase in mortgage loan origination volume that outpaced our 13.3% increase in net cost to originate.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 38.1% for 2005 compared with 38.8% for 2004. The decrease in the effective tax rate is due primarily to the fact that dividends paid by the REIT, which were greater in 2005 than in 2004 due to a full year of operations for the REIT in 2005, to the preferred shareholders of the REIT are not subject to federal or state tax at the corporate level. This benefit will continue in future years. The two major components of our effective tax rate are the Federal corporate tax rate of 35.0% and the effective state income tax rates. We operate and pay tax in nearly every state. Changes in the effective state tax rate occur due to changes in our business activities in various states, the various states' tax structures and rates, causing a slight benefit in 2005 when compared to 2004.

REIT Operating Results. Net revenues for the REIT were $195.3 million for the year ended December 31, 2005, resulting primarily from net interest income after provision for losses from securitizations. The REIT incurred expenses of $25.7 million for the same period related to servicing and management fees charged by AHL in accordance with an administration and servicing agreement between the two parties. Resulting net income for the same period was $169.6 million.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Executive Summary

- Net income was $130.8 million in 2004, or $6.07 per diluted share, an increase of 30.8% from $100.0 million in 2003.
- This was driven by a 56.1% growth in loan origination volume, from $8.0 billion in 2003 to $12.4 billion in 2004, and an 82.1% growth in our serviced loans from $3.7 billion in 2003 to $6.7 billion in 2004.
- Growth was achieved by increasing offices by 17 locations, or 37.0%, during 2004 and penetrating new and existing markets through 638 new employees.
- Whole loan sales of $8.3 billion resulted in gains recorded of $283.6 million, representing an average premium of 3.7% in 2004, versus 4.0% in 2003.
- Origination costs net of points and fees declined to 1.9% during 2004 from 2.1% during 2003.
- With our mix of revenue from net interest income after provision increasing from 29.0% of total net revenues in 2003 to 37.2% in 2004, we continued to make progress toward our goal of establishing a more consistent stream of earnings.

Net Revenues

Net revenues and key indicators that affect our net revenues are as follows for the years ended December 31:

	2004	2003	Increase (Decrease)	% Change
	(dollars in thousands)			
Interest income(1)	$ 357,081	$ 178,982	$ 178,099	99.5%
Interest expense(2)	(134,211)	(63,562)	(70,649)	111.1%
Net interest income	222,870	115,420	107,450	93.1%
Provision for losses(3)	(47,985)	(17,165)	(30,820)	179.6%
Net interest income after provision(3)	174,885	98,255	76,630	78.0%
Gain on sale of loans(3)	283,580	225,151	58,429	26.0%
Loan servicing income	6,689	7,645	(956)	(12.5)%
Other income	4,449	7,480	(3,031)	(40.5)%
Total net revenues	$ 469,603	$ 338,531	$ 131,072	38.7%
Net interest income after provision as percentage of net revenues	37.2%	29.0%		
Gain on sale of loans as a percentage of net revenues	60.4%	66.5%		
Mortgage loan originations	$12,422,190	$7,958,309	$4,463,881	56.1%
Whole loan sales	$ 8,282,215	$6,061,019	$2,221,196	36.6%
Mortgage loans securitized	$ 3,269,832	$1,236,187	$2,033,645	164.5%
Average inventory of mortgage loans	$ 4,842,375	$2,338,383	$2,503,992	107.1%
Interest income as a percentage of average inventory of mortgage loans	7.37%	7.65%		
Average outstanding borrowings	$ 4,643,232	$2,243,688	$2,399,544	106.9%

(1) Interest income includes prepayment penalty income and gains and losses from hedging activities.

(2) Interest expense includes gains and losses from hedging activities and amortization of debt issuance costs.

(3) We have changed the presentation of our consolidated statement of operations to report provision for losses on repurchases and provision for market reserve on loans held for sale as reductions to gain on sale of loans. Previously these amounts were included in provision for losses. The results for years ended December 31, 2004 and 2003 have been reclassified to conform to this presentation.

Interest Income. Interest income increased 99.5% during 2004 from 2003 reflecting the 107.1% increase in our average inventory of mortgage loans during 2004 partially offset by a decrease in weighted average interest rates earned on mortgage loans during 2004 when compared to 2003. The increase in our average inventory of mortgage loans is due to higher loan origination volume during 2004 with an increased percentage of those loans retained on our balance sheet through securitizations as compared to disposition of those loans through whole loan sales. The decrease in our weighted average interest rates reflects a more competitive environment.

Interest Expense. The increase in interest expense during 2004 of 111.1% reflects an increase in our average outstanding borrowings, which increased from $2.2 billion during 2003 to $4.6 billion during 2004, or 106.9% and a net increase in our average borrowing rates. The increase in our average rate on our warehouse lines from 2.82% during 2003 to 3.08% during 2004 was partially offset by lower average rates on our securitizations which decreased from 2.85% during 2003 to 2.75% during 2004.

The components of our net interest margin are as follows for the years ended December 31:

	2004			2003		
	Interest Income (Expense)	Average Balance Outstanding	Average Rate	Interest Income (Expense)	Average Balance Outstanding	Average Rate
	(dollars in thousands)					
Warehouse:						
Interest income	$154,043	$2,121,098	7.26%	$102,610	$1,329,118	7.72%
Interest expense	(61,749)	2,005,828	(3.08)	(35,433)	1,256,156	(2.82)
Spread	92,294		4.18%	67,177		4.90%
Securitizations:						
Interest income	203,038	2,721,277	7.46%	76,372	1,009,265	7.57%
Interest expense	(72,462)	2,637,404	(2.75)	(28,129)	987,532	(2.85)
Spread	130,576		4.71%	48,243		4.72%
Net interest margin	$222,870	$4,842,375	4.60%	$115,420	$2,338,383	4.94%

The net interest spread for our warehouse loans declined from 4.90% in 2003 to 4.18% for 2004. This is due to a higher borrowing cost, which is indexed to One-Month LIBOR, and a declining average customer loan rate. This was the result of a flattening yield curve and increased competition from other lenders. This trend may continue if the yield curve flattens further, as suggested by the current forward rates.

The net interest spread for our loans held for investment remained relatively constant for 2004 and 2003 as both income and expenses as a percentage of average balances declined only 0.01%. A decline in the average coupon of loans outstanding was mostly offset by higher prepayment penalties, which resulted in a slight decline in the yield. Cost of borrowings was also slightly lower, even though market interest rates increased, due to a greater mix of variable rate bonds to fixed rate bonds in 2004.

Provision for Losses. The provision for losses is comprised of the following for the years ended December 31:

	2004	2003	Increase (Decrease)	% Change
	(dollars in thousands)			
Current year provision for:				
Loans held for investment	$ 44,008	$ 15,718	$ 28,290	180.0%
Real estate owned	3,977	1,447	2,530	174.8%
Total provision for losses	$ 47,985	$ 17,165	$ 30,820	179.6%
Reserve balance at year end:				
Loans held for investment	$ 60,138	$ 21,761	$ 38,377	176.4%
Principal balance at year end:				
Loans held for investment	$4,744,433	$2,093,900	$2,650,533	126.6%
Reserve balance on loans as a percentage of the principal balance at year end	1.3%	1.0%		

The 179.6% increase during 2004 in our total provision for losses results from the 126.6% increase during 2004 in our total mortgage loan principal balance. The increase in the total reserve balance on mortgage loans as a percentage of the principal balance outstanding at year end from 1.0% at December 31, 2003 to 1.3% at December 31, 2004 is due primarily to higher default and severity assumptions used in determining our expected losses.

Accredited monitors net interest income after provision as a percentage of net revenues in order to track its progress toward producing more stable, predictable earnings from our loan portfolio versus gain on sale revenue. We estimate that this ratio is also representative of the portfolio's contribution to profitability. The increase in net interest income after provision as percentage of net revenues from 29.0% in 2003 to 37.2% in 2004 reflects the growth in our securitized loan portfolio of 126.6%.

Gain on Sale of Loans. The components of the gain on sale of loans and the calculation of our average whole loan premium are as follows for the years ended December 31:

	2004		2003	
	Amount	Percentage	Amount	Percentage
	(dollars in thousands)			
Gross gain on whole loan sales	$ 308,288		$ 253,349	
Net loss on derivatives	(1,201)		(8,207)	
Loans held for sale valuation reserve(1)	(12,814)		(18,959)	
Net origination points and fees	32,120		36,230	
Direct loan origination expenses	(42,813)		(37,262)	
Total net gain on sale of loans	$ 283,580		$ 225,151	
Gross gain on whole loan sales(2)	$ 308,288	3.7%	$ 253,349	4.2%
Net loss on derivatives	(1,201)	(0.0)	(8,207)	(0.2)
Premium received on whole loan sales	$ 307,087	3.7	$ 245,142	4.0
Less: Net cost to originate(3)		(1.9)		(2.1)
Net profit margin on whole loan sales		1.8%		1.9%
Whole loan sales	$8,282,215		$6,061,019	

(1) The previously reported amounts that were included in provision for loan losses have been reclassified to gain on sale to conform to 2005 presentation.

(2) Reflects the cash premium that we receive on our whole loan sales. The percentage is determined by dividing the gain by whole loan sales.

(3) Net cost to originate loans is defined as total operating expenses, less loan servicing related costs, plus yield spread premiums, less points and fees collected, all prior to any deferrals of origination costs for accounting purposes. Refer to our discussion of expenses below for the calculation of this percentage.

Gain on sale of loans increased 26.0% during 2004 from 2003 due to a higher volume of whole loan sales for cash, enabled by higher loan origination volume during 2004. Our average whole loan premiums, however, net of hedging gains and losses, decreased from 4.0% in 2003 to 3.7% in 2004 primarily from lower interest rate margins reflecting price competition in the non-prime mortgage origination market as money costs increased throughout the year.

Loan Servicing Income. Loan servicing income decreased 12.5% during 2004 from 2003 due primarily to lower prepayment penalties collected on our liquidating off-balance sheet portfolio.

Net Gain on Mortgage-Related Securities and Derivatives. Net gain on mortgage-related securities and derivatives decreased $4.3 million during 2004 when compared to 2003. The portion attributable to the net gain on mortgage-related securities decreased $5.4 million during 2004 when compared to 2003. This gain represents the increase in fair value of the residual income from these securities due to stronger cash flow received than anticipated, primarily from lower losses. The decrease in the current year is due primarily to lower balances outstanding during 2004 when compared to 2003.

The portion attributable to the net gain (loss) on derivatives went from a net loss of $1.0 million for 2003, to a net gain of $0.1 million in 2004 due to an increase in overall market interest rates and a lower mortgage related

securities balance during 2004 as compared to 2003. Net gain (loss) on derivatives represents the realized and unrealized gain (loss) on the derivatives purchased to manage the interest rate risk associated with our mortgage-related securities.

Operating Expenses. Operating expenses for the years ended December 31 are as follows:

	2004	2003	Increase	% Change
		(dollars in thousands)		
Salaries, wages and benefits	$ 160,822	$ 112,239	$ 48,583	43.3%
General and administrative	47,505	36,421	11,084	30.4%
Occupancy	18,332	11,225	7,107	63.3%
Advertising and promotion	13,090	7,230	5,860	81.1%
Depreciation and amortization	10,131	4,854	5,277	108.7%
Total operating expenses	$ 249,880	$ 171,969	$ 77,911	45.3%
Total serviced loans at period end	$6,731,581	$3,695,976	$3,035,605	82.1%
Total number of lease locations at period end	63	46	17	37.0%
Total number of employees at period end	2,694	2,056	638	31.0%

Salaries, Wages and Benefits. Salaries, wages and benefits increased 43.3% during 2004 due to the 31.0% growth in the number of employees during 2004 combined with increased commission and bonus expenses related to higher loan originations and profits.

General and Administrative. General and administrative expenses increased 30.4% during 2004 and reflect the 56.1% increase in loan origination volume, the 82.1% increase in our servicing portfolio, the 37.0% increase in the number of leased locations and the 31.0% increase in the number of employees as compared to 2003.

Occupancy. Occupancy expense increased 63.3% during 2004 due to 37.0% more office sites leased during 2004 as we continue to penetrate new geographic markets, as well as an increase in square footage at some existing sites.

Advertising and Promotion. Advertising and promotion expenses increased 81.1% during 2004 due primarily to increased spending on referrals and leads to support our growth in retail loan originations.

Depreciation and Amortization. Depreciation and amortization increased 108.7% during 2004 due to additional investments in technology and infrastructure to support the increase in the number of employees and offices during 2004.

Net Cost to Originate. We monitor our net cost to originate mortgage loans as we believe that it provides a measurement of efficiency in our mortgage loan origination process. The calculation of this net cost to originate is as follows for the years ended December 31:

	2004	2003	% Change
	(dollars in thousands)		
Total operating expenses	$ 249,880	$ 171,969	
Add: deferred direct loan origination expenses(1)	57,113	48,754	
Less: servicing cost(2)	(15,344)	(8,660)	
Loan origination expenses	291,649	212,063	
Less: deferred net origination points and fees(3)	(52,819)	(46,428)	
Net cost to originate	$ 238,830	$ 165,635	44.2%
Total mortgage loan originations	$12,422,190	$7,958,309	56.1%
Net cost to originate as percentage of volume	1.9%	2.1%	

(1) Represents the amount of direct expenses incurred and deferred in the period in accordance with Financial Accounting Standard No. 91.
(2) Servicing cost consists of direct expenses and allocated corporate overhead.
(3) Deferred net origination points and fees represent amounts received from borrowers during the period less amounts paid to brokers on all loans originated during the period.

The reduction in our net cost to originate mortgage loans as a percentage of total mortgage loan origination volume from 2.1% in 2003 to 1.9% in 2004 is a result of the 56.1% increase in mortgage loan origination volume that outpaced our 44.2% increase in net cost to originate. A reduction in origination expenses per loan was partially offset by less points and fees.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 38.8% for 2004 compared with 40.0% for 2003. The decrease in the effective tax rate is due primarily to the fact that dividends paid by the REIT to the preferred shareholders of the REIT are not subject to federal or state tax at the corporate level. This benefit will continue in future years. The two major components of our effective tax rate are the Federal corporate tax rate of 35.0% and the effective state income tax rates. We operate and pay tax in nearly every state. Changes in the effective state tax rate occur due to changes in our business activities in various states, the various states' tax structures and rates, causing a slight benefit in 2004 when compared to 2003.

REIT Operating Results. Net revenues for the REIT were $56.2 million for the period from inception, May 4, 2004, to December 31, 2004, resulting primarily from net interest income after provision for losses from securitizations completed during the year or contributed from AHL. The REIT incurred expenses of $7.2 million for the same period related to servicing and management fees charged by AHL in accordance with an administration and servicing agreement between the two parties. Resulting net income for the same period was $49.1 million.

Liquidity And Capital Resources

As a mortgage banking company, our cash requirements include the funding of mortgage loan originations, interest expense on and repayment of principal on credit facilities and securitization bond financing, operational expenses, servicing advances, hedging margin requirements, and tax payments. Our cash requirements also included the funding of quarterly dividends on preferred shares issued by our REIT subsidiary. We fund these cash requirements with cash received from loan sales, borrowings under warehouse credit facilities and asset backed commercial paper and securitization bond financing secured by mortgage loans, cash distributions from our mortgage-related securities, interest collections on loans held for sale and loans held for investment, servicing fees and other servicing income, and points and fees collected from the origination of loans.

Our liquidity strategy is to maintain sufficient and diversified warehouse credit facilities to finance our mortgage loan originations, to maintain strong relationships with a diverse group of whole loan purchasers, and to maintain the ability to execute our own securitizations. This provides us with the ability to finance our growing origination operations and to maximize our realization of the value of loans we originate. Net cash used in operating activities totaled $4.8 billion, $3.9 billion and $1.8 billion during 2005, 2004 and 2003, respectively. The negative cash flow for these years reflects primarily our funding of loans held for sale and investment that are either not entirely sold in the same period or financed with proceeds reported in our cash flows from financing activities.

Warehouse Facilities

We use our various warehouse credit facilities to finance the actual funding of our loan originations. We then sell or securitize our mortgage loans generally within one to four months from origination and pay down the warehouse credit facilities with the proceeds. At December 31, 2005, we had voluntary and recoverable warehouse line paydowns of $311.7 million that increased our warehouse line availability by a corresponding amount. These voluntary and recoverable warehouse line paydowns plus cash of $44.7 million brought our total liquidity to $356.4 million at December 31, 2005. All of our current warehouse credit facilities are committed lines, which means that the lender is obligated to fund up to the committed amount subject to our meeting various financial and other covenants. Although currently all committed, in the future we may choose to maintain a portion of our warehouse lines, on an uncommitted basis, which means that the lender may fund the uncommitted amount at its discretion. The majority of our current warehouse credit facilities also contain a sub-limit for "wet" funding, which is the funding of loans for which the collateral custodian has not yet received the related loan documents.

Except as otherwise noted below, all of our warehouse credit facilities accrue interest at a rate based upon One-Month LIBOR plus a specified spread and as of March 6, 2006 have other material terms and features as follows:

Warehouse Lender	Committed Amount	Uncommitted Amount	Total Facility Amount	Maximum Portion Available for Wet Funding	Expiration Date
			(in millions)		
Lehman Brothers Bank, FSB	$ 500	$—	$ 500	$ 110	April 7, 2006
Residential Funding Corporation	300	—	300	150	Jan 31, 2007
Morgan Stanley Bank and Morgan Stanley Mortgage Capital Inc	650	—	650	163	Jul 31, 2007
HSBC Mortgage Services Warehouse Lending Inc.	40	—	40	40	Nov 30, 2006
IXIS Real Estate Capital Inc. (CDC)	600	—	600	240	Jul 31, 2006
Credit Suisse First Boston Mortgage Capital LLC	600	—	600	240	Dec 29, 2006
Goldman Sachs Mortgage Company	660	—	660	120	Dec 15, 2007
Merrill Lynch Canada Capital Inc	172	—	172	—	Jun 29, 2006
Merrill Lynch Bank USA	650	—	650	260	Feb 14, 2007
Total	$4,172	$—	$4,172	$1,323	

Certain of our credit facilities include sublimits for aged and delinquent loans, as well as for real estate owned (properties acquired through foreclosure of defaulted mortgage loans or through deeds in lieu of foreclosure) and subordinated asset-backed bonds.

Our warehouse and other credit facilities contain customary covenants including maximum leverage, minimum liquidity, profitability and net worth requirements, and limitations on other indebtedness. If we fail to

comply with any of these covenants or otherwise default under a facility, the lender has the right to terminate the facility and require immediate repayment that may require sale of the collateral at less than optimal terms. In addition, if we default under one facility, it would generally trigger a default under our other facilities. As of December 31, 2005, we were in compliance with all covenant requirements for each of the facilities.

Asset Backed Commercial Paper Facility

Starting in the second quarter of 2005, Accredited began issuing commercial paper in the form of short-term secured liquidity notes ("SLNs") with initial maturities ranging from one to 180 days and also issued $40.0 million of subordinated notes maturing on May 25, 2010. In order to issue the debt, Accredited established a special purpose, bankruptcy remote Delaware statutory trust. The trust entered into agreements with third parties who act as back-up liquidity providers. The SLNs bear interest at customary commercial paper market rates, which vary depending on the prevailing market conditions. The capacity of this facility at December 31, 2005, was $1.0 billion of which $767.5 million was outstanding. During the year ended December 31, 2005, the average borrowings outstanding under this facility since inception were $829.7 million, and the weighted average interest rate was approximately 3.97%. The facility is collateralized by mortgage loans held for sale or securitization and certain restricted cash balances.

REIT Activity

At December 31, 2005 the REIT had cash of $6.2 million, an increase of $2.1 million from December 31, 2004. During the year ended December 31, 2005, net cash provided by operating activities totaled $151.8 million, net cash provided by investing activities totaled $2.0 billion and net cash used in financing activities totaled $2.1 billion.

In February, May, August and November 2005, we completed securitizations containing $917.2 million, $1.0 billion, $1.1 billion and $1.2 billion, respectively, of first and second priority residential mortgage loans through the REIT. The securitizations utilized a senior/subordinated structure consisting of senior and subordinated notes with a final stated maturity date in approximately thirty years. The securitizations are structured as a financing; therefore, both the mortgage loans and the debt represented by the notes will remain on our consolidated balance sheet. We used the proceeds from these securitizations primarily to repay warehouse financing for the mortgage loans.

In March, June, September and December of 2005, the REIT's board of trustees declared a quarterly cash dividend on the preferred shares at the rate of $0.609375 per share to shareholders of record on March 15, June 15, September 15 and December 15, which aggregated $10.0 million for the year ended December 31, 2005.

Accredited irrevocably and unconditionally agrees to pay in full to the holders of each share of the REIT's Series A Preferred Shares, as and when due, regardless of any defense, right of set-off or counterclaim which the REIT or Accredited may have or assert: (i) all accrued and unpaid dividends (whether or not declared) payable on the REIT's Series A Preferred Shares, (ii) the redemption price (including all accrued and unpaid dividends) payable with respect to any of the REIT's Series A Preferred Shares redeemed by the REIT and (iii) the liquidation preference, if any, payable with respect to any of the REIT's Series A Preferred Shares. Accredited's guarantee is subordinated in right of payment to Accredited's indebtedness, on parity with the most senior class of Accredited's preferred stock and senior to Accredited's common stock. At December 31, 2005, the aggregate redemption value of the total preferred shares outstanding was $102.3 million. Based on total preferred shares outstanding at December 31, 2005, the REIT's current annual dividend obligation totals $10.0 million.

Subject to the various uncertainties described above, and assuming that we will be able to successfully execute our liquidity strategy, we anticipate that our liquidity, credit facilities and capital resources will be sufficient to fund our operations for the foreseeable future.

Market Risk

Market risks generally represent the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Our market risk relates primarily to interest rate fluctuations. We may be directly affected by the level of and fluctuations in interest rates, which affect the spread between the rate of interest received on our mortgage loans and the related financing rate. Our profitability could be adversely affected during any period of unexpected or rapid changes in interest rates, by impacting the value of loans held for sale, loans held for investment and loans sold with retained interests. A significant change in interest rates could also change the level of loan prepayments, thereby adversely affecting our long-term net interest income and servicing income.

The objective of interest rate risk management is to control the effects that interest rate fluctuations have on the value of our assets and liabilities. Our management of interest rate risk is intended to mitigate the volatility of earnings associated with fluctuations in the unrealized gain (loss) on mortgage-related securities, the market value of loans held for sale and the net interest on loans held for investment due to changes in the current market rate of interest.

We use several internal reports and risk management strategies to monitor, evaluate, and manage the risk profile of our loan portfolio in response to changes in the market risk. We cannot assure you, however, that we will adequately offset all risks associated with interest rate fluctuations impacting our loan portfolio.

Derivative Instruments and Hedging Activities

As part of our interest rate management process, we use derivative financial instruments such as Eurodollar futures and options on Eurodollar futures. In connection with our securitizations structured as financings, we entered into interest rate cap and interest rate swap agreements. It is not our policy to use derivatives to speculate on interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, derivative financial instruments are reported on the consolidated balance sheets at their fair value.

Fair Value Hedges

We designate certain derivative financial instruments as hedge instruments under SFAS No. 133, and, at trade date, these instruments and their hedging relationship are identified, designated and documented. For derivative financial instruments designated as hedge instruments, we evaluate the effectiveness of these hedges against the mortgage loans being hedged to ensure that there remains adequate correlation in the hedge relationship. To hedge the adverse effect of interest rate changes on the fair market value of mortgage loans held for sale or securitization, we use derivatives as fair value hedges under SFAS No. 133. Once the hedge relationship is established, the realized and unrealized changes in fair value of both the hedge instruments and mortgage loans are recognized in the consolidated statement of operations in the period in which the changes occur. Any change in the fair value of mortgage loans held for sale recognized as a result of hedge accounting is reversed at the time the mortgage loans are sold. The net amount recorded in the consolidated statement of operations is referred to as hedge ineffectiveness.

Cash Flow Hedges

During the third quarter of 2004, we implemented the use of cash flow hedging on our securitization debt under SFAS No. 133. Pursuant to SFAS No. 133, hedge instruments have been designated as hedging the exposure to variability of cash flows from our securitization debt attributable to interest rate risk. During the third quarter 2005, Accredited implemented the use of cash flow hedging on its variable rate debt in Canada under SFAS No. 133. Pursuant to SFAS No. 133, hedge instruments have been designated as hedging the exposure to variability of cash flows from our variable rate debt in Canada attributable to interest rates. Cash flow hedge accounting requires that the effective portion of the gain or loss in the fair value of a derivative instrument designated as a hedge be reported as a component of other comprehensive income in stockholders' equity, and

recorded into earnings in the period during which the hedged transaction affects earnings pursuant to SFAS No. 133. The ineffective portion on the derivative instrument is reported in current earnings as a component of interest expense.

For derivative financial instruments not designated as hedge instruments, unrealized changes in fair value are recognized in the period in which the changes occur and realized gains and losses are recognized in the period when such instruments are settled.

Interest Rate Simulation Sensitivity Analysis

Changes in market interest rates affect our estimations of the fair value of our mortgage loans held for sale, loans held for investment and the related derivatives. Changes in fair value that are stated below are derived based upon immediate and equal changes to market interest rates of various maturities. All derivative financial instruments and interest rate sensitive financial assets and liabilities have been included within the sensitivity analysis presented. We model the change in value of our derivative financial instruments using outside valuation models generally recognized within the industry. Projected changes in the value of our loans as stated below are determined based on the change in net present value arising from the selected hypothetical changes in market interest rates. We are exposed to interest rate risk from the time the loans are funded to the time the loans are settled because the interest paid on the various warehouse facilities is based on the spot One-Month LIBOR rate. The interest rate risk associated with the interest expense paid on the various warehouse facilities has been included based on the average holding period from the time of funding to settlement. Changes in the fair value of our derivative positions with optionality have been included based on an immediate and equal change in market interest rates. The base or current interest rate curve is adjusted by the levels shown below as of December 31, 2005:

	+50 bp	+100 bp	-50 bp	-100 bp
		(In thousands)		
Change in fair value of:				
Mortgage loans committed and held for sale	$(33,157)	$(65,735)	$ 33,755	$ 68,128
Derivatives related to mortgage loans committed and held for sale	31,075	62,150	(31,075)	(62,150)
Warehouse debt and asset backed commercial paper	(1,698)	(3,396)	1,698	3,396
Securitized debt subject to portfolio-based accounting and mortgage-related securities	(40,516)	(80,592)	41,005	82,559
Derivatives related to securitized debt subject to portfolio-based accounting and mortgage-related securities	37,428	75,505	(36,526)	(71,660)
Total	$ (6,868)	$(12,068)	$ 8,857	$ 20,273

The simulation analysis reflects our efforts to balance the repricing characteristics of our interest-bearing assets and liabilities.

Contractual Obligations

Our February 2005, May 2005, August 2005, and November 2005 securitizations significantly increased our securitization bond financing balance from the balance at December 31, 2004. The following table summarizes our contractual obligations, excluding future interest, at December 31, 2005, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Credit facilities	$2,805,119	$2,765,119	$ —	$ 40,000	$ —
Securitization bond financing(1)	6,240,820	2,323,851	2,404,466	794,975	721,060
Operating lease obligations	90,643	14,241	28,421	19,255	28,726
Total	$9,136,582	$5,103,211	$2,432,887	$854,230	$749,786

(1) Amounts represent the expected repayment requirements based on anticipated receipts of principal and interest on underlying mortgage loan collateral using historical prepayment speeds. The securitization bond financing represents obligations of the respective trusts that issue the notes and the assets sold to these issuers are not available to satisfy claims of Accredited's creditors. The noteholders' recourse is limited to the pledged collateral.

Off-Balance Sheet Financing Arrangements

In the normal course of business, in order to meet the financing needs of our borrowers, we are a party to various financial instruments with off-balance sheet risk. These financial instruments primarily represent commitments to individual borrowers to fund their loans. These instruments involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the consolidated balance sheets. We seek to mitigate the credit risk by evaluating the creditworthiness of potential mortgage loan borrowers on a case-by-case basis. We do not guarantee interest rates to potential borrowers when an application is received. We quote interest rates to borrowers which are generally subject to change by us. Although we make every effort to honor such quotes, the quotes do not constitute interest rate lock commitments. Interest rates conditionally approved following the initial underwriting of applications are subject to adjustment if any conditions are not satisfied. We commit to originating loans, in many cases dependent upon the borrower's satisfying various conditions. These commitments to fund individual borrower loans totaled $604.6 million as of December 31, 2005.

During 2002, 2001 and 2000, Accredited sold to a third-party investor (and former related party), $75.8 million, $299.8 million and $321.0 million, respectively, of mortgage loans originated or acquired by Accredited. At December 31, 2002, the related party had a beneficial ownership interest in Accredited related to a convertible debt facility that existed at that date. Subsequently, all ownership and beneficial ownership interest were sold in connection with the Offering in 2003, ceasing the related party relationship. The loans were sold pursuant to three separate commitments, each for a twelve-month period different from the calendar year. Pursuant to the agreement with the investor, Accredited is entitled to receive payments based upon the amount of excess cash flows generated by Accredited's sold loans under each commitment. The excess cash flows consist of the interest paid by the obligors of Accredited's sold loans, less the sum of a specified yield payable to the investor, servicing fees and credit losses on Accredited's sold loans. In general, if credit losses result in a negative excess cash flow, Accredited is obligated to pay the shortfall to the investor; provided, that Accredited is not obligated to reimburse the investor for credit losses in excess of 10% of the aggregate outstanding principal balance of the mortgage loans purchased by the investor under each commitment. The aggregate outstanding principal balance of the mortgage loans purchased by the investor totaled $90.2 million at December 31, 2005. Accredited is also entitled to all prepayment penalties collected, as long as the rate of prepayments stay below certain thresholds. Should the thresholds be exceeded, then Accredited must share the prepayment penalties collected with the investor.

Accredited irrevocably and unconditionally agrees to pay in full to the holders of each share of the REIT's Series A Preferred Shares, as and when due, regardless of any defense, right of set-off or counterclaim which the REIT or Accredited may have or assert: (i) all accrued and unpaid dividends (whether or not declared) payable on the REIT's Series A Preferred Shares, (ii) the redemption price (including all accrued and unpaid dividends) payable with respect to any of the REIT's Series A Preferred Shares redeemed by the REIT and (iii) the liquidation preference, if any, payable with respect to any of the REIT's Series A Preferred Shares. Accredited's guarantee is subordinated in right of payment to Accredited's indebtedness, on parity with the most senior class of Accredited's preferred stock and senior to Accredited's common stock. At December 31, 2005, the aggregate redemption value of the total preferred shares outstanding was $102.3 million. Based on total preferred shares outstanding at December 31, 2005, the REIT's current annual dividend obligation totals $10.0 million.

Inflation

Inflation affects us most significantly in the area of loan originations by affecting interest rates. Interest rates normally increase during periods of high inflation (or in periods when the Federal Reserve Bank attempts to prevent inflation) and decrease during periods of low inflation. Inflation did not have a material impact on our operations during 2005, 2004 or 2003.

Critical Accounting Policies

Accounting for Our Loan Sales

We generally sell our loans in transactions that are accounted for in our financial statements as securitizations structured as a financing or whole loan sales.

We completed four securitizations during each of the years ended December 31, 2005 and 2004, which were structured as financings. The transactions were legally structured as sales of mortgage loans, but for accounting purposes were treated as financings under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*. When we enter into a securitization structured as a financing, the loans remain on our balance sheet, retained interests are not created, and debt securities issued in the securitization replace the warehouse debt originally associated with the securitized mortgage loans. We record interest income on the mortgage loans and interest expense on the debt securities, as well as ancillary fees, over the life of the securitization, instead of recognizing a gain or loss upon closing of the transaction.

When we sell our mortgage loans in whole loan sale transactions, the transaction is structured as a sale of mortgage loans for legal and accounting purposes and we dispose of our entire interest in the loans. Gain on sale revenue is recorded at the time we sell loans, but not when we securitize loans in transactions structured as financings. Accordingly, our financial results are significantly impacted by the timing of our loan sales and the securitization structure we may elect to implement. If we hold a significant pool of loans at the end of a reporting period, those loans will remain on our balance sheet, along with the related debt used to fund the loans. The revenue that we generate from those loans will not be recorded until the subsequent reporting period when we sell the loans. If we elect to complete a securitization structured as a financing rather than a transaction that would generate gain on sale revenue, our gain on sale revenue will be lower and our interest income will be higher than it would have been otherwise. A number of factors influence the timing of our loan sales, our targeted disposition strategy and the whole loan sale premiums we receive, including the current market demand for our loans, the quality of the loans we originate, the sufficiency of our loan documentation, liquidity needs, and our strategic objectives. From time to time, management has delayed the sale of loans to a later period, and may do so again in the future.

Estimates

The preparation of our financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although we base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, our management exercises significant judgment in the final determination of our estimates. Actual results may differ from these estimates. The following areas require significant judgments by management:

- lower of cost or market valuation allowance
- provision for losses
- interest rate risk, derivatives and hedging strategies
- income taxes

Loans Held for Sale

Mortgage loans held for sale are carried at the lower of amortized cost or fair value. We estimate fair value by evaluating a variety of market indicators including recent trades, outstanding commitments or current investor yield requirements. We also accrue for liabilities associated with loans sold, which we may be requested to repurchase due to breaches of representations and warranties and early payment defaults. As these estimates are influenced by factors outside of our control and as uncertainty is inherent in these estimates, it is reasonably possible that they could change.

Provisions for Losses

We provide market valuation adjustments on certain nonperforming loans and real estate owned. These adjustments are based upon our estimate of expected losses, calculated using loss severity and loss frequency rate assumptions, and are based upon the value that we could reasonably expect to obtain from a sale, other than in a forced or liquidation sale. An allowance for losses on mortgage loans held for investment is recorded in an amount sufficient to maintain appropriate coverage for probable losses on such loans. The provision for losses also includes net losses on real estate owned. We periodically evaluate the estimates used in calculating expected losses, and adjustments are reported in earnings. As these estimates are influenced by factors outside of our control and as uncertainty is inherent in these estimates, it is reasonably possible that they could change.

Our estimate of expected losses could increase if our actual loss experience or repurchase activity is different than originally estimated, or if economic factors change the value we could reasonably expect to obtain from a sale. In particular, if actual losses increase or if values reasonably expected to be obtained from a sale decrease, the provision for losses would increase. Any increase in the provision for losses would adversely affect our results of operations.

Interest Rate Risk, Derivatives and Hedging

We regularly originate, securitize and sell fixed and variable rate loans. We face three primary periods of interest rate risk: during the period from approval of a loan application through loan funding; on our loans held for sale from the time of funding to the date of sale; and on the loans underlying our mortgage-related securities and on our loans held for investment subject to portfolio-based accounting.

Interest rate risk exists during the period from approval of a loan application through loan funding and from the time of funding to the date of sale because the premium earned on the sale of these loans is partially contingent upon the then-current market rate of interest for loans as compared to the contractual interest rate of the loans. Our use of derivatives is intended to mitigate the volatility of earnings associated with fluctuations in the gain on sale of loans due to changes in the current market rate of interest.

The interest rate risk on the loans underlying our mortgage-related securities and on our loans held for investment subject to portfolio-based accounting exists because some of these loans have fixed interest rates for a period of two, three or five years while the rate passed through to the investors in the mortgage-related securities and the holders of the securitization bonds is based upon an adjustable rate. We also have interest rate risk for six month adjustable loans and when the loans become adjustable after their two, three or five year fixed rate period. This is due to the loan rates resetting every six months, subject to various caps and floors, versus the monthly reset on the rate passed through to the investors in the mortgage-related securities and holders of the securitization bonds. Our use of derivatives is intended to mitigate the volatility of earnings associated with fluctuations in the unrealized gain (loss) on the mortgage-related securities and changes in the cash flows of our loans held for investment subject to portfolio-based accounting due to changes in LIBOR rates.

As part of our interest rate management process, we use derivative financial instruments such as interest rate swaps and caps, Eurodollar futures and options on Eurodollar futures. In connection with the securitizations structured as financings, we have entered into interest rate cap agreements and interest rate swap agreements. We do not use derivatives to speculate on interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, derivative financial instruments are reported on the consolidated balance sheets at their fair value.

Fair Value Hedges

We designate certain derivative financial instruments as hedge instruments under SFAS No. 133, and at trade date, these instruments and their hedging relationship are identified, designated and documented. For derivative financial instruments designated as hedge instruments, we evaluate the effectiveness of these hedges against the mortgage loans being hedged to ensure there remains a highly effective correlation in the hedge relationship. To hedge the effect of interest rate changes on the fair value of mortgage loans held for sale, we are using derivatives as fair value hedges under SFAS No. 133. Once the hedge relationship is established, the realized and unrealized changes in fair value of both the hedge instrument and mortgage loans are recognized in the period in which the changes occur. Any change in the fair value of mortgage loans held for sale recognized as a result of hedge accounting is reversed at the time we sell the mortgage loans. This results in a correspondingly higher or lower gain on sale revenue at such time. The net amount recorded in the consolidated statements of operations is referred to as hedge ineffectiveness.

Cash Flow Hedges

During the third quarter 2004, we implemented the use of cash flow hedge accounting on our securitization debt under SFAS No. 133. Pursuant to SFAS No. 133, hedge instruments have been designated as hedging the exposure to variability of cash flows from our securitization debt attributable to interest rate risk. During the third quarter 2005, Accredited implemented the use of cash flow hedging on its variable rate debt in Canada under SFAS No. 133. Pursuant to SFAS No. 133, hedge instruments have been designated as hedging the exposure to variability of cash flows from our variable rate debt in Canada attributable to interest rates. Cash flow hedge accounting requires that the effective portion of the gain or loss in the fair value of a derivative instrument designated as a hedge be reported in other comprehensive income, and that the ineffective portion be reported in current earnings.

For derivative financial instruments not designated as hedge instruments, unrealized changes in fair value are recognized in the period in which the changes occur and realized gains and losses are recognized in the period when such instruments are settled.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, which also supersedes APB 25, Accounting for Stock Issued to Employees. The revised standard eliminates the alternative to use Opinion 25's intrinsic value method of

accounting and eliminates the disclosure only provisions of SFAS No. 123. The compliance date for the revised standard was extended by the Securities and Exchange Commission (the "SEC") in April 2005. The revised standard applies to all awards granted after December 31, 2005 and requires the recognition of compensation expense in the financial statements for all share-based payment transactions subsequent to that date. The revised standard also requires the prospective recognition of compensation expense in the financial statements for all unvested options after January 1, 2006. The adoption of SFAS 123R is not expected to be materially different from the pro forma expense disclosed. However, future changes to the various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted create uncertainty as to the amount of stock-based compensation expense realized. We will adopt SFAS 123R on January 1, 2006.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

See discussion under Market Risk in "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 8. Financial Statements and Supplementary Data

Our consolidated financial statements at December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005 and the Reports of Independent Registered Public Accounting Firms of Grant Thornton LLP and Deloitte & Touche LLP are included in this Form 10-K beginning on page F-1. We have fully and unconditionally guaranteed certain payments in respect of approximately $102.3 million in aggregate liquidation preference of 9.75% Series A Perpetual Cumulative Preferred Shares issued by Accredited Mortgage Loan REIT Trust (the "REIT"), one of our subsidiaries. In accordance with the rules of the Securities and Exchange Commission, audited financial statements of the REIT as of December 31, 2005 and 2004 and for the year ended December 31, 2005 and for the period from inception (May 4, 2004) to December 31, 2004, are also included in this Form 10-K beginning on page F-40.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria in *Internal Control – Integrated Framework* issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included as Exhibits 31.1 and 31.2 in the Company's Form 10-K.

No changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-14(c) have come to management's attention that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Accredited Home Lenders Holding Co.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Accredited Home Lenders Holding Co. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Accredited Home Lenders Holding Co. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Accredited Home Lenders Holding Co. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Accredited Home Lenders Holding Co. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Accredited Home Lenders Holding Co. and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for the year then ended and our report dated March 10, 2006 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Irvine, California
March 10, 2006

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Except as set forth in the next sentence, the information required by this item is incorporated by reference from the information under the captions "Proposal No. 1: Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in Accredited's Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with Accredited's 2006 Annual Meeting of Stockholders (the "Proxy Statement"). Information regarding executive officers is set forth in Item 1 of Part I of this Report under the caption "Executive Officers."

ITEM 11. Executive Compensation

The information required by this item is incorporated by reference from the Proxy Statement under the heading "Executive Compensation and Other Matters."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

We currently maintain six compensation plans that provide for the issuance of our common stock to officers and other employees, directors and consultants. These consist of the 1995 Stock Option Plan, the 1995 Executive Stock Option Plan, the 1998 Stock Option Plan, the 2002 Stock Option Plan(1), the 2002 Employee Stock Purchase Plan(2) (the "*Purchase Plan*") and the Deferred Compensation Plan, all of which have been approved by our stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2005:

	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by stockholders(1)(3)	1,398,226	$26.29	1,217,725(2)
Equity compensation plans not approved by stockholders	—	—	—
Total	1,398,226	$26.29	1,217,725(2)

(1) The shares that are reserved for issuance under the 2002 Stock Option Plan are subject to automatic increase on January 1 and July 1 of each year through July 1, 2013 by a number of shares equal to the lower of (a) 12% of the issued and outstanding shares of the Company's common stock (calculated as of the immediately preceding December 31 and June 30, as applicable) minus (1) shares subject to options under all of the Company's option plans and (2) shares available for grant under the 2002 Stock Option Plan or (b) such lower amount as determined by the Board.

(2) Shares reserved for issuance under the Deferred Compensation Plan.

(3) Accredited's Management agreed to discontinue the Purchase Plan effective January 1, 2006.

The other information required by this item is incorporated by reference from the Proxy Statement under the heading "Stock Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 13. Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Certain Relationships and Related Transactions."

ITEM 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Proposal No. 2: Ratification of Appointment of Independent Auditors."

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

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2. Financial Statement Schedules

All such schedules have been omitted because the information required to be set forth therein is not applicable or is provided elsewhere.

3. Exhibits

For a list of exhibits filed with this Annual Report on Form 10-K, refer to the Exhibit Index beginning on page 75.

(b) Exhibits

For a list of exhibits filed with this Annual Report on Form 10-K, refer to the Exhibit Index beginning on page 75.

(c) Financial Statement Schedules

All such schedules have been omitted because the information required to be set forth therein is not applicable or is provided elsewhere.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 15, 2006

ACCREDITED HOME LENDERS HOLDING CO.

By: /s/ JAMES A. KONRATH

James A. Konrath
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Konrath as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ JAMES A. KONRATH James A. Konrath	Chairman of the Board and Chief Executive Officer *(Principal Executive Officer)*	March 15, 2006
/s/ JOSEPH J. LYDON Joseph J. Lydon	President, Chief Operating Officer and Director	March 15, 2006
/s/ JOHN S. BUCHANAN John S. Buchanan	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 15, 2006
/s/ JAMES H. BERGLUND James H. Berglund	Director	March 15, 2006
/s/ GARY M. ERICKSON Gary M. Erickson	Director	March 15, 2006
/s/ BOWERS W. ESPY Bowers W. Espy	Director	March 15, 2006
/s/ JODY A. GUNDERSON Jody A. Gunderson	Director	March 15, 2006
/s/ RICHARD T. PRATT Richard T. Pratt	Director	March 15, 2006

EXHIBIT INDEX

2.1[(1)]	Agreement and Plan of Merger
3.1[(2)]	Amended and Restated Certificate of Incorporation of the Registrant.
3.2[(2)]	Bylaws of the Registrant.
4.1[(2)]	Specimen Common Stock Certificate.
4.2[(3)]	Second Amended and Restated Investors' Rights Agreement.
4.3[(21)]	Articles Supplementary to Declaration of Trust of Accredited Mortgage Loan REIT Trust dated August 11, 2004, relating to preferred shares of Accredited Mortgage Loan REIT Trust.
4.4[(22)]	Articles Supplementary to Declaration of Trust of Accredited Mortgage Loan REIT Trust dated October 4, 2004, relating to preferred shares of Accredited Mortgage Loan REIT Trust.
4.5[(20)]	Declaration of Trust of Accredited Mortgage Loan REIT Trust.
4.6[(21)]	Specimen certificate for Accredited Mortgage Loan REIT Trust's preferred shares of beneficial interest.
4.7[(4)]	Guarantee Agreement of Accredited Home Lenders Holding Co., dated as of August 12, 2004 relating to preferred shares of Accredited Mortgage Loan REIT Trust.
4.8[(5)]	Guarantee Agreement of Accredited Home Lenders Holding Co., dated as of October 6, 2004 relating to preferred shares of Accredited Mortgage Loan REIT Trust.
4.9	Base Indenture by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated May 10, 2005
4.10	Series 2005-A Supplement to Base Indenture by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated May 10, 2005
4.11	Mortgage Loan Purchase and Servicing Agreement by and among Carmel Mountain Funding Trust, Accredited Home Lenders, Inc., and Accredited Home Lenders Holding Co., dated May 10, 2005
4.12	ISDA Master Agreement by and between Calyon New York Branch and Carmel Mountain Funding Trust, dated May 10, 2005
4.13	Schedule to the Master Agreement by and between Calyon New York Branch and Carmel Mountain Funding Trust, dated May 10, 2005
4.14	Confirmation of Swap Transaction by and between Carmel Mountain Funding Trust and Calyon New York Branch, dated May 10, 2005
4.15	Security Agreement by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated May 10, 2005
4.16	Schedule to the Master Agreement by and between Lehman Brothers Special Financing Inc. and Accredited Home Lenders, Inc., dated May 10, 2005
4.17	ISDA Credit Support Annex to the Schedule to the Master Agreement by and between Lehman Brothers Special Financing Inc. and Accredited Home Lenders, Inc., dated May 10, 2005
4.18	Guarantee of Lehman Brothers Holdings Inc., dated May 10, 2005
4.19	ISDA Credit Support Annex to the Schedule to the Master Agreement between Calyon New York Branch and Accredited Home Lenders, Inc., dated May 10, 2005
4.20	Schedule to the Master Agreement between Calyon New York Branch and Accredited Home Lenders, Inc., dated May 10, 2005
4.21	Collateral Agency and Intercreditor Agreement, dated May 10, 2005
4.22[(6)]	Indenture, dated as of August 1, 2004, between Accredited Mortgage Loan Trust 2004-3, a Delaware statutory trust acting through its owner trustee and Deutsche Bank National Trust Company, as indenture trustee.

4.23[6] Amended and Restated Trust Agreement, dated as of August 26, 2004, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.

4.24[6] Sale and Servicing Agreement, dated as of August 1, 2004, among Accredited Home Lenders, Inc., as Sponsor and as Master Servicer, Accredited Mortgage Loan Trust 2004-3, as Issuer, Countrywide Home Loans Servicing LP, as Backup Servicer and the Indenture Trustee.

4.25[7] Indenture, dated as of November 1, 2004, between Accredited Mortgage Loan Trust 2004-4, a Delaware statutory trust acting through its owner trustee and Deutsche Bank National Trust Company, as indenture trustee.

4.26[7] Amended and Restated Trust Agreement, dated as of November 22, 2004, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.

4.27[7] Sale and Servicing Agreement, dated as of November 1, 2004, among Accredited Home Lenders, Inc., as Sponsor and as Servicer, Accredited Mortgage Loan Trust 2004-4, as Issuer and the Indenture Trustee.

4.28[8] Indenture, dated as of February 1, 2005, between Accredited Mortgage Loan Trust 2005-1, a Delaware statutory trust acting through its owner trustee and Deutsche Bank National Trust Company, as indenture trustee.

4.29[8] Amended and Restated Trust Agreement, dated as of February 24, 2005, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.

4.30[8] Sale and Servicing Agreement, dated as of February 1, 2005, among Accredited Home Lenders, Inc., as Sponsor and as Servicer, Accredited Mortgage Loan Trust 2005-1, as Issuer and the Indenture Trustee.

4.31[8] Master Agreement, dated February 24, 2005 between Accredited Mortgage Loan Trust 2005-1 and Swiss Re Financial Products Corporation.

4.32[9] Indenture, dated as of May 1, 2005, between Accredited Mortgage Loan Trust 2005-2, a Delaware statutory trust acting through its owner trustee and Deutsche Bank National Trust Company, as indenture trustee.

4.33[9] Amended and Restated Trust Agreement, dated as of May 26, 2005, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.

4.34[9] Sale and Servicing Agreement, dated as of May 1, 2005, among Accredited Home Lenders, Inc., as Sponsor and as Servicer, Accredited Mortgage Loan Trust 2005-2, as Issuer and the Indenture Trustee.

4.35[9] Master Agreement, dated May 26, 2005 between Accredited Mortgage Loan Trust 2005-2 and Credit Suisse First Boston International.

4.36[10]	Indenture, dated as of August 1, 2005, between Accredited Mortgage Loan Trust 2005-3, a Delaware statutory trust acting through its owner trustee and LaSalle Bank National Association, as Indenture Trustee.
4.37[10]	Amended and Restated Trust Agreement, dated as of August 25, 2005, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.
4.38[10]	Sale and Servicing Agreement, dated as of August 1, 2005, among Accredited Home Lenders, Inc., as Sponsor and as Servicer, Accredited Mortgage Loan Trust 2005-3, as Issuer and the Indenture Trustee.
4.39[10]	Master Agreement, dated August 25, 2005 between Accredited Mortgage Loan Trust 2005-3 and Swiss Re Financial Products Corporation.
4.40[11]	Indenture, dated as of November 1, 2005, between Accredited Mortgage Loan Trust 2005-4, a Delaware statutory trust acting through its owner trustee and Deutsche Bank National Trust Company, as Indenture Trustee.
4.41[11]	Amended and Restated Trust Agreement, dated as of November 23, 2005, among the Sponsor, the Seller and U.S. Bank Trust National Association, as Owner Trustee.
4.42[11]	Sale and Servicing Agreement, dated as of November 1, 2005, among Accredited Home Lenders, Inc., as Sponsor and as Servicer, Accredited Mortgage Loan Trust 2005-4, as Issuer and the Indenture Trustee.
4.43[11]	Master Agreement, dated November 23, 2005 between Accredited Mortgage Loan Trust 2005-4 and Barclays Bank PLC.
10.1[12]	1998 Stock Option Plan of AHL and standard forms of agreement.*
10.2[3]	1995 Stock Option Plan of AHL and standard forms of agreement.**
10.3[3]	1995 Executive Stock Option Plan of AHL and standard forms of agreement.
10.4[13]	2002 Stock Option Plan of the Registrant.*
10.5[2]	2002 Employee Stock Purchase Plan of the Registrant.*
10.6[13]	Form of Indemnity Agreement to be entered into between the Registrant and each of its executive officers and directors.*
10.7[2]	Deferred Compensation Plan.*
10.8[2]	Deferred Compensation Plan Trust Agreement.*
10.9[14]	Stock Purchase Agreement and Registration Rights Agreement, attached as Exhibit A thereto, by and between the Registrant and FBR Asset Investment Corporation.
10.10[15]	Senior Management Incentive Plan of AHL, effective for 2004*
10.11[15]	Executive Management Incentive Plan of AHL, effective for 2004*
10.12[15]	Administration and Servicing Agreement, dated as of October 1, 2004, between Accredited Mortgage Loan REIT Trust and Accredited Home Lenders, Inc.

10.13[16]	Office Lease, dated June 9, 2005, by and between Accredited Home Lenders, Inc. and Kilroy Realty, L.P.
10.14[17]	Restricted Stock Agreement with Stuart D. Marvin, dated April 15, 2005.
10.15[17]	Restricted Stock Agreement with Stuart D. Marvin, dated April 15, 2005.
10.16[18]	Executive Employment Agreement between Accredited Home Lenders, Inc. and Stuart Marvin effective as of April 11, 2005.
10.17[19]	Accredited Home Lenders, Inc. Management Incentive Plan for the year 2005*
12.1	Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP with respect to Accredited Home Lenders Holding Co.
23.2	Consent of Grant Thornton LLP with respect to Accredited Home Lenders Holding Co.
24.1	Power of Attorney (See page 74).
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

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* Represents management contract or compensatory plan or arrangement.

(1) Incorporated by Reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

(2) Incorporated by Reference to the Company's Amendment No. 3 to Registration Statement on Form S-1 (File No. 333-91644) dated November 12, 2002.

(3) Incorporated by Reference to the Company's Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-91644) dated August 20, 2002.

(4) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 000-50179) dated August 9, 2004.

(5) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 001-32275) dated October 4, 2004.

(6) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-109964-04) dated September 8, 2004.

(7) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-109964-05) dated December 7, 2004.

(8) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-109964-06) dated March 8, 2005.

(9) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-109964-07) dated June 8, 2005.

(10) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-124435-02) dated September 9, 2005.

(11) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 333-124435-03) dated December 2, 2005.

(12) Incorporated by Reference to the Company's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-91644) dated November 26, 2002.

(13) Incorporated by Reference to the Company's Registration Statement on Form S-1 (File No. 333-91644) dated July 1, 2002.

(14) Incorporated by Reference to the Company's Amendment No. 6 to Registration Statement on Form S-1 (File No. 333-91644) dated January 21, 2003.

(15) Incorporated by Reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

(16) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 000-50179) dated June 14, 2005.

(17) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 001-32275) dated April 15, 2005.

(18) Incorporated by Reference to the Company's Quarterly Report on Form 10-Q (File No. 001-32275) for the quarter ended September 30, 2005.

(19) Incorporated by Reference to the Company's Current Report on Form 8-K (File No. 000-50179) dated January 28, 2005.

(20) Filed with amendment number 2 to the Company's Registration Statement on Form S-3 (File No. 333-117484-01) dated August 5, 2004.

(21) Filed with the Company's Current Report on Form 8-K (File No. 000-50179) dated August 9, 2004.

(22) Filed with the Company's Current Report on Form 8-K (File No. 001-32275) dated October 1, 2004.

ACCREDITED HOME LENDERS HOLDING CO.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Accredited Home Lenders Holding Co.

We have audited the accompanying consolidated balance sheet of Accredited Home Lenders Holding Co. and subsidiaries (the "Company") as of December 31, 2005 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Accredited Home Lenders Holding Co. and subsidiaries as of December 31, 2005 and the results of their operations and their cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

GRANT THORNTON LLP

March 10, 2006
Irvine, California

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Accredited Home Lenders Holding Co.

We have audited the accompanying consolidated balance sheet of Accredited Home Lenders Holding Co. and subsidiaries (the "Company") as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Accredited Home Lenders Holding Co. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

March 30, 2005
San Diego, California

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)

	December 31, 2005	December 31, 2004
ASSETS		
Cash and cash equivalents	$ 44,714	$ 35,155
Restricted cash	46,207	4,589
Accrued interest receivable	42,878	28,852
Mortgage loans held for sale, net	2,252,252	1,790,134
Mortgage loans held for investment, net of reserve of $106,017 and $60,138, respectively	7,195,872	4,690,758
Derivative assets, including margin account	89,409	18,629
Deferred income tax asset, net	68,024	34,250
Prepaid expenses and other assets	78,043	51,247
Furniture, fixtures and equipment, net	35,847	34,763
Total assets	$9,853,246	$6,688,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Credit facilities	$2,805,119	$2,204,860
Securitization bond financing	6,240,820	3,954,115
Income taxes payable, current	82,479	22,310
Accounts payable and accrued liabilities	73,494	46,615
Total liabilities	9,201,912	6,227,900
COMMITMENTS AND CONTINGENCIES (Note 15)		
MINORITY INTEREST IN SUBSIDIARY	97,922	97,922
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value; authorized 5,000,000 shares; no shares issued or outstanding	—	—
Common stock, $.001 par value; authorized 40,000,000 shares; issued and outstanding 21,312,367 shares and 20,794,145 shares, respectively	22	21
Additional paid-in capital	106,403	84,281
Unearned compensation	(16,135)	(12,058)
Accumulated other comprehensive income	19,421	2,042
Retained earnings	443,701	288,269
Total stockholders' equity	553,412	362,555
Total liabilities and stockholders' equity	$9,853,246	$6,688,377

The accompanying notes are an integral part of these consolidated financial statements.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31,		
	2005	**2004**	**2003**
REVENUES:			
Interest income	$ 610,107	$ 357,081	$178,982
Interest expense	(309,953)	(134,211)	(63,562)
Net interest income	300,154	222,870	115,420
Provision for losses on loans held for investment	(62,892)	(47,985)	(17,165)
Net interest income after provision	237,262	174,885	98,255
Gain on sale of loans, net	313,105	283,580	225,151
Loan servicing income	10,681	6,689	7,645
Other income	7,525	4,449	7,480
Total net revenues	568,573	469,603	338,531
OPERATING EXPENSES:			
Salaries, wages and benefits	189,801	160,822	112,239
General and administrative expenses	55,840	47,505	36,421
Occupancy	21,719	18,332	11,225
Advertising and promotion	18,860	13,090	7,230
Depreciation and amortization	14,957	10,131	4,854
Total operating expenses	301,177	249,880	171,969
Income before income taxes and minority interest	267,396	219,723	166,562
Income tax provision	101,986	85,289	66,547
Minority interest—dividends on preferred stock of subsidiary	9,978	3,656	—
Net income	$ 155,432	$ 130,778	$100,015
Earnings per common share:			
Basic	$ 7.37	$ 6.42	$ 5.61
Diluted	$ 7.07	$ 6.07	$ 4.97
Weighted average shares outstanding:			
Basic	21,097	20,374	17,825
Diluted	21,990	21,546	20,108

The accompanying notes are an integral part of these consolidated financial statements.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-in Capital	Note Receivable for Common Stock	Unearned Compensation	Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount							
					(in thousands)				
Balance, January 1, 2003	5,834	$ 6	$ 2,351	$(1,250)	$ (574)	$ —	$ 57,476	$ 58,009	$ 28,797
Common stock issued in initial public offering and concurrent private placement, net of offering costs	5,654	6	38,288	—	—	—	—	38,294	
Common stock issued upon conversion of preferred stock, convertible debt and warrants	7,631	7	8,106	—	—	—	—	8,113	
Common stock issued under employee stock plans	922	1	4,909	—	—	—	—	4,910	
Stock-based compensation	—	—	434	—	(434)	—	—	—	
Restricted stock issued under deferred compensation plan, net of forfeited shares	—	—	5,415	—	(5,415)	—	—	—	
Amortization of stock-based compensation	—	—	—	—	800	—	—	800	
Tax benefit on disqualifying stock dispositions	—	—	2,082	—	—	—	—	2,082	
Net income	—	—	—	—	—	—	100,015	100,015	$100,015
Balance, December 31, 2003	20,041	20	61,585	(1,250)	(5,623)	—	157,491	212,223	$100,015
Common stock issued under employee stock plans	753	1	5,887	—	—	—	—	5,888	
Stock-based compensation	—	—	152	—	(152)	—	—	—	
Restricted stock issued under deferred compensation plan, net of forfeited shares	—	—	9,612	—	(9,612)	—	—	—	
Amortization of stock-based compensation	—	—	—	—	3,329	—	—	3,329	
Tax benefit on disqualifying stock dispositions	—	—	7,045	—	—	—	—	7,045	
Payment received on note	—	—	—	1,250	—	—	—	1,250	
Unrealized gain on derivatives, net of taxes of $1,325	—	—	—	—	—	2,024	—	2,024	$ 2,024
Foreign currency translation adjustment	—	—	—	—	—	18	—	18	18
Net income	—	—	—	—	—	—	130,778	130,778	130,778
Balance, December 31, 2004	20,794	21	84,281	—	(12,058)	2,042	288,269	362,555	$132,820
Common stock issued under employee stock plans	518	1	7,198	—	—	—	—	7,199	
Stock-based compensation fair value adjustment	—	—	(301)	—	301	—	—	—	
Restricted stock issued under deferred compensation plan, net of forfeited shares	—	—	10,392	—	(10,392)	—	—	—	
Amortization of stock-based compensation	—	—	—	—	6,014	—	—	6,014	
Tax benefit on disqualifying stock dispositions	—	—	4,833	—	—	—	—	4,833	
Unrealized gain on derivatives, net of taxes of $8,204	—	—	—	—	—	14,907	—	14,907	$ 14,907
Foreign currency translation adjustment	—	—	—	—	—	2,472	—	2,472	2,472
Net income	—	—	—	—	—	—	155,432	155,432	155,432
Balance, December 31, 2005	21,312	$ 22	$106,403	$ —	$(16,135)	$19,421	$443,701	$553,412	$172,811

The accompanying notes are an integral part of these consolidated financial statements.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 155,432	$ 130,778	$ 100,015
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	14,957	10,131	4,854
Provision for losses on loans held for investment	62,892	47,985	17,165
Provision for losses on repurchases and premium recapture	12,438	4,679	6,098
Minority interest—dividends paid on preferred stock of subsidiary	9,978	3,656	—
Deferred income tax provision (benefit)	(41,999)	(19,522)	1,023
Unrealized loss (gain) on risk derivatives	35,625	(8,774)	(7,798)
Adjustment into earnings for gain on derivatives from other comprehensive income	(14,707)	—	—
Amortization of deferred costs	9,867	(986)	(551)
Amortization of deferred stock compensation	6,014	3,329	800
Changes in operating assets and liabilities:			
Restricted cash	(41,610)	(4,380)	(209)
Mortgage loans held for sale originated, net of fees	(16,573,264)	(12,428,161)	(7,991,250)
Cost of loans sold, net of fees	11,426,834	8,253,234	6,065,290
Principal payments received and other changes in loans held for sale	122,651	77,938	43,673
Accrued interest receivable	(13,983)	(14,752)	(6,952)
Derivative assets, including margin account	(56,382)	14,943	(19,779)
Prepaid expenses and other assets	(19,459)	2,092	28,588
Income taxes payable	65,002	26,406	(1,392)
Accounts payable and accrued liabilities	14,415	(273)	(797)
Net cash used in operating activities	(4,825,299)	(3,901,677)	(1,761,222)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Principal payments received on loans held for investment	1,973,241	924,251	212,611
Capital expenditures	(16,184)	(24,261)	(16,854)
Net cash provided by investing activities	1,957,057	899,990	195,757
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from warehouse credit facilities	(172,013)	689,666	559,769
Net proceeds from issuance of asset backed commercial paper	767,537	—	—
Proceeds from issuance of securitization bond financing, net of fees	4,269,559	3,178,803	1,229,254
Payments on securitization bond financing	(1,984,093)	(960,156)	(243,831)
Proceeds from sale of common stock through employee stock plans	7,198	5,888	4,910
Proceeds from preferred stock offering of consolidated subsidiary	—	97,922	—
Proceeds from initial public offering and concurrent private placement, net of offering costs	—	—	38,294
Other	—	1,238	(7,112)
Payment by consolidated subsidiary of preferred stock dividends	(9,978)	(3,656)	—
Net cash provided by financing activities	2,878,210	3,009,705	1,581,284
Effect of exchange rate changes on cash	(409)	18	—
Net (decrease) increase in cash and cash equivalents	9,559	8,036	15,819
Beginning balance, cash and cash equivalents	35,155	27,119	11,300
Ending balance, cash and cash equivalents	$ 44,714	$ 35,155	$ 27,119

The accompanying notes are an integral part of these consolidated financial statements.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005, 2004 and 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Accredited Home Lenders Holding Co. ("AHLHC"), a Delaware corporation, and its wholly owned subsidiaries Accredited Home Lenders, Inc. ("AHL"), AHL's wholly owned subsidiary Accredited Mortgage Loan REIT Trust (the "REIT") and the recently formed subsidiary Accredited Home Lenders Canada, Inc. (AHLC), (collectively referred to as "Accredited"). The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany balances and transactions are eliminated in consolidation.

Accredited engages in the business of originating, financing, securitizing, selling and servicing non-prime mortgage loans secured by residential real estate. Accredited focuses on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. Accredited originates loans primarily based upon the borrower's willingness and ability to repay the loan and the adequacy of the collateral.

Through its REIT subsidiary, Accredited securitizes non-prime mortgage loans originated by AHL. Generally, the REIT acquires mortgage assets and assumes funding obligations from AHL, which are accounted for at AHL's carrying value, as contributions from AHL.

AHL also provides operating facilities, administration and loan servicing for the REIT. The REIT is, therefore, economically and operationally dependent on AHL, and, as such, the REIT's results of operation or financial condition would not be indicative of the conditions that would have existed for its results of operations or financial condition if it had operated as an unaffiliated entity.

Use of Estimates

The preparation of our financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although we base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, our management exercises significant judgment in the final determination of our estimates. Actual results may differ from these estimates. The following areas require significant judgments by management:

- lower of cost or market valuation allowance
- provisions for losses and repurchase
- interest rate risk, derivatives and hedging strategies
- income taxes

Cash and Cash Equivalents

For purposes of financial statement presentation, Accredited considers all liquid investments with an original maturity of three months or less to be cash equivalents. All liquid assets with an original maturity of three months or less which are not readily available for use, including cash deposits, are classified as restricted cash.

Mortgage Banking Activities

Accredited originates, finances, securitizes, services and sells mortgage loans secured by residential real estate. Accredited recognizes interest income on loans held for sale and investment from the time that it originates the loan until the time the loans are sold. Interest income is also recognized over the life of the loans that Accredited has securitized in structures that require financing treatment. Gains on sale of loans are recognized upon the sale of loans for a premium to various third-party investors under purchase and sale agreements. Loan sales may be either on a servicing retained or released basis. Loan servicing income represents fees from interim servicing for whole loan buyers, and ancillary servicing revenue for loans that Accredited securitizes net of external servicing costs, if any. We do not recognize loan servicing income on our mortgage loans held for investment.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of amortized cost or fair value. We estimate fair value by evaluating a variety of market indicators including recent trades, outstanding commitments or current investor yield requirements.

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Accredited, (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Accredited does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates Accredited to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets.

Gains or losses resulting from loan sales are recognized at the time of sale, based on the difference between the net sales proceeds and the carrying value of the loans sold. During the years ended December 31, 2005, 2004 and 2003, Accredited sold $11.4 billion, $8.3 billion, and $6.1 billion, respectively, of loans with mortgage servicing rights released.

Certain whole loan sale contracts include provisions requiring Accredited to repurchase a loan if a borrower fails to make one or more of the first loan payments due on the loan. In addition, an investor may request that Accredited refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid in full within a certain amount of time from the date of sale. Accredited records a provision for estimated repurchases and premium recapture on loans sold, which is charged to gain on sale of loans.

Loans Held for Securitization

Accredited's securitization program calls for the execution of one securitization transaction per calendar quarter. In support of this program, each month the Company identifies loans meeting the applicable investor characteristics and transfers those loans from Loans Held for Sale to Loans Held for Securitization (held for investment).

After the loans are designated as held for investment, the Company estimates the losses inherent in the portfolio at the balance sheet date and establishes an allowance for loan losses. The provision for loan losses on loans held for securitization is made in an amount sufficient to maintain credit loss allowances at a level considered appropriate to cover probable losses in the portfolio. Accredited defines a loan as non-accruing at the time the loan becomes 90 days or more delinquent under its payment terms. Probable losses are determined based

on segmenting the portfolio relating to their contractual delinquency status and applying Accredited's historical loss experience. Accredited also uses other analytical tools to determine the reasonableness of the allowance for loan losses. Loss estimates are reviewed periodically and adjustments are reported in earnings. As these estimates are influenced by factors outside of Accredited's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Carrying values are written down to fair value when the loan is foreclosed upon or deemed uncollectible.

Each quarter (typically the second month of each quarter), the Loans Held for Securitization, which are originated by and to this point have been held in AHL, are contributed at the lower of cost or market ("carrying amount"), to the REIT. The carrying amount transferred to the REIT consists of the unpaid principal balance, the net deferred origination fees, the basis adjustment for fair value hedge accounting (from funding to contribution date) and the allowance for loan losses. The loans remain in the Loans Held for Securitization for approximately 10 business days prior to the close of the securitization transaction and are thereafter designated as Loans Held for Investment.

Loans Held for Investment and Securitization Bond Financing

Mortgage loans held for investment include loans that Accredited has securitized in structures that are accounted for as financings as well as mortgage loans held for a scheduled securitization. During each year ended December 31, 2005 and 2004, Accredited completed four securitizations of mortgage loans totaling $4.2 billion and $3.3 billion, respectively, that were structured as financings under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*.

These securitizations are structured legally as sales, but for accounting purposes are treated as financings under SFAS No. 140. These securitizations do not meet the qualifying special purpose entity criteria under SFAS No. 140 and related interpretations because after the loans are securitized, the securitization trusts may acquire derivatives relating to beneficial interests retained by Accredited and, Accredited, as servicer, subject to applicable contractual provisions, has discretion, consistent with prudent mortgage servicing practices, to determine whether to sell or work out any loans securitized through the securitization trusts that become troubled. Accordingly, the loans remain on the balance sheet as "loans held for investment", retained interests are not created, and securitization bond financing replaces the warehouse debt or asset backed commercial paper originally associated with the loans held for investment. Accredited records interest income on loans held for investment and interest expense on the bonds issued in the securitizations over the life of the securitizations. Deferred debt issuance costs and discounts related to the bonds are amortized on a level yield basis over the estimated life of the bonds.

Accredited periodically evaluates the need for and the adequacy of the allowance for loan losses on its loans held for investment. Provision for loan losses on loans held for investment is made in an amount sufficient to maintain credit loss allowances at a level considered appropriate to cover probable losses in the portfolio. Accredited defines a loan as non-accruing at the time the loan becomes 90 days or more delinquent under its payment terms. Probable losses are determined based on segmenting the portfolio relating to their contractual delinquency status and applying Accredited's historical loss experience. Accredited also uses other analytical tools to determine the reasonableness of the allowance for loan losses. Loss estimates are reviewed periodically and adjustments are reported in earnings. As these estimates are influenced by factors outside of Accredited's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Carrying values are written down to fair value when the loan is foreclosed upon or deemed uncollectible.

Derivative Financial Instruments

As part of Accredited's interest rate management process, Accredited uses derivative financial instruments such as futures contracts, options contracts, interest rate swap and interest rate cap agreements. It is not Accredited's policy to use derivatives to speculate on interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, derivative financial instruments are reported on the consolidated balance sheets at their fair value.

Fair Value Hedges

Accredited designates certain derivative financial instruments as hedge instruments under SFAS No. 133, and, at trade date, these instruments and their hedging relationship are identified, designated and documented. Accredited has implemented fair value hedge accounting on its mortgage loans held for sale, whereby certain derivatives are designated as a hedge of the fair value of mortgage loans held for sale. This process includes linking derivatives to specific assets or liabilities on the balance sheet. Accredited also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedge transactions are highly effective in offsetting changes in fair values of hedged items. Changes in the fair value of such derivative instruments and changes in the fair value of the hedged assets, which are determined to be effective, are recorded as a component of interest income in the period of change. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Accredited discontinues hedge accounting. If hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge, the derivative will continue to be recorded on the balance sheet at its fair value. For terminated hedges or hedges no longer qualifying as effective, the formerly hedged asset will no longer be adjusted for changes in fair value and any previously recorded adjustment to the hedged asset will be included in the carrying basis. These amounts will be included in results of operations at the time of disposition of the asset. Should the hedge prove to be perfectly effective, the current period net impact to earnings would be minimal. Accordingly, the net amount recorded in the statement of operations relating to fair value hedge accounting is referred to as hedge ineffectiveness.

Cash Flow Hedges

Pursuant to SFAS No. 133 hedge instruments have been designated as hedging the exposure to variability of cash flows from our securitization debt attributable to interest rate risk. Cash flow hedge accounting requires that the effective portion of the gain or loss in the fair value of a derivative instrument designated as a hedge be reported as a component of other comprehensive income in stockholders' equity, and recognized into earnings in the period during which the hedged transaction affects earnings pursuant to SFAS No. 133. At the inception of the hedge and on an ongoing basis, Accredited assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective as a hedge, Accredited discontinues cash flow hedge accounting prospectively. In the instance cash flow hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value. Any change in the fair value of a derivative no longer qualifying as an effective hedge is recognized in current period earnings. For terminated hedges or hedges that no longer qualify as effective, the effective portion previously recorded remains in other comprehensive income and continues to be amortized or accreted into earnings with the hedged item. The ineffective portion on the derivative instrument is reported in current earnings as a component of interest expense.

For derivative financial instruments not designated as hedge instruments, unrealized changes in fair value are recognized in the period in which the changes occur and realized gains and losses are recognized in the period when such instruments are settled.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of the asset. Projects in process represent software development costs capitalized in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These projects are not yet substantially complete or ready for their intended use and therefore no depreciation has been recorded. These amounts will be reclassified to computer software upon their substantial completion and depreciated over their estimated useful life.

Accredited reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. An asset is considered impaired when the expected undiscounted cash flows over the remaining useful life are less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value. No such impairments were recognized during 2005, 2004 or 2003.

Furniture, fixtures and equipment were as follows at December 31:

	Estimated Useful Life (in years)	2005	2004
		(in thousands)	
Office equipment	3-5	$ 21,068	$ 17,968
Computer software	2-3	24,459	16,426
Furniture and equipment	5	8,039	7,227
Leasehold improvements	Lesser of 5 years or the life of the lease	7,496	7,467
Projects in process	—	6,253	3,136
Furniture, fixtures and equipment, gross		67,315	52,224
Accumulated depreciation and amortization		(31,468)	(17,461)
Furniture, fixtures and equipment, net		$ 35,847	$ 34,763

Loan Origination Costs and Fees

Loan origination fees and certain direct origination costs are deferred as an adjustment to the carrying value of the loans. These fees and costs are recognized upon sale of loans to third-party investors or amortized over the life of the loan on a level yield basis for loans held for investment.

Provision for Losses

Provision for losses on loans held for investment is recorded in an amount sufficient to maintain the allowance for loan losses at a level considered appropriate to cover probable losses on such loans. Market valuation adjustments have been recorded on real estate owned. These adjustments are based on estimate of probable losses, calculated using loss frequency and loss severity rate assumptions and are based on the value that could reasonably expect to obtain from a sale, that is, other than in a forced or liquidation sale. Provision for losses also includes net losses on real estate owned. Accredited periodically evaluates the estimates used in calculating expected losses and adjustments are reported in earnings. As these estimates are influenced by factors outside of Accredited's control and as uncertainty is inherent in these estimates, actual amounts charged-off could differ from amounts recorded.

Interest Income

Interest income is recorded when earned. Interest income represents the interest earned on mortgage loans held for sale and on mortgage loans held for investment. For loans that are 90 days or more delinquent, Accredited reverses income previously recognized but not collected, and ceases to accrue income until all past-due amounts are collected. In addition, Accredited calculates an effective yield based on the carrying amount of our residual interest in off-balance sheet securitizations and Accredited's then-current estimates of future cash flows and recognizes accretion income, which is included as a component of interest income. Interest income also includes revenue related to our mortgage loans held for investment (on-balance sheet securitizations), contractually designated as servicing income but classified as interest income for accounting purposes.

Loan Servicing and Other Fees

Fees for servicing sold loans are credited to income when received. Costs of servicing loans are expensed as incurred. Other loan fees, which represent income from the prepayment of loans, delinquent payment charges and miscellaneous loan services, are recorded as revenue when collected.

Escrow and Fiduciary Funds

Accredited maintains segregated bank accounts in trust for the benefit of investors for payments on securitized loans and mortgage loans serviced for investors. Accredited also maintains bank accounts for the benefit of borrower's property tax and hazard insurance premium payments that are escrowed by borrowers. These bank accounts totaled $139.4 million and $101.9 million at December 31, 2005 and 2004, respectively, and are excluded from Accredited's assets and liabilities.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws to taxable years in which such temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Real Estate Owned

Real estate acquired in settlement of loans generally results when property collateralizing a loan is foreclosed upon or otherwise acquired by Accredited in satisfaction of the loan. Real estate acquired through foreclosure is carried at lower of cost or its fair value less costs to dispose. Fair value is based on the net amount that Accredited could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Adjustments to the carrying value of real estate owned are made through valuation allowances and charge-offs recognized through a charge to earnings. Legal fees and other direct costs incurred after foreclosure are expensed as incurred. At December 31, 2005 and 2004, real estate owned amounting to $16.1 million and $6.1 million, net of valuation allowances, respectively, was included in prepaid and other assets.

Advertising

Accredited utilizes nondirect response advertising. As such, advertising costs are expensed as incurred.

Stock-Based Compensation

Accredited accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of Accredited's stock at the date of grant over the grant price.

SFAS No. 123, *Accounting for Stock-Based Compensation,* encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value.

Accredited has adopted the disclosure only provisions of SFAS No. 123. Had compensation cost for Accredited's stock-based compensation plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, Accredited's net income would have been reduced to the pro forma amounts in the following table.

	2005	2004	2003
	(in thousands, except per share amounts)		
Net income, as reported	$155,432	$130,778	$100,015
Effect of dilutive shares:			
Add: Stock-based compensation included in reported net income, net of tax	82	38	113
Deduct: Stock-based employee compensation expense determined using fair value method, net of tax	(3,488)	(2,783)	(1,758)
Pro forma net income	$152,026	$128,033	$ 98,370
Earnings per share:			
Basic—as reported	$ 7.37	$ 6.42	$ 5.61
Basic—pro forma	$ 7.21	$ 6.28	$ 5.52
Diluted—as reported	$ 7.07	$ 6.07	$ 4.97
Diluted—pro forma	$ 6.91	$ 5.94	$ 4.89

The fair value of each option grant and purchase right is estimated as of the date of the grant using the Black-Scholes multiple option-pricing model. The underlying assumptions used to estimate the fair values of options granted under the Stock Option Plans and purchase rights granted under the Employee Stock Purchase Plan during the years ended December 31 are as follows:

	2005	2004	2003
Weighted average risk free rate for options	3.62%	2.42%	1.86%
Weighted average risk free rate for purchase rights	3.04%	1.35%	1.12%
Weighted average expected option life	2.7 yrs	2.7 yrs	2.7 yrs
Expected purchase right life	0.5 yrs	0.5 yrs	0.4 yrs
Expected stock price volatility for options	44%	54%	21%
Expected stock price volatility for purchase rights	41%	48%	58%
Expected dividend yield	—	—	—
Weighted average fair value of options granted with an exercise price equal to market price on grant date	$13.33	$12.54	$ 2.98
Weighted average fair value of purchase rights granted	$12.65	$ 8.37	$ 3.57

In December 2004, the Financial Accounting Standards Board issued a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, which also supersedes APB 25, Accounting for Stock Issued to Employees. The revised standard eliminates the alternative to use Opinion 25's intrinsic value method of accounting and eliminates the disclosure only provisions of SFAS No. 123. The compliance date for the revised standard was extended by the Securities and Exchange Commission (the "SEC") in April 2005. The revised standard applies to all awards granted after December 31, 2005 and requires the recognition of compensation expense in the financial statements for all share-based payment transactions subsequent to that date. The revised standard also requires the prospective recognition of compensation expense in the financial statements for all unvested options after January 1, 2006. The adoption of SFAS 123R is not expected to be materially different from the pro forma expense disclosed. However, future changes to the various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted create uncertainty as to the amount of stock-based compensation expense realized. We will adopt SFAS 123R on January 1, 2006.

Other Comprehensive Income

Other comprehensive net income includes unrealized gains and losses that are excluded from the consolidated Statements of Operations and are reported as a separate component in stockholders' equity. The unrealized gains and losses include unrealized gains and losses on the effective portion of cash flow hedges and foreign currency translation adjustments.

Accumulated other comprehensive income was zero at December 31, 2003 and for the year ended December 31, 2004 and 2005 was determined as follows:

	(In thousands)
Balance at January 1, 2004	$ —
Net unrealized gains on cash flow hedges, net of taxes of $1,325	2,024
Foreign currency translation adjustments	18
Balance at December 31, 2004	2,042
Net unrealized gains on cash flow hedges, net of taxes of $14,019	23,800
Reclassification adjustment into earnings for realized gain on derivatives, net of taxes of $5,815	(8,893)
Foreign currency translation adjustments	2,472
Balance at December 31, 2005	$19,421

Comprehensive income is determined as follows for the years ended December 31:

	2005	2004
	(In thousands)	
Net income	$155,432	$130,778
Net unrealized gains or losses on cash flow hedges, net of taxes of $14,019 and $1,325 respectively	23,800	2,060
Reclassification adjustment into earnings for realized gain on derivatives, net of taxes of $5,815 and $0, respectively	(8,893)	(36)
Foreign currency translation adjustments	2,472	18
Total comprehensive income	$172,811	$132,820

Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. These segments should engage in business activities and have discrete financial information available, such as revenue, expenses, and assets. While Accredited's management monitors originations and sales gains by wholesale and retail channels, it does not record any of the actual financial results other than direct expenses by these groups. In addition, the retail originations have generally been less than 10% of total originations over the past five years. Accordingly, Accredited operates in one reportable operating segment.

Reclassifications (in thousands)

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on reported net income. We have changed the presentation of our consolidated statements of operations to report provision for losses on repurchases ($736 and $3,102), and provision for market reserve on loans held for sale ($8,135 and $12,862), as reductions to gain on sale of loans for the years ended December 31, 2004 and 2003, respectively. Previously these amounts were included in provision for losses.

We also reclassified the following items in the 2004 consolidated balance sheet:

- $28,852 from other receivables to accrued interest receivable.
- $15,457 from other receivables to derivative assets.
- $13,349 from other receivables to prepaid expenses and other assets.
- $3,900 from mortgage related securities and mortgage servicing rights to prepaid expenses and other assets.
- $3,172 from other prepaid expenses and other assets to derivative assets.

The cash flow statement was revised to agree to the presentation described above.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, which also supersedes APB 25, Accounting for Stock Issued to Employees. The revised standard eliminates the alternative to use Opinion 25's intrinsic value method of accounting and eliminates the disclosure only provisions of SFAS No. 123. The compliance date for the revised standard was extended by the Securities and Exchange Commission (the "SEC") in April 2005. The revised standard applies to all awards granted after December 31, 2005 and requires the recognition of compensation expense in the financial statements for all share-based payment transactions subsequent to that date. The revised standard also requires the prospective recognition of compensation expense in the financial statements for all unvested options after January 1, 2006. The adoption of SFAS 123R is not expected to be materially different from the pro forma expense disclosed. However, future changes to the various assumptions used to determine the fair-value of awards issued or the amount and type of equity awards granted create uncertainty as to the amount of stock-based compensation expense realized. We will adopt SFAS 123R on January 1, 2006.

2. RESTRICTED CASH

Restricted cash consisted of the following deposits at December 31:

	2005	2004
	(in thousands)	
Errors and omissions liability insurance	$ 4,200	$4,200
Canada securitization financing collateral	8,157	—
Asset backed commercial paper collateral	30,897	—
Other	2,953	389
Total restricted cash	$46,207	$4,589

3. CONCENTRATIONS OF RISK

Significant Customers

During 2005, Accredited sold $2.7 billion, 1.8 billion, 1.6 billion and $1.3 billion in loans to four separate investors, which represented 24%, 15%, 14% and 11%, respectively, of total loans sold. During 2004, Accredited sold $2.2 billion and $2.1 billion in loans to two separate investors, which represented 26% and 25%, respectively, of total loans sold. During 2003, Accredited sold $1.7 billion and $1.1 billion in loans to the same two investors, which represented 28% and 18%, respectively, of total loans sold. No other sales to individual investors accounted for more than 10% of total loans sold during 2005, 2004 and 2003.

Credit Repurchase Risk

Accredited's sales of mortgage loans are subject to standard mortgage industry representations and warranties, material violations of which may require Accredited to repurchase one or more mortgage loans. Additionally, certain whole loan sale contracts include provisions requiring Accredited to repurchase a loan if a borrower fails to make one or more of the first loan payments due on the loan. During the year ended December 31, 2005 and 2004 loans repurchased totaled $72.3 million and $41.9 million, respectively, pursuant to these provisions. The increase in repurchase activity results primarily from a modification to our typical sales agreement requiring our buyers to notify us promptly of their intent to exercise their repurchase right coupled with a more diligent review of loan payment performance on the part of our buyers. At December 31, 2005 and 2004, the reserve for potential future repurchase losses totaled $7.4 million and $5.1 million, respectively.

Loan Products

Accredited offers a range of non-prime mortgage and to a lesser degree Alt-A loan programs, including a variety of loan programs for first and second mortgages and several niche programs for 100% combined loan to value ("LTV") and second mortgages. The key distinguishing features of each program are the documentation required, the LTV, the mortgage and consumer credit payment history, the property type and the credit score necessary to qualify under a particular program. Nevertheless, each program relies upon an analysis of each borrower's ability to repay, the risk that the borrower will not repay, the fees and rates charged, the value of the collateral, the benefit provided to the borrower, and the loan amounts relative to the risk Accredited is taking.

In general, LTV maximums decrease with credit quality and within each credit classification. Additionally, LTV maximums vary depending on the property type. For example, LTV maximums for loans secured by owner-occupied properties are higher than for loans secured by properties that are not owner-occupied. LTV maximums for Lite Documentation and Stated Income Programs are generally lower than the LTV maximums for corresponding Full Documentation programs. Accredited's maximum debt service-to-income ratios range from 50% to 55% for Full Documentation Programs and from 45% to 55% for Lite Documentation and Stated Income Programs.

Loans originated in the US have payment schedules based upon an interest rate that is (1) constant over the life of the loan, commonly referred to as "fixed-rate mortgages" or "FRMs," or (2) fixed for the initial six-months, two, three, five or seven years and adjusts after the initial fixed period and every six months thereafter, sometimes referred to as "adjustable-rate loans" or "ARMs." Generally, the payments on fixed-rate loans are calculated to fully repay the loans in 15 or 30 years. In the case of "balloon" loans, the payments are based on a 30-year or 40 year repayment schedule, with the unpaid principal balance due in a "balloon" payment at the end of 15 years or 30 years. The payments on adjustable-rate loans are calculated to fully repay the loans in 30 years, with payment amount adjustments following interest rate adjustments. Fixed-rate mortgages or adjustable-rate loans may have initial interest-only periods, typically five years, during which the monthly payments are limited to the amounts required to pay accrued interest due on the loans. At the end of the interest-only periods, the monthly payments are adjusted to fully repay the loans over their remaining 25-year terms. Accredited does not currently offer, or expect to offer, an interest-only option in conjunction with the 40-year-due-in-30 amortization program.

Geographical Concentration

Properties securing the mortgage loans in Accredited's servicing portfolio (loans held for sale, loans held for investment and off-balance sheet securitizations), including loans subserviced, are geographically dispersed

throughout the United States. At December 31, 2005, 20% and 10% of the unpaid principal balance of mortgage loans in Accredited's servicing portfolio were secured by properties located in California and Florida, respectively. At December 31, 2004, 29% of the unpaid principal balance of mortgage loans in Accredited's servicing portfolio was secured by properties located in California. The remaining properties securing mortgage loans serviced did not exceed 10% in any other state at December 31, 2005 and 2004.

Loan originations are geographically dispersed throughout the United States and, to a much lesser extent, in Canada. During the year ended December 31, 2005, 19% and 11% of loans originated were collateralized by properties located in California and Florida, respectively. During the years ended December 31, 2004 and 2003, 28% and 33%, respectively, of loans originated were collateralized by properties located in California. The remaining originations did not exceed 10% in any other state during the years ended December 31, 2005, 2004 and 2003.

An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster that is not covered by standard homeowners' insurance policies, such as an earthquake, hurricane or wildfire, could decrease the value of mortgaged properties. This, in turn, would increase the risk of delinquency, default or foreclosure on mortgage loans in our portfolio and restrict our ability to originate, sell, or securitize mortgage loans, which would significantly harm our business, financial condition and liquidity. We do not expect the losses stemming from the recent hurricanes in the southeastern United States to have a material adverse impact on our business, financial condition, liquidity or results of operations.

4. MORTGAGE LOANS

Mortgage loans held for sale—Mortgage loans held for sale were as follows at December 31:

	2005	2004
	(in thousands)	
Mortgage loans held for sale—principal balance	$2,267,611	$1,805,620
Basis adjustment for fair value hedge accounting	5,004	5
Net deferred origination costs	(2,584)	1,574
Market valuation allowance	(17,779)	(17,065)
Mortgage loans held for sale, net	$2,252,252	$1,790,134

Mortgage loans held for investment—Mortgage loans held for investment were as follows at December 31:

	2005	2004
	(in thousands)	
Mortgage loans securitized—principal balance	$6,421,805	$4,101,982
Mortgage loans held for securitization(1)	899,803	642,451
Basis adjustment for fair value hedge accounting	(4,766)	12,365
Net deferred origination fees	(14,953)	(5,902)
Allowance for loan losses	(106,017)	(60,138)
Mortgage loans held for investment, net	$7,195,872	$4,690,758

(1) Includes $139.3 million in loans held for securitization in Canada at December 31, 2005.

Provision for losses—Activity in the reserves was as follows for the years ended December 31:

	Balance at Beginning of Year	Provision for Losses	Chargeoffs, net	Transfers	Balance at End of Year
			(in thousands)		
2005:					
Mortgage loans held for investment	$60,138	$50,714	$ (4,835)	$ —	$106,017
Real estate owned	4,405	12,178	(5,858)	—	10,725
Total	$64,543	$62,892	$(10,693)	$ —	$116,742
2004:					
Mortgage loans held for investment	$21,761	$44,008	$ (1,732)	$(3,899)	$ 60,138
Real estate owned	2,328	3,977	(4,257)	2,357	4,405
Total	$24,089	$47,985	$ (5,989)	$(1,542)	$ 64,543
2003:					
Mortgage loans held for investment	$ 4,550	$15,718	$ (378)	$ 1,871	$ 21,761
Real estate owned	2,092	1,447	(5,705)	4,494	2,328
Total	$ 6,642	$17,165	$ (6,083)	$ 6,365	$ 24,089

The following table summarizes the delinquency amounts for the serviced portfolio, including mortgage loans and real estate owned, excludes loans serviced on an interim basis (30 days or less):

	At December 31, 2005		At December 31, 2004	
	Total Principal Amount	Delinquent Principal Over 90 Days	Total Principal Amount	Delinquent Principal Over 90 Days
		(In thousands)		
Mortgage loans held for sale(1)	$2,267,553	$ 20,861(3)	$1,805,620	$18,556
Mortgage loans held for investment	7,321,608	71,361(3)	4,744,433	22,634
Real estate owned	26,811	26,811	10,526	10,526
On balance sheet portfolio	9,615,972	119,033	6,560,579	51,716
Mortgage loans sold servicing retained(2)	90,181	10,228	171,002	16,493
Total serviced portfolio	$9,706,153	$129,261	$6,731,581	$68,209

(1) Includes loans repurchased.
(2) Includes real estate owned, off balance sheet.
(3) For loans 90 days or more delinquent we cease to accrue interest income and reverse all previously accrued but uncollected income.

5. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges

Accredited uses hedge accounting in accordance with SFAS No. 133 for certain derivative financial instruments used to hedge its mortgage loans held for sale and mortgage loans held for investment. At December 31, 2005 and 2004 fair value hedge basis adjustments of $5.0 million and $5,000, respectively, are included as an addition to mortgage loans held for sale. Hedge ineffectiveness associated with these fair value hedges of $.3 million and $1.2 million was recorded in earnings during the years ended December 31, 2005 and 2004, respectively, and is included as an addition to gain on sale of loans in the consolidated statements of operations.

At December 31, 2005 and 2004, fair value hedge basis adjustments of ($4.8 million) and $12.4 million, respectively, are included in loans held for investment.

Cash Flow Hedges

Accredited utilizes cash flow hedge accounting on the variable rate portion of its securitization debt in accordance with the provisions of SFAS No. 133. Effective unrealized gains, net of effective unrealized losses, associated with cash flow hedges of $37.8 million, reduced by related tax expense of $14.0 million, were recorded in other comprehensive income during the year ended December 31, 2005, which is reported as a component of stockholders' equity. These contracts settle on various dates ranging from March 2006 to March 2015. A total of $22.7 million in net effective gains before taxes, included in other comprehensive income at December 31, 2005, is expected to be recognized in earnings during the next twelve months. Hedge ineffectiveness associated with cash flow hedges of $2.0 million was recorded in earnings during the year ended December 31, 2005 and is included as a component of interest expense in the consolidated statements of operations.

During the third quarter 2005, Accredited implemented the use of cash flow hedge accounting on its variable rate debt in Canada under SFAS No. 133.

Futures Contracts, Options Contracts, Interest Rate Swap and Cap Agreements and Margin Accounts

At December 31, 2005 Accredited had outstanding Eurodollar futures contracts, options contracts, interest rate swap agreements and interest rate cap agreements that were designated as hedge instruments. At December 31, 2005 and 2004, the fair value of the margin account balances required for these derivatives and the futures contracts was $69.9 million and $15.5 million, respectively. At December 31, 2005, the fair value of the options contracts, interest rate swap and cap agreements was $4.7 million, $14.7 million and $53 thousand, respectively. At December 31, 2004, the fair value of the options contracts, interest rate swap and cap agreements was $1.0 million, $1.8 million and $0.3 million, respectively. The total net liquidation value at December 31, 2005 and 2004 of these derivatives and related margin account balances was $87.6 million and $18.6 million, respectively. A gain of $1.9 million on derivative instruments not designated for SFAS No. 133 hedge accounting treatment was recorded in interest expense on the statement of operations during the year ended December 31, 2005 relating to the gain in value of interest rate cap agreements and interest rate swap agreements. The change in the fair value of derivative financial instruments and the related hedged asset recorded in the statements of operations was as follows:

	Interest Income	Interest Expense	Gain on Sale	Other Income	Total
			(In thousands)		
Year ended December 31,					
2005:					
Net unrealized gain (loss)	$ (4,384)	$(20,178)	$(11,063)	$ —	$(35,625)
Net realized gain (loss)	—	38,241	32,664	46	70,951
Total	$ (4,384)	$ 18,063	$ 21,601	$ 46	$ 35,326
2004:					
Net unrealized gain (loss)	$ (6,524)	$ 4,487	$ 10,016	$ 795	$ 8,774
Net realized gain (loss)	(3,578)	(2,225)	(11,217)	(689)	(17,709)
Total	$(10,102)	$ 2,262	$ (1,201)	$ 106	$ (8,935)
2003:					
Net unrealized gain (loss)	$ (1,244)	$ —	$ 4,919	$ 4,123	$ 7,798
Net realized gain (loss)	(3,353)	—	(13,126)	(5,083)	(21,562)
Total	$ (4,597)	$ —	$ (8,207)	$ (960)	$(13,764)

6. CREDIT FACILITIES

Credit facilities consisted of the following:

	December 31, 2005	December 31, 2004
	(In thousands)	
A $650 million warehouse credit facility expiring February 2007	$ 472,457	$ 404,816
A $500 million warehouse credit facility expiring April 2006	385,317	376,290
A $650 million warehouse credit facility expiring July 2007	315,812	277,280
A $600 million warehouse credit facility expiring December 2006	303,953	210,979
A $660 million warehouse credit facility expiring December 2007	281,428	266,436
A $600 million warehouse credit facility expiring July 2006	135,353	371,213
A $171.6 million warehouse credit facility expiring June 2006	127,826	—
A $40 million warehouse credit facility expiring November 2006	9,513	28,826
A $300 million warehouse credit facility expiring January 2007	5,923	269,020
$1 billion in asset-backed commercial paper	767,537	—
Total credit facilities	$2,805,119	$2,204,860

Outstanding credit facilities consist of committed warehouse lines and asset-backed commercial paper. The outstanding warehouse facilities bear interest based on one-month LIBOR (one-month bankers' acceptance rate for Canada) plus a spread. The spread over LIBOR varies depending on the mortgage asset class being financed. The interest rates (One-Month LIBOR plus the spread) ranged from 4.10% to 7.89% as of December 31, 2005.

Starting in the second quarter of 2005, Accredited began issuing commercial paper in the form of short-term secured liquidity notes ("SLNs") with initial maturities ranging from one to 180 days and also issued $40.0 million of subordinated notes maturing on May 25, 2010. In order to issue the debt, Accredited established a special purpose, bankruptcy remote Delaware statutory trust. The trust entered into agreements with third parties who act as back-up liquidity providers. The SLNs bear interest at customary commercial paper market rates, which vary depending on the prevailing market conditions. For the year ended December 31, 2005, the average borrowings outstanding under this facility were $829.7 million, the maximum amount outstanding at any month-end during the year was $988.5 million, and the weighted average interest rate was approximately 3.97%.

The above facilities are collateralized by substantially all mortgage loans held for sale, certain restricted cash and unsold portions of securitized debt.

At December 31, 2005, Accredited was in compliance with all covenant requirements for each of the facilities. Accredited's warehouse and other credit facilities contain customary covenants including minimum liquidity, profitability and net worth requirements and limitations on other indebtedness. If Accredited fails to comply with any of these covenants or otherwise defaults under a facility, the lender has the right to terminate the facility and require immediate repayment that may require sale of the collateral at less than optimal terms. In addition, if Accredited defaults under one facility, it would generally trigger a default under Accredited's other facilities.

Accredited anticipates that its borrowings will be repaid from net proceeds from the sale of loans and other assets, cash flows from operations, or from refinancing the borrowings.

The following summarizes activity in all warehouse credit facilities during the years ended December 31:

	2005	2004	2003
	(dollars in thousands)		
Average balance outstanding	$2,028,114	$2,005,828	$1,256,156
Maximum amount outstanding at any month-end during the year	2,391,848	2,437,836	1,548,891
Weighted average interest rate during the year	4.31%	2.74%	2.46%

7. SECURITIZATION BOND FINANCING

Securitization bond financing consisted of the following:

	December 31, 2005	December 31, 2004
	(In thousands)	
Series 2002-1 securitization with a stated maturity date of July 25, 2032 and an interest rate of 4.93% for the fixed portion of the bond and One-Month LIBOR plus 0.32% for the variable rate portion of the bond	$ 30,595	$ 64,644
Series 2002-2 securitization with a stated maturity date range of January 25, 2033 through February 25, 2033 and an interest rate of 4.48% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.49% to One-Month LIBOR plus 0.50% for the variable rate portions of the bond	106,039	221,021
Series 2003-1 securitization with a stated maturity date of June 25, 2033 and an interest rate of 3.58% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.35% to One-Month LIBOR plus 0.38% for the variable rate portions of the bond	78,564	147,530
Series 2003-2 securitization with a stated maturity date of October 25, 2033 and an interest rate of 4.23% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.35% to One-Month LIBOR plus 0.37% for the variable rate portions of the bond	136,949	251,278
Series 2003-3 securitization with a stated maturity date of January 25, 2034 and an interest rate of 4.46% for the fixed portion of the bond and One-Month LIBOR plus 0.38% for the variable rate portions of the bond	191,137	342,386
Series 2004-1 securitization with a stated maturity date of April 25, 2034 and an interest rate of One-Month LIBOR plus 0.30%	221,562	384,857
Series 2004-2 securitization with a stated maturity date of July 25, 2034 and an interest rate range of One-Month LIBOR plus 0.29% to One-Month LIBOR plus 0.30%	382,817	604,229
Series 2004-3 securitization with a stated maturity date of October 25, 2034 and an interest rate range of 2.90% to 5.25% for the fixed portions of the bond and a range of One-Month LIBOR plus 0.17% to One-Month LIBOR plus 2.50% for the variable rate portions of the bond	591,354	928,914
Series 2004-4 securitization with a stated maturity date of January 25, 2035 and an interest rate of 5.25% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.15% to One-Month LIBOR plus 1.80% for the variable rate portions of the bond	686,804	1,012,214
Series 2005-1 securitization with a stated maturity date of April 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 2.50%	687,766	—
Series 2005-2 securitization with a stated maturity date of July 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 2.50%	841,552	—
Series 2005-3 securitization with a stated maturity date of September 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 1.70%	1,044,619	—
Series 2005-4 securitization with a stated maturity date of December 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.08% to One-Month LIBOR plus 2.50%	1,173,660	—
Private placement of Canadian mortgages through a multi-seller conduit bearing interest at prevailing commercial paper rate plus 0.27% with no stated maturity date	70,934	—
	6,244,352	3,957,073
Unamortized bond discounts	(3,532)	(2,958)
Total securitization bond financing, net	$6,240,820	$3,954,115

The bonds are collateralized by loans held for investment with an aggregate outstanding principal balance of $6.4 billion and $4.1 billion as of December 31, 2005 and December 31, 2004, respectively. Unamortized debt issuance costs, included in prepaid and other assets, are $19.8 million and $14.1 million at December 31, 2005 and December 31, 2004, respectively.

Amounts collected on the mortgage loans are remitted to the respective trustees, who in turn distribute such amounts each month to the bondholders, together with other amounts received related to the mortgage loans, net of fees payable to Accredited, the trustee and the insurer of the bonds. Any remaining funds after payment of fees and distribution of principal and interest is known as excess interest.

The securitization agreements require that a certain level of overcollateralization be maintained for the bonds. A portion of the excess interest may be initially distributed as principal to the bondholders to increase the level of overcollateralization. Once a certain level of overcollateralization has been reached, excess interest is no longer distributed as principal to the bondholders, but, rather, is passed through to Accredited. Should the level of overcollateralization fall below a required level, excess interest will again be paid as principal to the bondholders until the required level has been reached.

The securitization agreements provide that if delinquencies or losses on the underlying mortgage loans exceed certain maximums, the required levels of credit enhancement would be increased.

Due to the potential for prepayments of mortgage loans, the early distribution of principal to the bondholders and the optional clean-up call, the bonds are not necessarily expected to be outstanding through the stated maturity date set forth above.

The following table summarizes the expected repayments relating to the securitization bond financing at December 31, 2005 and are based on anticipated receipts of principal and interest on underlying mortgage loan collateral using historical prepayment speeds:

Year Ending December 31:	(In thousands)
2006	$2,323,851
2007	1,623,797
2008	780,669
2009	460,284
2010	334,691
Thereafter	721,060
Discount	(3,532)
Total	$6,240,820

8. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of significant items comprising Accredited's net deferred tax (liability) asset were as follows:

	December 31, 2005	December 31, 2004
	(In thousands)	
Deferred tax assets:		
Loans held for sale	$ 6,303	$ 13,071
Market reserve on loans held for sale	8,639	8,659
Loan securitizations	54,991	16,921
State taxes	6,151	4,594
Other reserves and accruals	12,289	2,491
Total deferred tax assets	88,373	45,736
Deferred tax liabilities:		
Mortgage-related securities	(10,800)	(10,161)
Cash flow hedging	(9,549)	(1,325)
Total deferred tax liabilities	(20,349)	(11,486)
Net deferred tax asset	$ 68,024	$ 34,250

The income tax provision consists of the following for the years ended December 31:

	2005	2004	2003
		(in thousands)	
Current:			
Federal	$120,274	$ 86,880	$54,003
State	23,711	17,931	11,521
Total current provision	143,985	104,811	65,524
Deferred:			
Federal	(35,091)	(16,640)	94
State	(6,908)	(2,882)	929
Total deferred provision (benefit)	(41,999)	(19,522)	1,023
Total provision	$101,986	$ 85,289	$66,547

The deferred income tax expense resulted from temporary differences in the recognition of revenues and expenses for tax and financial statement purposes. The primary sources of these differences were the origination and reversal of the following: mortgage securitizations where taxable income has been recognized in excess of book income, loans held for sale at year end where taxable income recognized has been less than book income and various reserves and accruals in which book deductions exceed tax deductions.

The following is a reconciliation of the provision computed using the statutory federal income tax rate to the income tax provision reflected in the statements of operations for the years ended December 31:

	2005	2004	2003
	(in thousands)		
Federal income tax at statutory rate	$ 93,589	$76,903	$58,297
State income tax, net of federal effects	9,942	9,392	8,092
REIT dividends on preferred stock	(3,492)	(1,279)	—
Other	1,947	273	158
Total provision	$101,986	$85,289	$66,547

Accredited recorded $4.8 million, $7.0 million and $2.1 million, during 2005, 2004 and 2003, respectively, as a reduction in income taxes payable for corporate tax deductions arising from the sale by employees of common stock they acquired from employee stock plans prior to the fulfillment of the required tax holding periods for such stock. These benefits have been reflected as additional paid in capital in the accompanying consolidated statements of stockholders' equity.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows at December 31:

	2005	2004
	(in thousands)	
Accrued liabilities—payroll	$28,116	$20,678
Accrued liabilities—general	34,627	18,401
Reserve for repurchases and premium recapture	10,751	7,536
Total	$73,494	$46,615

Activity in the reserve for repurchases and premium recapture included in accrued liabilities was as follows for the years ended December 31:

	Balance at Beginning of Year	Additions to Reserve(1)	Chargeoffs, net	Balance at End of Year
		(in thousands)		
2005:				
Reserve for repurchases	$5,126	$ 4,120	$(1,812)	$ 7,434
Reserve for premium recapture	2,410	8,318	(7,411)	3,317
Total	$7,536	$12,438	$(9,223)	$10,751
2004:				
Reserve for repurchases	$5,445	$ 736	$(1,055)	$ 5,126
Reserve for premium recapture	2,470	3,943	(4,003)	2,410
Total	$7,915	$ 4,679	$(5,058)	$ 7,536
2003:				
Reserve for repurchases	$2,888	$ 3,102	$ (545)	$ 5,445
Reserve for premium recapture	1,374	2,996	(1,900)	2,470
Total	$4,262	$ 6,098	$(2,445)	$ 7,915

(1) Reduces gain on sale of loans

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments such as cash and cash equivalents, restricted cash and accrued interest receivable and payable are reasonable estimates of their fair value because of the short maturity of these items. The carrying amounts of warehouse credit facilities are reasonable estimates of their fair value because of their short maturity and interest rates that adjust with current market rates. Accredited ascribes no value to loan origination commitments because there are no interest rate-lock commitments on our primary loan products. The rates at which Accredited has committed to sell loans approximate current market values and, therefore, no value has been ascribed to the forward sale commitments.

Derivative financial instruments are carried in the consolidated balance sheets at their fair value. Fair value for derivative financial instruments is based on quoted market prices.

The following methods and assumptions were used to estimate the fair value of other financial instruments carried at cost in our consolidated balance sheet for which it is practicable to estimate fair value. However, the estimates presented herein are not necessarily indicative of the amounts that Accredited could realize in a current market exchange.

Mortgage Loans Held for Sale and Loans Held for Investment—We estimate fair value by evaluating a variety of market indicators including recent trades, outstanding commitments or current investor yield requirements.

Securitization Bond Financing—Fair value is determined using interest rates, credit spreads and prepayment assumptions as of each balance sheet date which investors could use to price securities having similar principal and interest cash flows.

Estimated fair values for these financial instruments were as follows at December 31:

	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial assets:				
Mortgage loans held for sale, net	$2,252,252	$2,291,079	$1,790,134	$1,850,700
Mortgage loans held for investment—principal balance	7,321,608	7,610,579	4,744,433	4,887,572
Financial liabilities:				
Securitization bond financing	6,240,820	6,249,766	3,954,115	3,973,935
Subordinated note	40,000	40,000	—	—

The fair value estimates are based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

11. MINORITY INTEREST IN SUBSIDIARY

In May 2004, AHL formed a subsidiary, Accredited Mortgage Loan REIT Trust (REIT), for the purpose of acquiring, holding and managing real estate assets. All of the outstanding common shares of the REIT are held by AHL, which in turn is a wholly owned subsidiary of Accredited. The REIT, in 2004, issued Series A Preferred Shares to outside investors in the aggregate amount of $102.3 million. The Series A Preferred Shares bear a dividend of 9.75% annually.

The REIT has elected to be taxed as a real estate investment trust and intends to comply with the applicable provisions of the Internal Revenue Code. Accordingly, the REIT will generally not be subject to federal or state income tax to the extent that its distributions to shareholders satisfy the real estate investment trust requirements and certain asset, income and share ownership tests are met.

In December 2005, the REIT's board of trustees declared dividends on common stock of which $197.7 million was paid in December 2005 and $12.3 million was paid in January 2006. In December 2004, the REIT's board of trustees declared dividends on common stock of which $50 million was paid in December 2004 and $5 million was paid in January 2005.

In March, June, September and December of 2005, the REIT's board of trustees declared a quarterly cash dividend on the preferred shares at the rate of $0.609375 per share to shareholders of record on March 15, June 15, September 15 and December 15, which aggregated approximately $10.0 million for the year ended December 31, 2005. Preferred dividends paid during 2004 were $3.7 million.

Accredited irrevocably and unconditionally agrees to pay in full to the holders of each share of the REIT's Series A Preferred Shares, as and when due, regardless of any defense, right of set-off or counterclaim which the REIT or Accredited may have or assert: (i) all accrued and unpaid dividends (whether or not declared) payable on the REIT's Series A Preferred Shares, (ii) the redemption price (including all accrued and unpaid dividends) payable with respect to any of the REIT's Series A Preferred Shares redeemed by the REIT and (iii) the

liquidation preference, if any, payable with respect to any of the REIT's Series A Preferred Shares. Accredited's guarantee is subordinated in right of payment to Accredited's indebtedness, on parity with the most senior class of Accredited's preferred stock and senior to Accredited's common stock. At December 31, 2005, the aggregate redemption value of the total preferred shares outstanding was $102.3 million. Based on total preferred shares outstanding at December 31, 2005, the REIT's current annual preferred dividend obligation totals $10.0 million.

The preferred shares are reported as minority interest in subsidiary in the consolidated balance sheet.

12. GAIN ON WHOLE LOAN SALES

The components of gain on sale of loans are as follows for the years ended December 31:

	2005	2004	2003
	(dollars in thousands)		
Premium received	$318,871	$308,288	$253,349
Net gain (loss) on derivatives	21,601	(1,201)	(8,207)
Provision for reserves(1)	(18,472)	(12,814)	(18,959)
Net origination points and fees	38,940	32,120	36,230
Direct loan origination expenses	(47,835)	(42,813)	(37,262)
Total gain on sale of loans, net	$313,105	$283,580	$225,151

(1) Includes provisions for market value reserve and reserves for repurchases and premium recapture.

13. EMPLOYEE STOCK AND BENEFIT PLANS

Stock Option Plans—Accredited's 1995 Executive Stock Option Plan, 1995 Stock Option Plan, 1998 Stock Option Plan, and 2002 Stock Option Plan (collectively the "Stock Option Plans"), provide for the issuance of stock options to eligible directors, employees and consultants. Accredited's 2002 Stock Option Plan ("2002 Plan") was adopted effective as of the closing of the Offering by the board of directors and approved by the stockholders in 2002. The share reserve for the 2002 Plan includes the number of shares remaining available for option grants and the number of options outstanding under all other stock option plans. The 2002 Plan provides for automatic grants of stock options to non-employee directors to purchase 17,500 shares of Company common stock to each director who is a non-employee director on the date the 2002 Plan is effective or who first becomes a director after the date the 2002 Plan is effective. Accredited may issue up to 2,461,000 shares of common stock under these plans, of which 1,398,000 were granted and outstanding options and 1,063,000 were available for future grants at December 31, 2005.

During 2001, a Company executive exercised stock options pursuant to a full recourse promissory note in the principal amount of $1.25 million with interest payable at a rate of 10.6% per annum and an original maturity date of August 1, 2005. This note was paid in full in December 2004. In June 2002, Accredited made an unsecured loan of $31,000 to this executive with interest payable at 10% per annum. The loan was paid in full in September of 2005.

During 2005, 2004 and 2003, Accredited recorded $137,000, $63,000 and $187,000, respectively, in stock-based compensation expense, representing the intrinsic value of stock option grants which were subject to a reevaluation of the fair value of Accredited's common stock.

During 2003, 17,500 stock options were granted to a non-employee who has a consulting agreement with Accredited. These options are accounted for based on the fair value of the equity instruments issued in accordance with the guidance provided in the consensus opinion of the Emerging Issues Task Force ("EITF") in connection with EITF Issue 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees For Acquiring, or in Conjunction With Selling Goods or Services.* During 2005, 2004, and 2003, Accredited recognized compensation expense of $53,000, $259,000, and $95,000, respectively, related to these non-employee options. Unearned compensation related to these stock options, which totaled $60,000 at December 31, 2005, is included as a separate component of stockholders' equity and amortized over the vesting period of the related options.

The weighted average exercise price of options granted with an exercise price equal to market price on the date of grant was $43.33, $35.60 and $12.41 during 2005, 2004 and 2003, respectively. All options granted during 2005, 2004 and 2003 were granted with an exercise price equal to market price on the date of grant.

A summary of the changes in options outstanding under Accredited's Stock Option Plans for the years ended December 31, 2003, 2004 and 2005 follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price
Outstanding at January 1, 2003	1,750	$ 2.27
Options granted	679	$12.41
Options exercised	(518)	$ 1.67
Options cancelled	(211)	$ 7.96
Outstanding at December 31, 2003	1,700	$ 5.80
Options granted	516	$35.60
Options exercised	(575)	$ 2.88
Options cancelled	(271)	$22.41
Outstanding at December 31, 2004	1,370	$14.96
Options granted	724	$43.33
Options exercised	(343)	$ 7.38
Options cancelled	(353)	$35.70
Outstanding at December 31, 2005	1,398	$26.29
Options exercisable at December 31:		
2005	525	$10.54
2004	555	$ 4.16
2003	743	$ 1.72

The following table summarizes information concerning outstanding and exercisable options at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable (in thousands)	Weighted-Average Exercise Price
$ 0.10-$ 4.75	286	4.91	$ 2.14	278	$ 2.08
$ 8.00-$27.14	297	7.20	$10.60	152	$10.15
$29.98-$38.69	252	9.04	$33.39	49	$31.94
$39.25-$42.49	266	8.84	$39.67	46	$40.08
$47.12-$47.55	297	9.20	$47.23	—	—
$ 0.10-$47.55	1,398	7.80	$26.29	525	$10.54

2002 Employee Stock Purchase Plan—Accredited's 2002 Employee Stock Purchase Plan was adopted effective as of the closing of the Offering by the board of directors and approved by the stockholders in 2002. Employees, including officers and employee directors, are eligible to participate in the plan if they are employed for more than 20 hours per week and more than five months in any calendar year. Eligible employees may elect to withhold up to 15% of their compensation to purchase shares of Accredited's common stock on a semi-annual basis at a discounted price equal to 85% of the lower of the employee's offering price or the closing price of the stock on the date of purchase. During 2005 and 2004, employees purchased 124,000 and 178,000, shares at an average price of $37.47 and $23.74, respectively. In 2005, Accredited's management agreed to discontinue the plan as of January 1, 2006, the effective date of SFAS No. FAS 123(R) *Share-Based Payment*s.

Deferred Compensation Plan—Accredited's Deferred Compensation Plan was adopted by the board of directors and approved by the stockholders in 2002, and became effective on January 1, 2003. The plan is an unfunded, nonqualified deferred compensation plan that benefits directors, certain designated key members of management and highly compensated employees. Under the plan, an employee may defer up to 100% of their base salary, director fee, bonus and/or commissions on a pre-tax basis. Accredited may make both voluntary and/or matching contributions to the plan on behalf of plan participants and may make voluntary and/or matching contributions in the form of restricted stock units. All plan assets are corporate assets rather than individual property and are therefore subject to creditors' claims against Accredited.

During 2005, 2004 and 2003, Accredited awarded 195,000, 260,000 and 326,000 respectively, of restricted stock units under the plan that vest 50% two years from the date of grant and 25% each year thereafter until fully vested. Stock-based compensation expense related to these restricted stock units totaled $5.6 million, $3.0 million and $0.5 million during 2005, 2004 and 2003, respectively. Unearned compensation related to these stock units, which totaled $14.5 million and $11.5 million at December 31, 2005 and 2004, respectively, is included as a separate component of stockholders' equity and amortized over the service period. At December 31, 2005, there were approximately 772,000 shares of restricted stock units outstanding. This included 612,000 units that have not vested. At December 31, 2005, 1,218,000 shares of Accredited's common stock were reserved for future issuance under the plan.

Restricted Stock Awards—Accredited issued 41,000 shares of restricted stock to two of its officers in 2005 as an inducement to employment. The shares of restricted stock had a value of $1,540,000 on the issue date and

fully vest over a five-year period. Accredited records compensation expense for the amortization of the awards issued to employees over the service period based on the intrinsic-value method in which the fair value of the award is derived from the underlying common stock of Accredited at the date of grant in accordance with APB 25. Compensation expense recorded related to the restricted stock awards was $234,000 in 2005. Unearned compensation related to these stock awards, which totaled $1.3 million at December 31, 2005, is included as a separate component of stockholders' equity and amortized over the service period.

401(k) Plan—Accredited participates in a defined contribution plan. Substantially all employees are eligible to participate in the plan after completing one quarter year of service. Employees may contribute up to 100% of their gross salary subject to Internal Revenue Service limitations. Accredited matches 50% of the first 6% contributed by employees. During 2005, 2004 and 2003, Accredited contributed $3,583,000 $2,994,000 and $2,177,000, respectively.

14. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding and the weighted average number of unissued, vested restricted common stock awards for the period. Diluted earnings per share reflects the potential dilution that could occur if net income were divided by the weighted average number of common shares and unissued, vested restricted common stock awards, plus potential common shares from outstanding stock options and unvested restricted stock awards where the effect of those securities is dilutive. The computations for basic and diluted earnings per share are as follows for the years ended December 31:

	Net Income (numerator)	Shares (denominator)	Per Share Amount
		(in thousands, except per share amounts)	
2005:			
Basic earnings per share	$155,432	21,097	$7.37
Effect of dilutive shares:			
Stock options		642	
Restricted stock		251	
Diluted earnings per share	$155,432	21,990	$7.07
Potentially dilutive stock options not included above since they are antidilutive		316	
2004:			
Basic earnings per share	$130,778	20,374	$6.42
Effect of dilutive shares:			
Stock options		1,023	
Restricted stock		149	
Diluted earnings per share	$130,778	21,546	$6.07
Potentially dilutive stock options not included above since they are antidilutive		144	
2003:			
Basic earnings per share	$100,015	17,825	$5.61
Plus effect of income of assumed conversions:			
Interest on convertible debt, net of tax	16		
Effect of dilutive shares:			
Warrants*		50	
Stock options		1,342	
Restricted stock		22	
Convertible preferred stock*		616	
Convertible debt*		253	
Diluted earnings per share	$100,031	20,108	$4.97
Potentially dilutive stock options not included above since they are antidilutive		50	

* Represents the dilutive effect of the shares outstanding prior to the Offering in 2003.

15. COMMITMENTS AND CONTINGENCIES

Leases—Accredited leases office space for its headquarters in San Diego, California, for various branch offices, executive suites, and record storage facilities across the country under operating leases expiring at various dates through 2015. Certain office space lease commitments have renewal options extending through 2025.

At December 31, 2005, the minimum future lease payments under non-cancelable operating leases and sublease income were as follows:

Years Ending December 31,	Lease Commitments	Sublease Rentals	Net
	(in thousands)		
2006	$14,241	$(155)	$14,086
2007	14,911	(116)	14,795
2008	13,510	(89)	13,421
2009	10,912	—	10,912
2010	8,343	—	8,343
Thereafter	28,726	—	28,726
Total	$90,643	$(360)	$90,283

Rent expense for 2005, 2004 and 2003 was $12.2 million, $9.1 million and $5.4 million, respectively.

Other—Accredited is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its borrowers. These financial instruments primarily represent commitments to fund loans. These instruments involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the balance sheet. The credit risk is mitigated by Accredited's evaluation of the creditworthiness of potential mortgage loan borrowers on a case-by-case basis. Accredited does not guarantee interest rates to potential borrowers when an application is received. Interest rates conditionally approved following the initial underwriting of applications are subject to adjustment if any conditions are not satisfied. Accredited commits to originate loans, in many cases dependent on the borrower's satisfying various terms and conditions. These commitments totaled $604.6 million as of December 31, 2005.

Commitments to sell loans generally have fixed expiration dates or other termination clauses and may require payment of a commitment or a non-delivery fee.

Accredited periodically enters into other loan sale commitments. At December 31, 2005 forward loan sale commitments awaiting settlement amounted to $100 million.

Accredited's mortgage banking business is subject to the rules and regulations of the Department of Housing and Urban Development ("HUD") and state regulatory authorities with respect to originating, processing, selling and servicing mortgage loans. Those rules and regulations require, among other things, that Accredited maintain a minimum net worth of $250,000. Accredited is in compliance with these requirements.

From time to time, Accredited enters into certain types of contracts that contingently require Accredited to indemnify parties against third party claims and other obligations customarily indemnified in the ordinary course of Accredited's business. The terms of such obligations vary and, generally, a maximum obligation is not

explicitly stated. Therefore, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, Accredited has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these obligations on its balance sheet as of December 31, 2005.

Accredited irrevocably and unconditionally agrees to pay in full to the holders of each share of the REIT's Series A Preferred Shares: (i) all accrued and unpaid dividends, (ii) the redemption price and (iii) the liquidation preference. See further discussion under Note 11. Minority Interest in Subsidiary.

During 2002, 2001 and 2000, Accredited sold to a third-party investor (and former related party), $75.8 million, $299.8 million and $321.0 million, respectively, of mortgage loans originated or acquired by Accredited. At December 31, 2002, the related party had a beneficial ownership interest in Accredited related to a convertible debt facility that existed at that date. Subsequently, all ownership and beneficial ownership interest were sold in connection with the Offering in 2003, ceasing the related party relationship. The loans were sold pursuant to three separate commitments, each for a twelve-month period different from the calendar year. Pursuant to the agreement with the investor, Accredited is entitled to receive payments based upon the amount of excess cash flows generated by Accredited's sold loans under each commitment. The excess cash flows consist of the interest paid by the obligors of Accredited's sold loans, less the sum of a specified yield payable to the investor, servicing fees and credit losses on Accredited's sold loans. In general, if credit losses result in a negative excess cash flow, Accredited is obligated to pay the shortfall to the investor; provided, that Accredited is not obligated to reimburse the investor for credit losses in excess of 10% of the aggregate outstanding principal balance of the mortgage loans purchased by the investor under each commitment. The aggregate outstanding principal balance of the mortgage loans purchased by the investor totaled $90.2 million at December 31, 2005. Accredited is also entitled to all prepayment penalties collected, as long as the rate of prepayments stay below certain thresholds. Should the thresholds be exceeded, then Accredited must share the prepayment penalties collected with the investor.

Legal Matters—In December 2002, AHL was served with a complaint and motion for class certification in a class action lawsuit, *Wratchford et al. v. Accredited Home Lenders, Inc.,* brought in Madison County, Illinois under the Illinois Consumer Fraud and Deceptive Business Practices Act, the consumer protection statutes of the other states in which AHL does business and the common law of unjust enrichment. The complaint alleges that AHL has a practice of misrepresenting and inflating the amount of fees it pays to third parties in connection with the residential mortgage loans that it funds. The plaintiffs claim to represent a nationwide class consisting of others similarly situated, that is, those who paid AHL to pay, or reimburse AHL's payments of, third-party fees in connection with residential mortgage loans and never received a refund for the difference between what they paid and what was actually paid to the third party. The plaintiffs are seeking to recover damages on behalf of themselves and the class, in addition to pre-judgment interest, post-judgment interest, and any other relief the court may grant. On January 28, 2005, the court issued an order conditionally certifying (1) a class of Illinois residents with respect to the alleged violation of the Illinois Consumer Fraud and Deceptive Business Practices Act who, since November 19, 1997, paid money to AHL for third-party fees in connection with residential mortgage loans and never received a refund of the difference between the amount they paid to AHL and the amount AHL paid to the third party and (2) a nationwide class of claimants with respect to an unjust enrichment cause of action included in the original complaint who, since November 19, 1997 paid money to AHL for third-party fees in connection with residential mortgage loans and never received a refund of the difference between the amount they paid AHL and the amount AHL paid the third party. The court conditioned its order limiting the statutory consumer fraud act claims to claimants in the State of Illinois on the outcome of a case pending before the Illinois Supreme Court in which one of the issues is the propriety of certifying a nationwide class based on the Illinois Consumer Fraud and Deceptive Business Practices Act. That case has now been decided in a manner favorable to AHL's position, and, in light of this ruling, AHL intends to petition the Illinois Supreme Court for a

supervisory order reversing the lower court's class certification decision, the lower court having denied AHL's motion for reconsideration of (a) the court's order granting class certification and (b) the court's denial of AHL's request for leave to take an interlocutory appeal of such order. There has not yet been a ruling on the merits of either the plaintiffs' individual claims or the claims of the class, and the ultimate outcome of this matter and the amount of liability, if any, that may result, is not presently determinable. AHL intends to continue to vigorously defend this matter and does not believe it will have a material adverse effect on its business.

In January 2004, AHL was served with a complaint, *Yturralde v. Accredited Home Lenders, Inc.,* brought in Sacramento County, California. The named plaintiff is a former commissioned loan officer of AHL, and the complaint alleges that AHL violated California and federal law by misclassifying the plaintiff and other non-exempt employees as exempt employees, failing to pay the plaintiff on an hourly basis and for overtime worked, and failing to properly and accurately record and maintain payroll information. The plaintiff seeks to recover, on behalf of himself and all of our other similarly situated current and former employees, lost wages and benefits, general damages, multiple statutory penalties and interest, attorneys' fees and costs of suit, and also seeks to enjoin further violations of wage and overtime laws and retaliation against employees who complain about such violations. AHL has been served with eleven substantially similar complaints on behalf of certain other former and current employees, which have been consolidated with the *Yturralde* action. AHL has appealed the court's denial of its motion to compel arbitration of the consolidated cases, and a resolution of that appeal is not expected before mid-2006. In the meantime, discussions are ongoing between the parties regarding potential settlement or mediation of the claims, and AHL has pursued and effected settlements directly with many current and former employees covered by the allegations of the complaints. A motion to certify a class has not yet been filed, and there has been no ruling on the merits of either the plaintiffs' individual claims or the claims of the putative class. AHL does not believe these matters will have a material adverse effect on its business, but, at the present time, the ultimate outcome of the litigation and the total amount of liability is not determinable.

In June 2005, AHL was served with a complaint, *Williams et al. v. Accredited Home Lenders, Inc.,* brought in United States District Court for the Northern District of Georgia. The two named plaintiffs are former commissioned loan officers of AHL, and the complaint alleges that AHL violated federal law by requiring the plaintiffs to work overtime without compensation. The plaintiffs seek to recover, on behalf of themselves and other similarly situated employees, the allegedly unpaid overtime, liquidated damages, attorneys' fees and costs of suit. A motion to certify a collective class has been filed, but a hearing date has not yet been set. There has been no ruling on the merits of either the plaintiffs' individual claims or the claims of the putative class, and the ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable. AHL intends to vigorously defend this matter and does not believe it will have a material adverse effect on its business.

In September 2005, AHL and AHLHC were served with a class action complaint, *Phillips v. Accredited Home Lenders Holding Company, et al.*, brought in the United States District Court, Central District of California. The complaint alleges violations of the Fair Credit Reporting Act in connection with prescreened offers of credit made by AHL. The plaintiff seeks to recover, on behalf of her and similarly situated individuals, damages, pre-judgment interest, declaratory and injunctive relief, attorneys' fees, and any other relief the court may grant. On January 4, 2006, plaintiff re-filed the action in response to the court's December 9, 2005, decision granting AHL's and AHLHC's motion to (1) dismiss with prejudice plaintiff's claim that AHL's offer of credit failed to include the clear and conspicuous disclosures required by FCRA, (2) strike plaintiff's request for declaratory and injunctive relief, and (3) sever plaintiff's claims as to AHL and AHLHC from those made against other defendants unaffiliated with AHL or AHLHC. Plaintiff's remaining claim is that AHL's offer of credit did not meet FCRA's "firm offer" requirement. A motion to certify a class has not yet been filed, and there has been

no ruling on the merits of either the plaintiff's individual claims or the claims of the putative class. AHL and AHLHC intend to vigorously defend this matter. If, however, a class were to be certified and were to prevail on the merits, the potential liability could have a material adverse effect on Accredited. The ultimate outcome of this matter and the amount of liability, if any, which may result, is not presently determinable.

Accredited has accrued for loss contingencies with respect to the foregoing matters to the extent it is probable that a liability has been occurred at the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. Management does not deem the amount of such accrual to be material.

In addition, because the nature of our business involves the collection of numerous accounts, the validity of liens and compliance with various state and federal lending laws, we are subject to various legal proceedings in the ordinary course of business related to foreclosures, bankruptcies, condemnation and quiet title actions, and alleged statutory and regulatory violations. We are also subject to legal proceedings in the ordinary course of business related to employment matters. We do not believe that the resolution of these lawsuits will have a material adverse effect on our financial position or results of operations.

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents supplemental cash flow information for the years ended December 31:

	2005	2004	2003
		(in thousands)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 304,432	$ 119,416	$ 55,420
Income taxes	$ 79,062	$ 78,439	$ 67,622
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Transfer of mortgage loans held for sale to mortgage loans held for investment	$4,358,310	$3,579,940	$1,570,453
Transfer of mortgage loans held for sale to real estate owned, net of reserve, included in other assets	$ 17,223	$ 6,454	$ 9,858
Transfer of mortgage loans held for investment to real estate owned, net of reserve, included in other assets	$ 12,774	$ 1,834	$ 854
Restricted stock units issued, net	$ 10,392	$ 9,612	$ 5,415
Conversion of convertible debt to common stock	$ —	$ —	$ 3,000
Conversion of preferred stock to common stock	$ —	$ —	$ 5,113

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following data was derived from unaudited consolidated financial information for each of the eight quarters ended December 31, 2005. Such information has been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, includes all adjustments necessary for the fair presentation of the information for the periods presented. This information should be read in conjunction with the consolidated financial statements and the related notes. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended				
	March 31	June 30	September 30	December 31	Total year
	(in thousands, except per share amounts)				
2005:					
Total net revenues	$123,038	$143,682	$151,756	$150,097	$568,573
Income before income taxes	$ 54,984	$ 68,565	$ 73,303	$ 70,544	$267,396
Net income	$ 31,287	$ 39,572	$ 41,291	$ 43,282	$155,432
Basic earnings per share	$ 1.50	$ 1.89	$ 1.95	$ 2.03	$ 7.37
Diluted earnings per share	$ 1.43	$ 1.81	$ 1.87	$ 1.96	$ 7.07
2004:					
Total net revenues	$ 90,445	$118,013	$126,642	$134,503	$469,603
Income before income taxes	$ 37,510	$ 57,157	$ 60,271	$ 64,785	$219,723
Net income	$ 22,506	$ 34,294	$ 35,877	$ 38,101	$130,778
Basic earnings per share	$ 1.12	$ 1.69	$ 1.75	$ 1.85	$ 6.42
Diluted earnings per share	$ 1.05	$ 1.60	$ 1.66	$ 1.76	$ 6.07

ACCREDITED MORTGAGE LOAN REIT TRUST

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Accredited Mortgage Loan REIT Trust

We have audited the accompanying balance sheet of Accredited Mortgage Loan REIT Trust (the "REIT") as of December 31, 2005, and the related statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The REIT is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accredited Mortgage Loan REIT Trust as of December 31, 2005, and the results of its operations and its cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the REIT acquires mortgage assets and assumes related funding obligations from its parent, Accredited Home Lenders, Inc., who also provides operating facilities, administrative services and loan servicing for the REIT. The accompanying financial statements have been prepared from the separate records maintained by the REIT and may not be indicative of the conditions that would have existed or the results of operations if the REIT had operated as an unaffiliated entity.

GRANT THORNTON LLP

March 10, 2006
Irvine, California

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Accredited Mortgage Loan REIT Trust

We have audited the accompanying balance sheet of Accredited Mortgage Loan REIT Trust (the "REIT") as of December 31, 2004, and the related statements of operations, stockholders' equity and comprehensive income, and cash flows for the period from inception (May 4, 2004) to December 31, 2004. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The REIT is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Accredited Mortgage Loan REIT Trust as of December 31, 2004, and the results of its operations and its cash flows for the period from inception (May 4, 2004) to December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the REIT acquires mortgage assets and assumes related funding obligations from its parent, Accredited Home Lenders, Inc., who also provides operating facilities, administrative services and loan servicing for the REIT. The accompanying financial statements have been prepared from the separate records maintained by the REIT and may not be indicative of the conditions that would have existed or the results of operations if the REIT had operated as an unaffiliated entity.

DELOITTE & TOUCHE LLP

March 30, 2005
San Diego, California

ACCREDITED MORTGAGE LOAN REIT TRUST

BALANCE SHEETS
(Dollars in thousands, except par value)

	December 31, 2005	December 31, 2004
ASSETS		
Cash and cash equivalents	$ 6,158	$ 4,018
Accrued interest receivable	32,604	22,039
Mortgage loans held for investment, net of reserve of $98,399 and $54,960, respectively	6,240,136	4,056,306
Derivative assets, including margin account	65,347	9,532
Prepaid expenses and other assets	30,322	18,336
Receivable from parent	99,642	15,214
Total assets	$6,474,209	$4,125,445
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Credit facilities	$ 15,640	$ —
Securitization bond financing	6,169,886	3,954,115
Accrued interest	5,115	5,206
Total liabilities	6,190,641	3,959,321
STOCKHOLDERS' EQUITY:		
Preferred stock, $1.00 par value; authorized 20,000,000 shares; 4,093,678 shares designated, issued and outstanding as 9.75% Series A Perpetual Cumulative Preferred Shares with an aggregate liquidation preference of $102,342 at December 31,2005 and 2004	4,094	4,094
Common stock, $.001 par value; authorized 100,000,000 shares; issued and outstanding 100,000 at December 31,2005 and 2004	1	1
Additional paid-in capital	303,180	163,287
Accumulated other comprehensive income	23,991	3,348
Accumulated deficit	(47,698)	(4,606)
Total stockholders' equity	283,568	166,124
Total liabilities and stockholders' equity	$6,474,209	$4,125,445

The accompanying notes are an integral part of these financial statements.

ACCREDITED MORTGAGE LOAN REIT TRUST

STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31, 2005	Inception (May 4, 2004) to December 31, 2004
REVENUES:		
Interest income (including $4,008 and $99 from parent)	$ 408,599	$ 98,024
Interest expense	(198,238)	(35,671)
Net interest income	210,361	62,353
Provision for losses on loans held for investment	(16,900)	(6,536)
Net interest income after provision	193,461	55,817
Other income	1,878	414
Total net revenues	195,339	56,231
OPERATING EXPENSES:		
Management fee assessed by parent	25,693	7,181
Direct general and administrative expenses	60	—
Total operating expenses	25,753	7,181
Net income	169,586	49,050
Dividends on preferred stock	(9,978)	(3,656)
Net income available to common stockholders	$ 159,608	$ 45,394
Basic and diluted earnings per common share	$1,596.08	$ 453.94
Weighted average shares outstanding for basic and diluted	100	100

The accompanying notes are an integral part of these financial statements.

ACCREDITED MORTGAGE LOAN REIT TRUST

STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Preferred Stock		Common Stock		Additional Paid-in Capital	Other Comprehensive Total	Accumulated Deficit	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount		(in thousands)			
Common stock issued upon formation, May 4, 2004	—	$ —	100	$ 1	$ —	$ —	$ —	$ 1	
Capital contributions from parent	—	—	—	—	69,458	—	—	69,458	
Preferred stock issued in public offering, net of offering costs	4,094	4,094	—	—	93,829	—	—	97,923	
Net unrealized gain on derivatives	—	—	—	—	—	3,348	—	3,348	$ 3,348
Net income	—	—	—	—	—	—	49,050	49,050	49,050
Dividend on common stock	—	—	—	—	—	—	(50,000)	(50,000)	—
Dividends on preferred stock	—	—	—	—	—	—	(3,656)	(3,656)	—
Balance, December 31, 2004	4,094	4,094	100	1	163,287	3,348	(4,606)	166,124	$ 52,398
Capital contributions from parent	—	—	—	—	139,893	—	—	139,893	
Preferred stock issued in public offering, net of offering costs	—	—	—	—	—	—	—	—	
Net unrealized gain on derivatives	—	—	—	—	—	20,643	—	20,643	$ 20,643
Net income	—	—	—	—	—	—	169,586	169,586	169,586
Dividend on common stock	—	—	—	—	—	—	(202,700)	(202,700)	—
Dividends on preferred stock	—	—	—	—	—	—	(9,978)	(9,978)	—
Balance, December 31, 2005	4,094	$4,094	100	$ 1	$303,180	$23,991	$ (47,698)	$ 283,568	$190,229

The accompanying notes are an integral part of these financial statements.

ACCREDITED MORTGAGE LOAN REIT TRUST

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	Inception (May 4, 2004) to December 31, 2004
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 169,586	$ 49,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net deferred origination costs (fees) on securitized loans	(3,168)	(525)
Amortization of deferred costs	13,030	247
Provision for losses on loans held for investment	16,900	6,536
Unrealized loss on derivatives	24,592	650
Adjustment into earnings for gain on derivatives from other comprehensive income	(14,634)	—
Changes in operating assets and liabilities:		
Accrued interest receivable	(10,565)	(22,039)
Derivative assets, including margin account	(40,747)	—
Prepaid expenses and other assets	(3,114)	8,435
Accrued interest payable	(90)	2,058
Net cash provided by operating activities	151,790	44,412
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on mortgage loans held for investment	1,973,254	379,796
Net cash provided by investing activities	1,973,254	379,796
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of securitization bond financing, net of fees	4,185,767	2,675,699
Payments on securitization bond financing	(1,984,093)	(383,145)
Payments on temporary credit facilities	(4,034,213)	(2,767,798)
Net payments to parent	—	(15,214)
Capital contributions from parent	7,000	26,001
Net increase in receivable from parent	(84,687)	—
Proceeds from preferred stock offering of the consolidated subsidiary	—	97,923
Payments of common stock dividends	(202,700)	(50,000)
Payments of preferred stock dividends	(9,978)	(3,656)
Net cash used in financing activities	(2,122,904)	(420,190)
Net increase in cash and cash equivalents	2,140	4,018
Beginning balance cash and cash equivalents	4,018	—
Ending balance cash and cash equivalents	$ 6,158	$ 4,018

The accompanying notes are an integral part of these financial statements.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO FINANCIAL STATEMENTS

For The Year Ended December 31, 2005 and
For The Period From Inception (May 4, 2004) To December 31, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Accredited Mortgage Loan REIT Trust (the "REIT") was formed on May 4, 2004 as a Maryland real estate investment trust for the purpose of acquiring, holding and managing real estate assets. All of the outstanding common shares of the REIT are held by Accredited Home Lenders, Inc. ("AHL"), a wholly owned subsidiary of Accredited Home Lenders Holding Co., ("Accredited"). The accompanying financial statements of the REIT have been prepared in accordance with accounting principles generally accepted in the United States of America.

In August 2004, the REIT completed a public offering of 3,400,000 shares of 9.75% Series A Perpetual Cumulative Preferred Stock. In September 2004 the REIT sold an additional 100,000 Series A preferred shares pursuant to the exercise of the underwriters' over-allotment option. In October 2004, the REIT sold an additional 593,678 Series A preferred shares in a public offering.

The REIT engages in the business of acquiring, holding, financing, and securitizing non-prime mortgage loans secured by residential real estate. Generally, the REIT acquires mortgage assets and assumes related funding obligations from AHL, which are accounted for at AHL's carrying value, as contributions of capital from AHL. These mortgage assets consist primarily of residential mortgage loans, or interests in these mortgage loans, that have been originated or acquired by AHL. AHL focuses on borrowers who may not meet conforming underwriting guidelines because of higher loan-to-value ratios, the nature or absence of income documentation, limited credit histories, high levels of consumer debt, or past credit difficulties. AHL originates loans primarily based upon the borrower's willingness and ability to repay the loan and the adequacy of the collateral.

AHL also provides operating facilities, administration and loan servicing for the REIT. The REIT is, therefore, economically and operationally dependent on AHL, and, as such, the REIT's results of operation or financial condition may not be indicative of the conditions that would have existed for its results of operations or financial condition if it had operated as an unaffiliated entity.

The REIT has elected to be taxed as a real estate investment trust and to comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, the REIT will generally not be subject to federal or state income tax to the extent that its distributions to shareholders satisfy the real estate investment trust requirements and certain asset, income and share ownership tests are met.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions included in our consolidated financial statements relate to the provision for loan losses, hedging policies and income taxes.

Cash and Cash Equivalents

For purposes of financial statement presentation, the REIT considers all liquid investments with an original maturity of three months or less to be cash equivalents. All liquid assets with an original maturity of three months or less which are not readily available for use, including cash deposits, are classified as restricted cash.

Loans Held for Securitization

Accredited's securitization program calls for the execution of one securitization transaction per calendar quarter. In support of this program, each month the Company identifies loans meeting the applicable investor characteristics and transfers those loans from Loans Held for Sale to Loans Held for Securitization (held for investment).

After the loans are designated as held for investment, the Company estimates the losses inherent in the portfolio at the balance sheet date and establishes an allowance for loan losses. The provision for loan losses on loans held for securitization is made in an amount sufficient to maintain credit loss allowances at a level considered appropriate to cover probable losses in the portfolio. Accredited defines a loan as non-accruing at the time the loan becomes 90 days or more delinquent under its payment terms. Probable losses are determined based on segmenting the portfolio relating to their contractual delinquency status and applying Accredited's historical loss experience. Accredited also uses other analytical tools to determine the reasonableness of the allowance for loan losses. Loss estimates are reviewed periodically and adjustments are reported in earnings. As these estimates are influenced by factors outside of Accredited's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Carrying values are written down to fair value when the loan is foreclosed upon or deemed uncollectible.

Each quarter (typically the second month of each quarter), the Loans Held for Securitization, which are originated by and to this point have been held in AHL, are contributed at the current carrying amount to the REIT. The carrying amount transferred to the REIT consists of the unpaid principal balance, the net deferred origination fees, the basis adjustment for fair value hedge accounting (from funding to contribution date) and the allowance for loan losses. The loans remain in the Loans Held for Securitization for approximately 10 business days prior to the close of the securitization transaction and are thereafter designated as Loans Held for Investment.

Loans Held for Investment and Securitization Bond Financing

Mortgage loans held for investment include loans that the REIT has securitized in structures that require financing treatment. During the year ended December 31, 2005, the REIT completed four securitizations of mortgage loans totaling $4.2 billion structured as financings under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*.

The securitizations are structured legally as sales, but for accounting purposes are treated as financings under SFAS No. 140. The securitizations do not meet the qualifying special purpose entity criteria under SFAS No. 140 and related interpretations because after the loans are securitized, the securitization trusts may acquire derivatives relating to beneficial interests retained by the REIT and, AHL, as servicer, subject to applicable contractual provisions, has discretion, consistent with prudent mortgage servicing practices, to determine whether to sell or work out any loans securitized through the securitization trusts that become troubled. Accordingly, the loans remain on the balance sheet as "loans held for investment", retained interests are not created for accounting purposes, and securitization bond financing replaces the warehouse debt originally associated with the loans held for investment. The REIT records interest income on loans held for investment and interest expense on the bonds issued in the securitizations over the life of the securitizations. Deferred debt issuance costs and discounts related to the bonds are amortized on a level yield basis over the estimated life of the bonds.

The REIT periodically evaluates the need for or the adequacy of the allowance for loan losses on its mortgage loans held for investment. Provision for loan losses on mortgage loans held for investment is made in an amount sufficient to maintain credit loss allowances at a level considered appropriate to cover probable losses in the portfolio. The REIT defines a loan as non-accruing at the time the loan becomes 90 days or more delinquent under its payment terms. Probable losses are determined based on segmenting the portfolio relating to their contractual delinquency status and applying the REIT's and AHL's historical loss experience. The REIT also uses other analytical tools to determine the reasonableness of the allowance for loan losses. Loss estimates are reviewed periodically and adjustments are reported in earnings. As these estimates are influenced by factors outside of the REIT's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change. Carrying values are written down to fair value when the loan is foreclosed upon or deemed uncollectible.

Derivative Financial Instruments

As part of the REIT's interest rate management process, the REIT uses derivative financial instruments such as Eurodollar futures and options. In connection with some of the securitizations structured as financings, the REIT entered into interest rate cap agreements. In connection with five of the securitizations structured as financings, the REIT entered into interest rate swap agreements. It is not the REIT's policy to use derivatives to speculate on interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, derivative financial instruments are reported on the balance sheet at fair value.

Fair Value Hedges

The REIT designates certain derivative financial instruments as hedge instruments under SFAS No. 133, and, at trade date, these instruments and their hedging relationship are identified, designated and documented. The REIT has implemented fair value hedge accounting on its mortgage loans held for investment, whereby certain derivatives are designated as a hedge of the fair value of mortgage loans held for investment. This process includes linking derivatives to specific assets or liabilities on the balance sheet. The REIT also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedge transactions are highly effective in offsetting changes in fair values of hedged items. Changes in the fair value of such derivative instruments and changes in the fair value of the hedged assets, which are determined to be effective, are recorded as a component of interest income in the period of change. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the REIT discontinues hedge accounting. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge, the derivative will continue to be recorded on the balance sheet at its fair value. For terminated hedges or hedges no longer qualifying as effective, the formerly hedged asset will no longer be adjusted for changes in fair value and any previously recorded adjustment to the hedged asset will be included in the carrying basis. These amounts will be included in results of operations at the time of disposition of the asset. Should the hedge prove to be perfectly effective, the current period net impact to earnings would be minimal. Accordingly, the net amount recorded in the statement of operations relating to fair value hedge accounting is referred to as hedge ineffectiveness.

Cash Flow Hedges

Pursuant to SFAS No. 133 hedge instruments have been designated as hedging the exposure to variability of cash flows from our securitization debt attributable to interest rate risk. Cash flow hedge accounting requires that

the effective portion of the gain or loss in the fair value of a derivative instrument designated as a hedge be reported as a component of other comprehensive income in stockholders' equity, and recognized into earnings in the period during which the hedged transaction affects earnings pursuant to SFAS No. 133. At the inception of the hedge and on an ongoing basis, the REIT assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective as a hedge, the REIT discontinues cash flow hedge accounting prospectively. In the instance cash flow hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value. Any change in the fair value of a derivative no longer qualifying as an effective hedge is recognized in current period earnings. For terminated hedges or hedges that no longer qualify as effective, the effective portion previously recorded remains in other comprehensive income and continues to be amortized or accreted into earnings with the hedged item. The ineffective portion on the derivative instrument is reported in current earnings as a component of interest expense.

For derivative financial instruments not designated as hedge instruments, unrealized changes in fair value are recognized in the period in which the changes occur and realized gains and losses are recognized in the period when such instruments are settled.

Loan Origination Costs and Fees

Loan origination fees and certain direct origination costs are deferred as an adjustment to the carrying value of the loans. These fees and costs are amortized over the life of the loan on a level yield basis for mortgage loans held for investment or recognized when prepayments occur.

Provision for Losses

Provision for losses on loans held for investment is recorded in an amount sufficient to maintain the allowance for loan losses at a level considered appropriate to cover probable losses on such loans. Market valuation adjustments have been recorded on real estate owned. These adjustments are based on the REIT's and AHL's estimate of probable losses, calculated using loss frequency and loss severity rate assumptions and are based on the value that the REIT could reasonably expect to obtain from a sale, that is, other than in a forced or liquidation sale. Provision for losses also includes net losses on real estate owned. The REIT periodically evaluates the estimates used in calculating expected losses and adjustments are reported in earnings. As these estimates are influenced by factors outside of the REIT's control and as uncertainty is inherent in these estimates, actual amounts charged-off could differ from amounts recorded.

Interest Income

Interest income is recorded when earned. Interest income represents the interest earned on loans held for investment. The REIT does not accrue interest on loans that are 90 days or more delinquent.

Income Taxes

The REIT has elected to be subject to taxation as a real estate investment trust under the Internal Revenue Code of 1986. As a result, the REIT will generally not be subject to federal or state income tax to the extent that the REIT distributes its earnings to its shareholders and maintains its qualification as a real estate investment trust.

Real Estate Owned

Real estate acquired in settlement of loans generally results when property collateralizing a loan is foreclosed upon or otherwise acquired by AHL, as our servicer, in satisfaction of the loan. Real estate acquired through foreclosure is carried at fair value less estimated costs to dispose. Fair value is based on the net amount that the REIT could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Adjustments to the carrying value of real estate owned are made through valuation allowances and charge-offs recognized through a charge to earnings. Legal fees and other direct costs incurred after foreclosure are expensed as incurred. At December 31, 2005 and 2004, real estate owned amounting to $10.5 million and $2.7 million, respectively, net of valuation allowances, is included in other assets.

Other Comprehensive Income

Other comprehensive income includes unrealized gains and losses that are excluded from the statement of operations and are reported as a separate component in stockholders' equity. The unrealized gains and losses include unrealized gains and losses on the effective portion of cash flow hedges.

Accumulated other comprehensive income for the period from inception (May 4, 2004) to December 31, 2004 and for the year ended December 31, 2005 was determined as follows:

	(In thousands)
Balance at January 1, 2004	$ —
Net unrealized gains on cash flow hedges	3,348
Balance at December 31, 2004	3,348
Net unrealized gains on cash flow hedges	35,277
Reclassification adjustment into earnings for realized gain on derivatives	(14,634)
Balance at December 31, 2005	$ 23,991

Comprehensive income is determined as follows:

	Year Ended December 31, 2005	Inception (May 4, 2004) to December 31, 2004
	(In thousands)	
Net income	$169,586	$49,050
Net unrealized gains or losses on cash flow hedges	35,277	3,348
Reclassification adjustment into earnings for realized gain on derivatives	(14,634)	—
Total comprehensive income	$190,229	$52,398

Reclassifications (in thousands)

We reclassified $22,039 from other receivables to accrued interest receivable and $7,944 to prepaid expenses and other assets as of December 31, 2004 to conform to current presentation. The consolidated statement of cash flows for the period from inception (May 4, 2004) to December 31, 2004 has been reclassified to reflect the changes.

2. CONCENTRATIONS OF RISK

Geographical Concentration

Properties securing mortgage loans held for investment are geographically dispersed throughout the United States. At December 31, 2005, 23% and 11% of the unpaid principal balance of mortgage loans held for investment were secured by properties located in California and Florida, respectively. At December 31, 2004, 33% of the unpaid principal balance of mortgage loans held for investment was secured by properties located in California. The remaining properties securing mortgage loans did not exceed 10% in any other state at December 31, 2005 and 2004.

An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster that is not covered by standard homeowners' insurance policies, such as an earthquake, hurricane or wildfire, could decrease the value of mortgaged properties. This, in turn, would increase the risk of delinquency, default or foreclosure on mortgage loans in our portfolio. This could restrict our and AHL's ability to originate, sell, or securitize mortgage loans, and significantly harm our business, financial condition, liquidity and results of operations. While we have not completed our assessment of potential losses stemming from the recent hurricanes in the southeastern United States, we do not expect the resulting losses to have a material adverse impact on our business, financial condition, liquidity or results of operations.

3. MORTGAGE LOANS

Mortgage loans held for investment—Mortgage loans held for investment were as follows:

	December 31, 2005	December 31, 2004
	(In thousands)	
Loans held for investment—principal balance	$6,350,870	$4,101,982
Basis adjustment for fair value hedge accounting	(4,766)	13,741
Net deferred origination fees	(7,569)	(4,457)
Allowance for loan losses	(98,399)	(54,960)
Loans held for investment, net	$6,240,136	$4,056,306

***Reserves for losses*—**Activity in the reserves was as follows:

	Balance at Beginning of Period	Contributions from Parent	Provision for Losses	Chargeoffs, net	Transfers	Balance at End of Period
			(In thousands)			
Year ended December 31, 2005:						
Mortgage loans held for investment	$54,960	$36,385	$11,932	$(4,878)	$ —	$ 98,399
Real estate owned	2,028	—	4,968	—	—	6,996
Total	$56,988	$36,385	$16,900	$(4,878)	$ —	$105,395
Inception (May 4, 2004) to December 30, 2004:						
Mortgage loans held for investment	$ —	$51,581	$ 6,536	$(1,129)	$(2,028)	$ 54,960
Real estate owned	—	—	—	—	2,028	2,028
Total	$ —	$51,581	$ 6,536	$(1,129)	$ —	$ 56,988

The following table summarizes the loss and delinquency amounts for mortgage loans and real estate owned:

	At December 31, 2005		At December 31, 2004	
	Total Principal Amount	Delinquent Principal Over 90 Days	Total Principal Amount	Delinquent Principal Over 90 Days
	(In thousands)			
Mortgage loans held for investment	$6,350,870	$70,990(1)	$4,101,982	$22,634
Real estate owned	17,490	17,490	4,716	4,716
Total	$6,368,360	$88,480	$4,106,698	$27,350

(1) For loans 90 days or more delinquent we cease to accrue interest income and reverse all previously accrued but uncollected income.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Hedges

The REIT uses hedge accounting as defined by SFAS No. 133 for certain derivative financial instruments used to hedge its loans held for investment. At December 31, 2005 and December 31, 2004, fair value hedge basis adjustments of ($4.8 million) and $13.7 million are included as additions to loans held for investment. No hedge ineffectiveness associated with fair value hedges was recorded in earnings during the year ended December 31, 2005 or for the period from inception (May 4, 2004) to December 31, 2004, as the REIT has discontinued fair value hedge accounting on loans held for investment.

Cash Flow Hedges

The REIT utilizes cash flow hedging and cash flow hedge accounting on its securitization debt under SFAS No. 133. Effective unrealized gains, net of effective unrealized losses, associated with cash flow hedges of $35.3 million were recorded in other comprehensive income during the year ended December 31, 2005, which is reported as a component of stockholders' equity. These contracts settle on various dates ranging from March 2006 to March 2015. A total of $21.6 million in net effective gains, included in other comprehensive income at December 31, 2005, is expected to be recognized in earnings during the next twelve months. Hedge ineffectiveness associated with cash flow hedges of $2.0 million was recorded in earnings during the year ended December 31, 2005 and is included as a component of interest expense in the statement of operations.

Futures Contracts, Options Contracts, Interest Rate Swap and Cap Agreements and Margin Accounts

At December 31, 2005 the REIT had outstanding Eurodollar futures contracts, options contracts and interest rate swap agreements that were designated as hedge instruments, as well as interest rate cap agreements. At December 31, 2005 and December 31, 2004, the fair value of the margin account balances required for these derivatives and the futures contracts was $48.4 million and $6.4 million, respectively. At December 31, 2005, the fair value of the options contracts, interest rate swap and cap agreements was $4.7 million, $12.1 million and $53 thousand, respectively. At December 31, 2004, the fair value of the options contracts, interest rate swap and cap agreements was $1.0 million, $1.8 million and $0.3 million, respectively. The total net liquidation value at December 31, 2005 and December 31, 2004 of these derivatives and related margin account balances was

$65.3 million and $9.5 million, respectively. A gain of $1.9 million on derivative instruments not designated for SFAS No. 133 hedge accounting treatment was recorded in interest expense on the statement of operations during the year ended December 31, 2005 relating to the gains and losses in value of interest rate cap agreements and interest rate swap agreements.

The change in fair value of derivative financial instruments, and the related hedged liability, recorded in the statement of operations was as follows:

	Interest Income	Interest Expense	Total
		(In thousands)	
Year ended December 31, 2005:			
Net unrealized gain (loss)	$(4,384)	$(20,208)	$(24,592)
Net realized gain (loss)	—	38,168	38,168
Total	$(4,384)	$ 17,960	$ 13,576
Inception (May 4, 2004) to December 31, 2004:			
Net unrealized gain (loss)	$(2,008)	$ 3,906	$ 1,898
Net realized gain (loss)	6	(530)	(524)
Total	$(2,002)	$ 3,376	$ 1,374

5. CREDIT FACILITIES

In connection with the REIT's execution of securitization transactions through the first quarter of the year ended December 31, 2005, AHL and the REIT, as several borrowers or sellers, may enter into warehouse transactions with lenders to finance the related mortgage loans that are to be contributed by AHL to the REIT and then subsequently securitized with permanent bond financing. The net proceeds of the securitizations are to be used by AHL or the REIT to repay the warehouse debt and pay other expenses of the securitization.

AHL and the REIT, as several sellers, have entered into temporary aggregate warehouse facilities to permit the securitization of mortgage loans. The duration of any one of these facilities is approximately 30 days. Each of the agreements has cross-default and cross-collateralization provisions and AHL provides a guarantee of the REIT's obligations under the facilities; in addition, the facilities are structured so that the REIT only has monetary responsibilities for a limited period of time prior to a securitization and otherwise does not have any monetary obligations under the facilities ("REIT Transaction").

Beginning in the second quarter of 2005, AHL and the REIT secured modifications to the existing AHL warehouse credit facilities agreements providing for the financing of assets held for securitization. These modified agreements allow for the financing of loans for an approximate 30 day period prior to the close of the securitization transaction.

Prior to the date of contribution of the mortgage loan assets, AHL is the obligor, subsequent to the contribution date the REIT becomes the obligor. AHL provides a guarantee of the REIT's obligations under the modified warehouse credit facilities.

The facilities are collateralized by performing, aged and delinquent loans and bear interest based on the One-Month LIBOR plus a spread.

Amounts outstanding on the warehouse facilities described above were $15.6 million at December 31, 2005. Unsold interests in securitized bonds of $25.2 million were pledged as collateral. The balance outstanding on the facility was paid in full in January 2006.

6. SECURITIZATION BOND FINANCING

Securitization bond financing consisted of the following:

	December 31, 2005	December 31, 2004
	(In thousands)	
Series 2002-1 securitization with a stated maturity date of July 25, 2032 and an interest rate of 4.93% for the fixed portion of the bond and One-Month LIBOR plus 0.32% for the variable rate portion of the bond	$ 30,595	$ 64,644
Series 2002-2 securitization with a stated maturity date range of January 25, 2033 through February 25, 2033 and an interest rate of 4.48% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.49% to One-Month LIBOR plus 0.50% for the variable rate portions of the bond	106,039	221,021
Series 2003-1 securitization with a stated maturity date of June 25, 2033 and an interest rate of 3.58% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.35% to One-Month LIBOR plus 0.38% for the variable rate portions of the bond	78,564	147,530
Series 2003-2 securitization with a stated maturity date of October 25, 2033 and an interest rate of 4.23% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.35% to One-Month LIBOR plus 0.37% for the variable rate portions of the bond	136,949	251,278
Series 2003-3 securitization with a stated maturity date of January 25, 2034 and an interest rate of 4.46% for the fixed portion of the bond and One-Month LIBOR plus 0.38% for the variable rate portions of the bond	191,137	342,386
Series 2004-1 securitization with a stated maturity date of April 25, 2034 and an interest rate of One-Month LIBOR plus 0.30%	221,562	384,857
Series 2004-2 securitization with a stated maturity date of July 25, 2034 and an interest rate range of One-Month LIBOR plus 0.29% to One-Month LIBOR plus 0.30%	382,817	604,229
Series 2004-3 securitization with a stated maturity date of October 25, 2034 and an interest rate range of 2.90% to 5.25% for the fixed portions of the bond and a range of One-Month LIBOR plus 0.17% to One-Month LIBOR plus 2.50% for the variable rate portions of the bond	591,354	928,914
Series 2004-4 securitization with a stated maturity date of January 25, 2035 and an interest rate of 5.25% for the fixed portion of the bond and a range of One-Month LIBOR plus 0.15% to One-Month LIBOR plus 1.80% for the variable rate portions of the bond	686,804	1,012,214
Series 2005-1 securitization with a stated maturity date of April 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 2.50%	687,766	—
Series 2005-2 securitization with a stated maturity date of July 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 2.50%	841,552	—
Series 2005-3 securitization with a stated maturity date of September 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.10% to One-Month LIBOR plus 1.70%	1,044,619	—
Series 2005-4 securitization with a stated maturity date of December 25, 2035 and an interest rate of range of One-Month LIBOR plus 0.08% to One-Month LIBOR plus 2.50%	1,173,660	—
	6,173,418	3,957,073
Unamortized bond discounts	(3,532)	(2,958)
Total securitization bond financing, net	$6,169,886	$3,954,115

The bonds are collateralized by loans held for investment with an aggregate outstanding principal balance of $6.4 billion and $4.1 billion as of December 31, 2005 and December 31, 2004, respectively. Unamortized debt issuance costs, included in prepaid and other assets, are $19.7 million and $14.1 million at December 31, 2005 and December 31, 2004, respectively.

Amounts collected on the mortgage loans are remitted to the respective trustees, who in turn distribute such amounts each month to the bondholders, together with other amounts received related to the mortgage loans, net of fees payable to the REIT, the trustee and the insurer of the bonds. Any remaining funds after payment of fees and distribution of principal and interest is known as excess interest.

The securitization agreements require that a certain level of overcollateralization be maintained for the bonds. A portion of the excess interest may be initially distributed as principal to the bondholders to increase the level of overcollateralization. Once a certain level of overcollateralization has been reached, excess interest is no longer distributed as principal to the bondholders, but, rather, is passed through to the REIT. Should the level of overcollateralization fall below a required level, excess interest will again be paid as principal to the bondholders until the required level has been reached.

The securitization agreements provide that if delinquencies or losses on the underlying mortgage loans exceed certain maximums, the required levels of credit enhancement would be increased.

Due to the potential for prepayment of mortgage loans, the early distribution of principal to the bondholders and the optional clean-up call, the bonds are not necessarily expected to be outstanding through the stated maturity date set forth above.

The following table summarizes the expected repayments relating to the securitization bond financing at December 31, 2005. Amounts listed as bond payments are based on anticipated receipts of principal and interest on underlying mortgage loan collateral using historical prepayment spreads:

Years Ending December 31:	(In thousands)
2006	$2,328,889
2007	1,611,403
2008	734,294
2009	454,744
2010	323,028
Thereafter	721,060
Discount	(3,532)
Total	$6,169,886

7. INCOME TAXES AND DISTRIBUTION OF EARNINGS

With the filing of its first Federal income tax return on September 9, 2005, the REIT elected to be treated as a real estate investment trust for income tax purposes in accordance with certain provisions of the Internal Revenue Code of 1986. As a result of this election, the REIT will generally not be subject to federal or state income tax to the extent that it distributes its earnings to its shareholders and maintains its qualification as a real estate investment trust. Currently the REIT plans to distribute substantially all of its taxable income to common and preferred shareholders.

The following is a reconciliation of the income tax provision computed using the statutory federal income tax rate to the income tax provision reflected in the statement of operations:

	Year Ended December 31, 2005	Inception (May 4, 2004) to December 31, 2004
	(In thousands)	
Federal income tax at statutory rate	$ 59,355	$ 17,167
Preferred stock dividends at statutory rate	(3,492)	(1,279)
Common stock dividends paid deduction and other	(55,863)	(15,888)
Total provision	$ —	$ —

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments such as cash and cash equivalents and accrued interest receivable and payable are reasonable estimates of their fair value because of the short maturity of these items. The carrying amounts of warehouse credit facilities are reasonable estimates of their fair value because of their short maturity and interest rates that adjust with current market rates. Fair value for derivative financial instruments is based on quoted market prices.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value. However, the estimates presented herein are not necessarily indicative of the amounts that the REIT could realize in a current market exchange.

Mortgage Loans Held for investment—Fair value is determined using AHL's current investor commitments or, in the absence of such commitments, fair value is based upon AHL's current investor commitments for loans of similar credit quality.

Securitization Bond Financing—Fair value is based on interest rates that are currently available to the REIT for issuance of debt with similar terms and remaining maturities.

Estimated fair values for these financial instruments were as follows at December 31:

	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial assets:				
Mortgage loans held for investment—principal balance	$6,350,870	$6,617,607	$4,101,982	$4,224,242
Financial liabilities:				
Securitization bond financing	6,169,886	6,178,832	3,954,115	3,973,935

The fair value estimates are based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

9. PREFERRED STOCK

The Board of Trustees, or a duly authorized committee thereof, may issue up to 200,000,000 shares of preferred stock from time to time in one or more classes or series. In addition, the Board of Trustees, or duly authorized committee thereof, may fix the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption.

9.75% Series A Perpetual Cumulative Preferred Shares

The Board of Trustees and a duly authorized committee thereof has classified and designated 4,093,678 preferred shares as Series A Preferred Shares. At December 31, 2005 and December 31, 2004, there were 4,093,678 preferred shares issued and outstanding.

In March, June, September and December of 2005, the REIT's board of trustees declared a quarterly cash dividend on the Preferred Shares at the rate of $0.609375 per share to shareholders of record on March 15, June 15, September 15 and December 15, which aggregated $10 million for the year ended December 31, 2005.

The Series A Preferred Shares contain covenants requiring the REIT to maintain a total shareholders' equity balance and total loans held for investment of at least $50.0 million and $2.0 billion, respectively, commencing on December 31, 2004 and at the end of each quarter thereafter. In addition, commencing with each of the four quarters ending December 31, 2005, the REIT is also required to maintain cumulative unencumbered cash flow (as defined in the agreement) greater than or equal to six times the cumulative preferred dividends required in those four quarters. If the REIT is not in compliance with any of these covenants, no dividends can be declared on the REIT's common shares until it is in compliance with all covenants as of the end of two successive quarters. As of December 31, 2005, the REIT was in compliance with the covenants applicable to date in 2005.

Accredited irrevocably and unconditionally agrees to pay in full to the holders of each share of the REIT's Series A Preferred Shares, as and when due, regardless of any defense, right of set-off or counterclaim which the REIT or Accredited may have or assert: (i) all accrued and unpaid dividends (whether or not declared) payable on the REIT's Series A Preferred Shares; (ii) the redemption price (including all accrued and unpaid dividends) payable with respect to any of the REIT's Series A Preferred Shares redeemed by the REIT and (iii) the liquidation preference, if any, payable with respect to any of the REIT's Series A Preferred Shares. Accredited's guarantee is subordinated in right of payment to Accredited's indebtedness, on parity with the most senior class of Accredited's preferred stock and senior to Accredited's common stock.

10. RECEIVABLE FROM PARENT AND ADMINISTRATION AND SERVICING AGREEMENT WITH PARENT

The REIT has an administration and servicing agreement with its parent company, AHL, whereby AHL provides loan servicing, treasury, accounting, tax and other administrative services for the REIT in exchange for a management fee equal to 0.5% per year on the outstanding principal balance of the loans serviced, plus miscellaneous fee income collected from mortgagors including late payment charges, assumption fees and similar items. Under this agreement, either party agrees to pay interest on the net average balance payable to the other party at an annual rate equal to the Six-Month LIBOR plus 1.0%. Management fee expense under this agreement totaled $25.7 million and $7.2 million for the year ended December 31, 2005 and for the period from

inception (May 4, 2004) to December 31, 2004, respectively. Interest income under this agreement totaled $4.0 million and $0.1 million for the year ended December 31, 2005 and for the period from inception (May 4, 2004) to December 31, 2004, respectively. At December 31, 2005 and December 31, 2004, the net receivable from parent was $99.6 million and $15.2 million, respectively. It is Accredited's practice to periodically settle intercompany balances.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents supplemental cash flow information for the year ended December 31, 2005 and from inception (May 4, 2004) to December 31, 2004:

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 204,236	$ 31,407
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans held for investment to real estate owned, net of reserves, included in other assets	$ 12,774	$ 2,688
Detail of assets and liabilities contributed from parent:		
Cash contributions	$ —	$ 26,001
Mortgage loans, net of reserves	4,203,594	4,445,453
Other net assets (liabilities)	(20,663)	18,203
Outstanding balances on warehouse credit facilities	(4,049,853)	(2,767,798)
Securitization bond financing	(—)	(1,652,400)
Net capital contributions from parent	$ 133,078	$ 69,459

12. SUBSEQUENT EVENTS

In December 2005, the REIT's board of trustees declared dividends on common stock of which $197.7 million was paid in December 2005 and $12.3 million was paid in January 2006.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following data was derived from unaudited consolidated financial information for each of the four quarters in the year ended December 31, 2005 and for the period from inception (May 4, 2004) to June 30, 2004 and the third and fourth quarters in the period ended December 31, 2004. Such information has been prepared on the same basis as the audited financial statements contained elsewhere in this report and, in the opinion of management, includes all adjustments necessary for the fair presentation of the information for the periods presented. This information should be read in conjunction with the financial statements and the related notes. The operating results in any quarter or partial period are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended				
	March 31	June 30(1)	September 30	December 31	Total year
	(in thousands, except per share amounts)				
2005:					
Total net revenues	$46,861	$43,910	$54,482	$50,086	$ 195,339
Net income	$41,456	$37,757	$47,681	$42,692	$ 169,586
Net income available to common stockholders	$38,961	$35,263	$45,186	$40,198	$ 159,608
Basic and diluted earnings per share	$389.61	$352.63	$451.86	$401.98	$1,596.08
2004:					
Total net revenues	$ —	$ 2,565	$17,850	$35,816	$ 56,231
Net income	$ —	$ 2,221	$15,529	$31,300	$ 49,050
Net income available to common stockholders	$ —	$ 2,221	$14,368	$28,805	$ 45,394
Basic and diluted earnings per share	$ —	$ 22.21	$143.68	$288.05	$ 453.94

(1) The three month period ended June 30, 2004 represents the period from May 4, 2004 to June 30, 2004.

Exhibit 4.9

EXECUTION COPY

CARMEL MOUNTAIN FUNDING TRUST,
as Issuer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Indenture Trustee

BASE INDENTURE

Dated as of May 10, 2005

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Residential Mortgage Loan Term Notes and Subordinated Notes
(Issuable in Series)

BASE INDENTURE, dated as of May 10, 2005 (the "Base Indenture"), between CARMEL MOUNTAIN FUNDING TRUST, a statutory trust established under the laws of Delaware, as issuer (the "Issuer"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation, as indenture trustee (in such capacity, the "Indenture Trustee").

WITNESSETH:

WHEREAS, the Issuer has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of one or more series of Term Notes and Subordinated Notes, issuable as provided in this Indenture; and

WHEREAS, all things necessary to make this Indenture a legal, valid and binding agreement of the Issuer, in accordance with its terms, have been done, and the Issuer proposes to do all the things necessary to make the Term Notes and Subordinated Notes, when executed by the Issuer and authenticated and delivered by the Indenture Trustee hereunder and duly issued by the Issuer, the legal, valid and binding obligations of the Issuer as hereinafter provided;

NOW, THEREFORE, for and in consideration of the premises and the receipt of the Term Notes by the Term Noteholders and the Subordinated Notes by the Subordinated Noteholders, it is mutually covenanted and agreed, for the equal and proportionate benefit of the Term Noteholders as follows:

ARTICLE 1.

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1. Definitions.

Certain capitalized terms used herein (including the preamble and the recitals hereto) shall have the meanings assigned to such terms in the Definitions List attached to the Security Agreement, dated as of May 10, 2005, between the Issuer and Deutsche Bank Trust Company Americas, as Collateral Agent as Schedule I (the "Definitions List"), as such Definitions List may be amended or modified from time to time in accordance with the provisions thereof.

Section 1.2. Cross-References.

Unless otherwise specified, references in this Indenture and in each other Program Document to any Article or Section are references to such Article or Section of this Base Indenture or such other Program Document, as the case may be and, unless otherwise specified, references in any Article, Section or definition to any clause are references to such clause of such Article, Section or definition.

Section 1.3. Accounting and Financial Determinations; No Duplication.

Where the character or amount of any asset or liability or item of income or expense is required to be determined, or any accounting computation is required to be made, for the purpose of this Indenture, such determination or calculation shall be made, to the extent applicable and except as otherwise specified in this Indenture, in accordance with GAAP. When used herein, the term "financial statement" shall include the notes and schedules thereto. All accounting determinations and computations hereunder or under any other Program Documents shall be made without duplication.

Section 1.4. Rules of Construction.

In this Indenture, unless the context otherwise requires:

(i) the singular includes the plural and vice versa;

(ii) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Indenture, and reference to any Person in a particular capacity only refers to such Person in such capacity;

(iii) reference to any gender includes the other gender;

(iv) reference to any Requirement of Law means such Requirement of Law as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time;

(v) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; and

(vi) with respect to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding".

ARTICLE 2.

THE NOTES

Section 2.1. Designation and Terms of Term Notes or Subordinated Notes.

Each Series of Term Notes and Subordinated Notes, as applicable, shall be substantially in the form specified in the applicable Supplement and shall bear, upon its face, the designation for such Series to which it belongs so selected by the Issuer and set forth in the related Supplement. All Term Notes of any Series and all Subordinated Notes of any Series, as applicable, shall be equally and ratably entitled, except as specified in the related Supplement, as provided herein to the benefits hereof without preference, priority or distinction on account of the actual time or times of authentication and delivery, all in accordance with the terms and provisions of this Indenture and the applicable Supplement; provided, that the rights of the

Subordinated Noteholders, if any, in and to the Collateral and to receive payments hereunder shall be subordinate and junior to the rights of the Senior Noteholders, if any. Subject to the conditions contained herein and in the other Program Documents, the aggregate Principal Amount of Term Notes and Subordinated Notes which may be authenticated and delivered under this Indenture is unlimited. Unless otherwise provided in the applicable Supplement, each Series of Term Notes or Subordinated Notes, as applicable, shall have Payment Dates on the 25th day of each month. Unless otherwise provided in the applicable Supplement, the Term Notes and Subordinated Notes shall be in denominations of $200,000 and integral multiples of $1,000 in excess thereof.

Section 2.2. Term Notes and Subordinated Notes Issuable in Series.

The Term Notes and Subordinated Notes, as applicable, may be issued in one or more separate Series. Each Series of Term Notes or Subordinated Notes, as applicable, shall be created by a Supplement. Term Notes or Subordinated Notes, as applicable, of a new Series may from time to time be executed by the Issuer and delivered to the Indenture Trustee for authentication and thereupon the same shall be authenticated and delivered by the Indenture Trustee on the related Series Closing Date upon the receipt by the Indenture Trustee of an Issuer Request at least five (5) Business Days in advance of the related Series Closing Date and upon delivery by the Issuer to the Indenture Trustee, and receipt by the Indenture Trustee, of the following:

(a) an Issuer Order authorizing and directing the authentication and delivery of the Term Notes or Subordinated Notes, as applicable, of such new Series by the Indenture Trustee and specifying the designation of such new Series, the aggregate Initial Principal Amount of Term Notes or Subordinated Notes of such new Series to be authenticated and the Term Note Rate or Subordinated Note Rate (or the method for allocating interest payments or other cash flow), as applicable, with respect to such new Series;

(b) a Supplement in form satisfactory to the Indenture Trustee executed by the Issuer and the Indenture Trustee and specifying the Principal Terms of such new Series;

(c) the related Enhancement Agreement, if any, executed by each of the parties thereto, other than the Indenture Trustee;

(d) with respect to the issuance of such Series of Term Notes or Subordinated Notes, as applicable, written confirmation that the Rating Agency Confirmation Condition shall have been satisfied prior to or concurrently with such issuance;

(e) an Officer's Certificate of the Issuer dated as of the applicable Series Closing Date to the effect that (i) no Event of Default, Enhancement Agreement Event of Default, if applicable, or Potential Event of Default is continuing or will occur as a result of the issuance of the new Series of Subordinated Notes or Term Notes, (ii) the issuance of the new Series of Subordinated Notes or Term Notes will not result in any breach of any of the terms, conditions or provisions of or constitute a default under any indenture, mortgage, deed of trust or other agreement or instrument to which the Issuer is a party or by which it or its property is bound or any order of any court or administrative agency entered in any suit, action or other

judicial or administrative proceeding to which the Issuer is a party or by which it or its property may be bound or to which it or its property may be subject and (iii) all conditions precedent provided in this Base Indenture and the related Supplement with respect to the authentication and delivery of the new Series of Term Notes or Subordinated Notes, as applicable, have been complied with;

(f) unless otherwise specified in the related Supplement, an Opinion of Counsel, subject to the assumptions and qualifications stated therein, and in a form substantially acceptable to the Indenture Trustee, dated the applicable Series Closing Date, substantially to the effect that:

(i) (x) the new Series of Subordinated Notes or Term Notes will be treated as indebtedness of the Issuer for United States federal income tax purposes and, if applicable, (y) the issuance of such Series of Notes will not cause the outstanding Notes to fail to qualify as debt for United States federal income tax purposes or cause the Issuer to be characterized as an association (or publicly traded partnership) taxable as a corporation or a taxable mortgage pool for United States federal income tax purposes;

(ii) all instruments furnished to the Indenture Trustee conform in all material respects to the requirements of this Base Indenture and the related Supplement and constitute all the documents required to be delivered hereunder and thereunder for the Indenture Trustee to authenticate and deliver the new Series of Term Notes or Subordinated Notes, as applicable, and all conditions precedent provided for in this Base Indenture and the related Supplement with respect to the authentication and delivery of the new Series of Term Notes or Subordinated Notes, as applicable, have been complied with in all material respects;

(iii) the Issuer is duly organized under the jurisdiction of its formation and has the power and authority to execute and deliver the related Supplement, this Base Indenture and each other Program Document to which it is a party and to issue the new Series of Term Notes or Subordinated Notes, as applicable;

(iv) the related Supplement, this Base Indenture, and each of the other Program Documents to which the Issuer is a party have been duly authorized, executed and delivered by the Issuer;

(v) the new Series of Term Notes or Subordinated Notes, as applicable, has been duly authorized and executed and, when authenticated and delivered in accordance with the provisions of this Base Indenture and the related Supplement, will constitute valid, binding and enforceable obligations of the Issuer entitled to the benefits of this Base Indenture and the related Supplement, subject, in the case of enforcement, to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and to general principles of equity;

(vi) this Base Indenture, the related Supplement and each of the other Program Documents to which the Issuer is a party are legal, valid and binding agreements of the Issuer enforceable in accordance with their respective terms, subject to bankruptcy,

insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and to general principles of equity;

(vii) the Issuer is not, and is not controlled by, an "investment company" within the meaning of, and is not required to register as an "investment company" under, the Investment Company Act, and this Base Indenture and the related Supplement are not required to be registered or qualified under the Trust Indenture Act;

(viii) the offer and sale of the new Series of Term Notes or Subordinated Notes, as applicable, is not required to be registered under the Securities Act;

(ix) as to the new Series of Subordinated Notes or Term Notes and any outstanding Series of Subordinated Notes or Term Notes, the opinions of counsel relating to (A) the validity, perfection and priority of security interests, (B) the nature of the transfer of each of the Mortgage Loans as a "true sale" and not as a financing arrangement, (C) the analysis of substantive consolidation of the assets of the Issuer with the assets of the Company in the event of the insolvency of the Company, (D) there being no pending or threatened litigation which, if adversely determined, would materially and adversely affect the ability of the Issuer to perform its obligations under any of the Program Documents, and (E) the absence of any conflict with or violation of any court decree, injunction, writ or order applicable to the Issuer or any breach or default of any indenture, agreement or other instrument as a result of the issuance of such Series of Subordinated Notes or Term Notes by the Issuer, as furnished by counsel retained by the Issuer in connection with the issuance of the initial Series of Subordinated Notes or Term Notes, are reaffirmed in all respects; and

(x) such other matters as the Indenture Trustee may reasonably require.

(g) with respect to the issuance of any Series of Subordinated Notes, an Officer's Certificate, satisfactory to the Indenture Trustee stating that (i) after giving effect to the issuance of such Series of Subordinated Notes, the aggregate outstanding Principal Amount of all outstanding Series of Subordinated Notes, *plus* the amount on deposit in the Reserve Fund, if any, shall be at least equal to the Required Enhancement Amount; (ii) if applicable, an increase in the notional amount of the Interest Rate Swaps shall have been obtained or one or more replacement Swap Counterparties shall have entered into one or more additional or replacement Interest Rate Swaps in a maximum aggregate notional amount equal to the then-current Program Size; (iii) after giving effect to the issuance of such Series of Subordinated Notes, no Termination Event shall have occurred; (iv) the Payment Dates of such Series of Subordinated Notes shall be identical to the Payment Dates of all outstanding Series of Subordinated Notes; and (v) such Series of Subordinated Notes shall rank *pari passu* with all other issued and outstanding Series of Subordinated Notes;

(h) with respect to each Series of Term Notes, an Officer's Certificate, satisfactory to the Indenture Trustee stating that (i) if applicable, an increase in the notional amount of the Interest Rate Swaps shall have been obtained or one or more replacement Swap Counterparties shall have entered into one or more additional or replacement Interest Rate Swaps in a maximum aggregate notional amount equal to the then-current Program Size; (ii) after

giving effect to the issuance of such Series of Term Notes, no Termination Event shall have occurred; (iii) the Payment Dates of such Series of Term Notes shall be identical to the Payment Dates of all outstanding Series of Term Notes; and (iv) such Series of Term Notes shall rank *pari passu* with all other issued and outstanding Series of Term Notes;

(i) evidence of the grant by the Issuer to the Collateral Agent of a first priority security interest in and to the Collateral;

(j) evidence that all filings (including filing of financing statements on form UCC-1) and recordings have been accomplished or are being contemporaneously accomplished as may be required by law to establish, perfect, protect and preserve the rights, titles, interests, remedies, powers, privileges, licenses and security interest of the Collateral Agent in the Collateral for the benefit of the Secured Parties; and

(k) evidence that the Payment Account for such new Series has been established by the Indenture Trustee.

Upon satisfaction of such conditions, the Indenture Trustee shall authenticate and deliver, as provided in Section 2.7, such Series of Term Notes or Subordinated Notes, as applicable, upon execution thereof by the Issuer.

Section 2.3. Supplement for Each Series.

In conjunction with the issuance of a new Series of Term Notes or Subordinated Notes, as applicable, the parties hereto shall execute a Supplement, which shall specify the relevant terms with respect to such new Series of Term Notes or Subordinated Notes, which shall include, as applicable: (i) its name or designation, (ii) the aggregate Principal Amount of the Term Notes or the Subordinated Notes of such Series, (iii) the Term Note Rate or the Subordinated Note Rate (or the method for calculating such Term Note Rate or Subordinated Note Rate) with respect to such Series, (iv) the interest payment date or dates and the date or dates from which interest shall accrue, (v) the method of allocating Collections with respect to such Series and the method by which the Principal Amount of Term Notes or Subordinated Notes of such Series shall amortize or accrete, (vi) the names of any accounts to be used by such Series and the terms governing the operation of any such account and (vii) the terms of any Enhancement, (viii) the Enhancement Provider, if any, and (xi) any other relevant terms of such Series of Term Notes or Subordinated Notes that do not (subject to Article 12 hereof) change the terms of any outstanding Series of Term Notes or Subordinated Notes or otherwise materially conflict with the provisions of this Indenture, and that do not prevent the satisfaction of any Rating Agency Confirmation Condition with respect to the issuance of such new Series (all such terms, the "Principal Terms" of such Series).

Section 2.4. Subordination of Subordinated Notes.

(a) Notwithstanding anything in this Indenture or the Subordinated Notes to the contrary, the Holders of the Subordinated Notes agree for the benefit of the Holders of the Senior Notes that the rights of the Holders of the Subordinated Notes in and to the Collateral and to receive payments hereunder shall be subordinate and junior to the Holders of the Senior Notes and to certain other fees, indemnities, expenses and obligations of the Issuer, as set forth in

Sections 6.03 and 7.02(b) of the Security Agreement, to the extent and in the manner set forth in this Indenture and the Security Agreement.

(b) If any Event of Default has occurred and has not been cured or waived, principal of and interest on the Senior Notes shall be paid in full before any further payment is made on account of the Subordinated Notes.

(c) In the event that notwithstanding the provisions of this Indenture, any Holder of any Subordinated Notes shall have received any payment in respect of such Subordinated Notes contrary to the provisions of the Security Agreement or this Indenture, then, unless and until the Senior Notes shall have been paid in full in cash in accordance with the Security Agreement, such payment shall be received and held in trust for the benefit of, and shall forthwith be paid over and delivered to, the Indenture Trustee, which shall pay and deliver the same to the Holders of the Senior Notes in accordance with this Indenture and the Security Agreement; *provided* that, if any such payment is made other than in cash, it shall be held by the Indenture Trustee as part of the Collateral and subject in all respects to the provisions of this Indenture and the Security Agreement, including, without limitation, this Section 2.4.

(d) Each Holder of Subordinated Notes agrees with the Holders of the Senior Notes that the Holders of the Subordinated Notes shall not demand, accept, or receive any payment in respect of such Subordinated Notes in violation of the provisions of the Security Agreement or this Indenture including, without limitation, this Section 2.4; *provided* that after the Senior Notes have been paid in full, the Holders of Subordinated Notes shall be fully subrogated to the rights of the Holders of the Senior Notes. Nothing in this Section 2.4 shall affect the obligation of the Issuer to pay Holders of Subordinated Notes.

Section 2.5. No Priority Among Term Notes or Among Subordinated Notes.

(a) The Holders of all Series of Term Notes shall, except as specified in the related Supplement, rank equally as to receipt of interest and principal, with no preference or priority being afforded to the Holders of any one Series of Term Notes over the Holders of any other Series of Term Notes.

(b) The Holders of all Series of Subordinated Notes shall, except as specified in the related Supplement, rank equally as to receipt of interest and principal, with no preference or priority being afforded to the Holders of any one Series of Subordinated Notes over the Holders of any other Series of Subordinated Notes.

Section 2.6. Principal Amount Charge-Offs; Principal Amount Reinstatement.

On any date of determination, in the event the Required Draw Amount exceeds the Reserve Fund Available Amount (as such terms are defined in the Security Agreement), the Principal Amount of all Series of Subordinated Notes will be reduced, *pro rata*, by the amount of such excess (such reduction, a "Principal Amount Charge-Off"). With respect to any Principal Amount Charge-Off allocated to each outstanding Series of Subordinated Notes, interest will continue to accrue on each Series of Subordinated Notes at the applicable Subordinated Note Rate for such Series of Subordinated Notes set forth in the related Supplement on an amount equal to such Principal Amount Charge-Off (a "Carry-Over Interest Shortfall") and interest on

the Carry-Over Interest Shortfall will accrue at the applicable Subordinated Note Rate and shall be paid to the Holders of the Subordinated Notes in the priority set forth in the Security Agreement. If on any Payment Date after a Principal Amount Charge-Off occurs which has not been reinstated in full, the Reserve Fund Available Amount exceeds the Required Draw Amount for such Payment Date, the Principal Amount of all Series of Subordinated Notes will be reinstated, *pro rata*, by the amount of such excess on such Payment Date (to the extent of such unreinstated Principal Amount Charge-Off) (such reinstatement, a "Principal Amount Reinstatement").

Section 2.7. Execution and Authentication.

(a) An Authorized Officer shall sign the Term Notes and Subordinated Notes for the Issuer by manual or facsimile signature. If an Authorized Officer whose signature is on a Term Note or a Subordinated Note no longer holds that office at the time the Term Note or the Subordinated Note is authenticated, the Term Note or the Subordinated Note shall nevertheless be valid.

(b) At any time and from time to time after the execution and delivery of this Base Indenture, the Issuer may deliver Term Notes or Subordinated Notes of any particular Series executed by the Issuer to the Indenture Trustee for authentication, together with one or more Issuer Orders for the authentication and delivery of such Term Notes or Subordinated Notes, and the Indenture Trustee, in accordance with such Issuer Order and this Base Indenture, shall authenticate and deliver such Term Notes or Subordinated Notes.

(c) No Term Note or Subordinated Note shall be entitled to any benefit under this Base Indenture or be valid for any purpose unless there appears on such Term Note or Subordinated Note a certificate of authentication substantially in the form provided for herein, duly executed by the Indenture Trustee by the manual signature of an authorized signatory (and the Luxembourg agent (the "Luxembourg Agent"), if such Notes are listed on the Luxembourg Stock Exchange). Such signatures on such certificate shall be conclusive evidence, and the only evidence, that the Term Note or the Subordinated Note has been duly authenticated under this Base Indenture. The Indenture Trustee may appoint an authenticating agent acceptable to the Issuer to authenticate Term Notes or Subordinated Notes. Unless limited by the term of such appointment, an authenticating agent may authenticate Term Notes or Subordinated Notes whenever the Indenture Trustee may do so. Each reference in this Indenture to authentication by the Indenture Trustee includes authentication by such agent. An authenticating agent has the same rights as the Indenture Trustee to deal with the Issuer or an Affiliate of the Issuer. The Indenture Trustee's certificate of authentication shall be in substantially the following form:

This is one of the [Term Notes]/[Subordinated Notes] of a series referred to in the within mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as Indenture Trustee

By: _____
Authorized Signatory

(d) Each Term Note or Subordinated Note shall be dated and issued as of the date of its authentication by the Indenture Trustee.

(e) Notwithstanding the foregoing, if any Term Note or Subordinated Note shall have been authenticated and delivered hereunder but never issued and sold by the Issuer, and the Issuer shall deliver such Term Note or Subordinated Note to the Indenture Trustee for cancellation as provided in Section 2.17 together with a written statement (which need not comply with Section 13.3 and need not be accompanied by an Opinion of Counsel) stating that such Term Note or Subordinated Note has never been issued and sold by the Issuer, for all purposes of this Indenture such Note shall be deemed never to have been authenticated and delivered hereunder and shall not be entitled to the benefits of this Indenture.

Section 2.8. Form of Term Notes or Subordinated Notes; Book-Entry Provisions.

(a) Restricted Global Note. Any Series of Term Notes or Subordinated Notes, or any class of such Series to be sold in the United States to qualified institutional buyers within the meaning of, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") in reliance on an exemption from the registration requirements of the Securities Act who are also qualified purchasers as defined under the Investment Company Act will be issued in registered form, and prior to any such sale, each such purchaser shall be deemed to have represented and agreed as follows:

(i) It is a qualified institutional buyer as defined in Rule 144A and a qualified purchaser as defined under the Investment Company Act and is acquiring the Term Notes or Subordinated Notes for its own institutional account or for the account of a qualified institutional buyer;

(ii) It understands that the Term Notes or Subordinated Notes purchased by it will be offered, and may be transferred, only in a transaction not involving any public offering within the meaning of the Securities Act, and that, if in the future it decides to resell, pledge or otherwise transfer any Term Notes or Subordinated Notes, such Term Notes or Subordinated Notes may be resold, pledged or transferred only (1) to a person who is a qualified purchaser (as defined under the Investment Company Act) and (2) (a) to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A, (b) outside the United States to a non-U.S. Person (as such term is defined in Regulation S of the Securities Act) in a

transaction in compliance with Regulation S of the Securities Act, (c) pursuant to an effective registration statement under the Securities Act or (d) in reliance on another exemption under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States;

(iii) It understands that the Term Notes and Subordinated Notes will bear a legend substantially as set forth in Section 2.13 (a);

(iv) Either (i) it is not, and is not acting on behalf of, a Benefit Plan, or (ii) its acquisition and holding of the Notes will be eligible for, and satisfy all requirements of, a United States Department of Labor prohibited transaction class exemption (or, in the case of a purchaser that is a Governmental Plan, will not violate any law substantially similar to the fiduciary responsibility provisions of ERISA or Section 4975 of the Code); and

(v) It acknowledges that the Indenture Trustee, the Issuer, each initial purchaser for such Series of Term Notes or Subordinated Notes, and their affiliates, and others will rely exclusively upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and shall be under no duty or obligation to verify the accuracy of the same. If it is acquiring any Term Notes or Subordinated Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

In addition, such purchaser shall be responsible for providing additional information or certification, as shall be reasonably requested by the Issuer or any initial purchaser for such Series of Term Notes or Subordinated Notes, to support the truth and accuracy of the foregoing acknowledgments, representations and agreements, it being understood that such additional information is not intended to create additional restrictions on the transfer of the Term Notes or Subordinated Notes. Such Series of Term Notes or Subordinated Notes shall be issued in the form of and represented by one or more permanent global Term Notes or Subordinated Notes in fully registered form without interest coupons (each, a "Restricted Global Note"), substantially in the form set forth in the applicable Supplement, with such legends as may be applicable thereto, which shall be deposited on behalf of the subscribers for the Term Notes or Subordinated Notes represented thereby with a custodian for DTC, and registered in the name of DTC or a nominee of DTC, duly executed by the Issuer and authenticated by the Indenture Trustee as provided in Section 2.7 for credit to the accounts of the subscribers at DTC. The aggregate initial principal amount of a Restricted Global Note may from time to time be increased or decreased by adjustments made on the records of the custodian for DTC, DTC or its nominee, as the case may be, as hereinafter provided.

(b) Regulation S Note. Any Series of Term Notes or Subordinated Notes, or any class of such Series, offered and sold outside of the United States will be offered and sold in reliance on Regulation S ("Regulation S") under the Securities Act (each, a "Regulation S Note") and shall be issued in definitive, fully registered, certificated form without interest coupons substantially in the form set forth in the applicable Supplement with such legends as may be

applicable thereto, registered in the name of the beneficial owner or nominee thereof, duly executed by the Issuer and authenticated by the Indenture Trustee as provided in Section 2.7.

(c) Each Series of Term Notes and Subordinated Notes shall be substantially in the form specified in the applicable Supplement and shall bear, upon its face, the designation for such Series to which it belongs so selected by the Issuer. All Term Notes or Subordinated Notes of any Series shall, except as specified in the related Supplement, be equally and ratably entitled as provided hereto to the benefits hereof without preference, priority or distinction on account of the actual time or times of authentication and delivery, all in accordance with the terms and provisions of this Base Indenture and the applicable Supplement.

Section 2.9. Note Registrar and Note Paying Agent.

(a) The Issuer shall (i) maintain an office or agency where Term Notes and Subordinated Notes may be presented for registration of transfer or for exchange ("Note Registrar") and (ii) appoint a paying agent (which shall satisfy the eligibility criteria set forth in Section 10.8(a)) ("Note Paying Agent") at whose office or agency Term Notes or Subordinated Notes may be presented for payment. The Note Registrar shall keep a register of the Term Notes and Subordinated Notes and of their transfer and exchange (the "Note Register"). The Issuer may appoint one or more co-registrars and one or more additional paying agents. The term "Note Paying Agent" includes any additional paying agent and the term "Note Registrar" includes any co-registrars. The Issuer may change any Note Paying Agent or Note Registrar without prior notice to any Term Noteholder or Subordinated Noteholder. The Issuer shall notify the Indenture Trustee in writing of the name and address of any agent not a party to this Indenture. The Indenture Trustee is hereby initially appointed as the Note Registrar, Note Paying Agent and agent for service of notices and demands in connection with the Term Notes and Subordinated Notes.

(b) The Issuer shall enter into an appropriate agency agreement with any agent not a party to this Indenture. Such agency agreement shall implement the provisions of this Base Indenture that relate to such agent. The Issuer shall notify the Indenture Trustee in writing of the name and address of any such agent. If the Issuer fails to maintain a Note Registrar or Note Paying Agent and a Trust Officer has actual knowledge of such failure, or if the Issuer fails to give the foregoing notice, the Indenture Trustee shall act as such, and shall be entitled to appropriate compensation in accordance with this Base Indenture, until the Issuer shall appoint a replacement Note Registrar and Note Paying Agent.

Section 2.10. Note Paying Agent to Hold Money in Trust.

(a) The Issuer will cause each Note Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee an instrument in which such Note Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Note Paying Agent, it hereby so agrees), subject to the provisions of this Section, that such Note Paying Agent will:

(i) hold all sums held by it for the payment of amounts due with respect to the Term Notes and Subordinated Notes in trust (with no liability for interest and no duty to

invest or reinvest such sums) for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(ii) give the Indenture Trustee written notice of any default by the Issuer (or any other obligor under the Term Notes or Subordinated Notes) of which it (or, in the case of the Indenture Trustee, a Trust Officer) has actual knowledge in the making of any payment required to be made with respect to the Term Notes or Subordinated Notes;

(iii) at any time during the continuance of any such default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Note Paying Agent;

(iv) immediately resign as a Note Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Term Notes or Subordinated Notes if at any time it ceases to meet the standards required to be met by an Indenture Trustee hereunder at the time of its appointment; and

(v) comply with all requirements of the Code with respect to the withholding from any payments made by it on any Term Notes or Subordinated Notes of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

(b) The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Base Indenture or for any other purpose, by Issuer Order direct any Note Paying Agent to pay to the Indenture Trustee all sums held in trust by such Note Paying Agent, such sums to be held by the Indenture Trustee (with no duty to invest or reinvest such sums) upon the same trusts as those upon which the sums were held by such Note Paying Agent; and upon such payment by any Note Paying Agent to the Indenture Trustee, such Note Paying Agent shall be released from all further liability with respect to such money.

(c) Subject to applicable laws with respect to escheat of funds, any money held by the Indenture Trustee or any Note Paying Agent in trust for the payment of any amount due with respect to any Term Note or Subordinated Note and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer on Issuer Request; and the Holder of such Term Note or Subordinated Note shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee or such Note Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee or such Note Paying Agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in New York City, and London and Luxembourg (if the related Series of Notes has been listed on the Luxembourg Stock Exchange), if applicable, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer.

Section 2.11. Noteholder List.

The Note Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Term Noteholders and Subordinated Noteholders of each Series of Term Notes and Subordinated Notes. If the Indenture Trustee is not the Note Registrar, the Issuer shall furnish to the Indenture Trustee at least seven Business Days before each Payment Date and at such other time as the Indenture Trustee may request in writing, a list in such form and as of such date as the Indenture Trustee may reasonably require of the names and addresses of Term Noteholders and Subordinated Noteholders of each Series of Term Notes and Subordinated Notes.

Section 2.12. Transfer and Exchange of Term Notes or Subordinated Notes.

(a) When Term Notes or Subordinated Notes of any particular Series are presented to the Note Registrar or a co-registrar with a request to register a transfer or to exchange them for an equal principal amount of Term Notes or Subordinated Notes of other authorized denominations of the same Series, the Note Registrar shall register the transfer or make the exchange if its requirements for such transaction are met; provided, however, that the Term Notes or Subordinated Notes surrendered for transfer or exchange (a) shall be duly endorsed or accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Note Registrar, duly executed by the Holder thereof or its attorney, duly authorized in writing and (b) shall be transferred or exchanged in compliance with the following provisions and any other applicable provisions set forth in the related Supplement for such Series:

(i) Transfer of Restricted Global Notes.

(1) if such Term Note or Subordinated Note is being acquired for the account of such Holder, without transfer, a certification from such Holder to that effect (in substantially the form of Exhibit A-1 hereto); or

(2) if such Term Note or Subordinated Note is being transferred to a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (i) a certification to that effect (in substantially the form of Exhibit A-1 hereto) and (ii) each such transferee of such Term Note or Subordinated Note shall be deemed to have represented and agreed as follows:

(A) It is a qualified institutional buyer as defined in Rule 144A and is acquiring the Notes for its own institutional account or for the account of a qualified institutional buyer;

(B) It understands that the Notes purchased by it will be offered, and may be transferred, only in a transaction not involving any public offering within the meaning of the Securities Act, and that, if in the future it decides to resell, pledge or otherwise transfer any Notes, such Term Notes or Subordinated Notes may be resold, pledged or transferred only (a) to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) that purchases for it own account or for the account of a qualified institutional

buyer to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A, (b) outside the United States to a non-U.S. Person (as such term is defined in Regulation S of the Securities Act) in a transaction in compliance with Regulation S of the Securities Act, (c) pursuant to an effective registration statement under the Securities Act or (d) in reliance on another exemption under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States;

(C) It understands that the Notes will bear a legend substantially as set forth in Section 2.13; and

(D) It acknowledges that the Indenture Trustee, the Issuer, each initial purchaser for such Series of Notes, and their affiliates, and others will rely exclusively upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and shall be under no duty or obligation to verify the accuracy of the same. If it is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

In addition, such transferee shall be responsible for providing additional information or certification, as shall be reasonably requested by the Issuer or any initial purchaser for such Series of Term Notes or Subordinated Notes, to support the truth and accuracy of the foregoing acknowledgments, representations and agreements, it being understood that such additional information is not intended to create additional restrictions on the transfer of the Term Notes or Subordinated Notes; or

(3) if such Term Note or Subordinated Note is being transferred pursuant to an exemption from registration in accordance with Regulation S, (i) a certification to that effect (in substantially the form of Exhibit A-1 hereto) and (ii) each such transferee of such Term Note or Subordinated Note shall be deemed to have represented and agreed as follows:

(A) It is aware that the sale to it of the Notes is being made in reliance on the exemption from registration provided by Regulation S and understands that the Notes offered in reliance on Regulation S will be represented by Regulation S Notes. The Notes so represented may not at any time be held by or on behalf of U.S. Persons as defined in Regulation S under the Securities Act. It and each beneficial owner of the Notes sold to it will not be a U.S. Person as defined in Regulation S under the Securities Act and its purchase of the Notes will comply with all applicable laws in any jurisdiction in which it resides or is located;

(B) It understands that the Notes purchased by it will be offered, and may be transferred, only in a transaction not involving any public offering within the meaning of the Securities Act, and that, if in the future it decides to resell, pledge or otherwise transfer any Notes, such Notes may be resold, pledged or transferred only (a) to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) that purchases for it own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A, (b) outside the United States to a non-U.S. Person (as such term is defined in Regulation S of the Securities Act) in a transaction in compliance with Regulation S of the Securities Act, (c) pursuant to an effective registration statement under the Securities Act or (d) in reliance on another exemption under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States;

(C) It understands that the Notes will bear a legend substantially as set forth in Section 2.13; and

(D) It acknowledges that the Indenture Trustee, the Issuer, each initial purchaser for such Series of Notes, and their affiliates, and others will rely exclusively upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and shall be under no duty or obligation to verify the accuracy of the same. If it is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

In addition, such transferee shall be responsible for providing additional information or certification, as shall be reasonably requested by the Issuer or any initial purchaser for such Series of Term Notes or Subordinated Notes, to support the truth and accuracy of the foregoing acknowledgments, representations and agreements, it being understood that such additional information is not intended to create additional restrictions on the transfer of the Term Notes or Subordinated Notes; or

(4) if such Term Note or Subordinated Note is being transferred in reliance on another exemption from the registration requirements of the Securities Act, (i) a certification to that effect (in substantially the form of Exhibit A-1 hereto), and (ii) an opinion of counsel in form and substance acceptable to the and to the Registrar to the effect that such transfer is in compliance with the Securities Act.

(ii) Restricted Global Note to Regulation S Note. If a holder of a beneficial interest in the Restricted Global Note registered in the name of DTC or its nominee

wishes at any time to exchange its interest in such Restricted Global Note for an interest in one or more Regulation S Notes, such holder may, subject to the rules and procedures of DTC, exchange or cause the exchange or transfer of such interest for an equivalent interest in one or more Regulation S Notes. Upon receipt by the Transfer Agent of (1) instructions given in accordance with DTC's procedures from an agent member directing the Indenture Trustee as Transfer Agent to cause to be issued one or more Regulation S Notes in an amount equal to the beneficial interest in the Restricted Global Note to be exchanged or transferred, and (2) a certificate substantially in the form of Exhibit A-2 attached hereto given by the holder of such beneficial interest stating that the exchange or transfer of such interest has been in compliance with the transfer restrictions applicable to the Regulation S Notes, including that the holder or the transferee, as applicable, is not a U.S. Person and pursuant to and in accordance with Regulation S, DTC shall reduce the Restricted Global Note by the aggregate principal amount of the beneficial interest in the Restricted Global Note to be so exchanged or transferred, the Indenture Trustee, as Note Registrar, shall record the transfer in the Note Register and the Indenture Trustee shall authenticate and deliver one or more Regulation S Notes, registered in the names and in the principal amounts designated by the holder of such beneficial interest in the Restricted Global Note to be exchanged or transferred. In connection with any transfer pursuant to this clause (iii), each such transferor of such Restricted Global Note shall be required to represent and agree that such exchange or transfer has been effected in accordance with the transfer restrictions set forth in the related Series of Notes and pursuant to and in accordance with Regulation S under the Securities Act, and that:

(1) the offer of the Notes was not made to a person in the United States;

(A) at the time the buy order was originated, the transferee was outside the United States or the transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or

(B) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(2) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable; and

(3) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

(iii) Regulation S Note to Restricted Global Note. If a holder of an interest in a Regulation S Note wishes at any time to exchange its interest in such Regulation S Note for an interest in a Restricted Global Note, or to transfer its interest in such Regulation S Note to a Person who wishes to take delivery thereof in the form of an interest in the Restricted Global Note, such holder may, subject to the rules and procedures of DTC,

exchange or cause the exchange or transfer of such interest for an equivalent beneficial interest in the Restricted Global Note. Upon receipt by the Indenture Trustee, as Note Registrar, of (A) such holder's Regulation S Notes properly endorsed for such transfer and written instructions from such holder directing the Indenture Trustee, as Note Registrar, to cause to be credited a beneficial interest in a Restricted Global Note in an amount equal to the interest in the Regulation S Note to be so exchanged or transferred, such instructions to contain information regarding the participant account with DTC to be credited with such increase, and (B) a certificate in the form of Exhibit A-3 attached hereto given by such holder of Regulation S Notes and stating, among other things, that in the case of a transfer, such holder reasonably believes that the Person acquiring such interest in a Restricted Global Note is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction or that, in the case of an exchange, the holder is a qualified institutional buyer within the meaning of Rule 144A, then the Indenture Trustee, as Note Registrar, shall cancel such Regulation S Notes and record the transfer in the Note Registrar and instruct DTC to credit or cause to be credited to the securities account of the Person specified in such instructions a beneficial interest in a Restricted Global Note equal to the amount specified in the instructions received pursuant to clause (A) above. In connection with any transfer pursuant to this clause (iii), each such transferor of such Regulation S Note shall be required to represent and agree that such Regulation S Notes are being transferred in accordance with Rule 144A under the Securities Act to a transferee that the transferor reasonably believes is purchasing such Notes for its own account or an account with respect to which the transferee exercises sole investment discretion and the transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

(iv) Transfers of Regulation S Notes. If a holder of a beneficial interest in a Regulation S Note wishes at any time to transfer its interest in such Regulation S Note to a Person who wishes to take delivery thereof, such holder may transfer or cause the transfer of such interest for an equivalent beneficial interest in one Regulation S Note, as provided below. Upon receipt by the Issuer and the Indenture Trustee, as Note Registrar, of (A) such holder's Regulation S Note properly endorsed for assignment to the transferee, (B) a certification of the transferor that the transfer is being made pursuant to Regulation S, then the Indenture Trustee, as Note Registrar, shall cancel such Regulation S Note, record the transfer in the Note Register and authenticate and deliver one or more Regulation S Notes bearing the same designation as the Regulation S Notes endorsed for transfer, registered in the names specified in the assignment described in clause (A) above, in a principal amount to the interest in the Regulation S Note surrendered by the transferor.

(v) So long as a Definitive Note remains outstanding, transfers and exchanges of a Definitive Note, in whole or in part, shall only be made in accordance with this Section 2.12.

(1) Definitive Note to Regulation S Note. If a holder of a beneficial interest in a Definitive Note wishes at any time to exchange its interest in such Note for an interest in a Regulation S Note, or to transfer its interest in such Definitive Note to a Person who wishes to take delivery thereof in the form of an interest in a Regulation S Note, such holder may exchange or transfer or cause the exchange or transfer of such interest for an equivalent beneficial interest in a Regulation S Note. Definitive Notes may be exchanged or transferred for beneficial interests in Regulation S Notes in minimum denominations of $200,000 and integral multiples of $1,000 in excess thereof or such other denominations and currency specified in the related Supplement. Upon receipt by the Indenture Trustee, as Note Registrar, of (A) such Definitive Notes properly endorsed for such transfer and written instructions from such holder directing the Indenture Trustee, as Note Registrar, to cause to be issued one or more Regulation S Notes in an amount equal to the beneficial interest in the Definitive Notes but not less than the minimum denomination applicable to such holder's Term Notes or Subordinated Notes, as applicable, held through a Regulation S Note, to be exchanged or transferred, (B) a certificate in the form of Exhibit A-4 attached hereto given by the holder of such beneficial interest stating that the exchange or transfer of such interest has been made in compliance with the transfer restrictions applicable to the Regulation S Notes, including that the holder or the transferee, as applicable, is not a U.S. Person and pursuant to and in accordance with Regulation S, the Indenture Trustee, as Note Registrar, shall cancel such Definitive Notes in accordance with Section 2.17, record the transfer in the Note Register in accordance with Section 2.12(a) and authenticate and deliver one or more Regulation S Notes, registered in the names and in the amounts specified in the instructions received pursuant to clause (A) above.

(2) Definitive Note to Restricted Global Note. If a holder of a beneficial interest in a Definitive Note wishes at any time to exchange its interest in such Definitive Note for an interest in a Restricted Global Note, or to transfer its interest in such Definitive Note to a Person who wishes to take delivery thereof in the form of an interest in a Restricted Global Note, such holder may exchange or transfer or cause the exchange or transfer of such interest for an equivalent beneficial interest in a Restricted Global Note. Definitive Notes may be exchanged or transferred for beneficial interests in Restricted Global Note only in minimum denominations of $200,000 and integral multiples in excess of $1,000 or such other denominations and currency as may be specified in the related Supplement. Upon receipt by the Indenture Trustee, as Note Registrar, of (A) such holder's Definitive Notes properly endorsed for such transfer and written instructions from such holder directing the Indenture Trustee, as Note Registrar, to cause to be credited a beneficial interest in a Restricted Global Note in an amount equal to the beneficial interest in the Definitive Notes, but not less than the minimum denomination applicable to such holder's Notes, as applicable, held through a Restricted Global Note, to be exchanged or transferred, such instructions to contain information regarding the participant account with DTC to be credited with such increase, and (B) a certificate in the form of Exhibit A-5 attached hereto given by the holder of such beneficial interest and stating, among

other things, that, in the case of a transfer, such holder reasonably believes that the Person acquiring such interest in a Restricted Global Note is a qualified institutional buyer within the meaning of Rule 144A, is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction or that, in the case of an exchange, the holder is a qualified institutional buyer within the meaning of Rule 144A, then the Indenture Trustee, as Note Registrar, shall cancel such Definitive Notes in accordance with Section 2.17 and instruct DTC to credit or cause to be credited to the securities account of the Person specified in such instructions a beneficial interest in a Restricted Global Note equal to the amount specified in the instructions received pursuant to clause (A) above.

(3) Transfer of Definitive Notes. If a holder of a beneficial interest in a Definitive Note wishes at any time to transfer its interest in such Definitive Note to a Person who wishes to take delivery thereof, such holder may transfer or cause the transfer of such interest for an equivalent beneficial interest in one Definitive Note, as provided below. Upon receipt by the Issuer and the Indenture Trustee, as Note Registrar, of (A) such holder's Definitive Note properly endorsed for assignment to the transferee, (B) a certificate in the form of Exhibit A-6 attached hereto given by the transferee of such beneficial interest and (C) if such certificate does not include a certification that the transferee is a qualified institutional buyer or a non-U.S. Person, either (i) a certification of the transferor that the transfer is being made pursuant to Rule 144 under the Securities Act or (ii) an opinion of counsel acceptable to the Indenture Trustee that such transfer may be made pursuant to an exemption from registration under the Securities Act, then the Indenture Trustee, as Note Registrar, shall cancel such Definitive Note in accordance with Section 2.17, record the transfer in the Note Register in accordance with Section 2.8(a) and authenticate and deliver one or more Definitive Notes bearing the same designation as the Definitive Notes endorsed for transfer, registered in the names specified in the assignment described in clause (A) above, in a principal amount equal to the beneficial interest in the Definitive Note surrendered by the transferor. Any purported transfer in violation of the foregoing requirements shall be null and void *ab initio*, and the Indenture Trustee shall not register any such purported transfer and shall not authenticate and deliver such Definitive Notes.

(vi) Other Transfers or Exchanges. In the event that a Restricted Global Note is exchanged for Notes in definitive registered form without interest coupons, pursuant to Section 2.21 hereof, such Notes may be exchanged or transferred for one another only in accordance with such procedures as are substantially consistent with the provisions of clauses (i) through (v) above (including the certification requirements intended to insure that such exchanges or transfers comply with Rule 144A or Regulation S, as the case may be) and as may be from time to time adopted by the Issuer and the Indenture Trustee.

(b) The Indenture Trustee shall not register the exchange of interests in a Term Note or Subordinated Note for a Definitive Note or the transfer of or exchange of a Term

Note or Subordinated Note during the period beginning on any Note Record Date and ending on the next following Payment Date.

(c) If the Term Notes or Subordinated Notes of any Series are listed on the Luxembourg Stock Exchange, the Indenture Trustee shall send to the Issuer upon any transfer or exchange of any Term Note or Subordinated Note information reflected in the copy of the register for such Term Notes or Subordinated Notes maintained by the Note Registrar, as the case may be.

(d) To permit registrations of transfers and exchanges, the Issuer shall execute and the Indenture Trustee shall authenticate Term Notes or Subordinated Notes, subject to such rules as the Indenture Trustee may reasonably require. No service charge to the Term Noteholder or Subordinated Noteholder shall be made for any registration of transfer or exchange (except as otherwise expressly permitted herein), but the Note Registrar may require payment of a sum sufficient to cover any transfer tax or similar government charge payable in connection therewith.

(e) All Term Notes or Subordinated Notes issued upon any registration of transfer or exchange of Term Notes or Subordinated Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Term Notes or Subordinated Notes surrendered upon such registration of transfer or exchange.

(f) Prior to due presentment for registration of transfer of any Term Note or Subordinated Note, the Indenture Trustee, any agent and the Issuer may deem and treat the Person in whose name any Term Note or Subordinated Note is registered (as of the day of determination) as the absolute owner of such Term Note or Subordinated Note for the purpose of receiving payment of principal of and interest on such Term Note or Subordinated Note and for all other purposes whatsoever, whether or not such Term Note or Subordinated Note is overdue, and neither the Indenture Trustee, any agent nor the Issuer shall be affected by notice to the contrary.

(g) Notwithstanding any other provision of this Section 2.12, the typewritten Term Note(s) or Subordinated Note(s) representing Book-Entry Notes for any Series may be transferred, in whole but not in part, only to another nominee of the Clearing Agency for such Series, or to a successor Clearing Agency for such Series selected or approved by the Issuer or to a nominee of such successor Clearing Agency, only if in accordance with this Section 2.12 and Section 2.21.

(h) Unless otherwise specified in the applicable Supplement, each transferee of a Term Note or Subordinated Note shall be deemed to represent and warrant that either (i) it is not, and is not acting on behalf of, any Benefit Plan, or (ii) its acquisition and holding of a Note will be eligible for, and satisfy all requirements of, a United States Department of Labor prohibited transaction class exemption (or, in the case of a purchaser that is a Governmental Plan, will not violate any law substantially similar to the fiduciary responsibility provisions of ERISA or Section 4975 of the Code).

(i) The Indenture Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Term Note or Subordinated Note (including any transfers between or among depositary participants or beneficial owners of interests in any Restricted Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(j) The Issuer has structured this Indenture and the Term Notes and the Subordinated Notes have been (or will be) issued with the intention that the Term Notes and the Subordinated Notes will qualify under applicable tax law as indebtedness and any person acquiring any direct or indirect interest in any Term Notes or any Subordinated Notes agrees, by acceptance of its Term Note or Subordinated Note, to treat the Term Notes or the Subordinated Notes for purposes of United States federal, state and local income tax, franchise tax and any other tax measured by income, as indebtedness and to take no position inconsistent therewith.

Section 2.13. Legending of Term Notes and Subordinated Notes.

Unless otherwise provided for in a Supplement and except as permitted by the following sentence, each Term Note and each Subordinated Note shall bear a legend in substantially the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF CARMEL MOUNTAIN FUNDING TRUST THAT THIS NOTE IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER (UPON REDEMPTION THEREOF OR OTHERWISE), (2) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES TO A NON-U.S. PERSON (AS SUCH TERM IS DEFINED IN REGULATION S OF THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER IN A TRANSACTION IN COMPLIANCE WITH REGULATION S OF THE SECURITIES ACT OR (4) IN A TRANSACTION COMPLYING WITH OR EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE

SECURITIES ACT (SUBJECT IN THE CASE OF THIS CLAUSE (4) TO RECEIPT OF SUCH CERTIFICATES AND OTHER DOCUMENTS AS THE INDENTURE TRUSTEE MAY REQUIRE UNDER THE INDENTURE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE RESALE RESTRICTIONS SET FORTH ABOVE.

EACH PURCHASER REPRESENTS, WARRANTS AND COVENANTS FOR THE BENEFIT OF THE INDENTURE TRUSTEE AND THE ISSUER THAT EITHER (A) SUCH PURCHASER IS NOT AND IS NOT ACTING ON BEHALF OF (I) 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, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE")) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) ANY ENTITY DEEMED TO BE INVESTING "PLAN ASSETS" (WITHIN THE MEANING OF UNITED STATES DEPARTMENT OF LABOR REGULATION 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE UNDER ERISA) OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN, OR (IV) A "GOVERNMENTAL PLAN" (AS DEFINED IN SECTION 3(32) OF ERISA) SUBJECT TO APPLICABLE LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), (EACH OF THE FOREGOING A "BENEFIT PLAN") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL BE ELIGIBLE FOR, AND SATISFY ALL REQUIREMENTS OF, A UNITED STATES DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (OR, IN THE CASE OF A PURCHASER THAT IS A GOVERNMENTAL PLAN, WILL NOT VIOLATE ANY SIMILAR LAW). EACH PURCHASER THAT ACQUIRES A BENEFICIAL INTEREST IN THIS NOTE WILL BE DEEMED TO MAKE THE FOREGOING REPRESENTATION AND WARRANTY.

Upon any transfer, exchange or replacement of Term Notes or Subordinated Notes bearing such legend, or if a request is made to remove such legend on a Term Note or a Subordinated Note,

the Term Notes or Subordinated Notes so issued shall bear such legend, or such legend shall not be removed, as the case may be, unless there is delivered to the Issuer and the Indenture Trustee such satisfactory evidence, which may include an opinion of counsel, as may be reasonably required by the Issuer that neither such legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Regulation S. Upon provision of such satisfactory evidence, the Indenture Trustee, upon receipt of an Issuer Order, shall authenticate and deliver a Term Note or a Subordinated Note that does not bear such legend.

Section 2.14. Replacement Term Notes and Replacement Subordinated Notes.

(a) If (i) any mutilated Term Note or Subordinated Note is surrendered to the Indenture Trustee, or the Indenture Trustee and Issuer receive evidence to their satisfaction of the destruction, loss or theft of any Term Note or Subordinated Note, and (ii) there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Issuer and the Indenture Trustee harmless then, in the absence of notice to the Issuer, the Note Registrar or the Indenture Trustee that such Term Note or Subordinated Note has been acquired by a bona fide purchaser, and provided that the requirements of Section 8-405 of the UCC (which generally permit the Issuer to impose reasonable requirements) are met, the Issuer shall execute and upon receipt of an Issuer Order the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Term Note or Subordinated Note, a replacement Term Note or Subordinated Note; provided, however, that if any such destroyed, lost or stolen Term Note or Subordinated Note, but not a mutilated Term Note or Subordinated Note, shall have become or within seven (7) days shall be due and payable, instead of issuing a replacement Term Note or Subordinated Note, the Issuer may pay such destroyed, lost or stolen Term Note or Subordinated Note when so due or payable without surrender thereof. If, after the delivery of such replacement Term Note or Subordinated Note or payment of a destroyed, lost or stolen Term Note or Subordinated Note pursuant to the proviso to the preceding sentence, a bona fide purchaser of the original Term Note or Subordinated Note in lieu of which such replacement Term Note or Subordinated Note was issued (or in respect of which such payment was made) presents for payment such original Term Note or Subordinated Note, the Issuer and the Indenture Trustee shall be entitled to recover such replacement Term Note or Subordinated Note (or such payment) from the Person to whom it was delivered or any Person taking such replacement Term Note or Subordinated Note from such Person to whom such replacement Term Note or Subordinated Note was delivered or any assignee of such Person, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith.

(b) Upon the issuance of any replacement Term Note or Subordinated Note under this Section 2.14, the Issuer may require the payment by the Holder of such Term Note or Subordinated Note of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee, including attorneys' fees and expenses) connected therewith.

(c) Every replacement Term Note or Subordinated Note issued pursuant to this Section 2.14 in replacement of any mutilated, destroyed, lost or stolen Term Note or

Subordinated Note shall be entitled to all the benefits of this Base Indenture equally and proportionately with any and all other Term Notes or Subordinated Notes duly issued hereunder.

(d) The provisions of this Section 2.14 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Term Notes or Subordinated Notes.

Section 2.15. Treasury Notes.

In determining whether the Term Noteholders or the Subordinated Noteholders of the required principal amount of the Term Notes or Subordinated Notes, as applicable, have concurred in any direction, waiver or consent, Term Notes or Subordinated Notes owned by the Issuer, the Seller or the Servicer or any Affiliate of the Issuer, the Seller or the Servicer shall be considered as though they are not outstanding, except that for the purpose of determining whether the Indenture Trustee shall be fully protected in relying on any such direction, waiver or consent, only Notes of which a Trust Officer of the Indenture Trustee has actually received written notice of such ownership shall be so disregarded. Absent written notice to the Indenture Trustee of such ownership, the Indenture Trustee shall not be deemed to have knowledge of the identity of the individual beneficial owners of the Term Notes or the Subordinated Notes.

Section 2.16. Temporary Notes.

(a) Pending the preparation of Definitive Notes issued under Section 2.21 hereof, the Issuer may prepare and the Indenture Trustee, upon receipt of an Issuer Order, shall authenticate and deliver temporary Term Notes or Subordinated Notes, as applicable, of such Series. Temporary Notes shall be substantially in the form of Definitive Notes of like Series but may have variations that are not inconsistent with the terms of this Base Indenture as the Issuer may determine, as evidenced by its execution of such Term Notes or Subordinated Notes.

(b) If temporary Term Notes are issued pursuant to Section 2.16(a) above, the Issuer will cause Definitive Notes to be prepared without unreasonable delay. After the preparation of Definitive Notes, the temporary Term Notes or Subordinated Notes shall be exchangeable for Definitive Notes upon surrender of the temporary Term Notes or Subordinated Notes at the office or agency of the Issuer to be maintained as provided in Section 8.2, without charge to the Noteholder. Upon surrender for cancellation of any one or more temporary Term Notes or Subordinated Notes, as applicable, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver in exchange therefor a like principal amount of Definitive Notes of authorized denominations. Until so exchanged, the temporary Term Notes or Subordinated Notes, as applicable, shall in all respects be entitled to the same benefits under this Indenture as Definitive Notes.

Section 2.17. Cancellation.

The Issuer may at any time deliver to the Indenture Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Indenture Trustee. The Note Registrar and Note Paying Agent shall forward to the Indenture Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Indenture

Trustee shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation. The Issuer may not issue new Notes to replace Notes that it has redeemed or paid or that have been delivered to the Indenture Trustee for cancellation. All cancelled Notes held by the Indenture Trustee shall be disposed of in accordance with the Indenture Trustee's standard disposition procedures.

Section 2.18. Principal and Interest.

(a) The principal of each Series of Term Notes and Subordinated Notes shall be payable at the times and in the amount set forth in the related Supplement and in accordance with Article 6.

(b) Each Series of Term Notes and Subordinated Notes, as applicable, shall accrue interest as provided in the related Supplement. Such interest with respect to Term Notes and Subordinated Notes shall be payable on each Payment Date for such Series, in accordance with Article 6 and the related Supplement and in accordance with the priority of payments set forth in the Security Agreement.

(c) Except as provided in the following sentence, the Person in whose name any Term Note or Subordinated Note is registered at the close of business on any Note Record Date with respect to a Payment Date for such Term Note shall be entitled to receive the principal and interest payable on such Payment Date notwithstanding the cancellation of such Term Note or Subordinated Note upon any registration of transfer, exchange or substitution of such Term Note or Subordinated Note subsequent to such Note Record Date. Any interest payable at maturity shall be paid to the Person to whom the principal of such Term Note or Subordinated Note is payable.

(d) If the Issuer defaults in the payment of interest on the Term Notes or the Subordinated Notes of any Series, such interest, to the extent paid on any date that is more than five (5) Business Days after the applicable due date, shall cease to be payable to the Persons who were Term Noteholders or Subordinated Noteholders of such Series at the applicable Note Record Date and the Issuer shall pay the defaulted interest in any lawful manner, plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Term Noteholders or Subordinated Noteholders of such Series on a subsequent special record date which date shall be at least five (5) Business Days prior to the payment date, at the rate provided in this Indenture and in the Term Notes or the Subordinated Notes of such Series. The Issuer shall fix or cause to be fixed each such special record date and payment date, and at least 15 days before the special record date, the Issuer (or the Indenture Trustee, in the name of and at the expense of the Issuer) shall mail to Term Noteholders or Subordinated Noteholders of such Series a notice that states the special record date, the related payment date and the amount of such interest to be paid.

Section 2.19. Book-Entry Notes.

(a) For each Series of Term Notes or Subordinated Notes to be issued in registered form, the Issuer shall duly execute the Term Notes or Subordinated Notes, and the Indenture Trustee shall, in accordance with Section 2.7 hereof, authenticate and deliver initially

one or more Restricted Global Notes that (a) shall be registered on the Note Register in the name of DTC or DTC's nominee, and (b) shall bear legends substantially to the following effect:

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. ("CEDE") 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 SINCE THE REGISTERED OWNER HEREOF, CEDE, HAS AN INTEREST HEREIN.

So long as DTC or its nominee is the registered owner or Holder of a Restricted Global Note, DTC or its nominee, as the case may be, will be considered the sole owner or Holder of the Term Notes or Subordinated Notes represented by such Restricted Global Note for purposes of this Base Indenture and such Term Notes or Subordinated Notes. Members of, or participants in, DTC shall have no rights under this Indenture with respect to any Restricted Global Note held on their behalf by DTC, and DTC may be treated by the Issuer, the Indenture Trustee, any agent and any agent of such entities as the absolute owner of such Restricted Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Indenture Trustee, any agent and any agent of such entities from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its agent members, the operation of customary practices governing the exercise of the rights of a Holder of any Term Note or a Holder of any Subordinated Note.

(b) [Reserved].

(c) Title to the Term Notes and Subordinated Notes shall pass only by registration in the Note Register maintained by the Registrar pursuant to Section 2.9.

(d) Any typewritten Term Note or Term Notes and Subordinated Note or Subordinated Notes representing Book-Entry Notes shall provide that they represent the aggregate or a specified amount of outstanding Term Notes or Subordinated Notes from time to time endorsed thereon and may also provide that the aggregate amount of outstanding Term Notes or Subordinated Notes represented thereby may from time to time be reduced to reflect exchanges. Any endorsement of a typewritten Term Note or Term Notes and Subordinated Note or Subordinated Notes representing Book-Entry Notes to reflect the amount, or any increase or decrease in the amount, or changes in the rights of Term Note Owners or Subordinated Note Owners represented thereby, shall be made in such manner and by such Person or Persons as shall be specified therein or in the Issuer Order to be delivered to the Indenture Trustee pursuant to Section 2.7. Subject to the provisions of Section 2.8, the Indenture Trustee shall deliver and redeliver any typewritten Term Note or Term Notes and Subordinated Note or Subordinated

Notes representing Book-Entry Notes in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Issuer Order. Any instructions by the Issuer with respect to endorsement or delivery or redelivery of a typewritten Term Note or Term Notes and Subordinated Note or Subordinated Notes representing the Book-Entry Notes shall be in writing but need not comply with Section 13.3 hereof and need not be accompanied by an Opinion of Counsel.

(e) Unless and until definitive, fully registered Term Notes or Subordinated Notes (each, "Definitive Notes") have been issued to Term Note Owners or Subordinated Note Owners pursuant to Section 2.21:

(i) the provisions of this Section 2.19 shall be in full force and effect;

(ii) the Note Paying Agent, the Note Registrar and the Indenture Trustee may deal with the Clearing Agency and the Clearing Agency Participants for all purposes of this Base Indenture (including the making of payments on the Term Notes and the Subordinated Notes and the giving of instructions or directions hereunder) as the authorized representatives of the Term Note Owners and the Subordinated Note Owners;

(iii) to the extent that the provisions of this Section 2.19 conflict with any other provisions of this Base Indenture, the provisions of this Section 2.19 shall control;

(iv) whenever this Indenture requires or permits actions to be taken based upon instructions or directions of Holders of Term Notes or Holders of Subordinated Notes evidencing a specified percentage of the outstanding principal amount of the Term Notes or Subordinated Notes, as applicable, the applicable Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from the Term Note Owners or Subordinated Note Owners and/or their related Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Term Notes or Subordinated Notes and has delivered such instructions to the Indenture Trustee; and

(f) the rights of Term Note Owners and Subordinated Note Owners shall be exercised only through the applicable Clearing Agency and their related Clearing Agency Participants and shall be limited to those established by law and agreements between such Term Note Owners or Subordinated Note Owners and their related Clearing Agency and/or the Clearing Agency Participants. Unless and until Definitive Notes are issued pursuant to Section 2.21, the applicable Clearing Agencies will make book-entry transfers among their related Clearing Agency Participants and receive and transmit payments of principal and interest on the Term Notes and Subordinated Notes to such Clearing Agency Participants.

Section 2.20. Notices to Clearing Agency.

Whenever notice or other communication to the Term Noteholders or Subordinated Noteholders is required under this Indenture, unless and until Definitive Notes shall have been issued to Term Note Owners or Subordinated Note Owners pursuant to Section 2.21, the Indenture Trustee and the Issuer shall give all such notices and communications

specified herein to be given to Term Noteholders and Subordinated Noteholders to the applicable Clearing Agency for distribution to the Term Note Owners and Subordinated Note Owners.

Section 2.21. Definitive Notes.

(a) Conditions for Issuance. Except as provided in Section 2.12, interests in a Restricted Global Note deposited with DTC pursuant to Section 2.19 shall be transferred to the beneficial owners thereof in the form of Definitive Notes only if (i) DTC notifies the Issuer that it is unwilling or unable to continue as depositary for such Restricted Global Note or at any time ceases to be a "clearing agency" registered under the Exchange Act, and a successor depositary so registered is not appointed by the Issuer within 90 days of such notice, or (ii) after the occurrence of an Event of Default, Note Owners representing beneficial interests aggregating at least a majority of the Outstanding Principal Balance of the Notes advise the DTC in writing that the continuation of a book-entry system through the DTC is no longer in the best interests of the Note Owners, then the DTC has undertaken to notify all Note Owners and the Indenture Trustee of the occurrence of any such event and of the availability of Definitive Notes to Note Owners requesting the same. Unless otherwise specified in the related Indenture Supplement, Definitive Notes shall be issued without coupons in amounts of U.S. $200,000 and integral multiples of U.S. $1,000, subject to compliance with all applicable legal and regulatory requirements.

(b) Issuance. If interests in any Restricted Global Note are to be transferred to the beneficial owners thereof in the form of Definitive Notes pursuant to this Section 2.21, such Restricted Global Note shall be surrendered by DTC to the office or agency of the Transfer Agent located in the Borough of Manhattan, The City of New York, to be so transferred, without charge. The Indenture Trustee shall authenticate and deliver, upon such transfer of interests in such Restricted Global Note, an equal aggregate principal amount of Definitive Notes of authorized denominations; provided, that in the case of an interest in a Restricted Global Note, no such interest will be transferred except upon (i) delivery of a Transfer Certificate substantially in the form of Exhibit A-1 hereto and (ii) compliance with the conditions set forth in Section 2.12. The Definitive Notes transferred pursuant to this Section 2.21 shall be executed, authenticated and delivered only in the denominations specified in paragraph (a) above or in the related Supplement, and Definitive Notes shall be registered in such names as DTC shall direct in writing. The Transfer Agent shall have at least 30 days from the date of its receipt of Definitive Notes and registration information to authenticate and deliver such Definitive Notes. Any Definitive Notes delivered in exchange for an interest in a Restricted Global Note shall, except as otherwise provided by Section 2.14, bear, and be subject to, the legend regarding transfer restrictions set forth in Section 2.14. The Issuer will promptly make available to the Transfer Agent a reasonable supply of Definitive Notes. The Issuer shall bear the costs and expenses of printing or preparing any Definitive Notes.

Section 2.22. CUSIP Numbers.

The Issuer in issuing the Term Notes or Subordinated Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Indenture Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Term Noteholders or Subordinated Noteholders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Term Notes or Subordinated Notes or as contained in any

notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Term Notes or Subordinated Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer will promptly notify the Indenture Trustee of any change in the "CUSIP" numbers.

Section 2.23. Section 3(c)(7) Procedures.

(a) Section 3(c)(7) Reminder Notices.

The Issuer shall send to the Term or Subordinated Noteholders a Section 3(c)(7) reminder notice at the times required under Section 4.1(c) hereof. Without limiting the foregoing, the Issuer shall send a copy of each report referred to in Section 4.1(c) hereof to DTC, with a request that DTC forward each such report to the relevant Clearing Agency Participants for further delivery to beneficial owners of interests in the Restricted Global Notes.

(b) DTC Actions.

The Issuer shall direct DTC to take the following steps in connection with the Restricted Global Notes:

(i) The Issuer shall direct DTC to include the "3c7" marker in DTC's 20 character security descriptor and the 48 character additional descriptor for the Restricted Global Notes in order to indicate that sales are limited to qualified institutional buyers (as defined in Rule 144A) who are qualified purchasers (as defined under Section 3(c)(7) under the Investment Company Act, as amended).

(ii) The Issuer shall direct DTC to cause each physical DTC deliver order ticket delivered by DTC to purchasers to contain DTC's 20 character security descriptor; and shall direct DTC to cause each DTC deliver order ticket delivered by DTC to purchasers in electronic form to contain the "3c7" indicator and a related user manual for participants, which shall contain a description of the relevant restrictions.

(iii) The Issuer shall instruct DTC to send a notice substantially in the form attached as Exhibit B hereto to all Clearing Agency Participants in connection with the offering of the Restricted Global Notes.

(iv) The Issuer shall advise DTC that it is a Section 3(c)(7) issuer and shall request DTC to include the Restricted Global Notes in DTC's "Reference Directory" of Section 3(c)(7) offerings.

(v) The Issuer shall from time to time (upon the request of the Trustee, the Note Registrar or the Collateral Manager) request DTC to deliver to the Issuer a list of all Clearing Agency Participants holding an interest in the Restricted Global Notes.

(c) Bloomberg Screens, etc.

The Issuer shall from time to time request all third party vendors to include on screens maintained by such vendors appropriate legends regarding Rule 144A and Section

3(c)(7) restrictions on the Restricted Global Notes. Without limiting the foregoing, the Issuer shall request Bloomberg, L.P. to include the following on each Bloomberg screen containing information about the Restricted Global Notes:

(i) The "Note Box" on the bottom of the "Security Display" page describing each Restricted Global Note should state: "Iss'd Under 144A/3c7."

(ii) The "Security Display" page should have a flashing red indicator stating "See Other Available Information."

(iii) Such indicator should link to an "Additional Security Information" page, which should state that the Restricted Global Notes "are being offered in reliance on the exemption from registration under Rule 144A to Persons that are both (1) qualified institutional buyers (as defined in Rule 144A) and (2) qualified purchasers (as defined under Section 3(c)(7))".

(d) CUSIP.

The Issuer shall cause each "CUSIP" number obtained for the Restricted Global Notes to have an attached "fixed field" that contains "3c7" and "144A" indicators.

ARTICLE 3.

SECURITY

Section 3.1. Security Interest.

(a) Pursuant to the Security Agreement, in order to secure the Issuer's Obligations, each of the Issuer and the Owner Trustee has pledged, assigned, conveyed, delivered, transferred and set over to the Collateral Agent, for the benefit of the Secured Parties, and has granted to the Collateral Agent, for the benefit of the Secured Parties, a security interest in, all of the Issuer's right, title and interest in and to all of the Collateral assigned to the Collateral Agent pursuant to the Security Agreement.

(b) This grant under the Security Agreement has been made in trust to secure the Issuer's Obligations and to secure compliance with the provisions of the Security Agreement, all as provided in the Security Agreement.

Section 3.2. Stamp, Other Similar Taxes and Filing Fees.

The Issuer shall indemnify and hold harmless the Collateral Agent, the Indenture Trustee and each Term Noteholder or Subordinated Noteholder from any present or future claim for liability for any stamp or other similar tax and any penalties or interest with respect thereto, that may be assessed, levied or collected by any jurisdiction in connection with the Security Agreement, this Indenture or any Collateral. The Issuer shall pay, or reimburse the Collateral Agent and the Indenture Trustee for, any and all amounts in respect of, all search, filing, recording and registration fees, taxes, excise taxes and other similar imposts that may be payable

or determined to be payable in respect of the execution, delivery, performance and/or enforcement of the Security Agreement and this Indenture. The foregoing shall not, however, be deemed to create any obligation whatsoever of the Collateral Agent or the Indenture Trustee to pay any such amounts.

ARTICLE 4.

REPORTS

Section 4.1. Agreement of the Issuer to Provide Reports and Instructions.

(a) Monthly Certificate. On each Determination Date, the Issuer shall forward to the Collateral Agent, each Swap Counterparty, the Indenture Trustee, the Note Paying Agent, the Rating Agencies, and any Enhancement Provider, an Officer's Certificate of the Issuer substantially in the form of Exhibit D (each, a "Monthly Certificate") setting forth, inter alia, the following information (which, in the cases of clauses (i), (ii) and (iii) below, will be expressed as a dollar amount per $1,000 of the Initial Principal Amount of each Series of Term Notes or Subordinated Notes and as a percentage of the outstanding aggregate principal balance of the Term Notes or Subordinated Notes as of such date): (i) for each Series and each class of each Series, the total amount to be paid to Term Noteholders or to Subordinated Noteholders on the next succeeding Payment Date; (ii) for each Series and each class of each Series, the amount of such payment allocable to principal on the Term Notes or the Subordinated Notes; (iii) for each Series and each class of each Series, the amount of such payment allocable to interest on the Term Notes or the Subordinated Notes, as applicable; (iv) for each Series and each class of each Series, to the extent applicable, the amount of Enhancement used or drawn in connection with the distribution to Noteholders of such Series or class on the next succeeding Payment Date, together with the aggregate amount of remaining Enhancement not theretofore used or drawn; and (v) whether, to the knowledge of the Issuer, any Lien exists on any of the Collateral (other than Liens granted pursuant to the Security Agreement and the other Program Documents or permitted thereunder).

(b) Monthly Noteholders' Statement. One Business Day prior to each Payment Date, the Issuer shall furnish to the Collateral Agent, the Swap Counterparties and the Indenture Trustee a Monthly Noteholders' Statement with respect to each Series of Term Notes or Subordinated Notes substantially in the form of Exhibit E.

(c) Reminder to Owners of Notes:

Each owner of the Notes must be a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and a "qualified purchaser" as defined under the Investment Company Act of 1940, as amended, who can represent as follows:

(i) it is not a broker-dealer which owns and invests on a discretionary basis less than $25 million in securities of unaffiliated issuers;

(ii) it is not a participant-directed employee plan such as a 401(k) plan;

(iii) it is acting for its own account or for the account of another who is both a qualified institutional buyer and a qualified purchaser;

(iv) it is not formed for the purpose of investing in the Notes;

(v) it, and each account for which it holds the Notes, will hold at least the authorized minimum denomination therefor; and

(vi) it will provide notice of these transfer restrictions to any transferee from it.

(d) Instructions as to Withdrawals and Payments. The Issuer will furnish, or cause to be furnished, to the Collateral Agent, the Indenture Trustee or the Note Paying Agent, as applicable, an Officer's Certificate to make withdrawals and payments from any accounts specified in a Supplement and to make drawings under any Enhancement, as contemplated herein and in any Supplement. The Indenture Trustee and the Note Paying Agent shall promptly follow any such Officer's Certificate.

ARTICLE 5.

ALLOCATION AND APPLICATION OF COLLECTIONS

Section 5.1. Establishment of Accounts.

To the extent specified in the Supplement with respect to any Series of Term Notes or Subordinated Notes, the Indenture Trustee may establish and maintain one or more accounts to facilitate the proper allocation of Collections in accordance with the terms of such Supplement.

Section 5.2. Collections and Allocations.

Allocations of Collections to Term Noteholders or Subordinated Noteholders will be as specified in the Security Agreement and will be allocated among all Series of Term Notes or Subordinated Notes outstanding as specified in the related Supplements. The Security Agreement specifies that, prior to the occurrence of an Event of Default, the Collateral Agent will, on each Payment Date, apply the funds on deposit in the Collateral Account (up to the amount of Deposited Funds on deposit in the Collateral Account relating to the Interest Period specified in the applicable Supplement for such Payment Date) in accordance with the priority set forth in Section 6.03 of the Security Agreement. Further, following the occurrence of an Event of Default, the Collateral Agent will apply the proceeds of all of the Collateral of the Issuer in the order of priority set forth in Section 7.02(b) of the Security Agreement

Section 5.3. Determination of Monthly Interest.

Monthly interest with respect to each Series of Term Notes or Subordinated Notes shall be determined, allocated and paid in accordance with the procedures set forth in the applicable Supplement.

Section 5.4. Determination of Principal.

Principal with respect to each Series of Term Notes or Subordinated Notes shall be determined, allocated and paid in accordance with the procedures set forth in the applicable Supplement. However, all principal or interest with respect to any Series of Term Notes or Subordinated Notes, as applicable, shall be due and payable no later than the Final Scheduled Payment Date with respect to such Series of Term Notes or Subordinated Notes, as applicable.

[THE REMAINDER OF ARTICLE 5 IS RESERVED AND MAY BE SPECIFIED IN ANY SUPPLEMENT WITH RESPECT TO ANY SERIES.]

ARTICLE 6.

PAYMENTS AND REPORTS TO NOTEHOLDERS

Section 6.1. Payments in General.

(a) On each Payment Date on which a payment (other than as specified in Section 6.1(b) or (c) below) in respect of any Series of Subordinated Notes or Term Notes, as applicable, is to be made, the Note Paying Agent or its designated agent shall, to the extent that it receives funds from the Collateral Agent to make a payment in respect of any Series of Subordinated Notes or Term Notes, as applicable, cause such funds to be deposited in, and credited to, the Payment Account for such Series. On each Payment Date and with respect to each Series of Subordinated Notes or Term Notes, as applicable, entitled to such a payment in accordance with the Security Agreement, the Note Paying Agent or its designated agent shall make payment of funds in the Payment Account for such Series to the Subordinated Noteholders or Term Noteholders, as applicable, on the related Note Record Date. Such payment shall be to each Subordinated Noteholder or Term Noteholder of record of such Series, as applicable, on the preceding Note Record Date based on such Term Noteholder's *pro rata* share of the aggregate Principal Amount of the Subordinated Notes or Term Notes of such Series, as applicable, held by such Subordinated Noteholder or Term Noteholder; *provided*, *however*, that, the final principal payment due on a Term Note or Subordinated Note shall only be paid to the Holder of a Term Note or Subordinated Note on due presentment of such Term Note or Subordinated Note for cancellation in accordance with the provisions of the Term Note or Subordinated Note.

(b) Unless otherwise specified in the applicable Indenture Supplement, on each Payment Date on which a payment of Carry-Over Interest Shortfall in respect of any Series of Subordinated Notes is to be made, the Note Paying Agent or its designated agent shall, to the extent it receives funds from the Collateral Agent to pay Carry-Over Interest Shortfall in respect of such Series of Subordinated Notes, cause such funds to be deposited in, and credited to, the Payment Account for such Series of Subordinated Notes. On each Payment Date and with respect to each Series of Subordinated Notes entitled to a payment of Carry-Over Interest Shortfall in accordance with the Security Agreement, the Note Paying Agent or its designated agent shall make payment of funds in the related Payment Account to the Subordinated Noteholders of such Series on the related Note Record Date. With respect to each Series of Subordinated Notes, the amount of funds in respect of Carry-Over Interest Shortfall allocated to

each Series of Subordinated Notes shall be allocated *pro rata* in accordance with the Principal Amount Charge-Off of each such Series of Subordinated Notes.

(c) Unless otherwise specified by the Clearing Agency or in the applicable Supplement, amounts distributable to a Term Noteholder or Subordinated Noteholder pursuant to this Section 6.1(c) shall be payable by wire transfer of immediately available funds released by the Paying Agent from the Payment Account for credit to the account designated in writing by such Term Noteholder at least 15 days prior to the relevant Payment Date.

(d) Unless otherwise specified in the applicable Indenture Supplement, on each Payment Date on which a payment of Principal Amount in respect of any Series of Subordinated Notes or Term Notes is to be made, the Note Paying Agent or its designated agent shall, to the extent it receives funds from the Collateral Agent to pay Principal Amount in respect of any Series of Subordinated Notes or Term Notes, as applicable, cause such funds to be deposited in, and credited to, the Payment Account for that Series of Subordinated Notes or Term Notes, as applicable. On each Payment Date and with respect to each Series of Subordinated Notes or Term Notes, as applicable, entitled to a distribution of Principal Amount in accordance with the Security Agreement, the Note Paying Agent or its designated agent shall make payment of funds in the Payment Account for that Series of Subordinated Notes or Term Notes, as applicable, to the applicable Subordinated Noteholders or Term Noteholders on the related Note Record Date. With respect to each Series of Subordinated Notes or Term Notes, as applicable, the amount of funds in respect of Principal Amount allocated to each Series of Subordinated Notes or Term Notes, as applicable, shall be allocated *pro rata* in accordance with the Principal Amount of each such Series of Subordinated Notes or Term Notes, as applicable, outstanding in reduction of the Principal Amount of such Series of Subordinated Notes or Term Notes, as applicable.

(e) On each Payment Date, the Indenture Trustee or its designated agent shall, or shall have appointed the Note Paying Agent to, send to the Term Noteholders and Subordinated Noteholders the Servicer Report.

Section 6.2. **[Reserved]**.

Section 6.3. Optional Repurchase of Notes.

Unless otherwise specified in the related Indenture Supplement, in connection with the termination of the Issuer's Secured Liquidity Note program (other than through the replacement thereof with a facility having substantially similar terms (other than interest rate spreads)) and upon satisfaction of the requirements included in the Program Documents (including the payment of any amounts due and owing to the Senior Secured Parties), (a) on any Payment Date, the Issuer shall have the option to purchase all outstanding Term Notes and Subordinated Notes of all Series, in whole but not in part, at a purchase price (determined after giving effect to any payment of principal and interest on such Payment Date) equal to (unless otherwise specified in the related Indenture Supplements) the aggregate outstanding Principal Amount of the Term Notes and Subordinated Notes of all Series on such Payment Date, plus accrued and unpaid interest on the unpaid aggregate Principal Amount of the Term Notes and Subordinated Notes of all Series (calculated at the Term Note Rate or Subordinated Note Rate of

each such Series, as applicable) through the day immediately prior to the date of such purchase plus, if provided for in the related Indenture Supplements, any aggregate premium payable at such time plus the aggregate amount of any Interest Shortfalls payable in respect of all outstanding Term Notes and Subordinated Notes of all Series plus the aggregate amount of all Principal Amount Charge-Offs that have not been reinstated unless each Subordinated Noteholder waives the payment of such Principal Amount Charge-Offs. The Issuer shall give the Indenture Trustee and the Term Noteholders or Subordinated Noteholders not more than sixty (60) nor less than thirty (30) days' prior written notice of the date on which the Issuer intends to exercise such option to purchase. Not later than 12:00 noon, New York City time, on the Business Day prior to such Payment Date with respect to each Series of Term Notes or Subordinated Notes outstanding, the Issuer shall deposit an amount of the purchase price equal to the outstanding aggregate Principal Amount of all Term Notes or Subordinated Notes, as applicable, of such Series on such Payment Date and the amount of accrued and unpaid interest with respect to such Term Notes or Subordinated Notes, any applicable Interest Shortfall and any applicable premium into the related Payment Account for such Series in immediately available funds. The funds deposited into such Payment Account or distributed to the Note Paying Agent will be passed through in full to the Term Noteholders or the Subordinated Noteholders on such Payment Date. Any Series of Term Notes or Subordinated Notes or any Class of any Series may be subject to any additional optional repurchase provision provided in the related Indenture Supplement for such Series.

Section 6.4. Monthly Noteholders' Statement; Annual Noteholders' Tax Statement.

(a) On each Payment Date, the Note Paying Agent shall forward to each Term Noteholder of record or Subordinated Noteholder of record of each outstanding Series the Monthly Noteholders' Statement (substantially in the form of Exhibit E hereto) prepared by the Servicer on behalf of the Issuer with respect to such Series of Term Notes or Subordinated Notes, with a copy to the Rating Agencies and the Indenture Trustee (if other than the Note Paying Agent) and any Enhancement Provider with respect to such Series.

The Indenture Trustee will make the statements referred to above (and, at its option, any additional files containing the same information in an alternative format) available each month to Term Noteholders or Subordinated Noteholders and other interested parties via the Indenture Trustee's website, which is presently located at https://www.tss.db.com/invr. For private transactions, Noteholders will be given a user-ID and password to access the website upon adequate proof of ownership as approved by the Indenture Trustee or as furnished by the Servicer. Persons that are unable to use the above website are entitled to have a paper copy mailed to them via first class mail by calling the Indenture Trustee at the Corporate Trust Office. The Indenture Trustee shall have the right to change the way such statements are distributed in order to make such distribution more convenient and/or more accessible to the above parties and to the Term Noteholders or Subordinated Noteholders. The Indenture Trustee shall provide timely and adequate notification to all of the above parties and to the Term Noteholders or Subordinated Noteholders regarding any such change.

(b) On or before January 31 of each calendar year, beginning with calendar year 2005, the Note Paying Agent shall furnish to each Person who at any time during the

preceding calendar year was a Term Noteholder or Subordinated Noteholder a statement prepared by the Issuer containing the information which is required to be contained in the Monthly Noteholders' Statements with respect to each Series of Term Notes or Subordinated Notes aggregated for such calendar year or the applicable portion thereof during which such Person was a Term Noteholder or Subordinated Noteholder, together with such other customary information as the Issuer deems necessary or desirable to enable the Term Noteholders or Subordinated Noteholders to prepare their tax returns (each such statement, an "Annual Noteholders' Tax Statement"). Such obligations of the Issuer to prepare and the Note Paying Agent to distribute the Annual Noteholders' Tax Statement shall be deemed to have been satisfied to the extent that substantially comparable information shall be provided by the Note Paying Agent pursuant to any requirements of the Code as from time to time in effect.

ARTICLE 7.

REPRESENTATIONS AND WARRANTIES

The Issuer hereby represents and warrants, for the benefit of the Collateral Agent, the Indenture Trustee, the Term Noteholders and Subordinated Noteholders, as follows as of each Series Closing Date:

Section 7.1. Existence and Power.

The Issuer (a) is a statutory trust duly formed, validly existing and in good standing under the laws of the State of Delaware, (b) is duly qualified to do business as a foreign statutory trust and in good standing under the laws of each jurisdiction where the character of its property, the nature of its business or the performance of its obligations make such qualification necessary, and (c) has all powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and for purposes of the transactions contemplated by this Indenture and the other Program Documents.

Section 7.2. Trust and Governmental Authorization.

The execution, delivery and performance by the Issuer of this Base Indenture, the related Supplement and the other Program Documents to which it is a party (a) is within the Issuer's powers, has been duly authorized by all necessary action, (b) requires no action by or in respect of, or filing with, any Governmental Authority which has not been obtained and (c) does not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of trust of the Issuer or the Trust Agreement or of any law or governmental regulation, rule, contract, agreement, judgment, injunction, order, decree or other instrument binding upon the Issuer or any of its Assets or result in the creation or imposition of any Lien on any Asset of the Issuer, except for Liens created by the Security Agreement or the other Program Documents. This Indenture and each of the other Program Documents to which the Issuer is a party have been executed and delivered by a duly authorized signatory of the Issuer.

Section 7.3. Binding Effect.

This Indenture and each other Program Document, and each Term Note or Subordinated Note when executed and delivered in accordance with this Indenture, is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity, including without limitation (i) the possible unavailability of specific performance, injunctive relief or any other equitable remedy, (ii) concepts of materiality, reasonableness, good faith and fair dealing, and (iii) that certain remedial or procedural provisions contained in this Indenture may be limited or rendered unenforceable by applicable law, but such limitations do not make the remedies and procedures that are afforded to the Indenture Trustee inadequate for the practical realization of the substantive benefits purported to be provided by this Indenture).

Section 7.4. Financial Information; Financial Condition.

All balance sheets, all statements of operations, of shareholders' equity and of cash flow, and other financial data (other than projections) which have been or shall hereafter be furnished by the Issuer to the Indenture Trustee and the Rating Agencies pursuant to Section 8.3 have been and will be prepared in accordance with GAAP (to the extent applicable) and do and will present fairly the financial condition of the entities involved as of the dates thereof and the results of their operations for the periods covered thereby, subject, in the case of all unaudited statements, to normal year-end adjustments and lack of footnotes and presentation items.

Section 7.5. Litigation.

Except as disclosed on Schedule 7.5 hereto (which schedule may be updated with the consent of the Swap Counterparty and if a Rating Agency Confirmation is received), there is no action, suit, proceeding or investigation pending, or to its knowledge, threatened against the Issuer which, either in any one instance or in the aggregate, would result in any material adverse change in the business, operations, financial condition, properties or assets of the Issuer, or in any material impairment of the right or ability of the Issuer to carry on its business substantially as now conducted, or would result in any material liability on the part of the Issuer, or which would draw into question the validity of this Indenture, any Supplement or any Program Document or the Mortgage Loans or of any action taken or to be taken in connection with the obligations of the Issuer contemplated herein, or which would be likely to impair materially the ability of the Issuer to perform under the terms of this Indenture, or any Supplement to which it is a party.

Section 7.6. Compliance with ERISA.

Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Pension Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Pension Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under

Section 412 of the Internal Revenue Code in respect of any Pension Plan, (ii) failed to make any contribution or payment to any Pension Plan or Multiemployer Plan, or made any amendment to any Pension Plan, which in any such case has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 7.7. Tax Filings and Expenses.

The Issuer has filed all federal, state and local tax returns and all other tax returns which, to the knowledge of the Issuer, are required to be filed (whether informational returns or not), and has paid all taxes due, if any, pursuant to said returns or pursuant to any assessment received by the Issuer, except such taxes, if any, as are being contested in good faith and for which adequate reserves have been set aside on its books. The Issuer has paid all fees and expenses required to be paid by it in connection with the conduct of its business, the maintenance of its existence and its qualification as a foreign trust authorized to do business in each state in which it is required to so qualify, except where the failure to pay any such fees and expenses is not reasonably likely to have a Material Adverse Effect.

Section 7.8. Full Disclosure.

All certificates, reports, statements, documents and other information furnished to the Indenture Trustee by or on behalf of the Issuer pursuant to any provision of this Indenture or any Program Document, or in connection with or pursuant to any amendment or modification of, or waiver under, this Indenture or any Program Document, shall, at the time the same are so furnished, be complete and correct to the extent necessary to give the Indenture Trustee true and accurate knowledge of the subject matter thereof in all material respects, and the furnishing of the same to the Indenture Trustee shall constitute a representation and warranty by the Issuer made on the date the same are furnished to the Indenture Trustee to the effect specified herein.

Section 7.9. Investment Company Act; Trust Indenture Act; Securities Act.

The Issuer is not, and is not controlled by, an "investment company" within the meaning of, and is not required to register as an "investment company" under, the Investment Company Act. It is not necessary in connection with the offer, issuance and sale of the Notes under the circumstances contemplated in the related Supplement to register any security under the Securities Act or to qualify any indenture under the Trust Indenture Act.

Section 7.10. Regulations T, U and X.

The proceeds of any Term Notes or any Subordinated Notes will not be used to purchase or carry any "margin stock" (as defined or used in the regulations of the Board of Governors of the Federal Reserve System, including Regulations T, U and X thereof). The Issuer is not engaged in the business of extending credit for the purpose of purchasing or carrying any margin stock.

Section 7.11. No Consent.

No consent, action by or in respect of, approval or other authorization of, or registration, declaration or filing with, any Governmental Authority or other Person is required for the valid execution and delivery of this Indenture or any Supplement or for the performance of any of the Issuer's obligations hereunder or thereunder or under any other Program Document other than such consents, approvals, authorizations, registrations, declarations or filings as shall have been obtained by the Issuer prior to the date hereof or as contemplated in Section 7.14.

Section 7.12. Solvency.

Both before and after giving effect to the transactions contemplated by this Indenture and the other Program Documents, the Issuer is solvent within the meaning of the Bankruptcy Code and the Issuer is not the subject of any voluntary or involuntary case or proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy or insolvency law and no Event of Bankruptcy has occurred with respect to the Issuer.

Section 7.13. Subsidiary.

The Issuer has no subsidiaries and owns no capital stock of, or other interest in, any other Person, and during the term of the Indenture, the Issuer shall not acquire or otherwise come to have one or more subsidiaries without the prior consent of the Indenture Trustee (on behalf of the Holders of the Term Notes or the Subordinated Notes).

Section 7.14. Security Interests.

(a) All action necessary (including the filing of UCC-1 financing statements for the Collateral Agent's Lien for the benefit of the Secured Parties) to protect and perfect the Collateral Agent's security interest in the Collateral now in existence and hereafter acquired or created has been duly and effectively taken.

(b) No security agreement, financing statement, equivalent security or lien instrument or continuation statement listing the Issuer as debtor covering all or any part of the Collateral is on file or of record in any jurisdiction, except such as may have been filed, recorded or made by the Issuer in favor of the Collateral Agent on behalf of the Secured Parties in connection with the Security Agreement.

(c) The Security Agreement constitutes a valid and continuing Lien on the Collateral in favor of the Collateral Agent on behalf of the Secured Parties, which Lien will be prior to all other Liens (other than Permitted Liens and as otherwise permitted in the Security Agreement), will be enforceable as such as against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. All action necessary to perfect such prior security interest has been duly taken.

(d) The Issuer's principal place of business and chief executive office shall be at: c/o U.S. Bank Trust National Association, as Owner Trustee, 300 Delaware Avenue, 8th Floor, Wilmington, Delaware 19801, Attention: Corporate Trust Administration, and the place where its records concerning the Collateral are kept is at: c/o Accredited Home Lenders, Inc., 15090 Avenue of Science, San Diego, California 92128. The Issuer does not transact, and has not transacted, business under any other name.

(e) All authorizations in this Indenture for the Collateral Agent or the Indenture Trustee to endorse checks, instruments and securities and to execute, deliver and file financing statements, continuation statements, security agreements, and other instruments with respect to the Collateral are powers coupled with an interest and are irrevocable.

Section 7.15. Offering Memorandum.

No offering memorandum or information circular used by the Issuer in connection with the offer or sale of the Term Notes or Subordinated Notes contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading.

Section 7.16. Non-Existence of Other Agreements.

As of the date of the issuance of the first Series of Term Notes or Subordinated Notes, other than as permitted by Section 8.23 hereof (i) the Issuer is not a party to any contract or agreement of any kind or nature and (ii) the Issuer is not subject to any obligations or liabilities of any kind or nature in favor of any third party, including, without limitation, Contingent Obligations.

Section 7.17. Eligible Mortgage Loans.

Based upon the representation of the Seller in the Mortgage Loan Purchase and Servicing Agreement, each Mortgage Loan purchased by the Issuer is an Eligible Loan.

Section 7.18. Other Representations.

All representations and warranties of the Issuer made in each other Program Document to which it is a party are true and correct and are repeated herein as though fully set forth herein.

Section 7.19. Special Purpose Entity.

The Issuer is a special purpose entity formed exclusively to enter into the Program Documents and the transactions contemplated thereby or incident thereto.

ARTICLE 8.

COVENANTS

Section 8.1. Payment of Term Notes or Subordinated Notes.

The Issuer shall pay the principal of (and premium, if any) and interest on any Series of Term Notes or Subordinated Notes pursuant to the provisions of this Indenture and any applicable Supplement. Principal and interest shall be considered paid on the date due if the Note Paying Agent holds on that date money designated for and sufficient to pay all principal and interest then due.

Section 8.2. Maintenance of Office or Agency.

The Issuer will maintain an office or agency (which may be an office of the Indenture Trustee, Note Registrar or co-registrar) where Term Notes and Subordinated Notes may be surrendered for registration of transfer or exchange, where notices and demands to or upon the Issuer in respect of the Term Notes and Subordinated Notes and this Base Indenture may be served, and where, at any time when the Issuer is obligated to make a payment of principal and premium upon the Term Notes or Subordinated Notes, the applicable Term Notes or Subordinated Notes may be surrendered for payment. The Issuer will give prompt written notice to the Indenture Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Indenture Trustee.

The Issuer may also from time to time designate one or more other offices or agencies where the Term Notes and/or Subordinated Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Issuer will give prompt written notice to the Indenture Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Issuer hereby designates the Corporate Trust Office of the Indenture Trustee as one such office or agency of the Issuer.

Section 8.3. Information.

The Issuer will:

(a) promptly provide the Indenture Trustee, each Swap Counterparty and the Rating Agencies with all financial and operational information with respect to the Program Documents or the Issuer as the Indenture Trustee may reasonably request; and will promptly provide the Rating Agencies, the Collateral Agent, each Swap Counterparty, the Secured Liquidity Note Dealers and the Indenture Trustee with all statements delivered under the Interest Rate Swaps, the Security Agreement, the Mortgage Loan Purchase and Servicing Agreement, the Term Notes and the Subordinated Notes and within 105 days after the end of each Fiscal Year of the Seller and the Performance Guarantor, the consolidated audited annual financial statements

of each of the Seller and the Performance Guarantor and within 45 days of each quarter end (other than the last quarter of each Fiscal Year) the consolidated unaudited financial statements of Performance Guarantor (which may be 10-Q reports);

(b) [Reserved]

(c) provide the Indenture Trustee, on behalf of the Term Noteholders or the Subordinated Noteholders, and each Swap Counterparty with access to the books and records of the Issuer and the books and records of the Servicer, Custodian and/or the Collateral Agent relating to the assets of the Issuer, without charge, but only (i) upon the reasonable written request of the Indenture Trustee or each Swap Counterparty (for which purposes one Business Day shall be deemed reasonable during the occurrence and continuation of an Event of Default), (ii) during normal business hours, (iii) subject to the relevant party's normal security and confidentiality procedures and (iv) at offices designated by the relevant party;

(d) provide the Rating Agencies, the Indenture Trustee, the Secured Liquidity Note Dealers, the Depositary, each Swap Counterparty and the Collateral Agent with any information that it may have with respect to an Event of Default hereunder or provide written notice to the Indenture Trustee of any default or event of default under any other agreement between the Issuer and any of the Seller, the Servicer, each Swap Counterparty, the Holders of the Term Notes, the Holders of the Subordinated Notes or the Collateral Agent as promptly as practicable after the Issuer becomes aware of the occurrence of any Event of Default or other default or event of default;

(e) promptly furnish to the Collateral Agent, each Swap Counterparty, the Indenture Trustee (on behalf of the Holders of the Term Notes and the Holders of the Subordinated Notes) and the Secured Liquidity Note Dealers after receipt thereof copies of all written communications received from the Rating Agencies with respect to the Term Notes and the Subordinated Notes;

(f) promptly upon its knowledge thereof give written notice to the Indenture Trustee (on behalf of the Holders of the Term Notes and the Holders of the Subordinated Notes), each Swap Counterparty and the Rating Agencies of the existence of any litigation against the Issuer;

(g) give prompt written notice to the Indenture Trustee (on behalf of the Holders of the Term Notes and the Holders of the Subordinated Notes), each Swap Counterparty, the Rating Agencies, the Collateral Agent (on behalf of the Holders of the Secured Liquidity Notes and Extended Notes) and the Secured Liquidity Note Dealers of any material change to the certificate of trust or Trust Agreement of the Issuer; and

(h) provide, on or prior to June 30 of each year, to the Indenture Trustee and each Swap Counterparty a certificate of the Issuer certifying that (i) the ratings assigned by the Rating Agencies in respect of any outstanding Series of Term Notes or Subordinated Notes have not been withdrawn or downgraded since the date hereof, and (ii) no Rating Agency has determined that the amount of Enhancement for any outstanding Series of Term Notes must be increased in order to maintain the then current rating of such Series or, if any Rating Agency has

made such a determination, the amount of additional Enhancement that would be required in order to maintain such current rating. Delivery of such reports, information and documents to Indenture Trustee and each Swap Counterparty under this section is for informational purposes only and the Indenture Trustee's and each Swap Counterparty's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants.

Section 8.4. Payment of Obligations.

The Issuer will pay and discharge in a timely manner in accordance with the terms of the Program Documents, at or before maturity, all of its respective material obligations and liabilities, including, without limitation, tax liabilities and other governmental claims, except where the same may be contested in good faith by appropriate proceedings, will maintain, in accordance with GAAP, reserves as appropriate for the accrual of any of the same, and will comply in all material respects with its obligations in the Program Documents.

Section 8.5. Conduct of Business and Maintenance of Existence.

The Issuer will maintain its existence as a statutory trust validly existing and in good standing under the laws of the State of Delaware and duly qualified as a foreign trust licensed under the laws of each state in which the failure to so qualify would have a material adverse effect on the business and operations of the Issuer.

Section 8.6. Compliance with Laws.

The Issuer will comply in all respects with all Requirements of Law and all applicable laws, ordinances, rules, regulations, and requirements of Governmental Authorities (including, without limitation, ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and where such noncompliance would not materially and adversely affect the condition, financial or otherwise, operations, performance, properties or prospects of the Issuer or its ability to carry out the transactions contemplated in this Indenture and each other Program Document; provided, however, such noncompliance will not result in a Lien (other than a Permitted Lien) on any Assets of the Issuer.

Section 8.7. Inspection of Property, Books and Records.

The Issuer will keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its Assets, business and activities in accordance with GAAP; and will permit the Indenture Trustee to visit and inspect any of its properties, to examine and make abstracts from any of its books and records and to discuss its affairs, finances and accounts with its representatives, employees and independent public accountants, all at such reasonable times upon reasonable notice and as often as may reasonably be requested.

Section 8.8. Compliance with Program Documents.

The Issuer will perform and comply with each and every obligation, covenant and agreement required to be performed or observed by it in or pursuant to this Indenture and each other Program Document to which it is a party and will not take any action which would permit any party to have the right to refuse to perform any of its respective obligations under any Program Document.

Section 8.9. Notice of Defaults.

(a) Promptly upon becoming aware of any Potential Event of Default or Event of Default under this Indenture, the Issuer shall give the Indenture Trustee, each Swap Counterparty, any Secured Liquidity Note Dealer, the Collateral Agent, each Enhancement Provider, and the Rating Agencies written notice thereof, together with a certificate of the Issuer setting forth the details thereof and any action with respect thereto taken or contemplated to be taken by the Issuer.

(b) Promptly upon becoming aware of any default under any Program Document other than this Indenture, the Issuer shall give the Indenture Trustee, each Swap Counterparty, any Secured Liquidity Note Dealer, the Collateral Agent, each Enhancement Provider, and the Rating Agencies written notice thereof.

Section 8.10. Notice of Material Proceedings.

Promptly upon becoming aware thereof, the Issuer shall give the Indenture Trustee, each Swap Counterparty and the Rating Agencies written notice of the commencement or existence of any proceeding by or before any Governmental Authority against or affecting the Issuer which is reasonably likely to have a material adverse effect on the business, condition (financial or otherwise), results of operations, properties or performance of the Issuer or the ability of the Issuer to perform its obligations under this Base Indenture or under any other Program Document to which it is a party.

Section 8.11. Further Requests.

The Issuer will promptly furnish to the Indenture Trustee, each Swap Counterparty, the Collateral Agent, each Enhancement Provider, and the Rating Agencies such other information as, and in such form as, the Indenture Trustee or the Collateral Agent or such Enhancement Provider or the Rating Agencies may reasonably request in connection with the transactions contemplated hereby.

Section 8.12. Further Assurances.

(a) The Issuer shall do such further acts and things, and execute and deliver to the Indenture Trustee, the Collateral Agent, the Required Term Noteholders or the Required Subordinated Noteholders such additional assignments, agreements, powers and instruments, as required or as the Indenture Trustee, the Collateral Agent, the Required Term Noteholders or the Required Subordinated Noteholders reasonably determines to be necessary to carry into effect the purposes of this Indenture or the other Program Documents or to better assure and confirm

unto the Indenture Trustee, the Collateral Agent, the Term Noteholders or the Subordinated Noteholders their rights, powers and remedies hereunder including, without limitation, the filing of any financing or continuation statements under the UCC in effect in any jurisdiction with respect to the liens and security interests granted hereby or under the Security Agreement. The Issuer also hereby acknowledges that the Collateral Agent has the right but not the obligation to file any such financing statement or continuation statement without the signature of the Issuer to the extent permitted by applicable law. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, chattel paper or other instrument, such note, chattel paper or instrument shall be deemed to be held in trust and immediately pledged and physically delivered to the Collateral Agent hereunder, and shall, subject to the rights of any Person in whose favor a prior Lien has been perfected, be duly endorsed in a manner satisfactory to the Collateral Agent and delivered to the Collateral Agent promptly. Without limiting the generality of the foregoing provisions of this Section 8.12(a), the Issuer shall take all actions that are required to maintain the security interest of the Collateral Agent on behalf of the Secured Parties in the Collateral pledged pursuant to the Security Agreement as a perfected security interest subject to no prior Liens, including, without limitation filing all UCC financing statements, continuation statements and amendments thereto necessary to achieve the foregoing. The Issuer further agrees that it will not, without the satisfaction of the Rating Agency Confirmation Condition and without prior written notice to the Enhancement Providers, if applicable, and, after the Senior Notes have been paid in full, the prior written consent of the Required Subordinated Noteholders, exercise any right, remedy, power or privilege available to it with respect to any obligor under the Collateral, take any action to compel or secure performance or observance by any obligor of its obligations to the Issuer, or give any consent, request, notice, direction, approval, extension or waiver with respect to any obligor, except as otherwise expressly permitted by the Program Documents.

(b) The Issuer will warrant and defend the Collateral Agent's right, title and interest in and to the Collateral and the income, distributions and proceeds thereof, for the benefit of the Collateral Agent on behalf of the Secured Parties, against the claims and demands of all Persons whomsoever.

(c) The Issuer will provide to the Collateral Agent and the Indenture Trustee, no more frequently than annually on the anniversary of the Closing Date, an Opinion of Counsel to the effect that no UCC financing or continuation statements are required to be filed with respect to any of the Collateral in which a security interest may be perfected by the filing of UCC financing statements.

Section 8.13. Certain Documents.

The Issuer will not take any action that would permit (i) the Seller, the Servicer or the Performance Guarantor to refuse to perform any of their respective obligations under the Program Documents or (ii) the Depositary to refuse to perform its obligations under any Program Documents to which it is a party. Unless an Early Accumulation Event has occurred and there are no Senior Notes outstanding, the Issuer will not terminate the Secured Liquidity Note Dealer Agreement or the Depositary Agreement before entering into a secured liquidity note dealer agreement or depositary agreement, as the case may be, which is substantially similar to the Secured Liquidity Note Dealer Agreement or the Depositary Agreement, as the case may be.

Section 8.14. Liens.

The Issuer will not create, incur, assume or permit to exist any Lien upon any of its Assets (including the Collateral), other than (i) Liens in favor of the Collateral Agent for the benefit of the Secured Parties, (ii) Permitted Liens, (iii) liabilities for services supplied or furnished to the Issuer (including reasonable accountants' and attorneys' fees).

Section 8.15. Other Indebtedness.

The Issuer will not create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness other than (i) Indebtedness hereunder and (ii) Indebtedness permitted under any other Program Document.

Section 8.16. Mergers.

The Issuer will not merge or consolidate with or into any other Person.

Section 8.17. Sales of Assets.

The Issuer will not sell, lease, transfer, liquidate or otherwise dispose of any Assets, except as contemplated by the Program Documents.

Section 8.18. Capital Expenditures.

The Issuer will not make any expenditure (by long-term or operating lease or otherwise) for capital assets (both realty and personalty).

Section 8.19. Dividends.

The Issuer shall not make any distributions to any holders of its equity interests without the consent of the Indenture Trustee, acting at the written direction of the Required Term Noteholders or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders, except as provided under the Program Documents, the Senior Notes and the Subordinated Notes.

Section 8.20. Name.

The Issuer will neither (a) change the location of its organization (within the meaning of the applicable UCC), (b) change its name, (c) change its identity or jurisdiction of organization nor (d) become bound as debtor under Section 9-203(d) of the UCC by a security agreement previously entered into by another person or entity, in each case, without prior written notice to the Depositary, the Indenture Trustee and the Collateral Agent sufficient to allow the Servicer to make all filings (including filings of financing statements on form UCC-1) and recordings necessary to maintain the perfection and priority of the interest of the Collateral Agent on behalf of the Secured Parties in the Collateral pursuant to the Security Agreement. In the event that the Issuer desires to take any action specified in the preceding sentence, the Issuer will make any required filings and prior to actually taking such action, and the Issuer will deliver to the Collateral Agent and the Indenture Trustee (i) an Officer's Certificate and an Opinion of

Counsel confirming that all required filings have been made to continue the first priority perfected interest of the Collateral Agent on behalf of the Secured Parties in the Collateral in respect of such change and (ii) copies of all such required filings with the filing information duly noted thereon by the office in which such filings were made.

Section 8.21. Organizational Documents.

The Issuer will not amend any of its organizational documents, including its certificate of trust or Trust Agreement, unless, prior to such amendment, each Rating Agency confirms that after such amendment the Rating Agency Confirmation Condition will be met and the Swap Counterparties consent to such amendment; provided, however, that the Issuer may amend its organizational documents, including its certificate of trust or Trust Agreement, without the consent of the Swap Counterparties for one or more of the following purposes: (A) to add to the covenants and agreements pursuant to the organizational documents for the benefit of the Holders of the Senior Notes; (B) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the organizational documents or in any amendment to the organizational documents; or (C) to add such provisions with respect to matters or questions arising under the organizational documents as may be necessary or desirable and not inconsistent with the organizational documents; provided, however, that such action shall not adversely affect in any material respect the interests of any Secured Party; provided, further, that such action will be deemed not to materially and adversely affect the interests of any Secured Party if the party requesting such action receives (1) an Officer's Certificate of the Issuer certifying that such action will not adversely affect in any material respect the interests of any Secured Party and (2) an Opinion of Counsel to the effect that such action will not adversely affect in any material respect the interest of any Secured Party or Rating Agency Confirmation with respect to such action; provided, finally, that Rating Agency Confirmation shall be required for any material amendment. The Issuer will provide the Swap Counterparties ten (10) days' prior written notice of any amendment to any of its organizational documents.

Section 8.22. Investments.

The Issuer will not make, incur, or suffer to exist any loan, advance, guarantee, extension of credit or other investment in any Person other than pursuant to the Program Documents and with respect to Eligible Investments and, in addition, without limiting the generality of the foregoing, the Issuer will not direct the Collateral Agent or the Indenture Trustee to make any Eligible Investments on the Issuer's behalf that would have the effect of causing the Issuer to be an "investment company" within the meaning of the Investment Company Act.

Section 8.23. No Other Agreements.

The Issuer will not (a) enter into or be a party to any agreement or instrument other than any Program Document, agreements entered into in the ordinary course of its business, any documents related to any Enhancement or documents and agreements incidental thereto or (b) except as provided for in Section 12.1 or 12.2, amend, modify or waive any provision of any Program Document to which it is a party, or (c) give any approval or consent or permission provided for in any Program Document, except as permitted in Article 12.

Section 8.24. Other Business.

The Issuer will not engage in any business or enterprise or enter into any transaction other than (i) as contemplated by the Program Documents or (ii) activities related to or incidental to any of the foregoing.

Section 8.25. Term Notes or Subordinated Notes.

The Issuer shall not issue any Term Notes or Subordinated Notes to the Seller, any Affiliate of the Seller or any trust or other entity to which the Seller or any Affiliate of the Seller is a depositor or servicer bearing interest (or at a discount) in excess of a commercially reasonable rate.

Section 8.26. Rule 144A Information Requirement.

For so long as any of the Term Notes or the Subordinated Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, make available to any Term Noteholder or Subordinated Noteholder in connection with any sale thereof and any prospective purchaser of Term Notes or Subordinated Notes from such Term Noteholder or Subordinated Noteholder in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Section 8.27. Use of Proceeds of Term Notes or Subordinated Notes.

The Issuer shall use the proceeds of Term Notes and Subordinated Notes solely for one or more of the following purposes: (a) to pay the Issuer's Obligations when due, in accordance with the Security Agreement, (b) to acquire Eligible Loans from the Seller and (c) to make required deposits to the Reserve Fund.

Section 8.28. Program Document Information.

The Issuer shall, or shall cause the Seller or Servicer to, provide the Indenture Trustee with copies of all reports, notices, statements and certificates delivered under the Program Documents, and any other information that the Indenture Trustee shall reasonably request. Delivery of such reports, notices, information and documents to the Indenture Trustee under this Section and Section 8.26 is for informational purposes only and the Indenture Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants.

Section 8.29. Non-Petition Agreement.

The Issuer shall cause each party to the Program Documents and each party to any other document incidental or related to any Program Document, to covenant and agree that it shall not, prior to the date which is one year and one day (or if longer, the applicable preference period then in effect) after the payment in full of the latest maturing Note, acquiesce, petition or

otherwise, directly or indirectly, invoke or cause the Issuer to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer. This Section 8.29 shall survive the termination of this Indenture.

ARTICLE 9.

EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events of Default for Subordinated Notes.

If any one of the events set forth on Schedule I shall occur with respect to any Series of Subordinated Notes or Term Notes (each, an "Event of Default"), then, at any time during the continuance of any Event of Default, subject to the consent of the Required Senior Noteholders if the Senior Notes have not been paid in full, and if the Required Subordinated Noteholders shall have given the Indenture Trustee written instructions to such effect, the Indenture Trustee shall, by written notice to the Issuer, the Collateral Agent, the Term Noteholders, the Subordinated Noteholders and the Depositary (with a copy to each Secured Liquidity Note Dealer), (i) declare the principal and premium (if applicable) of and accrued or accreted interest in respect of the Subordinated Notes and Term Notes to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer, anything contained herein or in any such Note to the contrary notwithstanding, (ii) instruct the Issuer to cease purchasing Mortgage Loans, the Depositary to cease issuing Secured Liquidity Notes, and the Issuer to cease issuing Notes and (iii) notify the Servicer and the Seller that an Event of Default has occurred; provided, that if an Event of Default described in clause (e) or (m) through (r) of Schedule I shall occur, the result of which would otherwise occur only upon giving of written notice by the Indenture Trustee as specified in clauses (i) and (ii) above, then the results specified in clauses (i) and (ii) above shall occur automatically, without the giving of any such notice and without regard to whether the Senior Notes have been paid in full, and the Indenture Trustee shall promptly notify the Servicer and the Seller that an Event of Default has occurred; provided, further, that, if the Indenture Trustee receives notice from the Collateral Agent that an Event of Default under the Security Agreement has occurred that has resulted in the Collateral Agent exercising any rights and remedies available to it under applicable law, the results specified in clauses (i) and (ii) above shall occur automatically, without the giving of notice and without regard to whether the Senior Notes have been paid in full. Subject to the provisions of this Indenture, including but not limited to Section 9.7, and the conditions specified in the Security Agreement, upon the occurrence of an Event of Default, the Holders of the Term Notes and the Subordinated Notes may proceed to enforce their rights and remedies as permitted by the Security Agreement, including bringing an action for specific performance by the Issuer of any of the Issuer's obligations under the Program Documents. The Issuer shall provide prompt written notice to (i) each Secured Liquidity Note Dealer, the Collateral Agent, the Indenture Trustee and the Rating Agencies of the occurrence of any Event of Default and (ii) the

Depositary, each Secured Liquidity Note Dealer and the Rating Agencies of the occurrence of any event specified in clause (e) of Schedule I with respect to the Issuer.

Notwithstanding anything in this Indenture to the contrary, in the event an Event of Default described in paragraph (e) or (m) through (r) of Schedule I occurs and is continuing, the Indenture Trustee shall, by written notice to the Issuer, the Term Noteholders, Subordinated Noteholders, the Collateral Agent and the Depositary (with a copy to each Secured Liquidity Note Dealer), (i) instruct the Issuer to cease purchasing Mortgage Loans and the Issuer and the Depositary to cease issuing Secured Liquidity Notes, (ii) notify the Servicer and the Seller that an Event of Default has occurred, and (iii) instruct the Collateral Agent and Servicer to use their best efforts to sell non-Delinquent Loans and non-Defaulted Loans within 90 days of the date on which such Event of Default occurs. In the event that all such Mortgage Loans have not been so sold by such 90th day, the Indenture Trustee shall instruct the Collateral Agent to hold a Termination Event Auction of all remaining non-Delinquent Loans and non-Defaulted Loans for settlement not later than the 118th day following the date on which such Event of Default occurred. At least one of the bidders in such auction shall be a Rated Bidder. During the Termination Event Auction, the Servicer shall promptly notify the Designated Swap Counterparty of the highest bid price obtained in the Termination Event Auction for each such non-Delinquent Loan and non-Defaulted Loan and the Designated Swap Counterparty shall have the right pursuant to Section 4.2(e) of the Mortgage Loan Purchase and Servicing Agreement to exercise its Purchase Option to purchase such non-Delinquent Loans or non-Defaulted Loans. The Servicer shall be permitted pursuant to Section 4.2(e) of the Mortgage Loan Purchase and Servicing Agreement to sell such Mortgage Loans to the Designated Swap Counterparty.

Section 9.2. Rights upon Event of Default.

If and whenever an Event of Default shall have occurred and be continuing, the Indenture Trustee at the written direction of the Required Subordinated Noteholders shall exercise from time to time any rights and remedies available to it under the Security Agreement.

Section 9.3. [Reserved].

Section 9.4. [Reserved].

Section 9.5. Waiver of Past Events.

Subject to Section 12.2 hereof, the Required Term Noteholders or the Required Subordinated Noteholders, as the case may be, by written notice to the Collateral Agent, and the Indenture Trustee, may waive any existing Potential Event of Default or Event of Default other than any Potential Event of Default or Event of Default related to clause (e) of Schedule I which relate to such Series and its consequences and except a continuing Potential Event of Default or Event of Default in the payment of the principal of or interest on any Term Note or Subordinated Note. Upon any such waiver, such Potential Event of Default shall cease to exist with respect to such Series, and any Event of Default with respect to such Series arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Potential Event of Default or impair any right consequent thereon.

Section 9.6. [Reserved].

Section 9.7. Limitation on Suits.

Any other provision of this Indenture to the contrary notwithstanding, a Subordinated Noteholder or Term Noteholder may pursue a remedy with respect to this Indenture, the Subordinated Notes or the Term Notes only if:

(a) The Subordinated Noteholder or Term Noteholder gives to the Indenture Trustee written notice of a continuing Event of Default;

(b) The Subordinated Noteholders or Term Noteholders of at least 25% in Principal Amount of all then outstanding Subordinated Notes or Term Notes, as applicable, of such Series make a written request to the Indenture Trustee to pursue the remedy;

(c) Such Subordinated Noteholder(s) or Term Noteholder(s) provide to the Indenture Trustee and the Collateral Agent indemnity satisfactory to the Indenture Trustee and the Collateral Agent against any loss, liability or expense;

(d) The Indenture Trustee does not comply with the request within 45 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(e) During such 45-day period the Required Subordinated Noteholders and Required Term Noteholders do not give the Indenture Trustee a direction inconsistent with the request.

A Subordinated Noteholder or Term Noteholder may not use this Indenture to prejudice the rights of another Subordinated Noteholder or Term Noteholder or to obtain a preference or priority over another Subordinated Noteholder or Term Noteholder.

Section 9.8. Unconditional Rights of Holders to Receive Payment.

(a) Notwithstanding any other provision of this Indenture, except for clause (b) below, the right of any Term Noteholder or any Subordinated Noteholder to receive payment of principal and interest on the Term Note or Subordinated Note, as applicable, on or after the respective due dates expressed in the Term Note or Subordinated Note, as applicable, is absolute and unconditional and shall not be impaired or affected without the consent of the related Term Noteholder or Subordinated Noteholder.

(b) The Paying Agent agrees, to the extent required by applicable law, to withhold from each payment due hereunder or under any Term Note or Subordinated Note, United States withholding taxes at the appropriate rate, and, on a timely basis, to deposit such amounts with an authorized depository and make such reports, filings and other reports in connection therewith, and in the manner, required under applicable law. The Paying Agent, if required, shall promptly furnish each Term Noteholder and Subordinated Noteholder (but in no event later than the date 30 days after the due date thereof) a U.S. Treasury Form 1042-S (or similar form as at any relevant time in effect) indicating payment in full of any taxes withheld from any payments by the Paying Agent to such Persons together with all such other information

and documents reasonably requested by such Term Noteholder or Subordinated Noteholder and necessary or appropriate to enable such Term Noteholder or Subordinated Noteholder to substantiate a claim for credit or deduction with respect thereto for income tax purposes of any jurisdiction with respect to which such Term Noteholder or Subordinated Noteholder is required to file a tax return. In the event that a Term Noteholder or Subordinated Noteholder which is not a "United States Person" (as defined in Code Section 7701(a)(30)) (a "non-United States Person") has furnished to the Paying Agent a properly completed and currently effective U.S. Treasury Form W-8BEN (or such successor Form or Forms as may be required by the United States Treasury Department) during the calendar year in which the payment is made, or in either of the two preceding calendar years, claiming a reduced rate of, or exemption from, U.S. withholding tax under an income tax treaty, and has not notified the Paying Agent of the withdrawal or inaccuracy of such Form prior to the date of each interest payment, only the amount, if any, required by applicable law shall be withheld from payments under the Term Notes or Subordinated Notes held by such Noteholder in respect of United States federal income tax. In the event that a Term Noteholder or Subordinated Noteholder which is a non-United States Person has furnished to the Paying Agent a properly completed and currently effective U.S. Treasury Form W-8ECI (or such successor Form or Forms as may be required by the United States Treasury Department as necessary in order to avoid withholding of United States federal income tax), during the tax year of the Term Noteholder or Subordinated Noteholder in which payment is made and has not notified the Paying Agent of the withdrawal or inaccuracy of such certificate or Form prior to the date of each interest payment, no amount shall be withheld from payments under the Term Notes or Subordinated Noteholder held by such Noteholder in respect of United States federal income tax. Notwithstanding the foregoing, if any Term Noteholder or Subordinated Noteholder has notified the Paying Agent that any of the foregoing Forms or certificates is withdrawn, inaccurate or no longer currently effective, or if the Code or the regulations thereunder or the administrative interpretation thereof are at any time after the date hereof amended to require such withholding of United States federal income taxes from payments under the Term Notes or Subordinated Notes held by such Noteholder, or if such withholding is otherwise required under applicable law, the Paying Agent agrees to withhold from each payment due to the relevant Term Noteholder or Subordinated Noteholder withholding taxes at the appropriate rate under applicable law, and will, as more fully provided above, on a timely basis, deposit such amounts with an authorized depository and make such reports, filings and other reports in connection therewith, and in the manner required under applicable law. The Indenture Trustee hereby agrees to use its best efforts (without incurring liability for a failure to do so) to inform the Paying Agent and the affected Term Noteholder(s) or Subordinated Noteholder(s) if the Indenture Trustee has failed to receive any of Form W-8BEN or W-8ECI, as applicable, from a Term Noteholder or Subordinated Noteholder prior to the date of an interest payment to such Noteholder.

Section 9.9. [Reserved]

Section 9.10. The Indenture Trustee May File Proofs of Claim.

Subject to Section 13.17, the Indenture Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel) allowed in any

judicial proceedings relative to the Issuer (or any other obligor upon the Term Notes or Subordinated Notes), its creditors or its property, and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claim. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, and any other amounts due the Indenture Trustee under Sections 10.5 and 10.11 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, Term Notes or Subordinated Notes and other properties which the Term Noteholders or the Subordinated Noteholders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or accept or adopt on behalf of any Term Noteholder or Subordinated Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Term Notes or the Subordinated Notes or the rights of any Term Noteholder or Subordinated Noteholder thereof, or to authorize the Indenture Trustee to vote in respect of the claim of any Term Noteholder or Subordinated Noteholder in any such proceeding.

Section 9.11. Priorities.

If the Indenture Trustee collects any money pursuant to this Article, the Indenture Trustee shall pay out the money to the Collateral Agent who shall distribute such money in accordance with the provisions of Section 6.1 of this Indenture and Sections 6.03 and 7.02(b) of the Security Agreement.

Section 9.12. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Base Indenture or in any suit against the Indenture Trustee for any action taken or omitted by it as an Indenture Trustee, a court in its discretion may require the filing by any party litigant in the suit of any undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Indenture Trustee, or a suit by a Term Noteholder or Subordinated Noteholder pursuant to Section 9.7.

Section 9.13. Rights and Remedies Cumulative.

No right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Term Noteholders or Subordinated Noteholders is intended to be exclusive of any other right or remedy, and every right or remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under this Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy under this Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 9.14. Delay or Omission Not Waiver.

No delay or omission of the Indenture Trustee or of any Term Noteholder or Subordinated Noteholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article 9 or by law to the Indenture Trustee or to the Term Noteholders or Subordinated Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Term Noteholders or Subordinated Noteholders, as the case may be.

ARTICLE 10.

THE INDENTURE TRUSTEE

Section 10.1. Duties of the Indenture Trustee.

(a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise such of the rights and powers vested in it by this Indenture and the Program Documents, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs; provided, however, that the Indenture Trustee shall have no liability in connection with any action or inaction taken, or not taken, by it upon the deemed occurrence of an Event of Default of which a Trust Officer has not received written notice; and provided, further that the preceding sentence shall not have the effect of insulating the Indenture Trustee from liability arising out of the Indenture Trustee's negligence or willful misconduct.

(b) Except during the occurrence and continuance of an Event of Default:

(i) The Indenture Trustee undertakes to perform only those duties that are specifically set forth in this Indenture or the Program Documents and no others, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) In the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture or the Program Documents. However, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Indenture Trustee, the Indenture Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture. The Indenture Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture or the applicable Program Document (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Indenture Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) This clause does not limit the effect of clause (b) of this Section 10.1.

(ii) The Indenture Trustee shall not be liable for any error of judgment made in good faith by the Indenture Trustee, unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts.

(iii) The Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it hereunder.

(iv) The Indenture Trustee shall not be charged with knowledge of any default under any Program Document, unless a Trust Officer of the Indenture Trustee receives written notice of such default.

(d) Notwithstanding anything to the contrary contained in this Base Indenture or any of the Program Documents, no provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or incur any liability. The Indenture Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense.

(e) In the event that the Note Paying Agent and Note Registrar shall fail to perform any obligation, duty or agreement in the manner or on the day required to be performed by the Note Paying Agent and Note Registrar, as the case may be, under this Indenture, the Indenture Trustee shall be obligated as soon as practicable upon actual knowledge of a Trust Officer thereof and receipt of appropriate records and information, if any, to perform such obligation, duty or agreement in the manner so required.

(f) Subject to Section 10.3, all moneys received by the Indenture Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or the Program Documents.

Section 10.2. Rights of the Indenture Trustee.

Except as otherwise provided by Section 10.1:

(a) The Indenture Trustee may conclusively rely and shall be fully protected in acting or refraining from acting based upon any document believed by it to be genuine and to have been signed by or presented by the proper person.

(b) The Indenture Trustee may consult with counsel of its selection and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Indenture Trustee may act through agents, custodians and nominees and shall not be liable for any misconduct or negligence on the part of, or for the supervision of, any such agent, custodian or nominee so long as such agent, custodian or nominee is appointed with due care.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred upon it by the Indenture or the Program Documents.

(e) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture, any Supplement or any Program Document, take any action or to institute, conduct or defend any litigation hereunder or in relation hereto, at the request, order or direction of any of the Term Noteholders or the Subordinated Noteholders, pursuant to the provisions of this Indenture, any Supplement or any Program Document, unless such Term Noteholders or Subordinated Noteholders shall have offered to the Indenture Trustee security or indemnity reasonably satisfactory to the Indenture Trustee against the costs, expenses and liabilities which may be incurred therein or thereby.

(f) The Indenture Trustee shall not be bound to make any investigation into the facts of matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond or other paper or document, unless requested in writing to do so by the Required Term Noteholders or by the Required Subordinated Noteholders of any Series which could be adversely affected if the Indenture Trustee does not perform such acts.

(g) The Indenture Trustee shall not be liable for any losses or liquidation penalties in connection with Eligible Investments, unless such losses or liquidation penalties were incurred through the Indenture Trustee's own willful misconduct, negligence or bad faith.

(h) The rights, privileges, protections, immunities and benefits given to the Indenture Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Indenture Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

Whenever in the administration of the provisions of this Agreement the Indenture Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Indenture Trustee, be deemed to be conclusively proved and established by an Officers' Certificate or Opinion of Counsel and delivered to the Indenture Trustee and such Officers' Certificate or Opinion of Counsel, in the absence of negligence or bad faith on the part of the Indenture Trustee, shall be full warrant to the Indenture Trustee for any action taken, suffered or omitted by it under the provisions of this Agreement upon the faith thereof.

Anything in the Agreement to the contrary notwithstanding, in no event shall the Indenture Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Indenture Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 10.3. Individual Rights of the Indenture Trustee.

The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of any Term Notes or Subordinated Notes and may otherwise deal with the

Issuer or an Affiliate of the Issuer with the same rights it would have if it were not Indenture Trustee. Any agent may do the same with like rights. However, the Indenture Trustee is subject to Section 10.8.

Section 10.4. Notice of Events of Default and Potential Events of Default.

If an Event of Default or a Potential Event of Default occurs and is continuing and if a Trust Officer of the Indenture Trustee receives written notice thereof, the Indenture Trustee shall promptly provide the Collateral Agent, the Swap Counterparties, the Term Noteholders, the Subordinated Noteholders and each Rating Agency with notice of such Event of Default or the Potential Event of Default by first class mail.

Section 10.5. Compensation.

(a) The Issuer shall promptly pay to the Indenture Trustee from time to time compensation for its acceptance of this Indenture and services hereunder as agreed in writing between the Issuer and the Indenture Trustee, as may be amended from time to time. The Indenture Trustee's compensation shall not be limited by any law on compensation of an Indenture Trustee of an express trust. The Issuer shall reimburse the Indenture Trustee promptly upon request for all reasonable out-of-pocket disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Indenture Trustee's agents and counsel.

(b) The Issuer shall not be required to reimburse any expense or indemnify the Indenture Trustee against any loss, liability, or expense incurred by the Indenture Trustee through the Indenture Trustee's own willful misconduct, negligence or bad faith.

(c) When the Indenture Trustee incurs expenses or renders services after an Event of Default occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under the Bankruptcy Code.

(d) The provisions of this Section 10.5 shall survive the termination of this Indenture and the resignation and removal of the Indenture Trustee.

Section 10.6. Replacement of the Indenture Trustee.

(a) A resignation or removal of the Indenture Trustee and appointment of a successor Indenture Trustee shall become effective only upon the successor Indenture Trustee's acceptance of appointment as provided in this Section 10.6 and the satisfaction of the Rating Agency Confirmation Condition.

(b) The Indenture Trustee may, after giving sixty (60) days' prior written notice to the Issuer, each Term Noteholder, each Subordinated Noteholder and each Rating Agency, resign at any time and be discharged from the trust hereby created by so notifying the Issuer and the Collateral Agent; provided, however, that no such resignation of the Indenture Trustee shall be effective until a successor Indenture Trustee has assumed the obligations of the Indenture Trustee hereunder. The Required Term Noteholders and the Required Subordinated

Noteholders may remove the Indenture Trustee by so notifying the Indenture Trustee, the Collateral Agent, the Issuer and each Rating Agency. The Issuer may remove the Indenture Trustee upon notice to each Rating Agency if:

(i) the Indenture Trustee fails to comply with Section 10.8;

(ii) the Indenture Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Indenture Trustee under the Bankruptcy Code;

(iii) a custodian or public officer takes charge of the Indenture Trustee or its property; or

(iv) the Indenture Trustee becomes incapable of acting.

If the Indenture Trustee resigns or is removed or if a vacancy exists in the office of the Indenture Trustee for any reason, the Issuer shall promptly appoint a successor Indenture Trustee.

(c) If a successor Indenture Trustee does not take office within thirty (30) days after notice of removal or resignation is given, the retiring Indenture Trustee, the Issuer or any Term Noteholder or Subordinated Noteholder may petition, at the expense of the Issuer, any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(d) If the Indenture Trustee after written request by any Term Noteholder or Subordinated Noteholder who has been a Term Noteholder or Subordinated Noteholder for at least six months fails to comply with Section 10.8, such Term Noteholder or Subordinated Noteholder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

(e) A successor Indenture Trustee shall deliver a written acceptance of its appointment to the retiring Indenture Trustee, the Collateral Agent, and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee under this Base Indenture and any Supplement. The successor Indenture Trustee shall mail a notice of its succession to the Term Noteholders or the Subordinated Noteholders. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee; provided, however, that all sums owing to the retiring Indenture Trustee hereunder have been paid. Notwithstanding replacement of the Indenture Trustee pursuant to this Section 10.6, the Issuer's obligations under Sections 10.5 and 10.11 hereof shall continue for the benefit of the retiring Indenture Trustee.

Section 10.7. Successor Indenture Trustee by Merger, etc.

Subject to Section 10.8, if the Indenture Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Indenture Trustee.

Section 10.8. Eligibility.

(a) Any Indenture Trustee at any time acting hereunder must at all times be a commercial bank or trust company having its principal office in the District of Columbia or one of the States located in the United States, be authorized to accept deposits and offer checking account facilities, have capital and surplus of at least $100,000,000 and have a long-term unsecured debt rating from each of Moody's and S&P, in one of its generic credit rating categories which signifies investment grade.

(b) At any time the Indenture Trustee shall cease to satisfy the eligibility requirements above, the Indenture Trustee shall resign immediately in the manner and with the effect specified in Section 10.6.

Section 10.9. Appointment of Co-Indenture Trustee or Separate Indenture Trustee.

(a) Notwithstanding any other provisions of this Indenture or any Supplement, at any time, for the purpose of meeting any legal requirements of any jurisdiction, the Indenture Trustee shall have the power and may execute and deliver all instruments to appoint one or more persons to act as a co-Indenture Trustee or co-Indenture Trustees, or separate Indenture Trustee or separate Indenture Trustees, and to vest in such Person or Persons, subject to the other provisions of this Section 10.9, such powers, duties, obligations, rights and trusts as the Indenture Trustee may consider necessary or desirable. No co-Indenture Trustee or separate Indenture Trustee hereunder shall be required to meet the terms of eligibility as a successor Indenture Trustee under Section 10.8 and no notice to the Term Noteholders or Subordinated Noteholders of the appointment of any co-Indenture Trustee or separate Indenture Trustee shall be required under Section 10.6.

(b) Every separate Indenture Trustee and co-Indenture Trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) The Term Notes or the Subordinated Notes of each Series shall be authenticated and delivered solely by the Indenture Trustee or an authenticating agent appointed by the Indenture Trustee;

(ii) All rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate Indenture Trustee or co-Indenture Trustee jointly (it being understood that such separate Indenture Trustee or co-Indenture Trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Assets or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate Indenture Trustee or co-Indenture Trustee, but solely at the direction of the Indenture Trustee; and

(iii) The Indenture Trustee may at any time accept the resignation of or remove any separate Indenture Trustee or co-Indenture Trustee.

(c) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then separate Indenture Trustees and co-Indenture Trustees, as effectively as if given to each of them. Every instrument appointing any separate Indenture Trustee or co-Indenture Trustee shall refer to this Indenture and the conditions of this Article 10. Each separate Indenture Trustee and co-Indenture Trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture and any Supplement, specifically including every provision of this Indenture or any Supplement relating to the conduct of, affecting the liability of, or affording protection to, the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee.

(d) Any separate Indenture Trustee or co-Indenture Trustee may at any time constitute the Indenture Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect to this Indenture or any Supplement on its behalf and in its name. If any separate Indenture Trustee or co-Indenture Trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor Indenture Trustee.

(e) The Issuer agrees to pay to any separate trustee or co-trustee appointed hereunder reasonable compensation, and to reimburse such co-trustee or separate trustee upon its request for all reasonable expenses, out-of-pocket disbursements and advances incurred or made by it or them in accordance with any provision of this indenture or any document executed in connection herewith except any such expense, out-of-pocket disbursement or advance as may be attributable to its negligence or bad faith. In no event shall the Indenture Trustee be obligated to pay any fee or expense of any separate trustee or co-trustee.

(f) The Indenture Trustee shall not be liable for any misconduct or negligence on the part of, or for the supervision of any co-Indenture Trustee or separate Indenture Trustee.

Section 10.10. Representations and Warranties of Indenture Trustee.

The Indenture Trustee represents and warrants to the Collateral Agent, the Issuer, the Term Noteholders and the Subordinated Noteholders that:

(i) The Indenture Trustee is a banking corporation existing and in good standing under the laws of the State of New York;

(ii) The Indenture Trustee has full power, authority and right to execute, deliver and perform this Base Indenture and any Supplement issued concurrently with this Base Indenture and to authenticate the Term Notes and the Subordinated Notes, and has taken all necessary action to authorize the execution, delivery and performance by it of this Base Indenture and any Supplement issued concurrently with this Base Indenture and to authenticate the Term Notes and the Subordinated Notes;

(iii) This Base Indenture and Indenture Supplement issued concurrently with this Base Indenture has been duly executed and delivered by the Indenture Trustee; and

(iv) The Indenture Trustee meets the requirements of eligibility as an Indenture Trustee hereunder set forth in Section 10.8 hereof.

Section 10.11. The Issuer Indemnification of the Indenture Trustee.

The Issuer shall indemnify and hold harmless the Indenture Trustee and its directors, officers, agents and employees from and against any and all loss, claim, liability, expense, including taxes (other than taxes based on the income of the Indenture Trustee), damage or injury suffered or sustained by reason of any acts, omissions or alleged acts or omissions arising out of or in connection with the acceptance of the trusts hereunder or activities of the Indenture Trustee pursuant to this Base Indenture, any Supplement or any Program Document, including but not limited to any judgment, award, settlement, reasonable attorneys' fees and expenses and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding or claim (whether asserted by the Seller, the Issuer or any other Person); provided, however, that the Issuer shall not indemnify the Indenture Trustee or its directors, officers, employees or agents if such acts, omissions or alleged acts or omissions constitute bad faith, negligence or willful misconduct by the Indenture Trustee. The indemnity provided herein shall survive the termination of this Base Indenture and the resignation and removal of the Indenture Trustee.

ARTICLE 11.

DISCHARGE OF INDENTURE

Section 11.1. Termination of the Issuer's Obligations.

(a) This Indenture shall cease to be of further effect (except that the Issuer's obligations under Section 10.5 and Section 10.11 and the Indenture Trustee's and Note Paying Agent's obligations under Section 11.2 and Section 11.3 shall survive) when all outstanding Term Notes and Subordinated Notes theretofore authenticated and issued have been delivered (other than destroyed, lost or stolen Term Notes or Subordinated Notes which have been replaced or paid) to the Indenture Trustee for cancellation and the Issuer has paid all sums payable hereunder.

(b) In addition, except as may be provided to the contrary in any Supplement, the Issuer may terminate all of its obligations under this Indenture if:

(i) The Issuer irrevocably deposits in trust with the Indenture Trustee or another trustee under the terms of an irrevocable trust agreement in form and substance satisfactory to the Indenture Trustee, money or U.S. Government Obligations in an amount sufficient, in the opinion of a nationally recognized firm of independent certified public accountants expressed in a written certification thereof delivered to the Indenture Trustee, to pay, when due, principal, premium, if any, and interest on the Term Notes and the Subordinated Notes to maturity or repurchase, as the case may be, and to pay all other

sums payable by it hereunder; provided, however, that (1) such trustee of the irrevocable trust shall have been irrevocably instructed to pay such money or the proceeds of such U.S. Government Obligations to the Indenture Trustee and (2) such trustee shall have been irrevocably instructed to apply such money or the proceeds of such U.S. Government Obligations to the payment of said principal and interest with respect to the Term Notes and the Subordinated Notes;

(ii) The Issuer delivers to the Indenture Trustee an Officer's Certificate stating that all conditions precedent to satisfaction and discharge of this Indenture have been complied with, and an Opinion of Counsel to the same effect;

(iii) The Issuer delivers to the Indenture Trustee an Officer's Certificate stating that no Potential Event of Default or Event of Default, in either case, described in clause (d) of Schedule I shall have occurred and be continuing on the date of such deposit; and

(iv) The Rating Agency Confirmation Condition is satisfied.

Then, this Indenture shall cease to be of further effect (except as provided in this Section 11.1), and the Indenture Trustee, on demand of the Issuer, shall execute proper instruments acknowledging confirmation of and discharge under this Indenture.

(c) After such irrevocable deposit made pursuant to Section 11.1(b) and satisfaction of the other conditions set forth herein, the Indenture Trustee upon request shall acknowledge in writing the discharge of the Issuer's obligations under this Indenture except for those surviving obligations specified above.

In order to have money available on a payment date to pay principal, premium, if any, or interest on the Term Notes or the Subordinated Notes, the U.S. Government Obligations shall be payable as to principal or interest at least one Business Day before such payment date in such amounts as will provide the necessary money. U.S. Government Obligations shall not be callable at the Issuer's option.

Section 11.2. Application of Issuer Money.

The Indenture Trustee or another trustee satisfactory to the Indenture Trustee and the Issuer shall hold in trust money or U.S. Government Obligations deposited with it pursuant to Section 11.1. The Indenture Trustee shall apply the deposited money and the money from U.S. Government Obligations through the Note Paying Agent in accordance with this Base Indenture to the payment of principal and interest on the Term Notes and the Subordinated Notes.

The provisions of this Section 11.2 shall survive the expiration or earlier termination of this Indenture.

Money held by the Indenture Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Indenture Trustee shall be under no liability for interest on any money received by it hereunder.

Section 11.3. Repayment to the Issuer.

The Indenture Trustee and the Note Paying Agent shall promptly pay to the Issuer upon written request any excess money.

Subject to Section 2.10(c), the Indenture Trustee and the Note Paying Agent shall pay to the Issuer upon written request any money held by them for the payment of principal or interest that remains unclaimed for two years after the date upon which such payment shall have become due.

The provisions of this Section 11.3 shall survive the expiration or earlier termination of this Indenture.

ARTICLE 12.

AMENDMENTS

Section 12.1. Without Consent of the Term Noteholders or the Subordinated Noteholders.

Without the consent of any Term Noteholder and any Subordinated Noteholder, the Issuer and the Indenture Trustee, with the consent of any applicable Enhancement Provider and the Swap Counterparties, at any time and from time to time, may enter into one or more Supplements hereto or amendments to the Program Documents, in form reasonably satisfactory to the Indenture Trustee, for any of the following purposes:

(a) to create new callable notes or a new Series of Term Notes or Subordinated Notes;

(b) to cure any ambiguity, defect, or inconsistency or to correct or supplement any provision contained herein or in any Program Document or in any Supplement or in any Term Notes or Subordinated Notes issued hereunder;

(c) to provide for uncertificated Term Notes or uncertificated Subordinated Notes in addition to certificated Term Notes or certificated Subordinated Notes;

(d) to add to or change any of the provisions of the Indenture to such extent as shall be necessary to permit or facilitate the issuance of Term Notes or Subordinated Notes in bearer form, registrable or not registrable as to principal, and with or without interest coupons;

(e) to evidence and provide for the acceptance of appointment hereunder by a successor Indenture Trustee with respect to the Term Notes or the Subordinated Notes of one or more Series and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Indenture Trustee;

(f) to correct or supplement any provision herein which may be inconsistent with any other provision herein or in any Program Document or to make any other provisions with respect to matters or questions arising under this Indenture;

(g) to add to the covenants and agreements contained herein or in any Program Document for the benefit of the Holders of the Term Notes or the Subordinated Notes;

(h) to add such provisions with respect to matters or questions arising hereunder or under any Program Document as may be necessary or desirable and not inconsistent with the Program Documents;

(i) to add provisions to allow the Issuer to hold securities rated at least AA by S&P and Aa2 by Moody's so long as holding such securities shall not cause the Issuer to be required to be registered as an "investment company" under the Investment Company Act;

(j) to add to the provisions or change in any manner or eliminate any of the provisions contained herein or in any Program Documents; or

(k) to restructure the program, including to add AHL REIT as a seller of Mortgage Loans, to provide for the holding of securities secured by Mortgage Loans by the Issuer and to modify the swap arrangements

provided, however, that, such action shall not adversely affect in any material respect the interests of any Term Noteholders or Subordinated Noteholders; provided, further, that the Rating Agency Confirmation Condition is met with respect to clauses (a), (c), (e), (i) and (k) above, provided, further, that such action will not be deemed to materially and adversely affect the interests of any Term Noteholders or Subordinated Noteholders if the Indenture Trustee receives (i) an Officer's Certificate of the Issuer certifying that such action will not adversely affect in any material respect the interests of any Term Noteholders or Subordinated Noteholders and (ii) (x) an Opinion of Counsel that such action will not adversely affect in any material respect the interests of any Term Noteholders or Subordinated Noteholders or (y) Rating Agency Confirmation with respect to such action; and provided, further, that an Opinion of Counsel shall be furnished to the Indenture Trustee to the effect that such amendment (i) will not prevent the Notes from being characterized as debt for United States federal income tax purposes and (ii) will not cause the Issuer to be characterized as an association (or a publicly traded partnership) taxable as a corporation or a taxable mortgage pool for United States federal income tax purposes; provided, further, that any amendment under clause (k) above shall be subject to receipt by the Collateral Agent, the Indenture Trustee and the Swap Counterparties of an Opinion of Counsel that such restructuring shall not cause the Issuer to be required to be registered as an "investment company" under the Investment Company Act; provided, finally, that Rating Agency Confirmation shall be required for any material action. Upon the request of the Issuer, and upon receipt by the Indenture Trustee of the documents described in Section 2.2 hereof, the Indenture Trustee shall join with the Issuer in the execution of any Supplement or amendment authorized or permitted by the terms of this Indenture.

Section 12.2. With Consent of the Subordinated Noteholders and Term Noteholders.

Except as provided in Section 12.1 and except as may be provided in any other Program Document, the provisions of this Indenture and any Supplement (unless otherwise provided in such Supplement) and each other Program Document to which the Issuer is a party may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to in writing by the Issuer, the Indenture Trustee, any applicable Enhancement Provider, the Swap Counterparties, and Required Subordinated Noteholders and Required Term Noteholders (and the Required Subordinated Noteholders of a Series of Subordinated Notes, in respect of any amendment to this Indenture, the Supplement with respect to such Series of Subordinated Notes or any Program Document which affects only the Holders of such Series of Subordinated Notes and does not affect the Holders of any other Series of Subordinated Notes, as substantiated by an Officer's Certificate to such effect) and provided that the Rating Agency Confirmation Condition is satisfied. Notwithstanding the foregoing:

(i) any modification of this Section 12.2 or any requirement hereunder that any particular action be taken by Subordinated Noteholders and Term Noteholders holding the relevant percentage in Principal Amount of the Subordinated Notes and Term Notes or any change in the applicable amount of Enhancement shall require the consent of each affected Subordinated Noteholder or Term Noteholder; and

(ii) any amendment, waiver or other modification that would (a) extend the due date for, or reduce the amount of any scheduled repayment or prepayment of principal of or interest on any Subordinated Note or Term Note (or reduce the Principal Amount of or rate of interest on any Subordinated Note or Term Note) shall require the consent of each affected Subordinated Noteholder or Term Noteholder, as applicable; (b) approve the assignment or transfer by the Issuer of any of its rights or obligations hereunder or under any other Program Document to which it is a party except pursuant to the express terms hereof or thereof shall require the consent of each Subordinated Noteholder and each Term Noteholder; or (c) affect adversely the interests, rights or obligations of any Subordinated Noteholder or any Term Noteholder individually in comparison to any other Subordinated Noteholder or Term Noteholder, as applicable, shall require the consent of such Subordinated Noteholder or Term Noteholder, as applicable.

No failure or delay on the part of any Subordinated Noteholder or Term Noteholder or the Indenture Trustee in exercising any power or right under this Indenture or any other Program Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right.

Section 12.3. [Reserved].

Section 12.4. Supplements.

Each amendment or other modification to this Indenture or the Term Notes or Subordinated Notes shall be set forth in a Supplement. The initial effectiveness of each Supplement shall be subject to the satisfaction of the Rating Agency Confirmation Condition. In addition to the manner provided in Sections 12.1 and 12.2, each Supplement may be amended as provided for in such Supplement. In signing such Supplement, upon the Indenture Trustee's request, the Issuer shall provide to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel as conclusive evidence that such Supplement is authorized or permitted by this Indenture and the other Program Documents and that it will be valid and binding upon the Issuer in accordance with its terms. The Issuer shall give the Rating Agencies prior written notice of any Supplement.

Section 12.5. Revocation and Effect of Consents.

Until an amendment or waiver becomes effective, a consent to it by a Holder of a Term Note or Subordinated Note is a continuing consent by such Holder and every subsequent Holder of a Term Note or Subordinated Note or portion of a Term Note or Subordinated Note that evidences the same debt as the consenting Holder's Term Note or Subordinated Note, even if notation of the consent is not made on any Term Note or Subordinated Note. However, any such Term Noteholder or Subordinated Noteholder or subsequent Term Noteholder or Subordinated Noteholder may revoke the consent as to his Term Note or Subordinated Note or portion of a Term Note or Subordinated Note if the Indenture Trustee receives written notice of revocation before the date the amendment or waiver becomes effective. An amendment or waiver becomes effective in accordance with its terms and thereafter binds every Term Noteholder and Subordinated Noteholder. The Issuer may fix a record date for determining which Term Noteholders and/or Subordinated Noteholders must consent to such amendment or waiver.

Section 12.6. Notation on or Exchange of Notes.

The Indenture Trustee may place an appropriate notation about an amendment or waiver on any Term Note and/or Subordinated Note thereafter authenticated. The Issuer in exchange for all Term Notes and/or Subordinated Notes may issue and the Indenture Trustee shall authenticate new Term Notes and/or Subordinated Notes that reflect the amendment or waiver. Failure to make the appropriate notation or issue a new Term Note and/or Subordinated Note shall not affect the validity and effect of such amendment or waiver.

Section 12.7. The Indenture Trustee to Sign Amendments, etc.

The Indenture Trustee shall sign any Supplement authorized pursuant to this Article 12 if the Supplement does not adversely affect the rights, duties, liabilities or immunities of the Indenture Trustee. If it does, the Indenture Trustee may, but need not, sign it.

ARTICLE 13.

MISCELLANEOUS

Section 13.1. Notices.

(a) Any notice or communication by the Issuer or the Indenture Trustee to the other shall be in writing and delivered in person or by first-class mail (registered or certified, return receipt requested), telecopier or overnight air courier guaranteeing next day delivery, to the other's address:

If to the Issuer:

Carmel Mountain Funding Trust
c/o U.S. Bank Trust National Association,
as Owner Trustee
209 S. LaSalle Street
Chicago, IL 60605
Attention: Corporate Trust Administration
Telecopy No.:(312) 325-8902
Telephone No.:(312) 325-8905

with a copy to:

Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attention: Melissa G. Dant, Esq.
Telecopy No.: (858) 521-0614
Telephone No.: (858) 676-2134

If to the Indenture Trustee:

Deutsche Bank Trust Company Americas
60 Wall Street
MS NYC60-2606
New York, New York 10005
Attention: Structured Finance
Telecopy No.: (212) 797-8606
Telephone No.: (212) 250-4855

If to an Enhancement Provider, at the address provided in the applicable Enhancement Agreement.

The Issuer or the Indenture Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications; provided, however,

the Issuer may not at any time designate more than a total of three (3) addresses to which notices must be sent in order to be effective.

Any notice (i) given in person shall be deemed delivered on the date of delivery of such notice, (ii) given by first class mail shall be deemed given five (5) days after the date that such notice is mailed, (iii) delivered by telecopier shall be deemed given on the date of delivery of such notice, and (iv) delivered by overnight air courier shall be deemed delivered one Business Day after the date that such notice is delivered to such overnight courier.

Notwithstanding any provisions of this Indenture to the contrary, the Indenture Trustee shall have no liability based upon or arising from the failure to receive any notice required by or relating to this Indenture or the Term Notes or the Subordinated Notes.

If the Issuer mails a notice or communication to Term Noteholders or Subordinated Noteholders, it shall mail a copy to the Indenture Trustee at the same time.

(b) Where the Indenture provides for notice to Term Noteholders or Subordinated Noteholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if sent in writing and mailed, first-class postage prepaid, to each Term Noteholder or Subordinated Noteholder affected by such event, at its address as it appears in the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed (if any) for the giving of such notice. In any case where notice to each Term Noteholder or Subordinated Noteholder is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Term Noteholder or Subordinated Noteholder shall affect the sufficiency of such notice with respect to other Term Noteholders or Subordinated Noteholders, and any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given. Where this Base Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Term Noteholders or Subordinated Noteholders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In the case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made that is satisfactory to the Indenture Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 13.2. Communication by Term Noteholders or Subordinated Noteholders with Other Term Noteholders or Subordinated Noteholders.

Term Noteholders or Subordinated Noteholders may communicate with other Term Noteholders or Subordinated Noteholders with respect to their rights under this Base Indenture or the Term Notes or Subordinated Notes.

Section 13.3. Officer's Certificate as to Conditions Precedent.

Upon any request or application by the Issuer to the Indenture Trustee to take any action under this Indenture, the Issuer shall furnish to the Indenture Trustee an Officer's Certificate in form and substance reasonably satisfactory to the Indenture Trustee (which shall include the statements set forth in Section 13.4) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been complied with.

Section 13.4. Statements Required in Certificate.

Each certificate with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that the Person giving such certificate has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based;

(c) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 13.5. Rules by the Indenture Trustee.

The Indenture Trustee may make reasonable rules for action by or at a meeting of Term Noteholders and/or Subordinated Noteholders.

Section 13.6. No Recourse Against Others.

An Authorized Officer, employee or holder of any securities of the Issuer, as such, shall not have any liability for any obligations of the Issuer under the Term Notes or Subordinated Notes or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Term Noteholder and Subordinated Noteholder by accepting a Term Note or Subordinated Note waives and releases all such liability.

Section 13.7. Duplicate Originals.

The parties may sign any number of copies of this Indenture. One signed copy is enough to prove this Base Indenture.

Section 13.8. Benefits of Indenture.

Except as set forth in a Supplement, nothing in this Indenture or in the Term Notes or Subordinated Notes, expressed or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders of Term Note or Subordinated Notes, any benefit or any legal or equitable right, remedy or claim under the Indenture.

Section 13.9. Payment on Business Day.

In any case where any Payment Date, redemption date or maturity date of any Term Note or Subordinated Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture) payment of interest or principal (and premium, if any), as the case may be, need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the Payment Date, redemption date, or maturity date; provided, however, that no interest shall accrue for the period from and after such Payment Date, redemption date, or maturity date, as the case may be.

Section 13.10. Governing Law.

The laws of the State of New York, including, without limitation, the UCC, but excluding any conflicts of laws, shall govern and be used to construe this Indenture and the Term Notes and Subordinated Notes and the rights and duties of the Indenture Trustee, Note Registrar, Note Paying Agent and Term Noteholders and Subordinated Noteholders.

Section 13.11. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Issuer or an Affiliate of the Issuer. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 13.12. Successors.

All agreements of the Issuer in this Indenture and the Term Notes and Subordinated Notes shall bind its successor; provided, however, the Issuer may not assign its obligations or rights under this Indenture or any Program Document. All agreements of the Indenture Trustee in this Indenture shall bind its successor.

Section 13.13. Severability.

In case any provision in this Indenture or in the Term Notes or Subordinated Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 13.14. Counterpart Originals.

The parties may sign any number of copies of this Base Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 13.15. Table of Contents, Headings, etc.

The Table of Contents, Cross-Reference Table, and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 13.16. Security Agreement.

By acceptance of its Term Notes or Subordinated Notes issued under this Indenture, each Term Noteholder and Subordinated Noteholder agrees to the terms and conditions contained in Section 9.01 of the Security Agreement and such terms are incorporated by reference insofar as they relate to the duties and obligations of the Term Noteholders or the Subordinated Noteholders. The Collateral Agent shall be a third party beneficiary of the terms of this Section 13.16.

Section 13.17. No Bankruptcy Petition Against the Issuer.

Each of the Term Noteholders and the Subordinated Noteholders and the Indenture Trustee hereby covenants and agrees that, prior to the date which is one year and one day after the payment in full of the latest maturing Note, it will not institute against, or join with any other Person in instituting, against the Issuer any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings, under any Federal or state bankruptcy or similar law; provided, however, that nothing in this Section 13.17 shall constitute a waiver of any right to indemnification, reimbursement or other payment from the Issuer pursuant to this Indenture. In the event that any such Term Noteholder or Subordinated Noteholder or the Indenture Trustee takes action in violation of this Section 13.17, the Issuer shall file an answer with the bankruptcy court or otherwise properly contesting the filing of such a petition by any such Term Noteholder or Subordinated Noteholder or the Indenture Trustee against the Issuer or the commencement of such action and raising the defense that such Term Noteholder or Subordinated Noteholder or the Indenture Trustee has agreed in writing not to take such action and should be estopped and precluded therefrom and such other defenses, if any, as its counsel advises that it may assert. The provisions of this Section 13.17 shall survive the termination of this Indenture and the resignation or removal of the Indenture Trustee.

Section 13.18. No Recourse.

The obligations of the Issuer under this Indenture are solely the obligations of the Issuer. No recourse shall be had for the payment of any amount owing in respect of any fee hereunder or any other obligation or claim arising out of or based upon this Base Indenture or any other Program Document against any employee, officer, trustee, settlor, affiliate, agent or servant of the Issuer. Fees, expenses or costs payable by the Issuer hereunder shall be payable by the Issuer only on a Payment Date and only to the extent that funds are then available or thereafter become available for such purpose pursuant to Article 5 and the Security Agreement. This Section 13.18 shall survive the termination of this Indenture and the resignation or removal of the Indenture Trustee.

Section 13.19. No Recourse.

It is expressly understood and agreed by the parties hereto that (a) this Agreement is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of Carmel Mountain Funding Trust, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of Carmel Mountain Funding Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only Carmel Mountain Funding Trust, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of Carmel Mountain Funding Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by Carmel Mountain Funding Trust under this Agreement or any other related documents.

IN WITNESS WHEREOF, the Indenture Trustee and the Issuer have caused this Base Indenture to be duly executed by their respective duly authorized officers as of the day and year first written above.

CARMEL MOUNTAIN FUNDING TRUST
as Issuer

By: U.S. Bank Trust National Association, not in its individual capacity, but solely as Owner Trustee

By: /s/ Patricia M. Child
Name: PATRICIA M. CHILD
Title: VICE PRESIDENT

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee

By: /s/ Eileen M. Hughes
Name: EILEEN M. HUGHES
Title: VICE PRESIDENT

SCHEDULE I

EVENTS OF DEFAULT

(a) Failure on the part of the Seller or the Servicer (i) to make any payment or deposit on the date required under the Mortgage Loan Purchase and Servicing Agreement (on or before five Business Days after the date such payment or deposit is required to be made); provided, however, that no grace period shall apply for purchase obligations in respect of a breach of the covenant in Section 2.1(b) of the Mortgage Loan Purchase and Servicing Agreement or (ii) to observe or perform in any material respect any other material covenants or agreements of the Seller or the Servicer under the Mortgage Loan Purchase and Servicing Agreement which failure in the case of clause (ii) continues unremedied for a period of forty-five (45) days after the earlier of (A) the date on which the Seller or the Servicer obtains actual knowledge thereof or (B) the date on which written notice of such failure shall have been given to the Seller or the Servicer by the Indenture Trustee or to the Seller or the Servicer and the Indenture Trustee by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(b) Any representation or warranty made by the Seller pursuant to the Mortgage Loan Purchase and Servicing Agreement (other than any of the representations made in Section 3.2 thereof) proves to have been incorrect in any material respect when made, and, if such representation or warranty is correctable, which continues to be incorrect in any material respect for a period of forty-five (45) days after the earlier of (i) the date on which the Seller obtains actual knowledge thereof or (ii) the date on which the Seller shall have been given written notice of such incorrect representation or warranty;

(c) The Issuer defaults in the payment of any interest on any Senior Note (or, if the Senior Notes have been paid in full, any Subordinated Note) when the same becomes due and payable and such default remains unremedied for more than one (1) Business Day after it occurs;

(d) The Issuer fails to comply with any of its other agreements or covenants in, or provisions of, the Senior Notes (or, if the Senior Notes have been paid in full, the Subordinated Notes) or this Indenture and the failure to so comply materially and adversely affects the interests of the Senior Noteholders (or, if the Senior Notes have been paid in full, the Holders of the Subordinated Notes) and continues to materially and adversely affect the interests of the Senior Noteholders (or, if the Senior Notes have been paid in full, the Holders of the Subordinated Notes) for a period of thirty (30) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(e) The occurrence of an Event of Bankruptcy with respect to the Issuer, the Seller, the Servicer or the Performance Guarantor;

(f) The Issuer shall have become an "investment company" or shall have become under the "control" of an "investment company" under the Investment Company Act;

(g) Any representation or warranty or statement made or deemed made by the Issuer in this Indenture or in any other Program Document or in any written certificates or statement made or entered into in connection herewith or therewith shall prove to have been incorrect when made in any material respect, and, if such representation, warranty or statement is capable of being corrected, continues to be incorrect in any material respect for a period of forty-five (45) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such incorrect representation, warranty or statement shall have been given to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(h) Failure by the Issuer to observe or perform any covenant or agreement contained in any Program Document which failure would have a material adverse effect on the Term Noteholders and not constituting an Event of Default under any other clause of this Schedule I and the continuance of such failure for forty-five (45) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such failure shall have been given to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(i) A Servicer Event of Default not constituting an Event of Default under any other clause of this Schedule I shall have occurred and be continuing after giving effect to any applicable grace period or the Issuer shall not have replaced such Servicer in accordance with Section 12.1 of the Mortgage Loan Purchase and Servicing Agreement for a period of forty-five (45) days after the Issuer has notified the Indenture Trustee of such Servicer Event of Default;

(j) The Issuer shall not be in compliance with Section 2.3(c) of the Trust Agreement in any material respect and such noncompliance shall continue for a period of thirty (30) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which the Issuer shall have been given written notice of such noncompliance;

(k) The Security Agreement or Interest Rate Swaps in an aggregate maximum notional amount equal to the Program Size shall cease, for any reason, to be in full force and effect in accordance with their respective terms;

(l) At any time the Performance Guarantee is rejected, repudiated or no longer in full force and effect;

(m) Funds on deposit in the Reserve Fund shall be less than the Required Reserve Fund Amount for sixty (60) consecutive days or more if the deficiency is less than 0.25% of the Aggregate Outstanding Principal Balance, or (ii) for two (2) consecutive Business Days if the deficiency is equal to or greater than 0.25% of the Aggregate Outstanding Principal Balance;

(n) As of the last day of any calendar month, either (i) the ratio of the Outstanding Principal Balance of all Delinquent Loans owned by the Issuer (including REO Property and foreclosed property) to the Aggregate Outstanding Principal Balance shall equal more than seven percent (7%), or (ii) the ratio of the Outstanding Principal Balance of all Three Payment Delinquent Loans owned by the Issuer to the Aggregate Outstanding Principal Balance shall equal more than two percent (2%);

(o) The failure of the Issuer to maintain an agreement (in substantially the form of Exhibit B to the Mortgage Loan Purchase and Servicing Agreement) with a Rated Bidder to the effect that such Rated Bidder agrees to submit a binding bid for all non-Delinquent Loans and non-Defaulted Loans in a Termination Event Auction and, in the case of a withdrawal or reduction of the long-term debt rating assigned to the Rated Bidder below "P-1" by Moody's such failure continues for a period of thirty (30) days or more and a Rated Bidder rated at least "P-1" by Moody's has not been appointed;

(p) The failure of any Swap Counterparty to pay amounts due and owing under an Interest Rate Swap unless the maximum notional amount of the Interest Rate Swaps that are not subject to an Interest Rate Swap Event of Default are equal to or greater than the then-current Program Size;

(q) The Issuer defaults in the payment of any principal of any Term Note or Subordinated Note on its Final Scheduled Payment Date or of an Extended Note on its Final Maturity;

(r) The occurrence of a termination event under clause (h), (p), (q) or (r) of Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement; or

(s) Any other event shall occur which may be specified in any Supplement as an "Event of Default".

EXHIBIT A-1

FORM OF NOTE TRANSFER CERTIFICATE TO BE
DELIVERED UPON EXCHANGE OF A BENEFICIAL
INTEREST IN THE RESTRICTED GLOBAL NOTE FOR
DEFINITIVE SECURITIES OR EXCHANGE OR
REGISTRATION OF TRANSFER OF DEFINITIVE SECURITIES

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

This Certificate relates to _____ principal amount of Notes held in *☐ book-entry or ☐ definitive form by _____ (the "Transferor") (CUSIP No. _____)

[insert name of transferor] issued pursuant to a Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

The Transferor has requested the Indenture Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with such request and in respect of each such Note, the Transferor does hereby certify as follows:*

☐ Such Note is being acquired for its own account, without transfer.

☐ Such Note is being transferred to (i) a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A, (ii) pursuant to an exemption from registration in accordance with Regulation S under the Securities Act or (iii) pursuant to Rule 144 of the Securities Act.

☐ Such Note is being transferred in reliance on and in compliance with an exemption from the registration requirements of the Securities Act, other than Rule 144A, Rule 144 or Regulation S under the Securities Act, and in compliance with other applicable state and federal securities laws and an opinion of counsel is being furnished simultaneously with the delivery of this Certificate as required under Section 2.12 of the Base Indenture.

[INSERT NAME OF TRANSFEROR]

By: _____
Name:
Title:

Date:

* Check applicable box.

FORM OF TRANSFER CERTIFICATE FOR TRANSFER OR
EXCHANGE FROM RESTRICTED GLOBAL NOTE
TO REGULATION S NOTE

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

Reference is hereby made to the Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

This letter relates to _____ principal amount of Series ___ Notes which are held in the form of the Series _____ Restricted Global Notes (CUSIP (CINS) No.) with DTC (ISIN Code [ ]) (Common Code [ ]) through DTC by or on behalf of [transferor] as beneficial owner (the "Transferor"). The Transferor has requested an exchange or transfer of its beneficial interest in the Series Notes for an interest in the Regulation S Series ___ Note (CUSIP No. [ ]).

In connection with such request and in respect of such Series _____ Restricted Global Notes, the Transferor does hereby certify that such exchange or transfer has been effected in accordance with the transfer restrictions set forth in the Series ___ Notes and (i) that, with respect to transfers made in reliance on Regulation S under the Securities Act:

(1) the offer of the Series ____ Restricted Global Notes was not made to a person in the United States:

(A) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States; or

(B) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(2) no directed selling efforts have been made in contravention of the requirements of Rule 903(a)(2) or 904(a)(2) of Regulation S, as applicable, and

(3) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act;

or (ii) that, with respect to transfers made in reliance on Rule 144A under the Securities Act, the Series ___ Restricted Global Notes are being transferred in a transaction permitted by Rule 144A under the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Initial Purchasers of the Series ___ Notes.

[Insert Name of Transferor]

By: _____
Name:
Title:

Dated:_____, 200__

EXHIBIT A-3

FORM OF TRANSFER CERTIFICATE FOR TRANSFER OR
EXCHANGE FROM REGULATION S NOTE
TO RESTRICTED GLOBAL NOTE

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

Reference is hereby made to the Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

This letter relates to _____ principal amount of Series ____ Notes which are held in the form of the Series _____ Regulation S Notes (CUSIP (CANS) No.) by [transferor] as beneficial owner (the "Transferor"). The Transferor has requested an exchange or transfer of its beneficial interest in the Series ___ Notes for an interest in the Restricted Global Series ___ Note (CUSIP No. [ ]).

In connection with such request, and in respect of such Series ___ Regulation S Notes, the Transferor does hereby certify that such Series ___ Regulation S Notes are being transferred in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act") to a transferee that the Transferor reasonably believes is purchasing the Series ___ Notes for its own account or an account with respect to which the transferee exercises sole investment discretion and the transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Initial Purchasers of the Series ___ Notes.

[Insert Name of Transferor]

By: _____
Name:
Title:

Dated:_____, 200__

EXHIBIT A-4

FORM OF TRANSFER CERTIFICATE FOR TRANSFER OR
EXCHANGE FROM DEFINITIVE NOTE
TO REGULATION S NOTE

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

Reference is hereby made to the Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

This letter relates to _____ principal amount of Series ___ Notes which are held in the form of the Series _____ Definitive Notes (CUSIP (CINS) No.) by [transferor] as owner (the "Transferor"). The Transferor has requested an exchange or transfer of its beneficial interest in the Series Notes for an interest in the Regulation S Series ___ Note (CUSIP No. [ ]).

In connection with such request and in respect of such Series ___ Definitive Notes, the Transferor does hereby certify that such exchange or transfer has been effected in accordance with the transfer restrictions set forth in the Series ___ Notes and (i) that, with respect to transfers made in reliance on Regulation S under the Securities Act:

(1) the offer of the Series ____ Definitive Notes was not made to a person in the United States:

(A) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States; or

(B) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(2) no directed selling efforts have been made in contravention of the requirements of Rule 903(a)(2) or 904(a)(2) of Regulation S, as applicable, and

(3) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act;

or (ii) that, with respect to transfers made in reliance on Rule 144A under the Securities Act, the Series ___ Definitive Notes are being transferred in a transaction permitted by Rule 144A under the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Initial Purchasers of the Series ___ Notes.

[Insert Name of Transferor]

By: _____
Name:
Title:

Dated:_____, 200__

FORM OF TRANSFER CERTIFICATE FOR TRANSFER OR
EXCHANGE FROM DEFINITIVE NOTE
TO RESTRICTED GLOBAL NOTE

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

Reference is hereby made to the Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

This letter relates to _____ principal amount of Series ____ Notes which are held in the form of the Series _____ Definitive Notes (CUSIP (CANS) No.) by [transferor] as owner (the "Transferor"). The Transferor has requested an exchange or transfer of its beneficial interest in the Series ___ Notes for an interest in the Restricted Global Series ___ Note (CUSIP No. [ ]).

In connection with such request, and in respect of such Series ___ Definitive Notes, the Transferor does hereby certify that such Series ___ Definitive Notes are being transferred in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act") to a transferee that the Transferor reasonably believes is purchasing the Series ___ Notes for its own account or an account with respect to which the transferee exercises sole investment discretion and the transferee and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

This certificate and the statements contained herein are made for your benefit and the benefit of the Issuer and the Initial Purchasers of the Series ___ Notes.

[Insert Name of Transferor]

By: _____
Name:
Title:

Dated: _____, 200__

FORM OF TRANSFER CERTIFICATE
FOR TRANSFER OF DEFINITIVE NOTES TO
BE DELIVERED UPON EXCHANGE OR REGISTRATION
OF TRANSFER OF DEFINITIVE SECURITIES

To: Deutsche Bank Trust Company Americas, as Indenture Trustee

Re: Carmel Mountain Funding Trust Home Mortgage Loan Notes

This Certificate relates to _____ principal amount of [Subordinated] [Term] Notes held in definitive form by (the "Transferor") (CUSIP No. __)

[insert name of transferor] issued pursuant to a Base Indenture dated as of May 10, 2005 between CARMEL MOUNTAIN FUNDING TRUST, as Issuer, and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Indenture Trustee (the "Base Indenture"). Capitalized terms used herein and not otherwise defined, shall have the meanings given thereto in the Base Indenture.

The Transferor has requested the Indenture Trustee by written order to exchange or register the transfer of a [Subordinated] [Term] Note or [Subordinated] [Term] Notes.

In connection with such request and in respect of each such [Subordinated] [Term] Note, the Transferor does hereby certify as follows:*

☐ Such Note is being acquired for its own account, without transfer.

☐ Such Note is being transferred (i) to a purchaser who the Transferor reasonably believes is a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A and (x) such purchaser has been given notice that the transfer of the Notes is being made in reliance upon Rule 144A and such purchaser has acquired the Notes in a transaction effected in accordance with the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (y) if the purchaser has purchased the Notes for one or more accounts for which it is acting as fiduciary or agent, each such account is a qualified institutional buyer or (ii) pursuant to Rule 144 under the Securities Act.

☐ Such transfer is being made in reliance on Regulation S under the Securities Act: (1) the offer of the Series _____ Definitive Notes was not made to a person in the United States; (2) (A) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or (B) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States; (3) no directed selling efforts have been made in contravention of the requirements of Rule 903(a)(2) or 904(a)(2) of Regulation S, as applicable, and (4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

☐ Such Note is being transferred in reliance on and in compliance with an exemption from the registration requirements of the Securities Act, other than Rule 144A, or Rule 144 or Regulation S under the Securities Act and in compliance with other applicable state and federal securities laws and an opinion of counsel is being furnished simultaneously with the delivery of this Certificate as required under Section 2.12 of the Base Indenture.

In connection with such request and in respect of such Notes, the Transferor represents and warrants that the purchaser is acquiring such Notes for its own account or for an institutional account for which it is acting as fiduciary or agent in a minimum amount equivalent to not less than $1,000,000.

[INSERT NAME OF TRANSFEROR]

By: _____

Name: _____

Title: _____

$ minimum of $1,000,000.
Date:
* Check applicable box.

EXHIBIT B

Form of DTC Notice to Investors

Carmel Mountain Funding Trust

The Depository Trust Company
IMPORTANT NOTICE

DATE: [_____], 2005

TO: ALL PARTICIPANTS

RE: Carmel Mountain Funding Trust (the "Issuer") Notes

The Issuer referred to above is putting Participants on notice that they are required to follow these purchase and transfer restrictions with regard to the above-referenced Notes.

In order to qualify for the exemption provided by Section 3(c)(7) under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the exemption provided by Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), offers, sales and resales of the above-referenced Notes, in global form, to persons that are U.S. Persons as defined in Regulation S under the Securities Act ("U.S. Persons") or U.S. residents within the meaning of the Investment Company Act ("U.S. Residents") may only be made in minimum denominations of $200,000 and integral multiples of $1,000 in excess thereof to "qualified institutional buyers" ("QIBs") within the meaning of Rule 144A that are also "qualified purchasers" ("QPs") within the meaning of the Investment Company Act. Each purchaser of Notes, in global form, (I) represents to and agrees with the Issuer that (A) (i) the purchaser is a QIB that is a QP (a "QIB/QP"); (ii) the purchaser is not a broker-dealer that owns and invests on a discretionary basis less than $25 million in securities of unaffiliated issuers; (iii) the purchaser is not a participant-directed employee plan, such as a 401(k) plan; (iv) the QIB/QP is acting for its own account, or the account of another QIB/QP; (v) the purchaser is not formed for the purpose of investing in the Issuer; (vi) the purchaser, and each account for which it is purchasing, must hold at least the minimum denomination of Notes; and (vii) the purchaser will provide notice of the transfer restrictions to any subsequent transferees or (B) it is neither a U.S. Person nor a U.S. Resident and is purchasing the Notes outside the United States in an offshore transaction in reliance on Regulation S and (II) acknowledges that the Issuer has not been registered under the Investment Company Act and the Notes have not been registered under the Securities Act and represents to and agrees with the Issuer that, for so long as the Notes are outstanding, it will not offer, resell, pledge or otherwise transfer the Notes, in global form, in the United States or to a U.S. Person or a U.S. Resident except to a QIB that is also a QP in a transaction meeting the requirements of Rule 144A. Each purchaser further understands that the Notes will bear a legend with respect to such transfer restrictions. See "Notice to Investors" in the Offering Circular, dated May 10, 2005 relating to the Notes.

The Indenture, dated as of May 10, 2005, between the Issuer and Deutsche Bank Trust Company Americas provides that the Issuer shall have the right to (i) require any holder of Notes in global

form, that is a U.S. Person or a U.S. Resident who is determined not to have been both a QIB and a QP at the time of purchase of the Notes to sell the Notes to (i) a person that is a QIB that is also a QP in a transaction meeting the requirements of Rule 144A or (ii) a person that is neither a U.S. Person nor a U.S. Resident in an offshore transaction in accordance with Regulation S. In addition, the Issuer has the right to refuse to register a transfer of the Notes to a transferee that is a U.S. Person or a U.S. Resident who is not both a QIB and a QP.

The restrictions on transfer required by the Issuer (outlined above) will be reflected under the notation "3c7" in DTC's User Manuals and in upcoming editions of DTC's Reference Directory.

EXHIBIT C

FORM OF CERTIFICATE OF BENEFICIAL OWNERSHIP

Re: Carmel Mountain Funding Trust
Home Mortgage Loan Notes, Series [____] (the "Securities")

If the Securities are of the category contemplated in Section 230.903(c)(3) of Regulation S under the Securities Act of 1933, as amended (the "Act"), then this is to certify that, except as set forth below, (i) in the case of debt securities, the Securities are beneficially owned by (a) non-U.S. persons or (b) U.S. persons who purchased the Securities in transactions which did not require registration under the Act; or (ii) in the case of equity securities, the Securities are owned by (x) non-U.S. persons (and such person(s) are not acquiring the Securities for the account or benefit of U.S. person(s)) or (y) U.S. person(s) who purchased the Securities in a transaction which did not require registration under the Act. If this certification is being delivered in connection with the exercise of warrants pursuant to Section 230.902(m) of Regulation S under the Act, then this is further to certify that, except as set forth below, the Securities are being exercised by and on behalf of non-U.S. person(s). As used in this paragraph the terms "U.S. person" has the meaning given to it by Regulation S under the Act.

As used herein, "United States" or "U.S." means the United States of America (including the States and the District of Columbia); and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the Securities held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

This certification excepts and does not relate to _____ of such interest in the Securities in respect of which we are not able to certify and as to which we understand exchange and delivery of definitive Securities (or, if relevant, exercise of any rights or collection of any interest) cannot be made until we do so certify.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification to any interested party in such proceedings.

Date:_____, 20____

By: _____
As, or as agent for, the beneficial owner(s)
of the Securities to which this certificate relates.

EXHIBIT D

FORM OF MONTHLY CERTIFICATE

CARMEL MOUNTAIN FUNDING TRUST
HOME MORTGAGE LOAN NOTES

The undersigned, a duly authorized representative of CARMEL MOUNTAIN FUNDING TRUST, a Delaware statutory trust (the "Issuer"), pursuant to the Base Indenture, dated as of May 10, 2005 (hereinafter as such agreement may have been, or may be from time to time, supplemented, amended or otherwise modified, the "Indenture"), between the Issuer, as Issuer, and Deutsche Bank Trust Company Americas, as Indenture Trustee, do hereby certify to the best of their knowledge after reasonable investigation that:

1. Capitalized terms used in this certificate have the respective meanings set forth in the Indenture, or in the case of a particular Series of [Term]/[Subordinated] Notes, the related Supplement. This certificate is delivered pursuant to Section 4.1(a) of the Base Indenture.

2. The undersigned is an Authorized Officer of the Issuer.

3. The date of this certificate is a Determination Date under the Base Indenture. Attached hereto as Schedule I is a true and correct copy of the Monthly Certificate to be delivered on the Determination Date pursuant to Section 4.1(a) of the Base Indenture.

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this certificate this day of _____, ____.

CARMEL MOUNTAIN FUNDING TRUST

By: Accredited Home Lenders, Inc., as Administrator

By: _____
Name:
Title:

SCHEDULE I

1. The total amount to be distributed to the [Term]/[Subordinated] Noteholders (expressed as a dollar amount per $1,000) on the next succeeding Payment Date is equal to (for each Series of [Term]/[Subordinated] Notes and each Class of each Series):

Series %
Class ____ _____%
Class ____ _____%
Series %
Class ____ _____%
Class ____ _____%
etc.

2. (a) The aggregate amount to be distributed to the [Term]/[Subordinated] Noteholders (expressed as a dollar amount per $1,000) on the next succeeding Payment Date in respect of principal is equal to (for each Series of [Term]/[Subordinated] Notes and each Class of each Series):

Series %
Class ____ _____%
Class ____ _____%
Series %
Class ____ _____%
Class ____ _____%
etc.

(b) The aggregate amount to be distributed to the [Term]/[Subordinated] Noteholders (expressed as a dollar amount per $1,000) on the next succeeding Payment Date in respect of interest is equal to (for each Series of [Term]/[Subordinated] Notes and each Class of each Series):

(c) The aggregate amount of Enhancement used or drawn in connection with the distribution to the [Term]/[Subordinated] [Senior Term] Noteholders on the next succeeding Payment Date and the aggregate amount of remaining Enhancement not theretofore used or drawn are equal to (for each Series of Notes and each Class of each Series):

Series %
Class ____ _____%
Class ____ _____%
Series %
Class ____ _____%
Class ____ _____%
etc.

3. The following Liens exist on the Collateral (excluding Liens granted pursuant to the Security Agreement and the other Program Documents or permitted thereunder):

[State "None" or list as applicable]

EXHIBIT E

FORM OF MONTHLY NOTEHOLDERS' STATEMENT

CARMEL MOUNTAIN FUNDING TRUST
HOME MORTGAGE LOAN NOTES
Series _____

Under Section 4.1(b) of the Base Indenture, dated as of May 10, 2005 (hereinafter as such agreement may have been, or may be from time to time, supplemented, amended or otherwise modified, the "Base Indenture"), between CARMEL MOUNTAIN FUNDING TRUST, a Delaware statutory trust (the "Issuer"), and Deutsche Bank Trust Company Americas, as Indenture Trustee (the "Indenture Trustee"), the Issuer is required to prepare certain information each month for the Indenture Trustee regarding current distributions to [Term]/[Subordinated] Noteholders. The information which is required to be prepared with respect to the [Distribution]/[Payment] Date of , 200_ is set forth below. Capitalized terms used herein have their respective meanings set forth in the Definitions List attached as Schedule I to the Security Agreement, or in the case of a particular Series of [Term]/[Subordinated] Notes, the related Supplement.

NOTE: Information contained herein with respect to each Series will only be distributed to Holders of [Term]/[Subordinated] Notes with respect to such Series.

I. PAYMENTS TO [TERM]/[SUBORDINATED] NOTEHOLDERS

As of _____, the payments with respect to principal and interest are computed as the result of the following:

A. With respect to interest payments on Series 200[ ]-[__] Notes:

(1) The Series 200[ ]-[__] [Term]/[Subordinated] Note Rate for the preceding Series 200[ ]-[____] Interest Period: ___%/12 (only if Note Rate is annualized), times

(2) The outstanding aggregate Principal Amount of the Series 200[ ]-[__] [Term]/[Subordinated] Notes, times

(3) The actual number of days in such Series 200[ ]-[__] Interest Period divided by 360: _____, *plus*

(4) Any unpaid Series 200[ ]-[__] Interest Shortfall (plus interest accrued thereon): $_____, *plus*

(5) With respect to the Series 200[ ]-[ ] Subordinated Notes, any unpaid Carry-Over Interest Shortfall (plus interest accrued thereon): $_____.

Series 200[ ]-[__] Interest Amount (((1) * (2) * (3)) + (4) + (5)) = $_____.

B. With respect to the principal payment on the Series 200[ ]-[__] [Term]/[Subordinated] Notes:

On the Series 200[ ]-[__] Final [Distribution]/[Payment] Date (otherwise $0): $_____.

C. The total amount distributed to the Series 2003-[__] [Term]/[Subordinated] Noteholders: (A + B): $_____.

D. (1) The total amount of Enhancement used or drawn $_____.

(2) The total amount of Enhancement available to be drawn on $_____.

II. LIENS AND DEFAULTS

The following Liens exist on the Collateral (excluding Liens granted pursuant to the Indenture and the other Program Documents or permitted thereunder):

[List as applicable]

IN WITNESS WHEREOF, the undersigned have duly executed this certificate this day of _____, ____.

CARMEL MOUNTAIN FUNDING TRUST

By: Accredited Home Lenders, Inc., as Administrator

By: _____
Name:
Title:

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Exhibit A: Form of Restricted Global Series 2005-A Subordinated Note
Exhibit B: Form of Definitive Note Series 2005-A Subordinated Note

SERIES 2005-A SUPPLEMENT, dated as of May 10, 2005 (this "Supplement") between CARMEL MOUNTAIN FUNDING TRUST a statutory trust established under the laws of Delaware (the "Issuer"), DEUTSCHE BANK TRUST COMPANY AMERICAS, a, New York banking corporation as indenture trustee (together with its successors in trust thereunder as provided in the Base Indenture referred to below, the "Indenture Trustee"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, as paying agent for the benefit of the Series 2005-A Subordinated Noteholders (the "Paying Agent"), to the Base Indenture, dated as of May 10, 2005, between the Issuer and the Indenture Trustee (as further amended, modified or supplemented from time to time, exclusive of Supplements creating a new Series of Subordinated Notes, the "Base Indenture").

PRELIMINARY STATEMENT

WHEREAS, Sections 2.2, 2.3 and 12.1 of the Base Indenture provide, among other things, that the Issuer and the Indenture Trustee may at any time and from time to time enter into a supplement to the Base Indenture for the purpose of authorizing the issuance of one or more Series of Subordinated Notes.

NOW, THEREFORE, the parties hereto agree as follows:

DESIGNATION

There is hereby created a Series of Subordinated Notes to be issued pursuant to the Base Indenture and this Supplement and such Series of Subordinated Notes shall be designated as Variable Rate Subordinated Notes, Series 2005-A (the "Series 2005-A Subordinated Notes"). The Series 2005-A Subordinated Notes shall be issued in an Initial Principal Amount of $40,000,000.

The proceeds from the sale of the Series 2005-A Subordinated Notes shall be deposited in the Collateral Account and shall be used by the Issuer to acquire Mortgage Loans from the Seller, to invest in Eligible Investments or to pay any amounts due and owing on the Issuer's outstanding obligations in accordance with the Program Documents.

ARTICLE 1
Definitions

All capitalized terms not otherwise defined herein are defined in the Definitions List attached to the Security Agreement, dated as of May 10, 2005 (the "Security Agreement") between the Issuer and Deutsche Bank Trust Company Americas, as Collateral Agent, as Schedule I thereto. All Article, Section or Subsection references herein shall refer to Articles, Sections or Subsections of the Base Indenture, except as otherwise provided herein. Unless otherwise stated herein or the context otherwise requires or if such term is otherwise defined in the Security Agreement, each capitalized term used or defined herein shall relate only to the Series 2005-A Subordinated Notes and not to any other Series of Subordinated Notes issued by the Issuer.

The following words and phrases shall have the following meanings with respect to the Series 2005-A Subordinated Notes and the definitions of such terms are applicable to the singular as well as the plural form of such terms and to the masculine as well as the feminine and neuter genders of such terms:

"LIBOR" shall be determined in accordance with Section 2.3(b)(i) hereof.

"LIBOR Determination Date" has the meaning specified in Section 2.3(b)(i) hereof.

"Optional Repurchase" has the meaning specified in Section 2.4 of this Supplement.

"Paying Agent" has the meaning specified in the initial paragraph hereto.

"Qualified Institutional Buyer" has the meaning specified in Section 3.1 hereof.

"Reference Banks" shall have the meaning specified in Section 2.3(b)(ii) hereof.

"Restricted Global Series 2005-A Subordinated Note" has the meaning specified in Section 3.1 hereof.

"Series 2005-A Carry-Over Interest Deficiency" means for each Payment Date an amount equal to the excess, if any, of (i) the Series 2005-A Carry-Over Interest Shortfall Amount for such Payment Date, *over* (ii) all amounts paid to the Series 2005-A Subordinated Noteholders in respect of the Series 2005-A Carry-Over Interest Shortfall Amount on such Payment Date.

"Series 2005-A Carry-Over Interest Shortfall Amount" means for each Payment Date an amount equal to the product of (i) the aggregate Principal Amount Charge-Offs allocated to the Series 2005-A Subordinated Notes on such Payment Date, *plus* the Series 2005-A Carry-Over Interest Deficiency on the preceding Payment Date (after giving effect to all Principal Amount Charge-Offs and Principal Amount Reinstatements made on such preceding Payment Date in respect of the Series 2005-A Subordinated Notes), (ii) the applicable Series 2005-A Subordinated Note Rate for the preceding Series 2005-A Interest Period and (iii) the actual number of days in such Series 2005-A Interest Period divided by 360.

"Series 2005-A Closing Date" means May 10, 2005.

"Series 2005-A Collateral" means the Collateral and the Series 2005-A Payment Account Collateral.

"Series 2005-A Final Scheduled Payment Date" means May 26, 2010.

"Series 2005-A Initial Purchaser" means Lehman Brothers Inc.

"Series 2005-A Interest Amount" means for each Payment Date an amount equal to the product of (i) the Series 2005-A Principal Amount plus the Series 2005-A Interest

Shortfall, each as of the preceding Payment Date (after giving effect to all payments and allocations made on such prior Payment Date or, with respect to the first Payment Date for the Series 2005-A Subordinated Notes, on the Series 2005-A Closing Date), (ii) the applicable Series 2005-A Subordinated Note Rate for the preceding Series 2005-A Interest Period and (iii) the actual number of days in such Series 2005-A Interest Period divided by 360.

"Series 2005-A Interest Period" means, with respect to any Payment Date, the period from and including the immediately preceding Payment Date (or the Series 2005-A Closing Date in the case of the first Payment Date) to and including the day immediately preceding such Payment Date.

"Series 2005-A Interest Shortfall" means the excess, if any of (a) the Series 2005-A Interest Amount over (b) the amount paid to the Series 2005-A Subordinated Noteholders in respect of the Series 2005-A Interest Amount for the related Series 2005-A Interest Period.

"Series 2005-A Payment Account" has the meaning specified in Section 2.6(a) hereof.

"Series 2005-A Payment Account Collateral" has the meaning specified in Section 2.6(d) hereof.

"Series 2005-A Principal Amount" shall be an amount equal to (i) the Initial Principal Amount of the Series 2005-A Subordinated Notes issued on the Series 2005-A Closing Date, *less* (ii) the aggregate amount of any Principal Amount Charge-Offs allocated to the Series 2005-A Subordinated Notes, *plus* (iii) the aggregate amount of any Principal Amount Reinstatements allocated to the Series 2005-A Subordinated Notes, *less* (iv) any amounts distributed to Series 2005-A Subordinated Noteholders in respect of the Series 2005-A Principal Amount thereof.

"Series 2005-A Required Subordinated Noteholders" means Series 2005-A Subordinated Noteholders holding in excess of 50% of the Series 2005-A Principal Amount (excluding Series 2005-A Subordinated Notes held by any Seller, the Servicer or Affiliate of any Seller or the Servicer).

"Series 2005-A Subordinated Note Calculation Agent" means, with respect to the Series 2005-A Subordinated Notes, Deutsche Bank Trust Company Americas, as agent for purposes of calculating the Series 2005-A Subordinated Note Rate, or its designee.

"Series 2005-A Subordinated Note Rate" means a per annum rate equal to LIBOR *plus* 1.45%.

"Series 2005-A Subordinated Noteholders" shall mean the holders of the Series 2005-A Subordinated Notes.

"Series 2005-A Subordinated Notes" means any one of the Variable Rate Subordinated Notes, Series 2005-A, executed by the Issuer and authenticated by or on behalf of the Indenture Trustee, substantially in the form of Exhibit A or Exhibit B.

"Subordinated Note Registrar" means Deutsche Bank Trust Company Americas, or any successor subordinated note registrar.

"Subordinated Note Representative" has the meaning specified in Section 2.5(c) hereof.

"Supplement" has the meaning set forth in the preamble.

"Transfer" has the meaning specified in Section 3.3 hereof. "Void Transfer" has the meaning specified in Section 3.3 hereof.

ARTICLE 2
SERIES 2005-A SUBORDINATED NOTES

With respect to the Series 2005-A Subordinated Notes, the following shall apply:

Section 2.1 Payment of Principal.

The Issuer will issue the Series 2005-A Subordinated Notes in the forms set forth as Exhibits A and B to this Supplement. The Series 2005-A Subordinated Notes will be issued in an aggregate Series 2005-A Principal Amount of $40,000,000. Unless a Security Agreement Event of Default or an Indenture Event of Default that results in the cessation of the issuance of the Secured Liquidity Notes or Term Notes occurs or an Optional Repurchase occurs, no Series 2005-A Principal Amount will be payable on the Series 2005-A Subordinated Notes until the Series 2005-A Final Scheduled Payment Date; provided, however, that, for purposes of an Indenture Event of Default, until the Senior Notes are paid in full, no Series 2005-A Principal Amount will be due or become due.

Section 2.2 Payment of Interest.

(a) Interest will accrue during each Series 2005-A Interest Period on the Series 2005 MSC Principal Amount plus the Series 2005 MSC Interest Shortfall, each as of the preceding Payment Date, at a per annum rate equal to the Series 2005-A Subordinated Note Rate, commencing on the Series 2005-A Closing Date; provided, however, that, for purposes of an Indenture Event of Default, until the Senior Notes are paid in full, no interest will be due or become due.

(b) The Paying Agent will distribute from funds available therefor in the Series 2005-A Payment Account *pro rata* to Series 2005-A Subordinated Noteholders the Series 2005-A Interest Amount. The Series 2005-A Interest Amount will be payable on each Payment Date to the holders of the Series 2005-A Subordinated Notes as of the close of business on the immediately preceding Note Record Date, commencing June 27, 2005 and ending on the Series 2005-A Final Scheduled Payment Date. In the event that the Paying Agent or its designated agent receives funds in an amount less than the Series 2005-A Interest Amount, additional interest on the Series 2005-A Interest Shortfall shall accrue at the applicable Series 2005-A Subordinated Note Rate. The Series 2005-A Interest Shortfall and additional interest on the

Series 2005-A Interest Shortfall shall be paid to Series 2005-A Subordinated Noteholders in accordance with the Priority of Payments.

(c) In the event that the Series 2005-A Principal Amount is reduced by any Principal Amount Charge Off, additional interest on the aggregate Principal Amount Charge-Offs allocated to the Series 2005-A Subordinated Notes and the Series 2005-A Carry-Over Interest Deficiency, each as of the preceding Payment Date, shall accrue at the applicable Series 2005-A Subordinated Note Rate. The related Series 2005-A Carry Over Interest Shortfall Amount and the Series 2005-A Carry Over Interest Deficiency shall be paid to the Series 2005-A Subordinated Noteholders in accordance with the Priority of Payments.

Section 2.3 Calculation of Interest.

(a) For purposes of calculating the Series 2005-A Subordinated Note Rate, Deutsche Bank Trust Company Americas is hereby appointed as, and hereby accepts such appointment and agrees to perform the duties of, the Series 2005-A Subordinated Note Calculation Agent. The Series 2005-A Subordinated Note Calculation Agent may be removed by the Series 2005-A Required Subordinated Noteholders at any time. If the Series 2005-A Subordinated Note Calculation Agent is unable or unwilling to act as such or is removed by the Series 2005-A Required Subordinated Noteholders, or if the Series 2005-A Subordinated Note Calculation Agent fails to determine the Series 2005-A Subordinated Note Rate, the Series 2005-A Interest Amount, the Series 2005-A Interest Shortfall, the Series 2005-A Carry Over Interest Shortfall Amount and the Series 2005-A Interest Deficiency Amount for any Series 2005-A Interest Period, the Series 2005-A Required Subordinated Noteholders will promptly appoint as a replacement Series 2005-A Subordinated Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market. The Series 2005-A Subordinated Note Calculation Agent may not resign its duties without a successor having been duly appointed.

(b) LIBOR shall be determined by the Series 2005-A Subordinated Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of a Series 2005-A Interest Period (each such day, a "LIBOR Determination Date"), "LIBOR" shall equal the rate, as obtained by the Series 2005-A Subordinated Note Calculation Agent, for one-month Eurodollar deposits which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange Definitions) or such other page as may replace Telerate Page 3750, as it relates to U.S. dollars, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750, the Series 2005-A Subordinated Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for one-month Eurodollar deposits in an amount determined by the Series 2005-A Subordinated Note Calculation Agent by reference to requests for quotations as of approximately

11:00 a.m. (London time) on the LIBOR Determination Date made by the Series 2005-A Subordinated Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two (2) of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one (1) or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in The City of New York selected by the Series 2005-A Subordinated Note Calculation Agent are quoting on the relevant LIBOR Determination Date for one-month Eurodollar deposits in an amount determined by the Series 2005-A Subordinated Note Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; provided, however, that if the Series 2005-A Subordinated Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, "LIBOR" shall be LIBOR as determined on the previous LIBOR Determination Date. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Series 2005-A Subordinated Note Calculation Agent.

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. (London time) on the Business Day immediately following each LIBOR Determination Date, the Series 2005-A Subordinated Note Calculation Agent will cause the Series 2005-A Subordinated Note Rate, the Series 2005-A Interest Amount, the Series 2005-A Interest Shortfall, the Series 2005-A Carry Over Interest Shortfall Amount and the Series 2005-A Carry Over Interest Deficiency for the next Series 2005-A Interest Period payable in respect of the Series 2005-A Subordinated Notes on the related Payment Date to be given to the Issuer and the Paying Agent. The Series 2005-A Subordinated Note Calculation Agent will also specify to the Issuer the quotations upon which the Series 2005-A Subordinated Note Rate is based, and in any event the Series 2005-A Subordinated Note Calculation Agent shall notify the Issuer before 5:00 p.m. (London time) on each LIBOR Determination Date that either: (i) it has determined or is in the process of determining the Series 2005-A Subordinated Note Rate and the Series 2005-A Interest Amount or (ii) it has not determined and is not in the process of determining the Series 2005-A Subordinated Note Rate and the Series 2005-A Interest Amount, together with its reasons therefor. For the sole purpose of calculating the Series 2005-A Subordinated Note Rate, "Business Day" shall be any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

Section 2.4 Optional Repurchase.

In connection with the termination of the Issuer's Secured Liquidity Notes program (other than a termination through the replacement of such program with a facility having substantially similar terms; any such replacement facility may be deemed to have substantially similar terms even though interest rate spreads may differ), and repayment of all of the Senior Notes and upon satisfaction of the requirements included in the Program Documents (including the payment of any amounts due and owing to the Senior Secured Parties), the Series 2005-A Subordinated Notes, together with all other outstanding Series of Subordinated Notes, may be repurchased (an "Optional Repurchase"), in whole but not in part, by the Issuer on any Payment Date upon not more than sixty (60) nor less than thirty (30) days' prior notice to the

Subordinated Noteholders at a price equal to the aggregate outstanding Principal Amount thereof together with any accrued and unpaid interest thereon, any Interest Shortfall and interest thereon to the date of repurchase and the aggregate amount of all Principal Amount Charge-Offs that have not been reinstated (unless each holder of the Series 2005-A Subordinated Notes waives the payment of such Principal Amount Charge-Offs); provided, that the Issuer shall effect an Optional Repurchase at the written request of any Swap Counterparty given no earlier than the sixtieth (60th) day following the date that the last Mortgage Loan has been sold and all the Senior Notes have been satisfied following a Termination Event at a purchase price equal to the aggregate outstanding Principal Amount of the Subordinated Notes of all Series on such Payment Date, plus accrued and unpaid interest on the unpaid aggregate Principal Amount of the Subordinated Notes of all Series and any Interest Shortfalls and interest thereon to the date of repurchase.

Section 2.5 Final Scheduled Payment; Early Amortization.

(a) The Series 2005-A Principal Amount, *plus* the aggregate amount of any Principal Amount Charge-Offs allocated to the Series 2005-A Subordinated Notes which have not been reinstated, will be payable in full on the Series 2005-A Final Scheduled Payment Date, as the case may be.

(b) Upon the occurrence of a Security Agreement Event of Default or an Indenture Event of Default that results in the cessation of the issuance of the Secured Liquidity Notes or an Optional Repurchase, the Issuer will be prohibited from purchasing additional Mortgage Loans and, in such case, the principal collections on Mortgage Loans, the proceeds of sales of Mortgage Loans and the amounts received from the Swap Counterparty will be available to be applied to the repayment of all Series of Subordinated Notes, subject to the Priority of Payments set forth in Section 7.02(b) of the Security Agreement.

(c) In connection with any such Security Agreement Event of Default or Indenture Event of Default , upon a sale or disposition of a Defaulted Loan, a Delinquent Loan or a portfolio of Defaulted Loans and/or Delinquent Loans (each, a "Portfolio"), the Collateral Agent shall use commercially reasonable efforts to obtain three (3) or more bids for each such Defaulted Loan, Delinquent Loan or Portfolio; provided, however, that such bids shall be received within ten (10) Business Days of one another. The Collateral Agent shall promptly notify the holder of the largest Principal Amount of all Series of Subordinated Notes or, if no single holder holds the largest Principal Amount of all Series of Subordinated Notes, such person as the Required Subordinated Noteholders shall designate (the "Subordinated Note Representative"), of the highest bid price obtained. The Subordinated Note Representative shall have the option to purchase such Defaulted Loans, Delinquent Loans or Portfolio within certain time periods at a price at least equal to 102% of such highest bid price but in no event more than the amount of the Outstanding Purchase Price of such Mortgage Loan or Mortgage Loans (plus accrued interest thereon) after giving effect to amounts payable by the Swap Counterparty with respect to the sale of such Mortgage Loan or Mortgage Loans. The Subordinated Note Representative will have certain time periods specified in the Security Agreement within which to elect to purchase, and to pay for, such Defaulted Loans, Delinquent Loans or Portfolio. In the event that the Subordinated Note Representative fails to elect to purchase or pay for such Defaulted Loans, Delinquent Loans or Portfolio within the applicable time period, the Collateral

Agent shall have the right to sell such Defaulted Loans, Delinquent Loans or Portfolio to the highest bidder.

Section 2.6 Series 2005-A Payment Account.

(a) Establishment of Series 2005-A Payment Account. The Issuer shall establish and maintain in the name of the Indenture Trustee for the benefit of the Series 2005-A Subordinated Noteholders, or cause to be established and maintained, a segregated non-interest bearing trust account (the "Series 2005-A Payment Account"), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2005-A Subordinated Noteholders. The Series 2005-A Payment Account will not be subjected to the lien of the Security Agreement. The Series 2005-A Payment Account shall be maintained (i) with a Qualified Institution, or (ii) as a segregated trust account with the corporate trust department of a depository institution or trust company having corporate trust powers and acting as Indenture Trustee for funds deposited in the Series 2005-A Payment Account; provided that, if at any time such Qualified Institution is no longer a Qualified Institution or the credit rating of any securities issued by such depositary institution or trust company shall be reduced to below "BBB-" by S&P or "Baa3" by Moody's, then the Issuer shall, within 30 days of such reduction, establish a new Series 2005-A Payment Account with a new Qualified Institution. If the Series 2005-A Payment Account is not maintained in accordance with the previous sentence, the Issuer shall establish a new Payment Account, within ten (10) Business Days after obtaining knowledge of such fact, which complies with such sentence, and shall instruct the Indenture Trustee in writing to transfer all cash and Eligible Investments from the non-qualifying Series 2005-A Payment Account into the new Series 2005-A Payment Account. Initially, the Series 2005-A Payment Account will be established with the Indenture Trustee.

(b) Administration of the Series 2005-A Payment Account. The Indenture Trustee, at the written instruction of the Servicer, may instruct the institution maintaining the Series 2005-A Payment Account to invest funds on deposit in the Series 2005-A Payment Account from time to time in Eligible Investments; provided, however, that any such Eligible Investment shall mature not later than the Business Day prior to the Payment Date following the date on which such funds were received, unless any Eligible Investment held in the Series 2005-A Payment Account is held with the Indenture Trustee, then such investment may mature on such Payment Date and such funds shall be available for withdrawal on or prior to such Payment Date. All such Eligible Investments will be credited to the Series 2005-A Payment Account.

(c) Earnings from Series 2005-A Payment Account. All interest and earnings (net of losses and investment expenses) paid on funds on deposit in the Series 2005-A Payment Account shall be deemed to be on deposit and available for distribution.

(d) Series 2005-A Payment Account Constitutes Additional Collateral for Series 2005-A Subordinated Notes. In order to secure and provide for the repayment and payment of the Issuer's obligations with respect to the Series 2005-A Subordinated Notes, the Issuer hereby grants a security interest in and assigns, pledges, grants, transfers and sets over to the Paying Agent, for the benefit of the Series 2005-A Subordinated Noteholders, all of the Issuer's right, title and interest in and to the following (whether now or hereafter existing or acquired): (i) the Series 2005-A Payment Account, including any security entitlement thereto;

(ii) all funds on deposit therein from time to time; (iii) all certificates and instruments, if any, representing or evidencing any or all of the Series 2005-A Payment Account or the funds on deposit therein from time to time; (iv) all Eligible Investments made at any time and from time to time with monies in the Series 2005-A Payment Account, whether constituting securities, instruments, general intangibles, investment property, financial assets or other property; (v) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for the Series 2005-A Payment Account, the funds on deposit therein from time to time or the Eligible Investments made with such funds; and (vi) all proceeds of any and all of the foregoing, including, without limitation, cash (the items in the foregoing clauses (i) through (vi) are referred to, collectively, as the "Series 2005-A Payment Account Collateral"). The Paying Agent shall possess all right, title and interest in all funds on deposit from time to time in the Series 2005-A Payment Account and in all proceeds thereof, and shall be the only person authorized to originate entitlement orders in respect of the Series 2005-A Payment Account. The Series 2005-A Payment Account Collateral shall be under the sole dominion and control of the Paying Agent for the benefit of the Series 2005-A Subordinated Noteholders.

ARTICLE 3
FORM AND TRANSFER RESTRICTIONS OF SERIES 2005-A NOTES

Section 3.1 Restricted Global Series 2005-A Subordinated Notes; Definitive Notes

The Series 2005-A Subordinated Notes sold in the United States to persons who are qualified institutional buyers within the meaning of, and in reliance on, Rule 144A under the Securities Act ("Qualified Institutional Buyers") who are also "qualified purchasers" within the meaning of the Investment Company Act ("Qualified Purchasers") will be issued in book-entry form and represented by one or more permanent global notes without interest coupons (each, a "Restricted Global Series 2005-A Subordinated Note"), substantially in the form set forth in Exhibit A hereto, with such legends as may be applicable thereto as set forth in the Base Indenture, deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC, duly executed by the Issuer and authenticated by the Indenture Trustee in the manner set forth in Section 2.7 of the Base Indenture. Beneficial interests in a Restricted Global Series 2005-A Subordinated Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

Section 3.2 2005-A Subordinated Note Sold Pursuant to Regulation S.

The Series 2005-A Subordinated Notes sold outside the United States in reliance on Regulation S under the Securities Act shall be issued in definitive, full registered, certificated form without interest coupons, substantially in the form set forth in Exhibit B hereto, duly executed by the Issuer and authenticated by the Indenture Trustee in the manner set forth Section 2.7 of the Base Indenture.

Section 3.3 Transfer and Exchange of Subordinated Notes.

No Series 2005-A Subordinated Note may be issued, sold, transferred, assigned, participated, pledged, or otherwise disposed of (any such act, a "Transfer") to any Person except in accordance with the provisions of the Base Indenture and this Indenture Supplement and any attempted Transfer in violation of this Section shall be null and void (each, a "Void Transfer"). If a Transfer of a Series 2005-A Subordinated Note is permitted pursuant to the Base Indenture and this Supplement, a transferee of a Series 2005-A Subordinated Note shall become a Subordinated Noteholder, and shall be entitled to the rights and subject to the obligations of a Subordinated Noteholder under the Base Indenture and this Supplement upon such transferee's acceptance of a Series 2005-A Subordinated Note duly registered in such transferee's name pursuant to this Section.

ARTICLE 4
GENERAL

Section 4.1 Information.

The Indenture Trustee, upon the written request of any Series 2005-A Subordinated Noteholder, shall provide to such Series 2005-A Subordinated Noteholder, or its designated agent, copies of all requested information previously furnished to the Indenture Trustee or the Issuer pursuant to the Program Documents, as such information relates to the Series 2005-A Subordinated Notes or the Series 2005-A Collateral.

Section 4.2 Exhibits.

The following exhibits attached hereto supplement the exhibits included in the Base Indenture.

Exhibit A Form of Restricted Global Series 2005-A Subordinated Note

Exhibit B Form of Definitive Note

Section 4.3 Ratification of Base Indenture.

As supplemented by this Supplement, the Base Indenture is in all respects ratified and confirmed and the Base Indenture as so supplemented by this Supplement shall be read, taken, and construed as one and the same instrument.

Section 4.4 Counterparts.

This Supplement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

Section 4.5 Governing Law.

This Supplement shall be construed in accordance with the law of the State of New York (without giving effect to the provisions thereof regarding conflicts of laws other than Section 5-1401 of the New York General Obligations Law), and the obligations, rights and remedies of the parties hereto shall be determined in accordance with such law.

Section 4.6 Amendments.

This Supplement may be modified or amended from time to time in accordance with the terms of the Base Indenture; provided, however, that if, pursuant to the terms of the Base Indenture or this Supplement, the consent of the Series 2005-A Required Subordinated Noteholders is required for an amendment or modification of this Supplement, such requirement shall be satisfied if such amendment or modification is consented to by the Series 2005-A Required Subordinated Noteholders.

Section 4.7 Discharge of Indenture.

Notwithstanding anything to the contrary contained in the Base Indenture, no discharge of the Indenture pursuant to Section 11.1 (b) of the Base Indenture will be effective as to the Series 2005-A Subordinated Notes without the consent of the Series 2005-A Required Subordinated Noteholders.

Section 4.8 Notice to Rating Agencies.

The Indenture Trustee shall provide to each Rating Agency a copy of each notice, opinion of counsel, certificate, amendment or other item delivered to, or required to be provided by, the Indenture Trustee pursuant to this Supplement or any other Program Document. The Indenture Trustee makes this covenant as a matter of courtesy and accommodation only and shall not be liable to any Person for any failure to comply therewith.

Section 4.9 Action by Direction of Required Subordinated Noteholders.

Subject to Section 10.1 of the Base Indenture, the Indenture Trustee agrees that, so long as no Event of Default shall have occurred and be continuing with respect to any Series of Subordinated Notes other than the Series 2005-A Subordinated Notes, it shall not exercise any rights or remedies available to it as a result of the occurrence of an Event of Default with respect to the Series 2005-A Subordinated Notes until the Indenture Trustee has obtained the written direction of the Series 2005-A Required Subordinated Noteholders in accordance with the terms of the Indenture.

Section 4.10 Protections Under Base Indenture.

Deutsche Bank Trust Company Americas, as Paying Agent, Subordinated Note Registrar and Series 2005-A Subordinated Note Calculation Agent hereunder, shall have all of the protections, etc., of the Indenture Trustee under Section 10 of the Base Indenture.

Section 4.11 Statement of Intent.

The Issuer, the Indenture Trustee and each Holder of a Series 2005-A Subordinated Note intends, by its acceptance of a Series 2005-A Subordinated Note, to treat such Series 2005-A Subordinated Note as indebtedness for all United States federal, state and local income tax purposes.

Section 4.12 No Recourse.

It is expressly understood and agreed by the parties hereto that (a) this Agreement is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of the Carmel Mountain Funding Trust, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Carmel Mountain Funding Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only the Carmel Mountain Funding Trust, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of the Carmel Mountain Funding Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Carmel Mountain Funding Trust under this Agreement or any other related documents.

IN WITNESS WHEREOF, the Issuer, the Indenture Trustee and the Paying Agent have caused this Supplement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

CARMEL MOUNTAIN FUNDING TRUST, as Issuer

By: U.S. Bank Trust National Association not in its individual capacity, but solely as Owner Trustee

By: /s/ Patricia M. Child
Name: Patricia M. Child
Title: Vice President

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Indenture Trustee and as Paying Agent

By: /s/ Eileen M. Hughes
Name: Eileen M. Hughes
Title: Vice President

Exhibit A

Form of Restricted Global Series 2005-A Subordinated Note

CARMEL MOUNTAIN FUNDING TRUST
FORM OF RESTRICTED GLOBAL SUBORDINATED NOTE, SERIES 2005-A

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF CARMEL MOUNTAIN FUNDING TRUST THAT THIS NOTE IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER (UPON REDEMPTION THEREOF OR OTHERWISE), (2) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER (AS DEFINED IN THE INVESTMENT COMPANY ACT, A "QUALIFIED PURCHASER") IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES TO A NON-U.S. PERSON (AS SUCH TERM IS DEFINED IN REGULATION S OF THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER IN A TRANSACTION IN COMPLIANCE WITH REGULATION S OF THE SECURITIES ACT OR (4) IN A TRANSACTION COMPLYING WITH OR EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT IN THE CASE OF THIS CLAUSE (4) TO RECEIPT OF SUCH CERTIFICATES AND OTHER DOCUMENTS AS THE INDENTURE TRUSTEE MAY REQUIRE UNDER THE INDENTURE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE RESALE RESTRICTIONS SET FORTH ABOVE.

EACH PURCHASER REPRESENTS, WARRANTS AND COVENANTS FOR THE BENEFIT OF THE INDENTURE TRUSTEE AND THE ISSUER THAT EITHER (A) SUCH PURCHASER IS NOT AND IS NOT ACTING ON BEHALF OF (I) 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, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE")) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) ANY ENTITY DEEMED TO BE INVESTING "PLAN ASSETS" (WITHIN THE MEANING OF UNITED STATES DEPARTMENT OF LABOR REGULATION 29 C.F.R. SECTION 2510.3-101 OR OTHERWISE UNDER ERISA) OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN, OR (IV) A "GOVERNMENTAL PLAN" (AS DEFINED IN SECTION 3 (32) OF ERISA) SUBJECT TO APPLICABLE LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), (EACH OF THE FOREGOING A "BENEFIT PLAN") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL BE ELIGIBLE FOR, AND SATISFY ALL REQUIREMENTS OF, A UNITED STATES DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (OR, IN THE CASE OF A PURCHASER THAT IS A GOVERNMENTAL PLAN, WILL NOT VIOLATE ANY SIMILAR LAW). EACH PURCHASER THAT ACQUIRES A BENEFICIAL INTEREST IN THIS NOTE WILL BE DEEMED TO MAKE THE FOREGOING REPRESENTATION AND WARRANTY.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME 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.

CARMEL MOUNTAIN FUNDING TRUST
RESTRICTED GLOBAL SUBORDINATED NOTE, SERIES 2005-A

CUSIP No.: up to $40,000,000

ISIN No.:

No.: R- 1

Carmel Mountain Funding Trust, a Delaware statutory trust (the "Issuer"), for value received, hereby promises to pay to CEDE & CO., (a) upon presentation and surrender of this Note (except as otherwise permitted by the Indenture referred to below), up to the principal amount of FORTY MILLION AND NO/100 DOLLARS (U.S. $40,000,000) on May 26, 2010 (the "Series 2005-A Final Scheduled Payment Date"), unless the unpaid principal of this Note becomes due and payable at an earlier date by declaration of acceleration, call for redemption or otherwise, and (b) interest thereon on the 25th day of each month (or if such day is not a Business Day, the next following Business Day), commencing June 27, 2005 (each, a "Payment Date"), at a rate of one-month LIBOR (determined as set forth in the Indenture) plus 1.45% (the "Series 2005-A Subordinated Note Rate") until the principal hereof is paid in full or duly provided for.

This Variable Rate Subordinated Note is one of a duly authorized issue of Notes of the Issuer, designated as the Carmel Mountain Funding Trust, Series 2005-A (the "Series 2005-A Subordinated Notes"), issued under a Base Indenture dated as of May 10, 2005 (the "Base Indenture"), between the Issuer and Deutsche Bank Trust Company Americas, as indenture trustee (the "Indenture Trustee"), as supplemented by the Series 2005-A Supplement dated as of May 10, 2005 (the "Series Supplement"). The term "Indenture," unless the context otherwise requires, refers to the Base Indenture, as supplemented by the Series Supplement. The term "Security Agreement" refers to the Security Agreement dated as of May 10, 2005, between the Issuer and Deutsche Bank Trust Company Americas, as collateral agent (the "Collateral Agent"). The Notes are subject to the terms of the Indenture and Security Agreement. All capitalized terms used in this Note and not otherwise defined shall have the meanings assigned to them in the Series Supplement and Schedule I to the Security Agreement. In the event of any conflict or inconsistency between the Indenture or Security Agreement and this Note, the Indenture or Security Agreement, as applicable, shall control.

Notwithstanding anything in the Indenture or this Note to the contrary, the holder of this Note acknowledges and agrees for the benefit of the holders of the Senior

Notes that the rights of such holder in and to the Collateral and to receive payments shall be subordinate and junior to the holders of the Senior Notes and to certain other fees, indemnities, expenses and obligations of the Issuer to the extent and in the manner set forth in the Indenture and the Security Agreement.

Except under certain circumstances set forth in the Indenture, the Series 2005-A Subordinated Notes are issuable only in registered, certificated form without coupons in minimum denominations of $200,000 and any integral multiple of $1,000 in excess thereof.

This Note does not purport to summarize the Indenture or the Security Agreement and reference is made to the Indenture and Security Agreement for the interests, rights and limitations of rights, benefits, obligations and duties evidenced thereby, and the rights, duties and immunities of the Indenture Trustee and Collateral Agent, respectively.

Unless the certificate of authentication hereon has been duly executed by the Indenture Trustee by manual or facsimile signature, this Note shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN WITHOUT REGARD TO THE CONFLICT OF LAWS OR CHOICE OF LAW PRINCIPLES THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

IN WITNESS WHEREOF, U.S. Bank Trust National Association, as Owner Trustee, on behalf of the Issuer and not in its individual capacity, has caused this Note to be duly executed.

CARMEL MOUNTAIN FUNDING TRUST

BY: U.S. Bank Trust National Association, not in its individual capacity, but solely as Owner Trustee

By: _____
Name:
Title:

Dated: [_____, 2005]

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS,
as Indenture Trustee

By: _____
Name:
Title:

Dated: [_____, 2005]

Restricted Global Note

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY
OR OTHER IDENTIFYING NUMBER
OF ASSIGNEE

(Please print or type name and address, including postal zip code, of assignee)

---

the within Note , and all rights thereunder, hereby irrevocably constituting and appointing

_____ Attorney to transfer said Note on the books of the Term Note Registrar, with full power of substitution in the premises.

Dated:

____*/
Signature Guaranteed:

____*/

_____*/ NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Note in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

SCHEDULE OF EXCHANGES IN RESTRICTED GLOBAL SUBORDINATED NOTE

The initial principal balance of this Restricted Global Note is $40,000,000. The following exchanges of a part of this Restricted Global Note have been made:

Date of Exchange	Amount of decrease in Principal Balance of this Restricted Global Note	Amount of increase in Principal Balance of this Restricted Global Note	Principal Balance of this Restricted Global Note following such decrease (or increase)	Signature of authorized officer of Indenture Trustee or securities custodian

Exhibit B

Form of Definitive Series 2005-A Subordinated Note

CARMEL MOUNTAIN FUNDING TRUST
FORM OF DEFINITIVE SUBORDINATED NOTE, SERIES 2005-A

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF CARMEL MOUNTAIN FUNDING TRUST THAT THIS NOTE IS BEING ACQUIRED FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTION AND MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER (UPON REDEMPTION THEREOF OR OTHERWISE), (2) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER (AS DEFINED IN THE INVESTMENT COMPANY ACT, A "QUALIFIED PURCHASER") IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES TO A NON-U.S. PERSON (AS SUCH TERM IS DEFINED IN REGULATION S OF THE SECURITIES ACT) WHO IS ALSO A QUALIFIED PURCHASER IN A TRANSACTION IN COMPLIANCE WITH REGULATION S OF THE SECURITIES ACT OR (4) IN A TRANSACTION COMPLYING WITH OR EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (SUBJECT IN THE CASE OF THIS CLAUSE (4) TO RECEIPT OF SUCH CERTIFICATES AND OTHER DOCUMENTS AS THE INDENTURE TRUSTEE MAY REQUIRE UNDER THE INDENTURE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE RESALE RESTRICTIONS SET FORTH ABOVE.

EACH PURCHASER REPRESENTS, WARRANTS AND COVENANTS FOR THE BENEFIT OF THE INDENTURE TRUSTEE AND THE ISSUER THAT EITHER (A) SUCH PURCHASER IS NOT AND IS NOT ACTING ON BEHALF OF (I) 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, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE")) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) ANY ENTITY DEEMED TO BE INVESTING "PLAN ASSETS" (WITHIN THE MEANING OF UNITED STATES DEPARTMENT OF LABOR REGULATION 29 C.F.R. SECTION

2510.3-101 OR OTHERWISE UNDER ERISA) OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN, OR (IV) A "GOVERNMENTAL PLAN" (AS DEFINED IN SECTION 3(32) OF ERISA) SUBJECT TO APPLICABLE LAW THAT IS SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY PROVISIONS OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), (EACH OF THE FOREGOING A "BENEFIT PLAN") OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE WILL BE ELIGIBLE FOR, AND SATISFY ALL REQUIREMENTS OF, A UNITED STATES DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (OR, IN THE CASE OF A PURCHASER THAT IS A GOVERNMENTAL PLAN, WILL NOT VIOLATE ANY SIMILAR LAW). EACH PURCHASER THAT ACQUIRES A BENEFICIAL INTEREST IN THIS NOTE WILL BE DEEMED TO MAKE THE FOREGOING REPRESENTATION AND WARRANTY.

CARMEL MOUNTAIN FUNDING TRUST
VARIABLE RATE DEFINITIVE SUBORDINATED NOTE, SERIES 2005-A

CUSIP No.: [_____] $[_____]

ISIN No.:[_____]

No.: R- [_____]

Carmel Mountain Funding Trust, a Delaware statutory trust (the "Issuer"), for value received, hereby promises to pay to [_____], (a) upon presentation and surrender of this Note (except as otherwise permitted by the Indenture referred to below), the principal amount of [_____]AND [__]/100 DOLLARS (U.S. $[_____]) on May 26, 2010 (the "Series 2005-A Final Scheduled Payment Date"), unless the unpaid principal of this Note becomes due and payable at an earlier date by declaration of acceleration, call for redemption or otherwise, and (b) interest thereon on the 25th day of each month (or if such day is not a Business Day, the next following Business Day), commencing June 27, 2005 (each, a "Payment Date"), at a rate of one-month LIBOR (determined as set forth in the Indenture) plus 1.45% (the "Series 2005-A Subordinated Note Rate") until the principal hereof is paid in full or duly provided for.

This Variable Rate Subordinated Note is one of a duly authorized issue of Notes of the Issuer, designated as the Carmel Mountain Funding Trust, Series 2005-A (the "Series 2005-A Subordinated Notes"), issued under a Base Indenture dated as of May 10, 2005 (the "Base Indenture"), between the Issuer and Deutsche Bank Trust Company Americas, as indenture trustee (the "Indenture Trustee"), as supplemented by the Series 2005-A Supplement dated as of May 10, 2005 (the "Series Supplement"). The term "Indenture," unless the context otherwise requires, refers to the Base Indenture, as supplemented by the Series Supplement. The term "Security Agreement" refers to the Security Agreement dated as of May 10, 2005, between the Issuer and Deutsche Bank Trust Company Americas, as collateral agent (the "Collateral Agent"). The Notes are subject to the terms of the Indenture and Security Agreement. All capitalized terms used in this Note and not otherwise defined shall have the meanings assigned to them in the Series Supplement and Schedule I to the Security Agreement. In the event of any conflict or inconsistency between the Indenture or Security Agreement and this Note, the Indenture or Security Agreement, as applicable, shall control.

Notwithstanding anything in the Indenture or this Note to the contrary, the holder of this Note acknowledges and agrees for the benefit of the holders of the Senior

Notes that the rights of such holder in and to the Collateral and to receive payments shall be subordinate and junior to the holders of the Senior Notes and to certain other fees, indemnities, expenses and obligations of the Issuer to the extent and in the manner set forth in the Indenture and the Security Agreement.

Except under certain circumstances set forth in the Indenture, the Series 2005-A Subordinated Notes are issuable only in registered, certificated form without coupons in minimum denominations of $200,000 and any integral multiple of $1,000 in excess thereof.

This Note does not purport to summarize the Indenture or the Security Agreement and reference is made to the Indenture and Security Agreement for the interests, rights and limitations of rights, benefits, obligations and duties evidenced thereby, and the rights, duties and immunities of the Indenture Trustee and Collateral Agent, respectively.

Unless the certificate of authentication hereon has been duly executed by the Indenture Trustee by manual or facsimile signature, this Note shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED THEREIN WITHOUT REGARD TO THE CONFLICT OF LAWS OR CHOICE OF LAW PRINCIPLES THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

IN WITNESS WHEREOF, U.S. Bank Trust National Association, as Owner Trustee, on behalf of the Issuer and not in its individual capacity, has caused this Note to be duly executed.

CARMEL MOUNTAIN FUNDING TRUST

BY: U.S. Bank Trust National Association, not in its individual capacity, but solely as Owner Trustee

By: _____
Name:
Title:

Dated: [_____, 2005]

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Indenture Trustee

By: _____
Name:
Title:

Dated: [_____, 2005]

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY
OR OTHER IDENTIFYING NUMBER
OF ASSIGNEE

(Please print or type name and address, including postal zip code, of assignee)

---

the within Note , and all rights thereunder, hereby irrevocably constituting and appointing

---

Attorney to transfer said Note on the books of the Term Note Registrar, with full power of substitution in the premises.

Dated:

____*/
Signature Guaranteed:

____*/

_____*/ NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Note in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

Exhibit 4.11

EXECUTION COPY

CARMEL MOUNTAIN FUNDING TRUST,

as Issuer,

ACCREDITED HOME LENDERS, INC.,
as Seller and Servicer

and

ACCREDITED HOME LENDERS HOLDING CO.,
as Performance Guarantor

MORTGAGE LOAN PURCHASE AND SERVICING AGREEMENT

dated as of May 10, 2005

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MORTGAGE LOAN PURCHASE AND SERVICING AGREEMENT, dated as of May 10, 2005 (as amended, supplemented or otherwise modified and in effect from time to time, the "Mortgage Loan Purchase and Servicing Agreement"), between **CARMEL MOUNTAIN FUNDING TRUST**, a Delaware statutory trust, as purchaser (the "Issuer"), **ACCREDITED HOME LENDERS, INC.**, a California corporation (the "Company"), as seller and servicer (in its capacity as seller hereunder, the "Seller," and in its capacity as servicer hereunder, the "Servicer"), and **ACCREDITED HOME LENDERS HOLDING CO.,** a Delaware corporation, as guarantor (the "Performance Guarantor") of the Servicer's obligations hereunder.

W I T N E S S E T H:

WHEREAS, pursuant to this Mortgage Loan Purchase and Servicing Agreement, the Issuer has agreed to purchase from the Seller and the Seller has agreed to sell to the Issuer from time to time Mortgage Loans constituting Eligible Loans until the termination of this Mortgage Loan Purchase and Servicing Agreement in accordance with Section 11.1 hereof. The Company wishes to service each Mortgage Loan on behalf of the Issuer after the sale and purchase thereof.

WHEREAS, the Issuer and the Company, as Seller and Servicer, wish to prescribe the manner of purchase of the Mortgage Loans and the management, servicing and control of the Mortgage Loans.

WHEREAS, the Issuer intends to sell the Mortgage Loans and the Servicer will arrange for the sale of the Mortgage Loans on behalf of the Issuer to Mortgage Loan Buyers.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Issuer, the Seller, the Servicer and, solely with respect to Article XIII herein, the Performance Guarantor, agree as follows:

ARTICLE I

DEFINITIONS

Whenever used herein, the following words and phrases, unless the context otherwise requires, shall have the meanings assigned to such terms in the Definitions List attached as Schedule I to the Security Agreement, dated as of the date hereof, between the Issuer and the Collateral Agent (the "Security Agreement").

ARTICLE II

SALE OF MORTGAGE LOANS; POSSESSION OF MORTGAGE FILES; BOOKS AND RECORDS; CUSTODIAL AGREEMENT; DELIVERY OF DOCUMENTS

Section 2.1 Sale of Mortgage Loans; Possession of Mortgage Loan Files; Maintenance of Mortgage Loan Files. (a) (i) From time to time, pursuant to any Transfer Supplement, the Seller may sell, transfer, assign, set over and convey to the Issuer, without recourse, but subject to the terms hereof, all the right, title and interest of the Seller in and to each Mortgage Loan identified on such Transfer Supplement, including Wet Funded Loans; provided, however, that the Issuer shall not at any time be required to purchase Mortgage Loans to the extent that, after giving effect to such purchase, the aggregate Outstanding Purchase Price of Mortgage Loans owned by the Issuer is greater than the then-current Program Size; provided, further, that each Mortgage Loan transferred on each Closing Date must be an Eligible Loan. In connection with the sale of Mortgage Loans to the Issuer, the Seller shall sell, transfer, assign, set over and convey to the Issuer all right, title, interest of the Seller in and to the servicing rights related to such Mortgage Loans. The Seller shall provide a notice to the Issuer, the Collateral Agent, the Indenture Trustee and each Swap Counterparty not later than 6:00 p.m. Eastern time on the Business Day preceding the related Closing Date of its intention to sell a Portfolio to the Issuer pursuant to a Transfer Supplement (each, a "Purchase Notice"). In such Purchase Notice, the Seller shall inform the Issuer of the intent to sell Mortgage Loans and the proposed aggregate Initial Purchase Price for each portfolio of Mortgage Loans that it intends to sell on such date. The subject Portfolio and related servicing rights shall be sold by the Seller to the Issuer as described in Section 2.2 hereof. Each Transfer Supplement shall be executed by the Seller and the Issuer at the time of the sale of the subject Portfolio and related servicing rights. Notwithstanding the foregoing, the Issuer may not purchase any Mortgage Loans during the continuation of an Extended Note Amortization Event or following the occurrence of an Early Accumulation Event.

(ii) Upon execution of any Transfer Supplement by the Seller and the Issuer and receipt by the Seller of the purchase price therefor, the Seller hereby sells, assigns, transfers, sets over and conveys to the Issuer all right, title and interest of the Seller in, to and under each Mortgage Loan identified on such Transfer Supplement. It is intended that the transfer, assignment and conveyance herein contemplated constitute a sale of the Mortgage Loans, conveying good title thereto free and clear of any liens, by the Seller to the Issuer and that the Mortgage Loans and related servicing rights not be part of the Seller's estate in the event of insolvency. In the event that the Mortgage Loans and related servicing rights are held to be property of the Seller or if for any other reason any Transfer Supplement is held or deemed not to absolutely sell and assign the Mortgage Loans and related servicing rights, the parties intend that the Seller shall be deemed to have granted, and does hereby grant, to the Issuer a valid first priority security interest, free and clear of any lien, claim or interest of any other Person, in the Seller's right, title and interest in the Mortgage Loans and all related servicing rights and all collateral related thereto now existing or hereafter arising for the purpose of securing the rights of the Issuer under this Mortgage Loan Purchase and Servicing Agreement, and that this Mortgage Loan Purchase and Servicing Agreement and the Transfer Supplement shall each constitute a security agreement under applicable law.

(iii) In the event that the Fair Market Value of any Mortgage Loan sold to the Issuer by the Seller exceeds the Initial Purchase Price paid by the Issuer to the Seller under Section 2.2 hereof in respect of that Mortgage Loan, the Seller shall be deemed to have made a new contribution of capital to the Issuer in the amount of such excess.

(b) Pursuant to Section 2.5 hereof, as soon as practicable but in any event on or before the date which is (i) eight (8) Business Days after the sale of any Mortgage Loan to the Issuer if such Mortgage Loan was originated by the Seller not more than three (3) days prior to the sale to the Issuer (such a Mortgage Loan, a "Tier 1 Mortgage Loan") or (ii) five (5) Business Days after the sale of any Mortgage Loan to the Issuer if such Mortgage Loan was originated by the Seller more than three (3) days prior to the sale to the Issuer (such a Mortgage Loan, a "Tier 2 Mortgage Loan"), the Seller shall deliver and release each related Loan Document, including Mortgage Notes, Mortgages and Assignments of Mortgages, if any, on Wet Funded Loans (subject to the Wet Funded Loan Limitation), to the Custodian, as bailee, for the Collateral Agent pursuant to the Custodial Agreement; provided, however, that any Tier 1 Mortgage Loan with respect to which the related Mortgage Note, Mortgage and Assignment of Mortgage, if any, are not delivered on or before the date which is eight (8) Business Days after the sale of such Tier 1 Mortgage Loan to the Issuer shall be repurchased by the Seller on such ninth Business Day at the Repurchase Price in accordance with Section 3.3 hereof; provided, further, that any Tier 2 Mortgage Loan with respect to which the related Mortgage Note, Mortgage and Assignment of Mortgage, if any, are not delivered on or before the date which is five (5) Business Days after the sale of such Tier 2 Mortgage Loan to the Issuer shall be repurchased by the Seller on such sixth Business Day at the Repurchase Price in accordance with Section 3.3 hereof. If the Seller does not repurchase the related Mortgage Loan on such ninth or sixth Business Day, as applicable, then the Servicer shall sell such Mortgage Loan on behalf of the Issuer. If the Servicer is unable to sell such Mortgage Loan by the fifteenth (15^{th}) day following the purchase by the Issuer of such Mortgage Loan, the Collateral Agent shall hold an auction for such Mortgage Loan on such fifteenth (15^{th}) day or if such day is not a Business Day, then on the next succeeding Business Day. The Collateral Agent shall notify potential bidders of the auction including the Rated Bidder, who shall be obligated to make a bid at such auction. The Seller shall deliver any documents, records, statements or logs relating to such Mortgage Loan other than the related Loan Documents not delivered to the Custodian (the "Servicing File") to the Servicer and the contents of each related Servicing File shall be held in trust by the Servicer, as bailee, for the benefit of the Issuer as owner and the Collateral Agent as secured party. The possession of each Servicing File by the Servicer is at the will of the Issuer for the sole purpose of servicing the related Mortgage Loan and such retention and possession by the Servicer is in a custodial capacity only. Upon the sale of the Mortgage Loans to the Issuer as owner and the Collateral Agent as secured party, the ownership of each related Loan Document and the remainder of the Mortgage Loan File shall vest immediately in the Issuer, and the ownership of all other records and documents with respect to the related Mortgage Loan prepared by or which come into the possession of the Servicer shall vest immediately in the Issuer and shall be retained and maintained by the Servicer, in trust, at the will of the Issuer and the Collateral Agent and only in such custodial capacity. The Servicer's books and records shall be marked appropriately to reflect clearly the sale of the related Mortgage Loans to the Issuer as owner and the Collateral Agent as secured party. The Custodian shall only release its custody of the Loan Documents and other contents of a Mortgage Loan File in its possession in accordance with the Custodial Agreement.

The Mortgage Loan File shall consist of the following documents (constituting, collectively, the "Loan Documents") and such other documents as the Issuer may reasonably require from time to time:

(i) The original Mortgage Note (or, if such Mortgage Note is lost, a certified copy thereof along with a Lost Note Affidavit and Indemnity substantially in the form attached to the Custodial Agreement as Exhibit F) bearing all intervening endorsements, endorsed "Pay to the order of _____, without recourse." The original Mortgage Note shall be accompanied by any riders thereto made in connection with the origination of the related Mortgage Loan;

(ii) the original of any guarantee executed in connection with the Mortgage Note;

(iii) the original Mortgage with evidence of recording thereon;

(iv) the originals of all assumption, modification, substitution, consolidation or extension agreements, with evidence of recording thereon;

(v) except with respect to a MERS Mortgage (which shall not require an Assignment of Mortgage), the original duly executed Assignment of Mortgage for each Mortgage Loan, in form and substance acceptable for recording; if the Mortgage Loan was acquired by the Seller in a merger, any Assignment of Mortgage must be made by "**[Seller]**, successor by merger to **[name of predecessor]**." If the Mortgage Loan was acquired or originated by the Seller while doing business under another name, any Assignment of Mortgage must be by "**[Seller]**, formerly known as **[previous name]**." If the Mortgage Loan was acquired by the Seller as receiver for another entity, any Assignment of Mortgage must be by "**[Seller]**, receiver for **[name of entity in receivership]**." Any Assignment of Mortgage must be duly recorded only if recordation is required as provided in Section 12.9 hereof. If any Assignment of Mortgage is to be recorded, the Mortgage shall be assigned to the Collateral Agent. If any Assignment of Mortgage is not to be recorded but is otherwise required hereunder, such Assignment of Mortgage shall be delivered in blank;

(vi) the originals of all intervening assignments of mortgage with evidence of recording thereon (if such recording is necessary as represented in Section 3.2(cc) hereof);

(vii) if available, either the original mortgagee title insurance policy, or original attorney's opinion of title, or, if the policy or opinion has not yet been issued, the irrevocable written commitment, interim binder or marked up binder for a title insurance policy or other evidence of title insurance customary in the area where the related Mortgage Property is located issued by the title insurance company dated and certified as of the date the Mortgage Loan was funded; and

(viii) the original of any security agreement, chattel mortgage or equivalent document executed in connection with the Mortgage.

In connection with the assignment of any Mortgage Loan registered on the MERS System, promptly after the related Closing Date, the Seller will cause, at its own expense, the MERS System to indicate that such Mortgage Loan has been sold and transferred to the Issuer and pledged to the Collateral Agent for the benefit of the Secured Parties by including (or deleting, in the case of a Mortgage Loan which is repurchased in accordance with this Agreement) in its computer files (a) the Collateral Agent's organizational ID in the field "Investor" which identifies the Collateral Agent and (b) a code which identifies this facility in the "Pool" field. The Seller and the Servicer will not alter the codes referenced in this paragraph with respect to any such Mortgage Loan during the term of this Mortgage Loan Purchase and Servicing Agreement unless and until such Mortgage Loan is sold in accordance with the terms of this Mortgage Loan Purchase and Servicing Agreement.

If in connection with a Mortgage Loan, the Seller cannot deliver or cause to be delivered the original of a document required to be delivered with evidence of recording thereon on or prior to the Closing Date because of a delay caused by the public recording office where such Mortgage has been delivered for recordation, (a) the Seller shall deliver or cause to be delivered to the Custodian a photocopy of such document, certified by the Seller or the closing agent to be a true and complete copy of the original recorded document dispatched to the appropriate public recording office for recordation, and (b) the original recorded document or, if such public recording office retains the original recorded document, a copy of such document certified by such public recording office to be a true and complete copy of the original recorded Mortgage will be promptly delivered to the Custodian upon receipt thereof by the Seller. Any provision in this Mortgage Loan Purchase and Servicing Agreement or any other Program Document that requires a document to be delivered within eight (8) Business Days or five (5) Business Days after the sale of the related Tier 1 Mortgage Loan or Tier 2 Mortgage Loan, respectively, to the Issuer shall be deemed complied with if, under the circumstances described in the immediately preceding sentence, the document described in clause (a) of such sentence, is delivered within such eight (8) Business Day or five (5) Business Day period.

Section 2.2 Determination of Initial Purchase Price. No later than 3:00 p.m. Eastern time on each Closing Date, the Seller shall deliver to the Issuer a Transfer Supplement. During any IPP Dispute Period, each of the Swap Counterparties shall have the right to dispute the Initial Purchase Price set forth in the related Purchase Notice for any Mortgage Loan or portfolio of Mortgage Loans delivered during such IPP Dispute Period by 11:30 a.m. Eastern time on such Closing Date, such sale shall occur at the highest Initial Purchase Price acceptable to such disputing Swap Counterparty or otherwise such sale must be abandoned or rescheduled by the Issuer and the Seller. If the Issuer does not agree with any purchase calculation, or if the disputing Swap Counterparty disputes any purchase calculation, or the sale does not close for any other reason, then the Closing Date for the Mortgage Loan or portfolio of Mortgage Loans shall be rescheduled to a later date at the Seller's option; it being understood that regardless of whether the rescheduled Closing Date occurs after the end of the IPP Dispute Period, the provisions of this paragraph shall apply to such Mortgage Loan or portfolio of Mortgage Loans. If the Issuer does not agree with any purchase calculation, or the sale does not close for any other reason, then the Closing Date for some or all of the Portfolio shall be rescheduled to a later date, at its option, by the Seller. The Issuer and the Seller shall use their best efforts to close the sale of any Portfolio on any such Closing Date. On each Closing Date, the Issuer shall pay to the Seller the Initial Purchase Price of each Mortgage Loan purchased by it hereunder in

immediately available funds not later than 4:00 p.m., Eastern time. Each Mortgage Loan must be an Eligible Loan.

Section 2.3 Purchase Commitment Term. Subject to the terms and conditions of the Program Documents (including, without limitation, Section 3.4(b) hereof), the commitment of the Issuer under this Mortgage Loan Purchase and Servicing Agreement shall expire on the termination of this Mortgage Loan Purchase and Servicing Agreement, pursuant to Section 11.1 hereof.

Section 2.4 Books and Records; Transfers of Mortgage Loans. From and after each related Closing Date, all rights arising with respect to each Mortgage Loan sold pursuant to any Transfer Supplement, including but not limited to all funds received on or in connection with each Mortgage Loan, shall be received and held by the Servicer in trust for the benefit of the Issuer as owner and the Collateral Agent as secured party. Pursuant to the Custodial Agreement, the Custodian shall hold all of the Loan Documents as described in the Custodial Agreement.

The Servicer shall be responsible for maintaining, and shall maintain, a complete set of books and records for each Mortgage Loan which shall be marked clearly to reflect the ownership of each Mortgage Loan by the Issuer. To the extent that original documents are not required for purposes of realization of Liquidation Proceeds or Insurance Proceeds, documents maintained by the Servicer may be in the form of microfilm or microfiche or such other reliable means of recreating original documents, including but not limited to, optical imagery techniques so long as the Servicer complies with its Customary Servicing Procedures.

The Servicer shall maintain with respect to each Mortgage Loan and shall make available for inspection by the Issuer, the Collateral Agent, the Indenture Trustee, any Secured Liquidity Note Dealer, the Depositary or their respective designees, upon reasonable advance notice, at the offices of the Servicer during normal business hours the related Servicing File during the time the Issuer retains ownership of a Mortgage Loan and thereafter pursuant to applicable laws and regulations.

Section 2.5 Custodial Agreement. Pursuant to the Custodial Agreement, the Seller shall, from time to time in connection with the purchase of Mortgage Loans pursuant to the terms of this Mortgage Loan Purchase and Servicing Agreement, deliver to the Custodian, on or before the date which is eight (8) Business Days after the related Closing Date, the Loan Documents with respect to such Mortgage Loans. The Custodian shall hold each Loan Document in trust, as bailee, initially for the Issuer and then for the Collateral Agent pursuant to the Custodial Agreement.

Section 2.6 **[Reserved]**.

Section 2.7 Reserve Fund Deposit. On each Closing Date, the Seller shall deposit an amount into the Reserve Fund from the proceeds of the sale of the Mortgage Loans to the Issuer that is required to cause the amount on deposit in the Reserve Fund to equal the Required Reserve Fund Amount on such Closing Date. In the event that proceeds of the sale of the Mortgage Loans to the Issuer by the Seller are used to fund the Reserve Fund, the Issuer shall

be deemed to have made a new issuance of equity to the Seller in the amount of the proceeds used to fund the Reserve Fund.

ARTICLE III

REPRESENTATIONS AND WARRANTIES; COVENANTS; REMEDIES AND BREACH

Section 3.1 Representations and Warranties of the Company. The Company, as Seller and Servicer, represents and warrants to the Issuer (and for the benefit of the Collateral Agent and the Indenture Trustee) that as of each Closing Date:

(a) Due Organization and Authority. The Company is duly organized, validly existing and in good standing under the laws of California and has all licenses necessary to carry on its business as now being conducted and is duly authorized, licensed, qualified and in good standing in each state where a Mortgaged Property is located if required to conduct business of the type conducted by it, and in any event the Company is in compliance with the laws of any such state to the extent necessary to ensure the enforceability of any Mortgage Loan sold hereunder and the servicing of any such Mortgage Loan in accordance with the terms of this Mortgage Loan Purchase and Servicing Agreement and any Transfer Supplement; the Company had the full power and authority to originate, hold and sell each Mortgage Loan and has the full power and authority to service each Mortgage Loan and to execute and deliver this Mortgage Loan Purchase and Servicing Agreement and any Transfer Supplement to which it is a party and to perform its obligations in accordance herewith and therewith; the execution, delivery and performance of this Mortgage Loan Purchase and Servicing Agreement and any Transfer Supplement to which it is a party and the performance of the transactions contemplated hereby and thereby have been duly and validly authorized by the Company; all requisite corporate action has been taken by the Company to make this Mortgage Loan Purchase and Servicing Agreement and any Transfer Supplement to which it is a party valid and binding upon the Company pursuant to its terms; this Mortgage Loan Purchase and Servicing Agreement and any Transfer Supplement to which it is a party each evidences the valid, binding and enforceable obligation of the Company, except that (i) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) Ordinary Course of Business. The performance of the transactions contemplated by this Mortgage Loan Purchase and Servicing Agreement are in the ordinary course of business of the Company, and the transfer, assignment and conveyance of the Mortgage Notes and the Mortgages by the Company pursuant to this Mortgage Loan Purchase and Servicing Agreement are not subject to the bulk transfer or any similar statutory provisions in effect in any applicable jurisdiction.

(c) No Conflicts. Neither the execution and delivery of this Mortgage Loan Purchase and Servicing Agreement or any Transfer Supplement, the origination or acquisition of Mortgage Loans by the Company, the sale of Mortgage Loans to the Issuer or the transactions

contemplated hereby or thereby, nor the fulfillment of or compliance with the terms and conditions of this Mortgage Loan Purchase and Servicing Agreement or any Transfer Supplement, will conflict with or result in a breach of any of the terms, conditions or provisions of the Company's articles of incorporation or bylaws or any material agreement or instrument to which the Company is now a party or by which it is bound, or constitute a default or result in an acceleration under any of the foregoing, or result in the violation in any material respect of any applicable law, rule, regulation, order, judgment or decree to which the Company or its property is subject, or impair the ability of the Issuer to realize on the Mortgage Loans in any material respect, or impair the value of the Mortgage Loans in any material respect.

(d) Ability to Service. The Company services nonprime mortgage loans in accordance with its Customary Servicing Procedures. The Company has the facilities, procedures and experienced personnel necessary for the servicing of the Mortgage Loans.

(e) Reasonable Servicing Fee. The Servicer acknowledges and agrees that the Servicing Fee represents reasonable compensation for servicing, administering and arranging for the sale of the Mortgage Loans pursuant to this Mortgage Loan Purchase and Servicing Agreement and shall be treated by the Servicer, for accounting and tax purposes, as compensation for the servicing and administration of the Mortgage Loans pursuant to this Mortgage Loan Purchase and Servicing Agreement.

(f) No Litigation Pending. Except as disclosed on Schedule 3.1(f) hereto (which schedule may be updated with the consent of the Swap Counterparty and if the Rating Agency Confirmation is received), there is no action, suit, proceeding or investigation pending, or to its knowledge, threatened against the Company which, either in any one instance or in the aggregate, would result in any material adverse change in the business, operations, financial condition, properties or assets of the Company, or in any material impairment of the right or ability of the Company to carry on its business substantially as now conducted, or would result in any material liability on the part of the Company, or which would draw into question the validity of this Mortgage Loan Purchase and Servicing Agreement or any Transfer Supplement or the Mortgage Loans or of any action taken or to be taken in connection with the obligations of the Company contemplated herein, or which would be likely to impair materially the ability of the Company to perform under the terms of this Mortgage Loan Purchase and Servicing Agreement or any Transfer Supplement to which it is a party.

(g) No Consent Required. No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by the Company of or compliance with this Mortgage Loan Purchase and Servicing Agreement or any Transfer Supplement or the sale of the Mortgage Loans, or if required, such consent, approval, authorization or order has been obtained.

(h) Selection Process. Any Portfolio sold pursuant to a Transfer Supplement was selected from mortgage loans originated by the Seller or acquired by the Seller from third parties and are Mortgage Loans which satisfy the Eligibility Criteria (other than the Eligibility Representations, which are the subject of the representations set forth in Section 3.2 hereof), Portfolio Criteria and Wet Funded Loan Limitation, and any selection process employed by it was not made in a manner so as to materially adversely affect the interests of the Issuer.

(i) No Untrue Information. Neither this Mortgage Loan Purchase and Servicing Agreement, any Transfer Supplement nor any written statement, report or other document prepared by the Seller or to be prepared by the Seller pursuant to this Mortgage Loan Purchase and Servicing Agreement or in connection with the transactions contemplated hereby contains any untrue statement of a material fact relating to the Seller or the Mortgage Loans. None of the offering documents prepared by Seller in connection with the offering of the Notes by the Issuer contains any untrue statement of a material fact relating to the Seller or the Mortgage Loans or omits to state a fact necessary to make the statements herein or therein not materially misleading.

(j) Financial Statements. The Company has delivered to the Issuer audited consolidated financial statements of the Performance Guarantor as to its last complete fiscal year and of the Seller as to its fiscal years ended December 31, 2001 and 2002 on a date more than one hundred twenty (120) days prior to the date hereof and the applicable Closing Date, as the case may be, and as to any later quarter ended on a date more than sixty (60) days prior to the date hereof and the applicable Closing Date, as the case may be, unaudited consolidated balance sheets. All such financial statements fairly present the pertinent results of operations and changes in financial position at the end of each such period of the Performance Guarantor's and its consolidated subsidiaries and have been, and will be, prepared, as the case may be, pursuant to GAAP consistently applied throughout the periods involved, except as set forth in the notes thereto. Except as disclosed on Schedule 3.1(j) (which Schedule may be updated with the consent of the Swap Counterparty so long as the Rating Agency Confirmation has been received), there has been no change in the business, operations, financial condition, properties or assets of the Performance Guarantor and its consolidated subsidiaries since the date of its most recently provided financial statements that would have a Material Adverse Effect on its ability to perform its obligations under this Mortgage Loan Purchase and Servicing Agreement.

(k) No Brokers' Fees. Except as provided in the Program Documents and the Engagement Letter, the Company has not dealt with any broker, investment banker, agent or other Person that may be entitled to any commission or compensation in connection with the sale of each Mortgage Loan to the Issuer.

(l) Fair Consideration. The consideration received by the Seller in connection with the sale of the Mortgage Loans under this Mortgage Loan Purchase and Servicing Agreement constitutes fair consideration and reasonably equivalent value for such Mortgage Loans.

(m) Ability to Perform. The Company does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Mortgage Loan Purchase and Servicing Agreement in all material respects. The Company is not insolvent, nor will it be made insolvent by the sale of the Mortgage Loans to the Issuer, nor is the Company aware of any pending insolvency, and the sale of the Mortgage Loans to the Issuer is not undertaken to hinder, delay or defraud any of the Company's creditors.

(n) Company's Origination. The Company's decision to originate any nonprime mortgage loan or to deny any nonprime mortgage loan application is an independent decision based upon the Company's underwriting standards, and is in no way made as a result of

the Issuer's commitment to purchase Mortgage Loans pursuant to this Mortgage Loan Purchase and Servicing Agreement.

(o) **[Reserved]**.

(p) Proper Approvals. The Company is a HUD approved mortgagee pursuant to Section 203 and Section 211 of the National Housing Act.

(q) Chief Executive Office. The principal place of business and chief executive office of the Company is located and has been located within the state of California for the five year period prior to the date of this Agreement. The "location" of the Company as defined in the UCC is in the State of California. The Company has not changed its jurisdiction of formation during the five year period prior to the date of this Agreement.

(r) No Prior Names. The exact legal name of the Company is, and during the five-year period prior to this Agreement has been, the respective name set forth for it on the signature page hereto and the Company has not had (i) any prior name other than Preferred Home Lenders, Inc., and MSK Financial Services, Inc., nor (ii) any trade other than Accolate Mortgage Company, Axiom Financial Services, Check 'n Go, Home Funds Direct and New Hampshire Accredited Home Lenders.

Section 3.2 Representations and Warranties Regarding Individual Mortgage Loans; Eligibility Representations. With respect to each Mortgage Loan sold by the Seller to the Issuer, the Seller hereby represents and warrants to the Issuer (and for the benefit of the Collateral Agent and the Indenture Trustee) that as of the related Closing Date:

(a) Eligibility of Mortgage Loans. The Mortgage Loan is an Eligible Loan.

(b) Mortgage Loans as Described. The information set forth in the Mortgage Loan Schedule attached to the applicable Transfer Supplement is complete, true and correct in all material respects.

(c) Valid First or Second Lien. The Mortgage is a valid, subsisting and enforceable first or second lien of record (or is in the process of being recorded) on the Mortgaged Property, including all buildings on the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or annexed to such buildings that are not personal property, and all additions, alterations and replacements made at any time with respect to the foregoing, except that (i) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. The lien of the Mortgage is subject only to:

(1) the lien of current real property taxes and assessments not yet due and payable;

(2) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to mortgage lending institutions generally and specifically referred to in the lender's title insurance policy or attorney's opinion of title and (i) referred to or otherwise considered in the appraisal made for the originator of the Mortgage Loan or (ii) which do not adversely affect the appraised value of the Mortgaged Property set forth in such appraisal;

(3) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property; and

(4) with respect to each Second Lien Mortgage Loan, a prior mortgage lien on the related Mortgaged Property.

Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan establishes and creates a valid, subsisting and enforceable, (except that (i) the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, receivership and other similar laws relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought) (A) first lien and first priority security interest with respect to each First Lien Mortgage Loan, or (B) second lien and second priority security interest with respect to each Second Lien Mortgage Loan, in either case, on the property described therein and the Seller has full right to sell and assign the same to the Issuer.

(d) Ownership. The Seller, or MERS, as the nominee for the Seller, is the sole owner of record and holder of the Mortgage Loan. Except for a lien of the Seller's warehouse lender to be released immediately upon payment of the related purchase price on the related Closing Date, the Mortgage Loan is not assigned or pledged, and the Seller has good and marketable title thereto, and has full right to transfer and sell the Mortgage Loan to the Issuer free and clear of any encumbrance, equity, participation interest, lien, pledge, charge, claim or security interest, and has full right and authority, subject to no interest or participation of, or agreement with, any other party, to sell and assign the Mortgage Loan pursuant to the related Transfer Supplement.

(e) No Additional Collateral. The Mortgage Note is not and has not been secured by any collateral except the lien of the corresponding Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in Section 3.2 (c) hereof.

(f) Conformance with Underwriting Standards. The Mortgage Loan was originated by the Seller, an Affiliate of the Seller or a broker for simultaneous assignment to the Seller or was acquired by the Seller from a correspondent lender. The Mortgage Loan was underwritten (or, if acquired by the Seller from a correspondent lender, reunderwritten) to comply with the Seller's underwriting standards (which underwriting standards have been delivered to the Swap Counterparties and which underwriting standards shall not be materially amended, altered, modified or changed without the Swap Counterparty's consent (which shall

not be unreasonably be withheld) which consent shall be deemed to have been given the Swap Counterparty has not responded within 5 Business Days after receipt of notice by the Swap Counterparty of such proposed amendment, alteration, modification or change) in effect on the date of origination (or, if acquired by the Seller from a correspondent lender, on the date of acquisition) of such Mortgage Loan. The related Mortgage Note and related Mortgage have been documented on forms similar to those used by Fannie Mae or Freddie Mac. The Seller has not made any representations to the related Mortgagor that are inconsistent with such Mortgage Note or Mortgage.

(g) Payments Current. The Mortgage Loan is not a Delinquent Loan and none of the Mortgage Loans will have been contractually delinquent for more than one calendar month more than once since the origination thereof. No Mortgage Loan is nor will it become a First Payment Default Mortgage Loan.

(h) No Mortgagor Bankruptcy. To the best of the Seller's knowledge and belief, no Mortgagor is currently the subject of a bankruptcy or similar proceeding.

(i) No Outstanding Charges. All taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents with respect to the Mortgaged Property which previously became due and owing have been paid, or an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid and which has been assessed but is not yet due and payable. The Company has not advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount required under the Mortgage Loan, except for interest accruing from the date of the Mortgage Note or date of disbursement of the Mortgage Loan proceeds, whichever is greater, to the day which precedes by one (1) month the Due Date of the first installment of principal and interest and except to fund an escrow of the kind described in the preceding sentence.

(j) Original Terms Unmodified. The terms of the Mortgage Note and Mortgage have not been impaired, waived, altered or modified in any material respect from the date of origination except (i) by a written instrument which has been recorded, if necessary, to protect the interests of the holder of the Mortgage Note, and which has been delivered to the Custodian or the Servicer, as required hereunder, and (ii) as permitted by the terms of the related Mortgage Note pursuant to the Company's Loss Mitigation Action Plan and as approved by the title insurer to the extent required by the title insurer and all such changes are reflected on the related Mortgage Loan Schedule, as applicable. The Mortgagor has not been released, in whole or in part, except in connection with an assumption agreement approved by the title insurer, to the extent required by such policy and which agreement is part of the related Mortgage Loan File.

(k) No Defenses. The Mortgage Loan and the obligation of the Mortgagor to pay the unpaid principal of or interest on any Mortgage Note are not subject to any right of rescission, set-off, counterclaim or defense, including without limitation the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto, nor will the operation of any of the terms of the Mortgage Note or the Mortgage, or the exercise of any right thereunder, render either the Mortgage Note or the Mortgage unenforceable,

in whole or in part, or subject the Mortgage Note or the Mortgage to any right of rescission, set-off, counterclaim or defense, including without limitation the defense of usury, and no Mortgagor was a debtor in any state or federal bankruptcy or insolvency proceeding at the time the Mortgage Loan was funded.

(l) Hazard Insurance. Pursuant to the terms of the Mortgage, all buildings or other improvements upon the Mortgaged Property are insured against loss by fire and hazards of extended coverage pursuant to insurance policies conforming to the requirements of Section 4.11 hereof. If upon origination of the Mortgage Loan, the Mortgaged Property was in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards (and such flood insurance has been made available) a flood insurance policy meeting the requirements of the current guidelines of the Flood Insurance Administration is in effect which policy conforms to the requirements of Section 4.11 hereof. All individual insurance policies contain a standard mortgagee clause naming (or that will name) the Company and its successors and assigns as mortgagee, and all currently due premiums thereon have been paid. The Mortgage obligates the Mortgagor thereunder to maintain the hazard insurance policy at the Mortgagor's cost and expense, and on the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at such Mortgagor's cost and expense, and to seek reimbursement therefor from the Mortgagor. Where required by state law or regulation, the Mortgagor has been given an opportunity to choose the carrier of the required hazard insurance, provided that the policy is not a "master" or "blanket" hazard insurance policy covering the common facilities of a planned unit development. The hazard insurance policy is the valid and binding obligation of the insurer and is in full force and effect. The Company has not engaged in, and has no knowledge of the Mortgagor's having engaged in, any act or omission which would impair the coverage of any such policy, the benefits of the endorsement provided for herein, or the validity and binding effect of either.

(m) Compliance with Applicable Laws. Any applicable requirements of federal, state or local law including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, or disclosure laws and applicable predatory and abusive lending laws applicable to the Mortgage Loan, including the origination and servicing by the Company of the Mortgage Loan, have been complied with by the Company in all material respects and the consummation of the transactions contemplated hereby will not involve the violation of any such laws and the Seller shall maintain or cause its agent to maintain in its possession available for inspection by any party evidence of compliance with all such requirements.

(n) No Satisfaction of Mortgage. The Mortgage has not been satisfied, cancelled, subordinated (except in the case of a Second Lien Mortgage Loan, to the prior mortgage lien on the related Mortgaged Property) or rescinded, in whole or in part, and the Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would effect any such release, cancellation, subordination or rescission. The Company has not waived the performance by the Mortgagor of any action, if the Mortgagor's failure to perform such action would cause the Mortgage Loan to be in default nor has the Company waived any material default resulting from any action or inaction by the Mortgagor.

(o) Location and Type of Mortgaged Property. The Mortgaged Property is located in the state identified in the Mortgage Loan Schedule and consists of a parcel of real property with a detached single family residence erected thereon, or a two-to-four family dwelling, or an individual condominium unit or townhouse, or an individual unit in a planned unit development, or a de minimus planned unit development. No residence or dwelling is a mobile home or manufactured housing dwelling that is not treated as real estate under applicable law. To the best of the Seller's knowledge and belief, no portion of the Mortgaged Property is used for commercial purposes; provided that any Mortgaged Property that contains a home office shall not be considered as being used for commercial purposes as long as the Mortgaged Property has not been altered for commercial purposes.

(p) Validity of Mortgage Documents. The Mortgage Note and the Mortgage are genuine and each is the legal, valid and binding obligation of the maker thereof enforceable pursuant to its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles, whether considered in a proceeding or action in equity or at law. All parties to the Mortgage Note and the Mortgage and any other related agreement had legal capacity to enter into the Mortgage Loan and to execute and deliver the Mortgage Note and the Mortgage and any other related agreement, and the Mortgage Note and the Mortgage have been duly and properly executed by such parties. To the best of the Seller's knowledge and belief, the documents, instruments and agreements submitted for loan underwriting were not falsified and contain no untrue statement of material fact.

(q) Consolidation of Future Advances. Any advances made after the date of origination of the Mortgage Loan, but prior to the sale of the Mortgage Loan to the Issuer, have been consolidated with the outstanding principal amount secured by the related Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan.

(r) Doing Business. All parties which have had any interest in the Mortgage Loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) (i) in compliance with any applicable licensing requirements of the laws of the state wherein the Mortgaged Property is located, and (ii) organized under the laws of such state, (iii) qualified to do business in such state or (iv) not required to qualify to do business in such state.

(s) LTV. The LTV of the Mortgage Loan is not more than 100%.

(t) Title Insurance. The Mortgage Loan is covered by:

(i) an attorney's opinion of title, the form and substance of which is customary and reasonably acceptable to mortgage lending institutions making nonprime mortgage loans in the area where the Mortgaged Property is located; or

(ii) either (A) an lender's title insurance policy, issued in standard California Land Title Association form or American Land Title Association form, or other form

acceptable in a particular jurisdiction by a title insurance company authorized to transact business in the state where the related Mortgaged Property is located, together with a condominium endorsement, extended coverage endorsement, and an adjustable rate mortgage endorsement (in each case, as applicable) issued by a title insurer qualified to do business in the jurisdiction where the Mortgaged Property is located and in a form acceptable to Fannie Mae or Freddie Mac, insuring the Seller, its successors and assigns, as to the first or second priority lien of the Mortgage in an amount at least equal to the original principal amount of the Mortgage Loan, and against any loss by reason of the invalidity or unenforceability of the lien, or (B) a binding commitment from such title insurer to issue the same;

in each case subject to the exceptions contained in clauses (1), (2), and (3), and with respect to each Second Lien Mortgage Loan, clause (4) of Section 3.2(c) hereof and in all cases subject to the exceptions to title set forth in the title insurance policy (or commitment), attorney's opinion of title, which exceptions are generally acceptable to mortgage lending institutions in connection with their regular mortgage lending activities, and to such other exceptions to which similar properties are commonly subject and which do not individually, or in the aggregate, materially and adversely affect the benefits of the security intended to be provided by the Mortgage. Where required by state law or regulation, the Mortgagor has been given the opportunity to choose the carrier of the required lender's title insurance. Additionally, such lender's title insurance policy affirmatively insures ingress and egress, and against encroachments by or upon the Mortgaged Property or any interest therein. The originator of the Mortgage Loan, and its successors and assigns, is the sole insured of such lender's title insurance policy (or commitment), and such lender's title insurance policy is in full force and effect or will be in force and effect upon issuance pursuant to the commitment. No claims have been made under such lender's title insurance policy, and no prior holder of the Mortgage, including the Seller, has done, by act or omission, anything which would impair the coverage of such lender's title insurance policy including, without limitation, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by the related Seller or any agent of the related Seller, and no such unlawful liens have been received, retained or realized by the Seller or any agent of the Seller.

(u) No Defaults. Except for any Monthly Payment not more than one month contractually delinquent, there is no default, breach, violation or event of acceleration existing under the Mortgage or the Mortgage Note and no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration, and neither the Seller nor its predecessors have waived any default, breach, violation or event of acceleration. To the best of the Seller's knowledge and belief, with respect to each Second Lien Mortgage Loan, (i) the first mortgage is in full force and effect, (ii) there is no default, breach, violation or event of acceleration existing under the prior mortgage or the related mortgage note, (iii) there is no event which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration thereunder, (iv) the first mortgage does not provide for negative amortization, (v) no funds provided to the Mortgagor from the Second Lien Mortgage Loan were concurrently used as a down payment for the prior mortgage, and either (A) the first mortgage contains a provision which allows or (B) applicable law requires, the Mortgagee under

the Second Lien Mortgage Loan to receive notice of, and affords such Mortgagee an opportunity to cure by payment in full or otherwise, any default under the prior mortgage.

(v) No Mechanics' Liens. There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under the law could give rise to such liens) affecting the related Mortgaged Property which are or may be liens prior to, or equal or coordinate with, the lien of the related Mortgage, which are not insured against or otherwise covered by the applicable title policy.

(w) Location of Improvements; No Encroachments. All improvements which were considered in determining the Appraised Value of the Mortgaged Property lay wholly within the boundaries and building restriction lines of the Mortgaged Property and no improvements on adjoining properties encroach upon the Mortgaged Property. No improvement located on or being part of the Mortgaged Property is in violation of any applicable zoning and building law, ordinance or regulation.

(x) Customary Provisions. The Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale and (ii) otherwise by judicial foreclosure. Upon default by a Mortgagor on a Mortgage Loan and foreclosure on, or trustee's sale of, the Mortgaged Property pursuant to the proper procedures, the holder of the Mortgage Loan will be able to deliver good and marketable title to the Mortgaged Property. There is no homestead or other exemption, other than any applicable Mortgagor redemption rights, available to a Mortgagor which would materially interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage. The Mortgage Note has a stated final maturity.

(y) Occupancy of the Mortgaged Property. The Mortgaged Property is capable of being lawfully occupied under applicable law. All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and with respect to the use and occupancy of the Mortgaged Property, including but not limited to certificates of occupancy and fire underwriting certificates, have been made by or obtained from the appropriate authorities.

(z) Deeds of Trust. In the event that the Mortgage constitutes a deed of trust, a trustee, duly qualified under applicable law to serve as such, has been properly designated and currently so serves and is named in the Mortgage, and no fees or expenses are or will become payable by the Issuer to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor.

(aa) **[Reserved]**.

(bb) Acceptable Investment. To the Seller's knowledge, there exists no circumstance or condition with respect to the Mortgage, the Mortgaged Property, the Mortgagor or the Mortgagor's credit-standing not reflected in the representations set forth herein, or in the documents delivered to the Custodian or in the Mortgage Loan File, that could reasonably be

expected to cause private institutional investors to regard the Mortgage Loan as an unacceptable investment or cause the Mortgage Loan to become delinquent or materially adversely affect the value or the marketability of the Mortgage Loan.

(cc) Delivery of Loan Documents. The Loan Documents required to be delivered for the Mortgage Loan by the Seller under the Custodial Agreement (i) have been delivered to the Custodian on or prior to the Closing Date or (ii) will be delivered to the Custodian as soon as practicable, but in no event later than eight (8) Business Days from the Closing Date. The Seller and/or its closing agent and/or the Custodian is in possession of a complete Mortgage Loan File with respect to the Mortgage Loan. Each Wet Funded Loan was originated no more than eight (8) days prior to the Closing Date for such Wet Funded Loan.

(dd) Recording of Mortgage. The original Mortgage is in recordable form and is acceptable for recording under the laws of the jurisdiction in which the related Mortgaged Property is located. The original Mortgage (in recordable form and acceptable for recording) was recorded or is in the process of being recorded under the laws of the jurisdiction in which the related Mortgaged Property is located. All intervening assignments of the original Mortgage (other than unrecorded warehouse assignments and assignments for which the related original Mortgage has not been returned from the applicable public recording office) have been delivered for recordation or have been recorded in the appropriate jurisdictions wherein such recordation is necessary to perfect the lien thereof as against creditors of or purchasers from the Seller. The Assignment of Mortgage (other than with respect to a MERS Mortgage, which shall not require an assignment) is in recordable form and is acceptable for recording under the laws of the jurisdiction in which the related Mortgaged Property is located.

(ee) Due on Sale. The Mortgage contains an enforceable (subject to applicable law) provision for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the Mortgagee thereunder, except as enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and general principles of equity applicable thereto.

(ff) No Graduated Payments. The Mortgage Loan is not a graduated payment nonprime mortgage loan and does not have a shared appreciation or other contingent interest feature.

(gg) Mortgaged Property Undamaged. To the Seller's knowledge and belief, there is no proceeding pending or threatened for the total or partial condemnation of the Mortgaged Property. To the best of the Seller's knowledge and belief, the Mortgaged Property is in good repair and undamaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty so as to affect materially adversely the value of the Mortgaged Property as security for the Mortgage Loan or the use for which the premises were intended.

(hh) Collection Practices; Adjustable Rate Mortgage Loan Adjustments. The origination, collection and servicing practices used by the Seller with respect to the Mortgage Loan have been in accordance with the Seller's Customary Servicing Procedures and are in

compliance in all material respects with all applicable laws and regulations and conform to customs in the nonprime mortgage origination and servicing business. All Mortgage Interest Rate adjustments have been made in strict compliance with state and federal law and the terms of the related Mortgage Note.

(ii) Appraisal. The Servicing File contains an appraisal of the related Mortgaged Property signed prior to the approval of the nonprime mortgage loan application by a qualified appraiser, duly appointed by or acceptable to the Seller, who, to the best of the Seller's knowledge and belief, had no interest, direct or indirect, in the Mortgaged Property or in any loan made on the security thereof, and whose compensation was not affected by the approval or disapproval of the Mortgage Loan, and the appraisal and appraiser both satisfied the requirements of Title XI of the Federal Institutions Reform, Recovery, and Enforcement Act of 1989 and the regulations promulgated thereunder, all as in effect on the date that the Mortgage Loan was originated.

(jj) Servicemembers Civil Relief Act. The Mortgagor has not notified the Company and the Company has no knowledge of any relief requested by the Mortgagor under the Servicemembers Civil Relief Act.

(kk) Environmental Matters. To the Seller's actual knowledge, the Mortgaged Property is free from any and all toxic or hazardous substances and there exists no violation of any local, state or federal environmental law, rule or regulation with respect to the Mortgaged Property. There is no pending action or proceeding directly involving any Mortgaged Property of which the Seller is aware in which compliance with any environmental law, rule or regulation is an issue; and, to the best knowledge of the Seller, nothing further remains to be done to satisfy in full all requirements of each such law, rule or regulation consisting of a prerequisite to use and enjoyment of said property.

(ll) No Construction Loans. No Mortgage Loan (i) was made for the construction or rehabilitation of a Mortgaged Property which has not been completed or (ii) provides for future advances of funds by the Seller which have not yet been advanced or (iii) facilitates the trade-in or exchange of a Mortgaged Property.

(mm) Regarding the Mortgagor. The Mortgagor is one (1) or more natural persons or a trust acceptable under the Fannie Mae Guides.

(nn) Consent. If the Mortgage Loan is a Second Lien Mortgage Loan, either (i) no consent for such Second Lien Mortgage Loan is required by the holder of the related first lien mortgage or (ii) such consent has been obtained and is contained in the Servicing File.

(oo) Mortgagor Acknowledgment. If the Mortgage Loan is an adjustable rate nonprime mortgage loan, the Mortgagor has received all disclosure materials required by applicable law with respect to the making of adjustable rate nonprime mortgage loans. The Servicing File contains proof of such compliance.

(pp) No Buydown Provisions. The Mortgage Loan does not contain provisions pursuant to which Monthly Payments are paid or partially paid with funds deposited in any separate account established by the Seller, the Mortgagor or anyone on behalf of the Mortgagor,

or paid by any source other than the Mortgagor nor does it contain any other similar provisions currently in effect which may constitute a "buydown" provision.

(qq) Schedule of Payments; Final Maturity. Each Mortgage Note with respect to a Mortgage Loan provides for a schedule of substantially level and equal Monthly Payments (subject to adjustment in the case of Interest-Only Mortgage Loans at the end of the interest only payment period and to periodic adjustment in the case of Mortgage Loans that have an adjustable interest rate) which are sufficient to amortize fully the principal balance of such Mortgage Note on or before its maturity date, except for Mortgage Loans that provide for a "balloon" payment due at maturity. If an Interest–Only Mortgage Loan, such Mortgage Loan shall provide for substantially level and equal Monthly Payments that include principal payments to commence within 60 months of the origination of such Mortgage Loan (subject to periodic adjustment in case of Mortgage Loans that have an adjustable interest rate). The Mortgage Loan has a final maturity date not later than thirty (30) years after the Closing Date for the purchase of such Mortgage Loan.

(rr) No Claim or Defense. If the Mortgage Loan is a "mortgage" as defined in 15 U.S.C. 1602(aa), the Mortgagor does not and will not have a valid claim or defense with respect to such Mortgage Loan under such law.

(ss) No Taxes, Fees or Charges. The sale, transfer, assignment and conveyance of the Mortgage Loan by the Seller pursuant to this Mortgage Loan Purchase and Servicing Agreement are not subject to and will not result in any tax, fee or governmental charge payable by the Seller or the Issuer to any federal, state or local government other than such taxes, fees and governmental charges which have been or will be paid as due by the Seller.

(tt) Ground Lease. With respect to each Mortgaged Property subject to a ground lease (i) the current ground lessor has been identified and all ground rents which have previously become due and owing have been paid, (ii) the ground lease term extends, or is automatically renewable, for at least five years beyond the maturity date of the related Mortgage Loan, (iii) the ground lease has been duly executed and recorded and is valid and in full force and effect, (iv) the amount of the ground rent and any increases therein are clearly identified in the lease and are for predetermined amounts at predetermined times, (v) the ground rent payment is included in the Mortgagor's monthly payment as an expense item in determining the qualification of the Mortgagor for such Mortgage Loan, (vi) the holder of the original Mortgage or the assignee thereof has the right to cure defaults on the ground lease, (vii) the terms and conditions of the leasehold do not prevent the free and absolute marketability of the Mortgaged Property, and (viii) the ground lessee is not in default under any provisions of the lease.

(uu) Mortgage Interest Rate. The Mortgage Interest Rate on the Mortgage Loan is calculated on the basis of a year of 360 days with twelve 30-day months.

(vv) Negative Amortization. If the Mortgage Loan has a variable interest rate, it is not subject to negative amortization.

(ww) 16 C.F.R. Part 433. The FTC holder regulation provided in 16 C.F.R. Part 433 does not apply to the Mortgage Loans.

(xx) Rights Under Insurance Policies. The Seller has caused to be performed any and all acts required to be performed to preserve the rights and remedies of the mortgagee in any insurance policies applicable to the Mortgage Loan including, without limitation, any necessary notifications of insurers, assignments of policies or interests therein, and establishments of co-insured, joint loss payee and mortgagee rights in favor of the Servicer.

(yy) Prepayment Charge. If the Mortgage Loan contains a provision that provides for the payment of a Prepayment Charge if the related Mortgage Note is voluntarily paid in full prior to the date such Mortgage Note is scheduled to be paid in full, such provision is enforceable under applicable law, except as enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditor's rights and general principles of equity applicable hereto.

(zz) Predatory Lending Regulations; High Cost Loans. None of the Mortgage Loans (i) are classified as (x) "high cost" loans under the Home Ownership and Equity Protection Act of 1994 or (y) "high cost", "threshold", "covered" or "predatory" loans under any applicable federal, state or local law or ordinance (or a similarly classified loan using different terminology under any applicable federal, state or local law or ordinance imposing heightened regulatory scrutiny or additional legal liability for nonprime residential mortgage loans having high interest rates and/or points and fees) or (ii) are subject to any similar federal, state or local law or ordinance that would result in such Mortgage Loan being ineligible for inclusion in a rated securitization transaction under the then current criteria and ongoing criteria of any Rating Agency.

(aaa) Property in Georgia. No Mortgage Loan originated on or after March 7, 2003, secured by a Mortgaged Property located in Georgia is a "Covered Loan" or a "High Cost Home Loan" within the meaning of the Georgia Fair Lending Act, as amended (the "Georgia Act"). In addition, no Mortgage Loan secured by a Mortgaged Property located in Georgia was originated between October 1, 2002 and March 7, 2003.

(bbb) Use of Mortgage Loan Proceeds. No proceeds from any Mortgage Loan were used to finance single-premium credit life insurance policies in connection with the origination of the Mortgage Loan.

(ccc) No Material Errors, Omissions, Etc. To the best of the Seller's knowledge, no material error, omission, misrepresentation, negligence, fraud or similar occurrence with respect to a Mortgage Loan has taken place on the part of any person, including without limitation, the Seller, the Mortgagor, any appraiser, or any other party involved in the origination of the Mortgage Loan or in the application of any insurance in relation to such Mortgage Loan.

(ddd) Proceeds Fully Disbursed. The proceeds of each Mortgage Loan have been fully disbursed, there is no requirement for, or ability to make, future advances thereunder and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with, except any Mortgaged Property or Mortgage Loan subject to an escrow holdback as defined in the underwriting

guidelines of the Seller. All costs, fees and expenses incurred in making, closing or recording the Mortgage Loans were paid and the Mortgagor is not entitled to any refund of any amounts paid or due under the Mortgage Note or Mortgage.

(eee) No Deficiencies. With respect to escrow deposits and escrow payments (other than with respect to each Mortgage Loan which is indicated by the Seller to be a Second Lien Mortgage Loan and for which the mortgagee under the first lien is collecting escrow payments) all such payments are in the possession of or under the control of the Seller, its servicer or its agent. There exist no deficiencies with respect to escrow deposits and payments, if such are required, for which customary arrangements for repayment thereof have not been made, and no escrow deposits or payments of other charges or payments due the Seller have been capitalized under the Mortgage or the related Mortgage Note.

(fff) **[Reserved]**.

(ggg) Additional Payments. There is no obligation on the part of the Seller or any other party under the terms of the Mortgage or related Mortgage Note to make payments in lieu of or in addition to those made by the Mortgagor or a guarantor of such Mortgagor's obligations under the terms of a guarantee included in the related Mortgage Loan File.

(hhh) Furnishing of Information. The Seller has fully furnished, in accordance with the Fair Credit Reporting Act and its implementing regulations, accurate and complete information (e.g., favorable and unfavorable) on the Mortgagor's credit files to Equifax, Experian and Trans Union Credit Information Company or their successors the ("Credit Repositories") on a monthly basis.

(iii) Deemed Representations. If any representation and warranty reasonably required by mortgage loan buyers generally in purchases of nonprime mortgage loans having characteristics similar to the Mortgage Loan, or by Rating Agencies, commercial paper conduits or other Financing parties in connection with the Financing of nonprime mortgage loans having characteristics similar to the Mortgage Loan is not covered by the representations and warranties in the foregoing subparagraphs (a) through (hhh) (each, a "Deemed Representation"), then, upon notice thereof from the Seller, the Servicer, the Issuer or any Swap Counterparty, such Deemed Representation shall be deemed to have been made with respect to such Mortgage Loan by the Seller as of the applicable Closing Date unless such Deemed Representation relates to the collectibility or credit risk of such Mortgage Loan and for which such Deemed Representation would constitute recourse to the Seller for the collectibility of such Mortgage Loan.

Section 3.3 Remedies for Breach of Representations and Warranties. It is understood and agreed that the representations and warranties set forth in Sections 3.1 and 3.2 hereof shall survive the sale of each Mortgage Loan to the Issuer and the delivery of the Servicing File to the Servicer and delivery of the Loan Documents to the Custodian and shall inure to the benefit of the Issuer, the Collateral Agent, each Swap Counterparty and the Indenture Trustee notwithstanding any restrictive or qualified endorsement on any Mortgage Note or Assignment of Mortgage or the examination or failure to examine any Mortgage Loan File. Upon discovery by either the Seller, the Servicer, any Swap Counterparty or the Issuer (i) of a breach of any of the foregoing representations and warranties, or (ii) that any of the

representations or warranties in Section 3.2 hereof were untrue at the time made without regard to any limitation contained therein concerning the knowledge of any Person as to the facts stated therein, and in each case which materially and adversely affects the value of the Mortgage Loans or the interest of the Issuer (or which materially and adversely affects the interest of the Issuer in the related Mortgage Loan in the case of a representation and warranty relating to a particular Mortgage Loan), the party discovering such breach or inaccuracy shall give prompt written notice to the other, the Collateral Agent, the Indenture Trustee and each Swap Counterparty.

Except as provided in the next following sentence, within sixty (60) days of the earlier of either discovery by or notice to the Seller of any such breach or inaccuracy (without regard to any limitation contained therein concerning the knowledge of any Person as to the facts stated therein) of a representation or warranty set forth in Section 3.2 hereof that materially and adversely affects the value of any Mortgage Loan, the Seller shall use its best efforts promptly to cure such breach or inaccuracy in all material respects and, if such breach or inaccuracy cannot be cured, or is not cured, within such sixty (60) day time period, the Seller shall repurchase such Mortgage Loan at the Repurchase Price. In the event that a breach shall involve any representation or warranty set forth in Section 3.2(cc) hereof, the Seller shall repurchase all Mortgage Loans affected thereby on the ninth (9th) Business Day following the related Closing Date at the Repurchase Price. In the event that a breach shall involve any representation or warranty set forth in Section 3.1 hereof, and such breach cannot be cured, or is not cured, within sixty (60) days of the earlier of either discovery by or notice to the Seller of such breach, the Seller shall repurchase all of the Mortgage Loans affected thereby at the Repurchase Price. In each case, the Seller shall remit the Repurchase Price as certified by the Seller to the Collateral Agent, and the Collateral Agent shall deposit such amount into the Collateral Account maintained by the Collateral Agent on the day of receipt. Upon receipt of the Repurchase Price by the Collateral Agent, the Issuer and the Seller shall arrange for the reassignment of the Mortgage Loan or Mortgage Loans to the Seller and the delivery to the Seller of any documents held by the Custodian or the Servicer relating to the reassigned Mortgage Loan or Mortgage Loans. Notwithstanding the fact that a representation or warranty contained in Section 3.2 hereof may be limited to the Seller's knowledge, such limitation shall not relieve the Seller of its repurchase obligation under this Section 3.3.

In addition to such repurchase obligation, the Seller shall indemnify the Issuer, the Collateral Agent, each Swap Counterparty and the Indenture Trustee and hold it harmless against any losses, damages, transfer taxes, penalties, fines, forfeitures, reasonable and necessary legal fees and related costs, judgments, and other reasonable costs and expenses resulting from any claim, demand, defense or assertion based on or grounded upon, or resulting from, a breach of the representations and warranties of the Seller contained in this Mortgage Loan Purchase and Servicing Agreement. The Seller shall not be obligated under this indemnity for any indirect or consequential damages. It is understood and agreed that the obligations of the Seller set forth in this Section 3.3 to cure or repurchase a Mortgage Loan and to indemnify the Issuer, the Swap Counterparties, the Collateral Agent and the Indenture Trustee constitute the sole remedies of the Issuer, the Collateral Agent and the Indenture Trustee respecting a breach of the foregoing representations and warranties.

Section 3.4 Conditions to Closing. (a) Conditions to Initial Closing. The obligations of the parties hereto under this Mortgage Loan Purchase and Servicing Agreement

are subject to the condition precedent that the Issuer and the Company shall have received all of the following, each duly executed and dated as of the Initial Closing Date (or such earlier date as shall be satisfactory to the Issuer and the Company) in form and substance satisfactory to the Issuer and the Company:

(i) Program Documents. This Mortgage Loan Purchase and Servicing Agreement and each of the other Program Documents, duly executed by each of the parties thereto.

(ii) Resolutions; Organizational Documents. Certified copies of resolutions of the Board of Directors of the Seller authorizing the execution, delivery and performance of this Mortgage Loan Purchase and Servicing Agreement and the other Program Documents to which it is a party, together with a certified copy of the organizational documents and governing instruments, as applicable, of the Seller and the Issuer.

(iii) Incumbency and Signatures. A Certificate of the Secretary or an Assistant Secretary of the Seller, the Depositary, the Administrator, the Collateral Agent, the Indenture Trustee, the Owner Trustee and the Swap Counterparties certifying the names of its officer or officers authorized to sign this Mortgage Loan Purchase and Servicing Agreement, the Notes and the other Program Documents to which it is a party.

(iv) Good Standing Certificates. Good standing certificates for the Seller and the Issuer issued as of a recent date acceptable to the Issuer and the Seller by the Secretary of State of each jurisdiction that the Issuer and the Seller deem necessary or desirable.

(v) Opinion of Counsel. Favorable opinions from counsel to the Issuer, the Seller, each Swap Counterparty (which may be opinions of in-house counsel for the Swap Counterparty), the Collateral Agent, the Indenture Trustee and the Administrator, in form and substance acceptable to the Issuer and the Seller.

(vi) UCC Financing Statements. A UCC-1 financing statement to be filed in California naming the Seller as debtor, the Issuer as secured party and the Collateral Agent as assignee and the Mortgage Loans and the related servicing rights as collateral and a UCC-1 financing statement to be filed in Delaware naming the Issuer as debtor and the Collateral Agent as secured party and the Collateral as collateral.

(vii) UCC Searches. A UCC search against the Seller conducted in the office of the California Secretary of State and a UCC search against the Issuer conducted in the office of the Delaware Secretary of State.

(viii) Accounting Letter. A letter from Deloitte & Touche LLP, containing statements and information of the type ordinarily included in accountants' "comfort letters" in compliance with agreed upon procedures as agreed by Lehman Brothers and the Company, as to the accuracy of the information reviewed by them.

(ix) Ratings. A copy of letters evidencing that the Secured Liquidity Notes are rated at least "A-1+" and "P-1" by S&P and Moody's respectively.

(x) Offering Circulars. Final copies of (i) the Series 2005-A Preliminary Variable Rate Subordinated Note Offering Circular; (ii) the Series 2005-A Final Variable Rate Subordinated Note Offering Circular; (iii) the Preliminary Secured Liquidity Note Offering Circular; and (iv) the Final Secured Liquidity Note Offering Circular.

(xi) DTC Letter of Representations. A copy of a Letter of Representations relating to the Secured Liquidity Notes and a Letter of Representations relating to the Series 2005-A Subordinated Notes executed by the Issuer and accepted and agreed to by The Depository Trust Company.

(xii) Other. Such other documents as the Issuer or the Company may reasonably request.

(b) Conditions to Each Closing Date. The obligation of the Issuer to purchase the Mortgage Loans that are the subject of any Transfer Supplement shall be subject to satisfaction of each of the following conditions on or before the related Closing Date:

(i) To the best of the Seller's knowledge and belief, all of the representations and warranties of the Seller contained in this Mortgage Loan Purchase and Servicing Agreement shall be true and correct in all material respects as of such Closing Date and no event shall have occurred which, with notice or the passage of time, would constitute a Servicer Event of Default under this Mortgage Loan Purchase and Servicing Agreement;

(ii) The Seller shall have delivered and released to the Custodian all documents required to be delivered to the Custodian pursuant to the Custodial Agreement;

(iii) No Termination Event, Early Accumulation Event or Extended Note Amortization Event shall have occurred and be continuing; and

(iv) All other material terms and conditions of this Mortgage Loan Purchase and Servicing Agreement shall have been satisfied.

Section 3.5 Covenants of the Company and the Issuer. (a) Licenses. The Company shall maintain its qualifications to do business and all licenses necessary to perform its obligations hereunder.

(b) Servicing Standards. The Servicer will administer and service Mortgage Loans, and arrange for the sale of Mortgage Loans, pursuant to the terms of this Mortgage Loan Purchase and Servicing Agreement, the Mortgage Notes, applicable law and its Customary Servicing Procedures.

(c) Delivery of Mortgage Note. The Seller shall deliver the related Loan Documents in accordance with Section 2.1(b).

(d) Portfolio Criteria and Limitations. The Servicer agrees that as of any date of determination, the Mortgage Loans shall satisfy the Portfolio Criteria, the Eligibility Criteria

set forth in clause (i) and (ii) of the definition thereof, the Portfolio Aging Limitations and the Wet Funded Loan Limitation.

(e) Changes in Origination and Underwriting Criteria. The Company shall inform each Rating Agency rating any outstanding Notes of any changes in the Company's origination or underwriting practices and guidelines with respect to nonprime mortgage loans that would have a Material Adverse Effect.

(f) **[Reserved]**.

(g) Defaulted Loans. The Servicer shall sell on behalf of the Issuer any Mortgage Loan that becomes a Defaulted Loan as soon as practicable after becoming a Defaulted Loan.

(h) Ten Percent Obligor. The Servicer shall arrange for sales of Mortgage Loans to assure that the Outstanding Purchase Price of Mortgage Loans payable by a single obligor shall not exceed ten percent (10%) of the Outstanding Purchase Price of all Mortgage Loans owned by the Issuer at any time.

(i) Factual Assumption in True-Sale/Non-Consolidation Opinion. The Company and the Issuer shall maintain the truth and accuracy of all facts assumed by Dewey Ballantine LLP in the True-Sale/Non-Consolidation Opinion delivered on the Initial Closing Date and shall not take or omit to take any action that would result in a change to the continuing truth and accuracy of any of the factual assumptions in the True-Sale/Non-Consolidation Opinion.

(j) Accounting Treatment of the Issuer. The Company shall consolidate the assets and liabilities of the Issuer with the assets and liabilities of the Company in all financial statements published and prepared by the Company, the Issuer and their Affiliates in accordance with GAAP or any successor accounting standard thereto. Such financial statements shall contain a footnote substantially to the effect that the Issuer is a Delaware statutory trust that has been established by the Company as a special-purpose warehouse finance subsidiary of the Company, and that the Issuer has agreed to issue and sell the Notes.

(k) **[Reserved.]**

(l) Outstanding Notes. The Issuer shall not issue any Class of Notes if the issuance of such Class of Notes would cause the sum of (x) the aggregate Credits Outstanding on such day, (y) the aggregate Principal Amount of Subordinated Notes outstanding on such day, and (z) the aggregate Principal Amount of Term Notes outstanding on such day to exceed the Program Size.

Section 3.6 Representations and Warranties of the Issuer.

The Issuer represents and warrants to the Seller, the Servicer, the Collateral Agent and the Indenture Trustee that as of each Closing Date:

(a) Due Organization. The Issuer is a statutory trust duly formed and validly existing under the laws of the State of Delaware;

(b) Due Authorization; Enforceability. The Program Documents to which the Issuer is a party, assuming due authorization, execution and delivery by the Owner Trustee, constitute valid and legally binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles, regardless of whether such enforcement is considered in a proceeding in equity or at law;

(c) No Conflicts. The execution and delivery of the Program Documents to which the Issuer is a party by the Issuer and its performance of and compliance with the terms of the Program Documents to which the Issuer is a party will not violate the Issuer's Trust Agreement or certificate of trust, and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other material agreement or instrument to which the Issuer is a party or by which the Issuer or to which any property or assets of the Issuer is subject;

(d) No Defaults. The Issuer is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or governmental agency, which the default might have consequences that would materially and adversely affect the condition (financial or other) or operations of the Issuer or its properties or might have consequences that would affect its performance hereunder; and

(e) No Litigation. No litigation is pending or, to the Issuer's knowledge, threatened against the Issuer which would prohibit its entering into this Mortgage Loan Purchase and Servicing Agreement or performing its obligations under this Mortgage Loan Purchase and Servicing Agreement.

(f) Chief Executive Office. The principal place of business and chief executive office of the Issuer is located and has been located within the state of Delaware since its formation. The "location" of the Issuer as defined in the UCC is in the State of Delaware.

(g) No Prior Names. The exact legal name of the Issuer is, and since its formation has been, the name set forth for it on the signature page hereto.

(h) Prior Security Agreement. The Issuer is not bound under Section 9-203(d) of the Uniform Commercial code by a security agreement previously entered into by another person or entity.

Section 3.7 Perfection Representations. The Perfection Representations shall be a part of this Mortgage Loan Purchase and Servicing Agreement for all purposes.

Section 3.8 Covenants of the Seller. The Seller shall not (i) change its name, identity, or its type or jurisdiction of organization or (ii) become bound as debtor under Section 9-203(d) of the UCC by a security agreement entered into by another person or entity unless it has first (x) made all filings in all relevant jurisdictions under the UCC and other applicable law

as are necessary to continue and maintain the first-priority perfected ownership or security interest of the Collateral Agent in the Mortgage Loans, the proceeds thereof, and the other property conveyed to the Issuer hereunder, and (y) delivered to the Servicer and the Collateral Agent an Opinion of Counsel to the effect that all necessary filings have been made under the UCC in all relevant jurisdictions as are necessary to continue and maintain the first-priority perfected ownership or security interest of the Issuer and the Collateral Agent in the Mortgage Loans, the proceeds thereof, and the other property conveyed to the Issuer hereunder.

Section 3.9 Covenants of the Servicer.

(a) The Servicer shall cause the Issuer to be in compliance with all applicable licensing and regulatory requirements.

(b) The Servicer covenants to maintain the perfection and priority of the security interest of the Issuer and the Collateral Agent, on behalf of the Secured Parties, in the Mortgage Loans in accordance with paragraph 12 of the Perfection Representations.

Section 3.10 Deposit of Derivatives. The Company may cause the deposit of derivatives at any time to the Issuer and any such deposited derivatives shall become property of the Issuer.

ARTICLE IV

ADMINISTRATION AND SERVICING OF MORTGAGE LOANS

Section 4.1 The Company to Act as Servicer; Servicing and Administration of the Mortgage Loans. (a) (i) The Company, as an independent contract servicer, shall service and administer the Mortgage Loans in accordance with (1) the terms of this Mortgage Loan Purchase and Servicing Agreement, and the other Program Documents and (2) otherwise in accordance with its Customary Servicing Procedures. The Company, as an independent contract servicer, shall exercise its discretion consistent (a) with the same care, skill, customary and reasonable practices and diligence with which it services and administers similar mortgage loans for other third-party investors or (b) with the same care, skill, customary and reasonable practices and diligence with which, it services and administers similar nonprime mortgage loans which it owns, whichever standard of care is higher. The Company, as an independent contract servicer, shall exercise its discretion consistent with the terms of this Mortgage Loan Purchase and Servicing Agreement and, with respect to the enforcement of defaulted Mortgage Loans, in such manner as will maximize the receipt of principal and interest with respect thereto, including, but not limited to, the sale of any such Mortgage Loan to a third party, the modification of any such Mortgage Loan, or foreclosure upon the related property with a mortgage and disposition thereof.

The Servicer shall arrange for the sale of the Mortgage Loans in a manner consistent with the Portfolio Criteria, Portfolio Aging Limitations and Wet Funded Loan Limitation. Additionally, as the principal of any Notes becomes due and payable, whether pursuant to the terms thereof or by the occurrence of a Security Agreement Event of Default or an Indenture Event of Default or optional repurchase, maturity or otherwise, the Issuer shall

cause the Servicer to arrange for the sale of Mortgage Loans at such times and in such manner so that the proceeds of the sale, together with amounts received by the Issuer in connection with the Interest Rate Swap (taking into account the settlement period under the Interest Rate Swap), are available to pay amounts due and owing on such Notes; it being understood that the Servicer shall have no obligation to purchase the Mortgage Loans or make any payment on the Notes. The Rated Bidder shall make bids on Mortgage Loans as required pursuant to the Rated Bidder Letter. The Servicer may arrange for the sale of Mortgage Loans through a Financing. The Servicer may not arrange for the sale of any Mortgage Loan for consideration other than cash consideration.

(ii) Except to the extent that this Mortgage Loan Purchase and Servicing Agreement provides for a contrary specific course of action, the Servicer will be required to service and administer each Mortgage Loan without regard to (a) any other relationship that the Servicer, any sub-servicer or any Affiliate of the Servicer or any sub-servicer may have with the Mortgagors or any Affiliate of such Mortgagors, (b) the ownership of any Notes by the Servicer or any Affiliate of the Servicer, (c) the Servicer's obligations to make any Monthly Servicer Advances or Servicing Advances or to incur servicing expenses with respect to each Mortgage Loan, (d) the Servicer's or any sub-servicer's right to receive compensation for its services under this Mortgage Loan Purchase and Servicing Agreement or with respect to any particular transaction or (e) the ownership, servicing or management for others by the Servicer or any sub-servicer of any other nonprime mortgage loans or property.

(b) The Servicer may enter into additional servicing or sub-servicing agreements with third parties with respect to any of its obligations hereunder, provided that any such agreement shall be consistent with the provisions of this Mortgage Loan Purchase and Servicing Agreement and no sub-servicer (or its agent or subcontractors) shall grant any modification, waiver or amendment to any Mortgage Loan without the approval of the Servicer. Notwithstanding any servicing or sub-servicing agreement, any of the provisions of this Mortgage Loan Purchase and Servicing Agreement relating to agreements or arrangements between the Servicer and any Person acting as servicer or sub-servicer (or its agents or subcontractors) or any reference to action taken through any Person acting as servicer or sub-servicer or otherwise, the Servicer shall remain obligated and primarily liable to the Issuer for the servicing and administering of the Mortgage Loans and arranging for the sale of each Mortgage Loan pursuant to the provisions of this Mortgage Loan Purchase and Servicing Agreement without diminution of such obligation or liability by virtue of such servicing or sub-servicing agreements or arrangements or by virtue of indemnification from any Person acting as servicer or sub-servicer (or its agents or subcontractors) to the same extent and under the same terms and conditions as if the Servicer alone were engaging in such activities. In the event that the Servicer is a sub-servicer, the Issuer shall be entitled to proceed directly against the Servicer as sub-servicer to enforce the Servicer's obligations to the Issuer. There are no sub-servicers hereunder as of the date of this Mortgage Loan Purchase and Servicing Agreement and, if a Servicer Event of Default has occurred and is continuing the Servicer will terminate any sub-servicer within ninety (90) days after being directed to do so by the Required Senior Noteholders or the Required Subordinated Noteholders. Neither the Collateral Agent nor the Indenture Trustee shall have any duty to monitor the Servicer or any subservicer and shall have no liability for the actions or inactions of the Servicer or any subservicer.

(c) (i) The Servicer shall, in accordance with Customary Servicing Procedures, have the right to approve requests of Mortgagors for consent to (A) partial releases of Mortgage Loans and (B) alterations, removal, demolition or division of Mortgaged Properties subject to Mortgage Loans. No such request shall be approved by the Servicer unless: (x) the provisions of the related Mortgage Note have been complied with; (y) the LTV (which may, for this purpose, be determined by the Servicer at the time of any such action in accordance with its Customary Servicing Procedures) after any release does not exceed the LTV set forth for such Mortgage Loan in the related Mortgage Loan Schedule; and (z) the lien priority, Monthly Payment, Mortgage Interest Rate or maturity date of the related Mortgage is not affected except in accordance with subparagraph (ii) below; provided, however, that the foregoing requirements (x), (y) and (z) shall not apply to any such situation described in this paragraph if such situation results from any condemnation or easement activity by a Government Authority.

(ii) Notwithstanding anything else contained herein, the Servicer may not agree to a modification or extension of any Mortgage Loan unless both (i) such Mortgage Loan is in default or a default thereon is reasonably foreseeable and (ii) such modification or extension would not result in the Servicer agreeing to modifications or extensions on Mortgage Loans with aggregate Closing Date Outstanding Principal Balances of more than 10.0% of the aggregate Closing Date Outstanding Principal Balances of all Mortgage Loans held by the Issuer. In addition, the Servicer may not agree to more than (i) one modification or extension with respect to any individual Mortgage Loan in a calendar year or (ii) three modifications or extensions of an individual Mortgage Loan during the life of such Mortgage Loan.

(iii) Without limiting the generality of the foregoing, the Servicer shall continue, and is hereby authorized and empowered, to execute and deliver on behalf of itself and the Issuer all instruments of satisfaction or cancellation, or of partial or full release, discharge and all other comparable instruments, with respect to each Mortgage Loan and with respect to the related Mortgaged Property. If reasonably required by the Servicer, the Issuer shall furnish the Servicer with any powers of attorney, in recordable form, and other documents necessary or appropriate to enable the Servicer to carry out its servicing and administrative duties under this Mortgage Loan Purchase and Servicing Agreement.

Section 4.2 Sales. (a) Subject to the servicing standards described in Section 4.1 hereof, the Servicer shall have full power and authority, acting alone, to do or cause to be done any and all things in connection with such servicing and administration that it may deem necessary and desirable in connection with arranging for the sale by the Issuer of Mortgage Loans to Mortgage Loan Buyers. The Servicer shall have no liability to the Issuer with respect to any sale, provided that the Servicer arranges for such sale in good faith pursuant to the procedures utilized by the Servicer in connection with any sale of nonprime mortgage loans held for its own account. The proceeds of sale of any Mortgage Loans will be remitted to the Collateral Agent and will be deposited into the Collateral Account maintained by the Collateral Agent on the day of receipt.

(b) With respect to each sale of Mortgage Loans entered into by the Issuer, the Company (in its capacity as Servicer and as Seller) shall:

(i) cooperate fully with the Issuer, any prospective Mortgage Loan Buyer, or any party to any agreement executed in connection with the sale of such Mortgage Loans, with respect to all reasonable requests and due diligence procedures and use its best efforts to facilitate such sale;

(ii) either (A) restate, as of the closing date of such sale, the representations and warranties contained in Section 3.1 hereof and state that, except as otherwise disclosed in writing by the Servicer to the Mortgage Loan Buyer, each of the representations and warranties with respect to such Mortgage Loans contained in Section 3.2 hereof, are true as of the closing date of such sale (and for this purpose, references to the knowledge of the Seller shall mean the knowledge of the Servicer) or (B) negotiate such representations and warranties as are reasonably acceptable to such Mortgage Loan Buyer;

(iii) deliver to the Issuer for inclusion in any prospectus or other offering material such written information regarding the Seller, its nonprime mortgage loan origination and servicing experience and its nonprime mortgage loan delinquency, foreclosure and loss experience, and, as to the Performance Guarantor, its financial condition, as shall be reasonably requested by the Issuer and indemnify and hold harmless the Issuer against any and all liabilities, losses and expenses arising under the Securities Act in connection with any material misstatement contained in such written information or any omission of a material fact the inclusion of which was necessary to make such written information not materially misleading;

(iv) deliver to the Issuer and to any Person designated by the Issuer, such statements and audit letters of reputable, certified public accountants pertaining to the written information provided by the Servicer pursuant to clause (iii) above as shall be reasonably requested by the Issuer;

(v) deliver to the Issuer, and to any Person designated by the Issuer, such opinions of counsel as are customarily delivered by originators/servicers in connection with sales; and

(vi) no later than 4:00 p.m. Eastern time on the Business Day preceding the date that such Mortgage Loans are scheduled to be sold (each, a "Sale Date") deliver to the Issuer, the Collateral Agent and the Swap Counterparties a written notice (each, a "Sale Notice"), which shall, at a minimum, set forth the proposed sale price or aggregate sale price for such Mortgage Loans (the "Sale Price"), a summary description of the procedures used by the Servicer on behalf of the Issuer to determine such Sale Price, and the proposed buyer of such Mortgage Loans (including whether such proposed buyer is a Securitization Vehicle).

All Mortgage Loans not sold or transferred pursuant to a sale shall continue to be serviced pursuant to the terms of this Mortgage Loan Purchase and Servicing Agreement.

(c) **[Reserved]**

(d) Upon the sale of any Mortgage Loan, the rights and obligations of the Servicer hereunder with respect to such Mortgage Loan shall be terminated on the effective date of such sale. Upon written request from the Issuer, the Servicer shall prepare, execute and deliver to the successor entity designated by the Issuer any and all documents and other instruments, place or cause to be placed in such successor's possession the Mortgage Loan File, and do or cause to be done all other acts or things necessary or appropriate to effect the purposes of such termination, including but not limited to the transfer and endorsement or assignment of the Mortgage Loan and related documents, at the Servicer's sole expense. The Servicer shall cooperate with such successor in effecting the termination of the Servicer's responsibilities and rights hereunder, including without limitation, the transfer to such successor for administration by it of all cash amounts which shall at the time be credited by the Servicer to any Collection Account or thereafter received with respect to the Mortgage Loan, subject to the Servicer's right to withdraw any amounts it is entitled pursuant to this Mortgage Loan Purchase and Servicing Agreement.

(e) If the Servicer arranges for the sale of Mortgage Loans by the Issuer pursuant to the Mortgage Loan Purchase and Servicing Agreement and the Sale Price of any Mortgage Loan or Mortgage Loans is anticipated to be less than the Outstanding Purchase Price of such Mortgage Loan or Mortgage Loans, the Servicer shall give each Swap Counterparty written notice of the anticipated Sale Price of such Mortgage Loan or Mortgage Loans in advance of such sale. Such written notice shall also include a summary description of the procedure used in the determination of the Sale Price. The Designated Swap Counterparty shall have two (2) Business Days from the receipt of such written notice to dispute the Sale Price; provided, that the Designated Swap Counterparty shall not dispute the Sale Price of any single Mortgage Loan if the sale of such Mortgage Loan was pursuant to a sale agreement for a pool of Mortgage Loans and the aggregate Sale Price for such pool is equal to or greater than 102% of the aggregate Outstanding Principal Balances for the Mortgage Loans in such pool; provided, further, that the Servicer may request in writing that the Designated Swap Counterparty waive its right to dispute a sale of a Mortgage Loan or Mortgage Loans; such request shall be deemed to have been granted if (i) the Designated Swap Counterparty shall not have responded by the close of business San Diego time on the date such request was received by the Designated Swap Counterparty so long as such request was received by 3:00 Eastern time on such date (otherwise such request shall be deemed to have been received on the next following Business Day) and (ii) (A) the Seller, as swap counterparty under each of the Back-to-Back Swaps, shall have made or shall make all payments, if any, to be made under the Back-to-Back Swaps related to the sale of such Mortgage Loan or Mortgage Loans prior to or concurrent with such sale and (B) such payments under the Back-to-Back Swaps shall not be subject to the limitations set forth in the provisos of the first sentence of the Party B First Floating Rate Amount (as defined in the Back-to-Back Swaps) or any similar limitation in any replacement Back-to-Back Swap. If the Designated Swap Counterparty disputes the Sale Price, the Servicer and the Designated Swap Counterparty shall use their best efforts to resolve such dispute within two (2) Business Days of receipt by the Servicer of notice of such dispute. If the Designated Swap Counterparty disputes the Sale Price of any Mortgage Loan or Mortgage Loans and such dispute is not resolved, then the Designated Swap Counterparty, or its designee, shall be permitted to purchase such Mortgage Loan or Mortgage Loans (the "Purchase Option") at a price at least equal to 102% of the Sale

Price (the "Bid Price") within three (3) Business Days of receipt by the Designated Swap Counterparty of the written notice of the Sale Price. If the Designated Swap Counterparty waives its right to dispute a sale of a Mortgage Loan or Mortgage Loans, fails to dispute the Sale Price within two (2) Business Days after receipt of notice of the Sale Price, or fails (or such designee fails) to pay the Bid Price for such Mortgage Loan or Mortgage Loans within three (3) Business Days after receipt of notice of the Sale Price, the Servicer shall be permitted to sell such Mortgage Loan or Mortgage Loans in accordance with the Mortgage Loan Purchase and Servicing Agreement.

Section 4.3 Liquidation of Mortgage Loans. In the event that any payment due under any Mortgage Loan is not paid when the payment becomes due and payable, by Monthly Servicer Advance or otherwise, or in the event that the Mortgagor fails to perform any other covenant or obligation under the Mortgage Loan and such failure continues beyond any applicable grace period, the Servicer shall take such action as the Servicer would take under similar circumstances with respect to a similar nonprime mortgage loan held for its own account for investment, which action shall be consistent with its Customary Servicing Procedures and in the best interest of the Issuer as owner and the Collateral Agent on behalf of the Secured Parties; provided, however, that any Defaulted Loan will be sold by the Servicer on behalf of the Issuer as soon as practicable after becoming a Defaulted Loan.

Section 4.4 Collection of Mortgage Loan Payments. The Servicer shall proceed diligently, pursuant to the Servicer's Customary Servicing Procedures, to collect all payments called for under the terms and provisions of each Mortgage Loan and shall follow such collection procedures as are consistent with this Mortgage Loan Purchase and Servicing Agreement (including without limitation, the servicing standards set forth in Section 4.1 hereof). For Mortgage Loans with escrow accounts, the Servicer shall ascertain and estimate, in accordance with the Servicer's Customary Servicing Procedures, all charges that will become due and payable with respect to each Mortgage Loan and the Mortgaged Property, to the end that the installments payable by the Mortgagors will be sufficient to pay such charges as and when they become due and payable. The Servicer shall segregate and hold all payments received by it with respect to Mortgage Loans separate and apart from any of its funds and general assets and in trust for the Secured Parties and shall apply such payments as provided in Section 4.5 hereof. The accounts established by the Servicer pursuant to this Article IV may include any number of sub-accounts for convenience in administering the Mortgage Loans.

Section 4.5 Establishment of, and Deposits to, Collection Account. The Servicer shall establish a single, segregated Eligible Account which shall be designated as the collection account (the "Collection Account"), which shall be held in trust in the name of the Collateral Agent for the benefit of the Secured Parties, into which the Servicer shall from time to time deposit, within two (2) Business Days of the receipt thereof, and retain therein, the following collections received by the Servicer: (a) all payments on account of scheduled principal on the Mortgage Loans (net of charges against such amounts allowed pursuant to Section 4.6(a) hereof), (b) all payments on account of interest on the Mortgage Loans (including all Monthly Servicer Advances) (net of charges against such amounts allowed pursuant to Sections 4.6(a), 4.6(d) and 4.6(e) hereof), (c) any partial Principal Prepayments and any Prepayment Charges, (d) all Insurance Proceeds including amounts required to be deposited pursuant to Sections 4.11 and 4.12 hereof (other than proceeds to be held in the Escrow Account

and applied to the restoration or repair of the related Mortgaged Property or released to the Mortgagor in accordance with the Servicer's Customary Servicing Procedures as specified in Section 4.15 hereof), (e) all Condemnation Proceeds which are not applied to the restoration or repair of the Mortgaged Property or released to the Mortgagor pursuant to Section 4.15 hereof, (f) any amounts required to be deposited by the Servicer pursuant to Section 4.12 hereof in connection with the deductible clause in any blanket hazard insurance policy, (g) any amounts received with respect to or related to any REO Property and all REO Disposition Proceeds hereof and (h) any other amounts received with respect to or related to the Mortgage Loans (other than Principal Prepayments in full, which shall be deposited into the Collateral Account), including but not limited to interest paid on funds deposited in the Collection Account, to the extent permitted by applicable law; provided, however, that all servicing related fees and charges described in Section 6.3(b) hereof may be retained by the Servicer as and when collected and amounts received by the Servicer for the account of Mortgagors for the application towards the payment of taxes, insurance premiums, assessments and similar items to the extent payable by the related Mortgagor shall be deposited in the related escrow account. For so long as the Security Agreement shall be in effect, the Collection Account shall be maintained in the name of the Collateral Agent.

Section 4.6 Permitted Withdrawals From Collection Account; Deposit into the Collateral Account. (a) In connection with amounts deposited by the Servicer into the Collection Account by mistake or overpayment or as otherwise required to make adjustments to amounts deposited therein in accordance with ordinary and normal servicing adjustments, the Servicer shall be entitled to retain from time to time from collections on the Mortgage Loans owned by the Issuer prior to the deposit of such collections in the Collection Account amounts equal to the amounts so deposited by mistake or overpayment or the adjustments so required, provided that the amounts so retained are reflected in the Servicer Report delivered to the Collateral Agent for the Remittance Period in which such retention occurred.

(b) Pursuant to the terms of the Security Agreement, the Collateral Agent shall establish the Collateral Account, which shall be held in trust in the name of the Collateral Agent for the benefit of the Secured Parties and over which the Collateral Agent shall have exclusive control and the sole right of withdrawal. The proceeds of any sales of Mortgage Loans by the Issuer to Mortgage Loan Buyers, Principal Prepayments in full of any Mortgage Loan, the Repurchase Price of any Mortgage Loans repurchased by the Seller or the Servicer pursuant to Section 3.3, 6.2 or 7.1 hereof, and any other amounts payable in connection with the Seller's or Servicer's repurchase of any Mortgage Loan and certain other amounts as more fully set forth in the Security Agreement, shall be deposited directly into the Collateral Account on the same day of receipt. Any and all funds at any time on deposit in, or otherwise to the credit of, the Collateral Account shall be held in trust by the Collateral Agent for the benefit of the Secured Parties.

(c) Subject to Sections 4.6(f) and (g) hereof, the Servicer shall, on or after each Monthly Remittance Date but no later than the Business Day immediately preceding the next following Payment Date withdraw, or if the Collateral Agent has exercised its rights pursuant to the terms of the Account Control Agreement, request in writing the Collateral Agent to withdraw, (A) all amounts on deposit in the Collection Account relating to the specified Remittance Period on such Monthly Remittance Date, plus (B) to the extent not included in the

amounts referred to in clause (A) above, all Monthly Servicer Advances deposited into the Collection Account with respect to the related Remittance Period (net of charges against or withdrawals from the Collection Account pursuant to this Section 4.6) and deposit such amounts into the Collateral Account for application pursuant to the terms of the Security Agreement.

(d) The Servicer shall be entitled to reimbursement for Monthly Servicer Advances previously made pursuant to Section 5.1 hereof, either by (x) requesting, by delivery of a Servicer Advance Report, the Collateral Agent to withdraw funds from the Collection Account to reimburse the Servicer for such Monthly Servicer Advances, or (y) retaining from interest payments on the related Mortgage Loans the amount of such Monthly Servicer Advances prior to the deposit of such interest payments into the Collection Account, provided, however, that such retention is reflected in a Servicer Advance Report delivered to the Collateral Agent no later than the Monthly Remittance Date for the Remittance Period in which such retention occurred, the Servicer's right to reimbursement pursuant to this Section 4.6(d) being limited to amounts received on the related Mortgage Loan that represent late payments of interest respecting which any such Monthly Servicer Advance was made, it being understood that, in the case of any such reimbursement, the Servicer's right thereto shall be prior to the rights of the Issuer, except that, where the Servicer is required to repurchase a Mortgage Loan pursuant to Sections 6.2 and 7.1 hereof, the Servicer's right to such reimbursement shall be subsequent to the payment to the Issuer of the Repurchase Price pursuant to such Sections 6.2 and 7.1 and all other amounts required to be paid to the Issuer with respect to such Mortgage Loan.

(e) The Servicer shall, on or after each Monthly Remittance Date but no later than the Business Day immediately preceding the next following Payment Date, by delivery of the Servicer Report to the Collateral Agent, withdraw, or if the Collateral Agent has exercised its rights pursuant to the terms of the Account Control Agreement, request the Collateral Agent to withdraw and remit to the Servicer, on such date of delivery from the amounts in the Collection Account referred to in clauses (A) and (B) of Section 4.6(c) hereof, an amount equal to (i) the Servicing Fee for the related Remittance Period and (ii) if and to the extent previously deposited into the Collection Account, any unpaid servicing related fees and charges to which the Servicer is entitled pursuant to Section 6.3(b) hereof. Notwithstanding the foregoing, the Servicer shall be entitled to retain from the interest payments on the Mortgage Loans owned by the Issuer prior to deposit of such payments into the Collection Account, the Servicing Fee to which it is entitled relating to such Mortgage Loans, provided that any such retention is reflected in the Servicer Report delivered to the Collateral Agent for the Remittance Period in which such retention occurred; provided, further, however, that if the aggregate amount of any such retention exceeds the Servicing Fee for the Remittance Period in which such retention occurred, the Servicer shall deposit the amount of such excess into the Collateral Account on or after the related Monthly Remittance Date but no later than the Business Day immediately preceding the related Payment Date.

(f) Subject to the provisions of Section 4.6(g) hereof, the Servicer may, on any Business Day, withdraw, or if the Collateral Agent has exercised its rights pursuant to the terms of the Account Control Agreement, request in writing the Collateral Agent to withdraw, any or all principal payments or collections (including partial Principal Prepayments) on deposit in the Collection Account and deposit such amounts into the Collateral Account; provided, however, that any interest payment accompanying a principal payment (including a partial

Principal Prepayment) shall only be deposited into the Collateral Account in accordance with Section 4.6(c) hereof.

(g) The Servicer shall separately account for amounts deposited into the Collection Account with respect to Mortgage Loans that have been identified for sale by the Issuer to a Mortgage Loan Buyer. Upon the establishment by the Issuer and a Mortgage Loan Buyer of a Cut-Off Date for the sale of Mortgage Loans by the Issuer to the Mortgage Loan Buyer, all amounts (including Monthly Servicer Advances) in respect of such Mortgage Loans which are deposited into the Collection Account on and after the Cut-Off Date and prior to the closing date for such sale (i) shall be held in the Collection Account and (ii) shall not be deposited into the Collateral Account pursuant to Section 4.6(c) or (f) hereof but shall remain in the Collection Account until the closing or abandonment of such sale. Upon the closing of such sale, the Servicer shall, on the closing date for such sale, request in writing the Collateral Agent to withdraw funds from the Collection Account representing the amounts deposited into the Collection Account in respect of the Mortgage Loans sold to the Mortgage Loan Buyer during the period on and after the related Cut-Off Date and prior to such closing date and remit such amounts to the account designated by the Mortgage Loan Buyer. If the sale to the Mortgage Loan Buyer is abandoned, then either (i) if any portion of the amounts in the Collection Account relating to such sale were included in the calculation of a Sold Loan Interest Payment Amount for a prior Payment Date, the Servicer shall, on the date such sale is abandoned, request the Collateral Agent to withdraw the amounts in the Collection Account that were so included and the Collateral Agent shall deposit such amounts into the Collateral Account for application pursuant to the provisions of the Security Agreement, or (ii) if or to the extent that the provisions of clause (i) are not applicable, the amounts in the Collection Account related to such sale shall no longer be accounted for separately and shall be available for application pursuant to the provisions of this Mortgage Loan Purchase and Servicing Agreement.

Section 4.7 Establishment of, and Deposits to, Escrow Account. The Servicer shall establish and maintain an Escrow Account, in the form of time deposit or demand accounts, in a manner which shall provide maximum available insurance thereunder. Funds deposited in the Escrow Account may be invested by the Servicer which shall be entitled to any investment income therefrom except as otherwise required by law. Funds deposited in any Escrow Account may be drawn on by the Servicer pursuant to Section 4.8 hereof.

The Servicer shall deposit in such Escrow Account within two (2) Business Days and retain therein all amounts representing Insurance Proceeds or Condemnation Proceeds which are to be applied to the restoration or repair of any Mortgaged Property.

The Servicer shall make withdrawals from any Escrow Account only to effect such payments as are required under this Mortgage Loan Purchase and Servicing Agreement, as set forth in Section 4.8 hereof. To the extent required by law, the Servicer shall pay interest on escrowed funds to the Mortgagor notwithstanding that such Escrow Account may be non-interest bearing or that interest paid thereon is insufficient for such purposes.

Section 4.8 Permitted Withdrawals From Escrow Account. Withdrawals from any Escrow Account may be made by the Servicer only:

(1) For transfer to the Collection Account and application to reduce the principal balance of a Mortgage Loan in accordance with the terms of the related Mortgage and Mortgage Note;

(2) For application to restoration or repair of the Mortgaged Property pursuant to the procedures outlined in Section 4.15 hereof; and

(3) To pay to the Mortgagor, to the extent required by law, any interest paid on the funds deposited in the Escrow Account.

Section 4.9 Servicing Advances. The Servicer shall make Servicing Advances with respect to each Mortgage Loan, including advances of taxes or other charges which are or may become a lien on the related Mortgaged Property, and advances of premiums for fire and hazard insurance coverage on the related Mortgaged Property, to the extent not paid by the related Mortgagor, unless the Servicer provides an Officer's Certificate to the Issuer stating that such Servicing Advance would not be recoverable in its reasonable judgment.

Section 4.10 Protection of Accounts. Amounts on deposit in the Collection Account may at the option of the Servicer be invested in Eligible Investments; provided, however, that in the event that amounts on deposit in the Collection Account exceed the amount fully insured by the FDIC (the "Insured Amount") the Servicer shall be obligated to invest the excess amount over the Insured Amount in Eligible Investments on the next Business Day as such excess amount becomes present in the Collection Account. Monies held in the Collection Account shall be invested in Eligible Investments having maturities of no greater than one day; provided, however, that if there are no Secured Liquidity Notes then outstanding, monies held in the Collection Account shall be invested in Eligible Investments having maturities of no greater than thirty (30) days. So long as there are Eligible Investments having maturities of greater than one (1) day, the Issuer shall not issue Secured Liquidity Notes. All such Eligible Investments shall be made in the name of, and shall be payable to, the Collateral Agent.

Section 4.11 Maintenance of Hazard Insurance. The Servicer shall cause to be maintained for each Mortgage Loan hazard insurance such that all buildings upon the Mortgaged Property are insured by a generally acceptable insurer pursuant to the Servicer's Customary Servicing Procedures against loss by fire and hazards of extended coverage in an amount which is at least equal to, to the extent permitted by applicable law, the lesser of (i) 100% of the replacement cost of all improvements to the Mortgaged Property and (ii) the greatest of (a) the unpaid principal balance of the Mortgage Loan plus, in the case of a Second Lien Mortgage Loan, the unpaid principal balance of the first lien mortgage on the related Mortgaged Property, (b) an amount such that the proceeds thereof shall be sufficient to prevent the Mortgagor or the loss payee from becoming a co-insurer, and (c) the amount necessary to compensate fully for any damage or loss to the improvements that are a part of such Mortgaged Property on a replacement-cost basis.

If upon origination or acquisition of the Mortgage Loan, the related Mortgaged Property was located in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards (and such flood insurance has been made available) the Servicer shall cause to be in effect a flood insurance policy meeting the

requirements of the current guidelines of the Flood Insurance Administration with a generally acceptable insurance carrier pursuant to the Servicer's Customary Servicing Procedures in an amount representing coverage equal to the least of (i) the full insurable value of the Mortgaged Property (or the unpaid principal balance of the Mortgage Loan (and, in the case of a Second Lien Mortgage Loan, the unpaid principal balance of the first lien mortgage on the related Mortgaged Property) if replacement cost coverage is not available for the type of building insured), (ii) the outstanding principal balance of the Mortgage Loan and (iii) the maximum amount of insurance which is available under the Flood Disaster Protection Act of 1973, as amended. If at any time during the term of the Mortgage Loan, the Servicer determines in accordance with applicable law, that a Mortgaged Property is located in a special flood hazard area and is not covered by flood insurance or is covered in an amount less than the amount required by the Flood Disaster Protection Act of 1973, as amended, the Servicer shall notify the related Mortgagor that the Mortgagor must obtain such flood insurance coverage, and if said Mortgagor fails to obtain the required flood insurance coverage within forty-five (45) days after such notification, the Servicer shall immediately place in force the required flood insurance on the Mortgagor's behalf.

The Servicer shall not interfere with the Mortgagor's freedom of choice in selecting either his insurance carrier or agent; provided, however, that the Servicer shall not accept any such insurance policies from insurance companies unless such companies are generally acceptable companies pursuant to the Servicer's Customary Servicing Procedures and are licensed to do business in the jurisdiction in which the Mortgaged Property is located. The Servicer shall determine that such policies provide sufficient risk coverage and amounts, that they insure the property owner, and that they properly describe the property address. The Servicer shall furnish to the Mortgagor a formal notice of expiration of any such insurance in sufficient time for the Mortgagor to arrange for renewal coverage by the expiration date.

Pursuant to Section 4.5 hereof, any amounts collected by the Servicer under any such policies (other than amounts to be deposited in any Escrow Account and applied to the restoration or repair of the related Mortgaged Property or to be released to the Mortgagor in accordance with the Servicer's Customary Servicing Procedures as specified in Section 4.15 hereof) shall be deposited in the Collection Account subject to withdrawal pursuant to Section 4.6 hereof.

Section 4.12 Maintenance of Mortgage Impairment Insurance. If the Servicer shall obtain and maintain a blanket policy insuring against losses arising from fire and hazards covered under extended coverage on all of the Mortgage Loans, then, to the extent such policy provides coverage in an amount equal to the amount required pursuant to Section 4.11 hereof and otherwise complies with all other requirements of Section 4.11, it shall conclusively be deemed to have satisfied its obligations as set forth in such Section 4.11. Any amounts collected by the Servicer under any such policy relating to a Mortgage Loan (other than amounts to be deposited in any Escrow Account and applied to the restoration or repair of the related Mortgaged Property or to be released to the Mortgagor in accordance with the Servicer's Customary Servicing Procedure as specified in Section 4.15 hereof) shall be deposited in the Collection Account subject to withdrawal pursuant to Section 4.6 hereof. Such policy may contain a deductible clause, in which case, in the event that there shall not have been maintained on the related Mortgaged Property a policy complying with Section 4.11 hereof, and there shall have been a

loss which would have been covered by such policy, the Servicer shall deposit in the Collection Account at the time of such loss the amount not otherwise payable under the blanket policy because of such deductible clause, such amount to be deposited from the Servicer's funds, without reimbursement therefor. Upon request of the Issuer or the Collateral Agent, the Servicer shall cause to be delivered to the Issuer a certified true copy of any such policy if maintained.

Section 4.13 Maintenance of Fidelity Bond and Errors and Omissions Insurance Policy. The Servicer shall maintain with responsible companies, at its own expense, a blanket fidelity bond, with broad coverage on all officers, employees or other persons acting in any capacity requiring such persons to handle funds, money, documents or papers relating to the Mortgage Loans. Such fidelity bond shall be in the form of the Mortgage Banker's Blanket Bond and shall protect and insure the Servicer against losses, including forgery, theft, embezzlement, fraud, and negligent acts of such persons. The Servicer shall also maintain with responsible companies, at its own expense, an errors and omissions insurance policy, with broad coverage on all officers, employees or other persons acting in any capacity requiring such persons to handle funds, money, documents or papers relating to the Mortgage Loans. No provision of this Section 4.13 requiring such fidelity bond or errors and omissions insurance policy shall diminish or relieve the Servicer from its duties and obligations as set forth in this Mortgage Loan Purchase and Servicing Agreement. The minimum coverage under such fidelity bond or errors and omissions insurance policy shall be at least equal to the corresponding amounts required by the Servicer's Customary Servicing Procedures. Upon the request of the Issuer or the Collateral Agent, the Servicer shall cause to be delivered to the Issuer a certified true copy of such fidelity bond and such errors and omissions insurance policy.

Section 4.14 Inspections. The Servicer shall inspect the Mortgaged Property in accordance with its Customary Servicing Procedures.

Section 4.15 Restoration of Mortgaged Property. The Servicer need not obtain the approval of the Issuer prior to releasing any Insurance Proceeds or Condemnation Proceeds to the Mortgagor to be applied to the restoration or repair of the Mortgaged Property if such release is in accordance with the Servicer's Customary Servicing Procedures. At a minimum, the Servicer shall comply with the following conditions in connection with any such release of Insurance Proceeds or Condemnation Proceeds:

(1) The Servicer shall receive satisfactory independent verification of completion of repairs and issuance of any required approvals with respect thereto;

(2) The Servicer shall take all steps necessary to preserve the priority of the lien of the Mortgage, including, but not limited to, requiring waivers with respect to mechanics' and materialmen's liens;

(3) The Servicer shall verify that the Mortgage Loan is not in default; and

(4) Pending repairs or restoration, the Servicer shall place the Insurance Proceeds or Condemnation Proceeds in the Escrow Account.

Section 4.16 **[Reserved].**

Section 4.17 Title, Management and Disposition of REO Property. In the event that title to any Mortgaged Property is acquired in foreclosure or by deed in lieu of foreclosure, the deed or certificate of sale shall be taken in the name of the Servicer as agent for the Secured Parties, or in the event the Servicer is not authorized or permitted to hold title to real property in the state where the REO Property is located, or would be adversely affected under the "doing business" or tax laws of such state by so holding title, the deed or certificate of sale shall be taken in the name of such Person or Persons as shall be reasonably acceptable to the Issuer and the Secured Parties. The Person or Persons holding such title other than the Servicer shall acknowledge in writing that such title is being held as nominee for the Servicer.

The Servicer shall manage, conserve, protect and operate each REO Property for the Issuer solely for the purpose of its prompt disposition and sale. The Servicer, either itself or through an agent selected by the Servicer, shall manage, conserve, protect and operate the REO Property in the manner that it manages, conserves, protects and operates other foreclosed property for its own account, and in the manner that similar property in the locality as the REO Property is managed. The Servicer shall attempt to sell the REO Property on such terms and conditions as the Servicer deems to be in the best interest of the Issuer. The Servicer shall dispose of the REO Property in accordance with the Servicer's Customary Servicing Procedures as soon as possible.

The Servicer shall also maintain on each REO Property fire and hazard insurance with extended coverage in an amount which is at least equal to the maximum insurable value of the improvements which are a part of such property, liability insurance and, to the extent required and available under the Flood Disaster Protection Act of 1973, as amended, flood insurance.

The disposition of REO Property shall be carried out by the Servicer at such price and upon such terms and conditions as the Servicer deems to be in the best interest of the Issuer. All REO Disposition Proceeds shall be promptly deposited in the Collection Account.

Section 4.18 Servicer Reports. The Servicer shall deliver a report to the Issuer, the Administrator, the Collateral Agent, the Indenture Trustee, the Custodian, each Swap Counterparty and the Secured Liquidity Note Dealers on or before 3:00 p.m. (Eastern time) one Business Day prior to each Payment Date (the "Servicer Report"), a form of which is attached hereto as Exhibit C.

Section 4.19 Real Estate Owned Reports. The Servicer shall furnish to the Issuer on or before each Payment Date a statement with respect to any REO Property covering the operation of such REO Property and the Servicer's efforts in connection with the sale of such REO Property and any rental of such REO Property incidental to the sale thereof. That statement shall be accompanied by such other information as the Issuer shall reasonably request.

Section 4.20 Liquidation Reports. As promptly as practicable following the foreclosure sale of any Mortgaged Property or the acquisition thereof by the Issuer pursuant to a deed in lieu of foreclosure, the Servicer shall submit to the Issuer a liquidation report with respect to such Mortgaged Property.

Section 4.21 Reports of Foreclosures and Abandonments of Mortgaged Property. Following the foreclosure sale or abandonment of any Mortgaged Property, the Servicer shall report such foreclosure or abandonment as required pursuant to Section 6050J of the Code.

Section 4.22 Servicer Advance Report. The Servicer shall deliver a report (a "Servicer Advance Report") to the Collateral Agent and each Swap Counterparty from time to time pursuant to Section 4.6(d) hereof, a form of which is attached hereto as Exhibit D.

Section 4.23 Monthly Disposition Report. The Servicer shall on each Payment Date deliver to the Issuer, the Indenture Trustee, each Swap Counterparty and the Collateral Agent a report with respect to sales of Mortgage Loans made by the Issuer to Mortgage Loan Buyers in the preceding Remittance Period in substantially the form attached as Exhibit E hereto. None of the Collateral Agent, any Swap Counterparty, the Owner Trustee or the Indenture Trustee shall have any duty to examine any such report.

Section 4.24 Notice of Deemed Representations. Promptly, but no later than five (5) Business Days after obtaining actual knowledge of a Deemed Representation that has not previously been disclosed by the Servicer to the Issuer, the Sellers and each Swap Counterparty, the Servicer shall provide written notice to the Issuer, the Seller, the Collateral Agent and each Swap Counterparty of such Deemed Representation.

ARTICLE V

SERVICER ADVANCES

Section 5.1 Monthly Servicer Advances. On or after each Monthly Remittance Date, but no later than the Business Day immediately preceding the next following Payment Date, the Servicer shall deposit into the Collection Account from its own funds an amount equal to the positive difference (if any) of (a) the Monthly Interest and (b) all payments of interest due on the Mortgage Loans during the related Remittance Period that are on deposit in the Collection Account on such Monthly Remittance Date ("Monthly Servicer Advances"). The Servicer's obligation to make such Monthly Servicer Advances as to any Mortgage Loan will continue through the last Monthly Payment due prior to the payment in full of the Mortgage Loan or through the Payment Date for the distribution of all proceeds of sale of the Mortgage Loan and other payments or recoveries (including Insurance Proceeds and Condemnation Proceeds) with respect to the Mortgage Loan, unless, to the extent that such Monthly Servicer Advance relates to interest payments which were due on Mortgage Loans that are Defaulted Loans or Delinquent Loans, the Servicer provides an Officer's Certificate to the Issuer stating that such Monthly Servicer Advance would not be recoverable in its reasonable judgment.

ARTICLE VI

GENERAL SERVICING PROCEDURES

Section 6.1 Transfers of Mortgaged Property. The Servicer shall enforce any "due-on-sale" provision in accordance with the Servicer's Customary Servicing Procedures and

applicable law contained in any Mortgage or Mortgage Note and to deny assumption by the Person to whom the Mortgaged Property has been or is about to be sold whether by absolute conveyance or by contract of sale, and whether or not the Mortgagor remains liable on the Mortgage and the Mortgage Note. When the Mortgaged Property has been conveyed by the Mortgagor, the Servicer shall, to the extent it has knowledge of such conveyance, exercise its rights to accelerate the maturity of such Mortgage Loan under the "due-on-sale" clause applicable thereto; provided, however, that the Servicer shall not exercise such rights if prohibited by law from doing so.

If the Servicer reasonably believes it is unable under applicable law to enforce such "due-on-sale" clause, the Servicer shall enter into (i) an assumption and modification agreement with the Person to whom the Mortgaged Property has been conveyed, pursuant to which such Person becomes liable under the Mortgage Note and the original Mortgagor remains liable thereon or (ii) in the event that the Servicer is unable under applicable law to require that the original Mortgagor remain liable under the Mortgage Note, a substitution of liability agreement with the purchaser of the Mortgaged Property pursuant to which the original Mortgagor is released from liability and the purchaser of the Mortgaged Property is substituted as Mortgagor and becomes liable under the Mortgage Note.

Section 6.2 Satisfaction of Mortgages and Release of Mortgage Loan Files. Upon the payment in full of each Mortgage Loan, or the receipt by the Servicer of a notification that payment in full will be escrowed in a manner customary for such purposes, the Servicer shall notify the Issuer and the Collateral Agent in writing.

If the Servicer satisfies or releases a Mortgage without first having obtained payment in full of the indebtedness secured by the Mortgage or should the Servicer otherwise prejudice any rights the Issuer may have under the mortgage instruments which materially and adversely affects the value of the related Mortgage Loan, upon written demand of the Issuer, the Servicer shall purchase the related Mortgage Loan at the Repurchase Price by deposit thereof in the Collateral Account within two (2) Business Days of receipt of such demand by the Issuer.

Upon receipt of the Repurchase Price by the Collateral Agent, the Issuer and the Servicer shall arrange for the reassignment of the Mortgage Loans to the Servicer and the delivery to the Servicer of any documents held by the Custodian relating to the reassigned Mortgage Loans. The Servicer shall, simultaneously with such assignment, give written notice to the Seller, the Collateral Agent, the Indenture Trustee and each Swap Counterparty that such purchase has taken place, which notice shall contain the Repurchase Price.

Section 6.3 Servicing Compensation. As compensation for its services hereunder, the Servicer shall be entitled to (a) the Servicing Fee and (b) any late payment charges, release fees, bad check charges, assumption fees and any other servicing-related fees (other than Prepayment Charges) collected from Mortgagors with respect to the Mortgage Loans. The Servicer shall be required to pay all expenses incurred by it in connection with its servicing activities hereunder and shall not be entitled to reimbursement therefor except as specifically provided herein.

Section 6.4 Annual Statement as to Compliance. The Servicer shall deliver to the Issuer, the Administrator, the Collateral Agent, the Indenture Trustee, the Secured Liquidity Note Dealers and each Swap Counterparty, on or before March 15 of each year beginning 2005, an Officer's Certificate, stating that (i) a review of the activities of the Servicer during the preceding calendar year and of performance under this Mortgage Loan Purchase and Servicing Agreement has been made under such officer's supervision, and (ii) to the best of such officer's knowledge, based on such review, the Servicer has fulfilled its obligations in all material respects under this Mortgage Loan Purchase and Servicing Agreement throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to such officer and the nature and status thereof and the action being taken by the Servicer to cure such default.

Section 6.5 Annual Independent Public Accountants' Servicing Report. On or before March 15 of each year beginning 2005, the Servicer, at its expense, shall cause a firm of independent public accountants which is a member of the American Institute of Certified Public Accountants (which firm may also render services to the Servicer) to furnish a report to the Issuer, the Administrator, the Collateral Agent, the Indenture Trustee, the Secured Liquidity Note Dealers and each Swap Counterparty stating that such firm has examined the Servicer's overall servicing operations in accordance with the minimum standards identified in the Mortgage Bankers Association of America's Uniform Single Attestation Program for Mortgage Bankers (USAP), or the Audit Guide for Audits of HUD Approved Nonsupervised Mortgagees (to the extent that the procedures in such audit guide are applicable to the servicing obligations set forth herein), and stating such firm's conclusions relating thereto. Neither the Collateral Agent nor the Indenture Trustee shall have any duty to examine such report.

Section 6.6 Right to Examine Servicer Records. The Issuer, the Administrator, each Swap Counterparty, the Collateral Agent (acting on its own behalf or at the written direction of the Required Senior Noteholders) and the Indenture Trustee (acting on its own behalf or at the written direction of the Required Subordinated Noteholders) or any of their agents, attorneys or representatives upon at least three (3) Business Days' prior notice, shall each have the right to reasonable access to (i) examine and make copies of and abstracts from the books, records, or other information of the Servicer, whether held by the Servicer, any subservicer or by any other Person on its behalf and (ii) the officers or employees of Servicer at the Servicer's offices in order to discuss matters, in each case, with respect to or concerning this Mortgage Loan Purchase and Servicing Agreement or the Mortgage Loans owned by the Issuer, during regular business hours or at such other times as may be reasonable under applicable circumstances.

ARTICLE VII

PURCHASE OBLIGATION

Section 7.1 Servicer's Purchase Obligations. Upon the earlier of either knowledge of the Servicer or receipt by the Servicer of notice from the Issuer or any Swap Counterparty of a breach of any representation, warranty or covenant made by the Company, in its capacity as Servicer, as set forth in Section 3.1 hereof, which materially and adversely affects the value of a Mortgage Loan, the Servicer shall, at the direction of the Issuer, use its best efforts

to cure and correct any such breach, and, in the event such breach is not cured and corrected within sixty (60) days, the Servicer shall purchase the Mortgage Loan at the Repurchase Price pursuant to Section 3.3 hereof.

Upon deposit by the Servicer of the Repurchase Price in the Collateral Account, the Issuer, the Custodian and the Servicer shall arrange for the assignment of Mortgage Loans adversely affected by such breach to the Servicer according to the Servicer's written instructions, which written notice shall state the Repurchase Price, and the delivery to the Servicer of any documents held by the Issuer or the Custodian relating to such Mortgage Loans. The Servicer shall, simultaneously with such assignment, give written notice to the Seller, the Collateral Agent, the Indenture Trustee and each Swap Counterparty that such purchase has taken place.

In addition to such purchase obligation, the Servicer shall indemnify the Issuer, the Swap Counterparties, the Back-to-Back Swap Counterparties, the Collateral Agent, the Indenture Trustee, the Owner Trustee, each Secured Liquidity Note Dealer, each Initial Purchaser of Subordinated Notes and each Initial Purchaser of Term Notes and hold it harmless against any losses, damages, transfer taxes, penalties, fines, forfeitures, reasonable and necessary legal fees and related costs, judgments, and other reasonable costs and expenses resulting from any claim, demand, defense or assertion based on or grounded upon, or resulting from, a breach of any representation, warranty or covenant of the Servicer contained in this Mortgage Loan Purchase and Servicing Agreement. The Servicer shall not be obligated under this indemnity for any indirect or consequential damages. It is understood and agreed that the obligations of the Servicer set forth in this Section 7.1 to cure or repurchase a Mortgage Loan and to indemnify the Issuer, the Swap Counterparties, the Back-to-Back Swap Counterparties, the Collateral Agent, the Indenture Trustee, the Owner Trustee, each Secured Liquidity Note Dealer, each Initial Purchaser of Subordinated Notes and each Initial Purchaser of Term Notes constitute the sole remedies of the Issuer, the Swap Counterparties, the Back-to-Back Swap Counterparties, the Collateral Agent, the Indenture Trustee, the Owner Trustee, each Secured Liquidity Note Dealer, each Initial Purchaser of Subordinated Notes and each Initial Purchaser of Term Notes respecting a breach of such representations, warranties and covenants.

ARTICLE VIII

SERVICER TO COOPERATE

Section 8.1 Provision of Information. During the term of this Mortgage Loan Purchase and Servicing Agreement, the Servicer shall furnish to the Issuer, the Administrator, the Indenture Trustee (acting on behalf of the Subordinated Noteholders), each Swap Counterparty and the Collateral Agent (acting on behalf of the Senior Noteholders) such periodic, special, or other reports or information as they may reasonably request from time to time in order to effectuate the purposes and to carry out the terms of this Mortgage Loan Purchase and Servicing Agreement. All such reports, documents or information shall be provided by and in accordance with all reasonable instructions and directions which the Issuer, the Administrator, the Indenture Trustee, any Swap Counterparty and the Collateral Agent may give.

The Servicer shall execute and deliver all such instruments and take all such action as the Issuer, the Indenture Trustee (acting on its own behalf or on behalf of the Subordinated Noteholders), any Swap Counterparty, the Collateral Agent (acting on its own behalf or on behalf of the Senior Noteholders), the Custodian, the Secured Liquidity Note Dealers, the Initial Purchasers of the Subordinated Notes and the Initial Purchasers of the Term Notes may reasonably request from time to time, in order to effectuate the purposes and to carry out the terms of this Mortgage Loan Purchase and Servicing Agreement.

ARTICLE IX

THE SERVICER

Section 9.1 Indemnification of Third-Party Claims. The Servicer agrees to indemnify and hold harmless the Issuer, the Administrator, the Collateral Agent, the Indenture Trustee, the Owner Trustee, the Custodian, the Swap Counterparties, the Back-to-Back Swap Counterparties, the Secured Liquidity Note Dealers, the Initial Purchasers of the Subordinated Notes and the Initial Purchasers of the Term Notes and their respective officers, directors, employees and agents (collectively, the "Indemnified Parties") against any and all third party claims, losses, penalties, fines, forfeitures, reasonable legal fees and related costs, judgments, and any other costs, fees and expenses that the Indemnified Parties sustain in any way related to the failure of the Servicer to perform its duties and service the Mortgage Loans in strict compliance with the terms of this Mortgage Loan Purchase and Servicing Agreement or because of a breach of any representation, warranty or covenant made by the Servicer. The Servicer shall immediately notify the Indemnified Parties if a claim is made by a third party with respect to a matter as to which the Servicer has agreed to indemnify and hold harmless such parties under this Section 9.1, and, so long as no potential conflict of interest exists between the Servicer and such Indemnified Party, the Servicer shall assume the defense of any such claim and pay all expenses in connection therewith, including counsel fees, and promptly pay, discharge and satisfy any final judgment or decree which may be entered against the Servicer or any Indemnified Parties in respect of such claim. The Servicer's indemnification obligation pursuant to this Section 9.1 shall survive the termination of this Mortgage Loan Purchase and Servicing Agreement.

Section 9.2 Existence of the Servicer. The Servicer shall keep in full effect its existence, rights and franchises as a corporation, and shall obtain and preserve its qualification to do business as a foreign corporation in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Mortgage Loan Purchase and Servicing Agreement or any of the Mortgage Loans and to perform its duties under this Mortgage Loan Purchase and Servicing Agreement.

Section 9.3 Limitation on Liability of Servicer and Others. Neither the Servicer nor any of the directors, officers, employees or agents of the Servicer shall be under any liability to the Issuer for any action taken or for refraining from the taking of any action in good faith pursuant to this Mortgage Loan Purchase and Servicing Agreement, or for errors in judgment; provided, however, that this provision shall not protect the Servicer or any such person against any breach of warranties or representations made herein, or failure to perform its obligations in compliance with any standard of care set forth in this Mortgage Loan Purchase and

Servicing Agreement, or any liability which would otherwise be imposed by reason of any breach of the terms and conditions of this Mortgage Loan Purchase and Servicing Agreement. The Servicer and any director, officer, employee or agent of the Servicer may rely in good faith on any document which it in good faith reasonably believes to be genuine and to have been adopted or signed by the proper authorities respecting any matters arising hereunder. The Servicer shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service the Mortgage Loans in accordance with this Mortgage Loan Purchase and Servicing Agreement and which in its opinion may involve it in any expense or liability; provided, however, that the Servicer may, with the consent of the Issuer, undertake any such action which it may deem necessary or desirable with respect to this Mortgage Loan Purchase and Servicing Agreement and the rights and duties of the parties hereto. In such event, the Servicer shall be entitled to reimbursement from the Issuer of the reasonable legal expenses and costs of such action.

Section 9.4 Limitation on Resignation of Servicer. The Issuer has entered into this Mortgage Loan Purchase and Servicing Agreement with the Servicer in reliance upon the representations as to the adequacy of its servicing facilities, plant, personnel, records and procedures, its integrity, reputation and financial standing, and the continuance thereof. The Servicer shall not resign from the obligations and duties hereby imposed on it as to each Mortgage Loan except by consent of each Swap Counterparty, the Collateral Agent (acting upon the written direction of the Required Senior Noteholders) or, if no Senior Notes are outstanding, the Indenture Trustee (acting upon the written direction of the Required Subordinated Noteholders) or upon the determination that its duties hereunder are no longer permissible under applicable law and such incapacity cannot reasonably be cured by the Servicer. Notice of any such determination permitting the resignation of the Servicer shall be delivered to each Rating Agency and any such determination shall be evidenced by an Opinion of Counsel to such effect delivered to the Issuer which Opinion of Counsel shall be in form and substance acceptable to the Issuer. No such resignation shall become effective until a successor shall have assumed the Servicer's responsibilities and obligations hereunder in the manner provided in Section 12.1 hereof, subject to Rating Agency Confirmation.

Section 9.5 Limitation on Assignment of Rights and Obligations. The Servicer shall not assign, sell or otherwise transfer its rights, obligations, duties and agreements hereunder (a) except as permitted by Section 4.1(b), Section 9.4 or Section 10.1 hereof, or (b) unless consented to in writing by each Swap Counterparty, the Collateral Agent (acting upon the written direction of the Required Senior Noteholders or if no Senior Notes are outstanding, the Indenture Trustee (acting upon the written direction of the Required Subordinated Noteholders) or (c) unless, in the case of a sale or other disposition by the Servicer of all or substantially all of its servicing business, whether by merger, consolidation, sale of assets or otherwise, the Issuer shall have received Rating Agency Confirmation; provided that nothing herein shall prohibit the Servicer from assigning or otherwise transferring its right to receive any payments (including the Servicing Fee) hereunder.

ARTICLE X

DEFAULT

Section 10.1 Servicer Events of Default. Each of the following shall constitute a "Servicer Event of Default" on the part of the Servicer:

(a) Any failure by the Servicer to observe or perform in any material respect any of the terms, covenants or agreements on the part of the Servicer set forth in this Mortgage Loan Purchase and Servicing Agreement, any Transfer Supplement or the Custodial Agreement (other than those set forth in clause (i) below) which continues unremedied for a period of forty-five (45) days after the date on which the Servicer has actual knowledge or written notice of such failure;

(b) Any representation, warranty, statement or certification made by the Servicer shall prove to have been incorrect in any material respect as of the time when made, and which continues to be incorrect in any material respect for forty-five (45) days after the date on which the Servicer has actual knowledge or written notice of such incorrect representation, warranty, statement or certification;

(c) Any failure by the Servicer to maintain any required licenses to do business in any jurisdiction where the Mortgaged Property is located, which failure has a material adverse effect on the ability of the Servicer to perform its functions under this Mortgage Loan Purchase and Servicing Agreement or materially impairs the value of the Mortgage Loans, and which continues to be unremedied for a period of forty-five (45) days after the date on which the Servicer has actual knowledge or written notice of such failure;

(d) Application for the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, including bankruptcy, marshalling of assets and liabilities or similar proceedings, or for the winding-up or liquidation of its affairs, shall have been entered against the Servicer and, if such proceeding is being contested by the Servicer in good faith, such decree or order shall have remained in force undischarged or unstayed for a period of forty-five (45) days;

(e) The Servicer shall admit in writing its inability to pay its debts generally as they become due, file a petition to take advantage of any applicable insolvency, bankruptcy or reorganization statute, make an assignment for the benefit of its creditors, voluntarily suspend payment of its obligations or cease its normal business operations for six (6) Business Days;

(f) The Company or Performance Guarantor or any Affiliate thereof enters into a consent agreement or otherwise agrees in writing with any federal or state regulatory agency or authority to restrict its activities, if the default of such agreement by the Company or Performance Guarantor or any Affiliate thereof entitles such applicable federal or state agency to place the Company or Performance Guarantor in receivership or conservatorship;

(g) The Company or Performance Guarantor shall fail to pay (after expiration of any applicable grace period) (i) any of its debt obligations in excess of the lesser of (x) $5,000,000 and (y) 2% of shareholder's equity of the Performance Guarantor in the aggregate or

(ii) any of its payment obligations under any interest rate swap or similar hedging transaction with a notional amount in excess of the lesser of (x) $5,000,000 and (y) 2% of shareholder's equity of the Performance Guarantor in the aggregate;

(h) The Company or the Performance Guarantor shall fail to observe or perform any of its obligations under any Back-to-Back Swap Agreement; or

(i) The failure on the part of the Servicer to make (x) any Monthly Servicer Advance required by it under this Mortgage Loan Purchase and Servicing Agreement on or before the date such advance is required to be made or (y) any other payment or deposit in excess of $1,000 required by it under this Mortgage Loan Purchase and Servicing Agreement and such failure continues unremedied until 3:00 p.m. Eastern time on the fifth Business Day immediately following the date such advance, payment or deposit is required to be made.

At any time during the continuance of an event described in clauses (a) through (i) above, the Issuer may, and shall at the written request of the Required Subordinated Noteholders, with the consent of the Required Senior Noteholders, and shall at the written request of the Swap Counterparties, terminate all of the rights and obligations of the Servicer under this Mortgage Loan Purchase and Servicing Agreement and in and to the Mortgage Loans and the proceeds thereof other than the right to receive unpaid Servicing Fees and reimbursement of Servicing Advances and Monthly Servicer Advances. Notice of such termination shall be given to the Collateral Agent, the Indenture Trustee, the Custodian, the Administrator, each Swap Counterparty and the Rating Agencies. Upon receipt by the Servicer of such written notice, all authority and power of the Servicer under this Mortgage Loan Purchase and Servicing Agreement, whether with respect to the Mortgage Loans or otherwise, shall pass to and be vested in the successor appointed pursuant to Section 12.1 hereof. Upon written request from the Issuer, the Servicer shall prepare, execute and deliver to the successor entity designated by the Issuer any and all documents and other instruments, place in such successor's possession all Servicing Files, and do or cause to be done all other acts or things necessary or appropriate to effect the purposes of such notice of termination, including but not limited to the transfer and endorsement or assignment of the Mortgage Loans and related documents, at the Servicer's sole expense. The Servicer shall cooperate with such successor in effecting the termination of the Servicer's responsibilities and rights hereunder, including without limitation, the transfer to such successor for administration by it of all cash amounts which shall at the time be credited by the Servicer to any Collection Account thereafter received with respect to the Mortgage Loans.

Section 10.2 Waiver of Defaults. With the consent of the Required Noteholders and each Swap Counterparty, the Issuer, by written notice to the Collateral Agent, may waive any default by the Servicer in the performance of its obligations hereunder and its consequences. Upon any waiver of a past default, such default shall cease to exist, and any event of default arising therefrom shall be deemed to have been remedied for every purpose of this Mortgage Loan Purchase and Servicing Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon except to the extent expressly so waived. Notice of any such waiver shall be given to each Rating Agency.

ARTICLE XI

TERMINATION

Section 11.1 Termination of Agreement. This Mortgage Loan Purchase and Servicing Agreement shall terminate upon (x) the final payment, other liquidation (or any advance with respect thereto) or sale of the last Mortgage Loan held by the Issuer hereunder and (y) the payment in full of the Notes.

Section 11.2 Termination of Purchase Obligations. Each of the following shall constitute a termination event under this Mortgage Loan Purchase and Servicing Agreement (each, a "Termination Event"):

(a) Any representation, warranty, statement, or certification made by Performance Guarantor or the Company (excluding any representations or warranties made pursuant to Section 3.2 hereof) in any Program Document shall prove to have been incorrect in any material respect as of the time when made, and which continues to be incorrect in any material respect for a period of forty-five (45) days after the date on which the Seller has actual knowledge or written notice of such incorrect representation, warranty, statement or certification;

(b) (i) The failure on the part of the Seller to perform its obligations under Section 3.5(c) to repurchase any Mortgage Loan with a defective Mortgage Loan File, or (ii) the failure on the part of the Seller or the Performance Guarantor to observe or perform in any material respect any of the other material terms, covenants or agreements of the Seller or the Performance Guarantor contained in the Program Documents which continues unremedied for a period of forty-five (45) days after the date on which the Seller or the Performance Guarantor has actual knowledge or written notice of such failure;

(c) Any Servicer Event of Default has occurred and is continuing after giving effect to any applicable grace period;

(d) Application for the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, including bankruptcy, marshalling of assets and liabilities or similar proceedings, or for the winding-up or liquidation of its affairs, shall have been entered against the Issuer, the Seller or Performance Guarantor and such decree or order shall have remained in force undischarged or unstayed for a period of forty-five (45) days;

(e) The Issuer, Seller or Performance Guarantor shall consent to the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings of or relating to the Issuer, Seller or Performance Guarantor or of or relating to all or substantially all of its property;

(f) The Issuer, Seller or Performance Guarantor shall admit in writing its inability to pay its debts generally as they become due, file a petition to take advantage of any applicable insolvency, bankruptcy or reorganization statute, make an assignment for the benefit of its creditors, voluntarily suspend payment of its obligations or cease its normal business operations for six (6) Business Days;

(g) Non-compliance with the Portfolio Criteria or Wet Funded Loan Limitation, and such non-compliance shall continue for a period of thirty (30) days;

(h) Non-compliance with the Portfolio Aging Limitations, and such non-compliance shall continue for a period of fifteen (15) days;

(i) The Interest Rate Swaps shall cease, for any reason, to be in full force and effect in accordance with their terms;

(j) (i) A Security Agreement Event of Default shall have been declared by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders) and shall be continuing or an automatic Security Agreement Event of Default shall have occurred and be continuing or (ii) an Indenture Event of Default shall have been declared by the Required Subordinated Noteholders and shall be continuing or an automatic Indenture Event of Default shall have occurred and be continuing;

(k) (i) Funds on deposit in the Reserve Fund shall be less than the Required Reserve Fund Amount (x) for sixty (60) consecutive days or more if the deficiency is less than 0.25% of the Aggregate Outstanding Principal Balance, or (y) for two (2) consecutive Business Days if the deficiency is equal to or greater than 0.25% of the Aggregate Outstanding Principal Balance or (ii) the Market Value Reserve Account shall be below the Market Value Requirement for two (2) Business Days or more;

(l) On the last day of any calendar month, (i) the ratio of the Outstanding Principal Balance of all Delinquent Loans owned by the Issuer to the Aggregate Outstanding Principal Balance as of the last day of the calendar month, shall equal more than seven percent (7%), or (ii) the ratio of the Outstanding Principal Balance of all Three Payment Delinquent Loans owned by the Issuer to the Aggregate Outstanding Principal Balance shall equal more than two percent (2%);

(m) The failure of the Issuer to maintain an agreement (in substantially the form attached hereto as Exhibit B) with a Rated Bidder to the effect that such Rated Bidder agrees to submit a binding bid for all non-Delinquent Loans and non-Defaulted Loans in a Termination Event Auction and, in the case of a withdrawal or reduction of the rating assigned to the Rated Bidder below "P-1" by Moody's, such failure continues for a period of thirty (30) days or more and an acceptable Rated Bidder has not been appointed;

(n) One (1) or more Swap Counterparties fail to agree to any extension of any Interest Rate Swap, and a replacement Swap Counterparty or Swap Counterparties shall not have been obtained at least one (1) year prior to the scheduled termination date in a maximum notional amount at least equal to the lesser of (x) the maximum notional amount of the Interest Rate Swap or Interest Rate Swaps represented by the non-extending Swap Counterparty or Swap Counterparties or (y) if the Program Size has been modified, an amount equal to (i) the then-current Program Size less (ii) the maximum notional amount of all effective (as of such scheduled termination date) Interest Rate Swaps;

(o) An Interest Rate Swap Termination Event or an Interest Rate Swap Event of Default has occurred, unless the maximum notional amount of the Interest Rate Swaps that are

not subject to an Interest Rate Swap Termination Event or an Interest Rate Swap Event of Default are equal to or greater than the then-current Program Size;

(p) On any day following the third Payment Date under the Program Documents, the average of the Excess Spread Rate for the Remittance Periods relating to each of the three most recent Payment Dates is less than three percent (3%)**;**

(q) Failure to pay the outstanding principal amount of any Series of Subordinated Notes on the Scheduled Payment Date for such Subordinated Notes;

(r) Failure of the Servicer to make any Monthly Servicer Advance required by it under this Mortgage Loan Purchase and Servicing Agreement on or before the date such advance is required to be made; or

(s) The Outstanding Purchase Price of Mortgage Loans that have been owned by the Issuer for more than one year is equal to or greater than $1,000,000 for fifteen (15) consecutive days;

provided, however, that at any time during the continuance of an event described in clauses (a) through (c), the Issuer may, and shall (i) at the written request of the Required Subordinated Noteholders, with the consent of the Required Senior Noteholders (or, if the Senior Notes have been paid in full, such consent will not be required), (ii) at the written request of the Collateral Agent acting pursuant to Section 4.11 of the Security Agreement, or (iii) in the case of a Servicer Event of Default as set forth in Section 10.1(g) or (h) hereof, at the written request of any Swap Counterparty, notify the Seller that the commitment of the Issuer to purchase Mortgage Loans from the Seller shall terminate. Upon the occurrence of a Termination Event described in clauses (d) through (s) (each, an "Automatic Termination Event"), the Issuer's commitment to purchase Mortgage Loans from the Seller shall terminate automatically and an Automatic Termination Event will be deemed to have occurred. Upon the declaration of a Termination Event by the Issuer or the occurrence of an Automatic Termination Event, the Issuer will no longer be permitted to purchase additional Mortgage Loans and principal collections on Mortgage Loans, proceeds of sales of Mortgage Loans and amounts received from any Swap Counterparty will be retained under the Security Agreement and used to pay the outstanding obligations of the Issuer pursuant to the terms thereof. If a Termination Event described in clauses (h) or (k) through (s) above occurs, a Security Agreement Event of Default described in clause (e) or (m) through (r) of Section 7.01 of the Security Agreement occurs or an Indenture Event of Default described in clause (e) or (m) through (r) of Schedule I of the Indenture occurs, the Servicer shall use its best efforts to sell all non-Delinquent Loans and non-Defaulted Loans within 90 days of the date on which such Termination Event, Security Agreement Event of Default or Indenture Event of Default occurred. In the event that all non-Delinquent Loans and non-Defaulted Loans have not been so sold by such 90th day, the Collateral Agent shall hold an auction (a "Termination Event Auction") of the remaining non-Delinquent Loans and non-Defaulted Loans for settlement not later than the 118th day following the date on which such Termination Event, Security Agreement Event of Default or Indenture Event of Default occurred. The Servicer shall notify potential bidders of the Termination Event Auction, including one bidder obligated to make a bid in any such auction; provided, however, that such bidder shall have a "P-1" rating from Moody's (the "Rated Bidder"). During the Termination

Event Auction, the Servicer shall promptly notify the Designated Swap Counterparty of the highest bid price obtained in the Termination Event Auction for each such non-Delinquent Loan and non-Defaulted Loan and the Designated Swap Counterparty shall have up to two (2) Business Days from the time of notification (but in no event beyond the 118th day referred to above) to elect to purchase such non-Delinquent Loans or non-Defaulted Loans at a price equal to 102% of such highest bid price but in no event more than the amount of the Outstanding Purchase Price of such non-Delinquent Loans or non-Defaulted Loans (plus accrued interest thereon) (the "Purchase Price"). If the Designated Swap Counterparty elects to purchase such non-Delinquent Loans or non-Defaulted Loans within such two (2) Business Day time period, the Designated Swap Counterparty shall pay the Purchase Price for such non-Delinquent Loans or non-Defaulted Loans within two (2) Business Days of the date of such election (but in no event beyond the 118th day referred to above). If the Designated Swap Counterparty fails to pay such Purchase Price or fails to affirmatively elect to purchase such non-Delinquent Loans or non-Defaulted Loans, in either case, within the applicable time period referred to above, the Servicer shall have the right to sell such non-Delinquent Loans or non-Defaulted Loans to the highest bidder.

Section 11.3 Termination of Servicing With Respect to Any Mortgage Loan. The servicing of any Mortgage Loan in accordance with the terms of this Mortgage Loan Purchase and Servicing Agreement shall terminate upon the occurrence of the following: (i) the receipt into the Collateral Account of the proceeds of sale of such Mortgage Loan or the Repurchase Price of such Mortgage Loan or the receipt into the Collateral Account of the Principal Prepayment in full of such Mortgage Loan or (ii) the effectiveness of the termination of the Servicer pursuant to Section 12.1 hereof. No termination of the Servicer pursuant to Section 12.1 hereof shall become effective until a successor shall have assumed the Servicer's responsibilities and obligations hereunder in the manner provided in Section 12.1.

Upon written request from the Issuer, the Servicer shall deliver all Servicing Files and other documents relating to the Mortgage Loans held by it hereunder to the successor servicer, prepare, execute and deliver to the successor servicer designated by the Issuer any and all documents and other instruments, and do or cause to be done all other acts or things necessary or appropriate to effect the purposes of such notice of termination, including but not limited to the transfer and endorsement or assignment of the Mortgage Loans and related documents, at the Servicer's sole expense. The Servicer shall cooperate with such successor in effecting the termination of the Servicer's responsibilities and rights hereunder, including without limitation, the transfer to such successor for administration by it of all cash amounts which shall at the time be credited by the Servicer to any Collection Account or thereafter received with respect to the Mortgage Loans.

ARTICLE XII

MISCELLANEOUS PROVISIONS

Section 12.1 Successor to Servicer. Prior to termination of the Servicer's responsibilities and duties under this Mortgage Loan Purchase and Servicing Agreement pursuant to Section 9.4 or 10.1 hereof, the Issuer shall appoint a successor servicer which shall succeed to all rights and assume all of the responsibilities, duties and liabilities of the Servicer

under this Mortgage Loan Purchase and Servicing Agreement prior to the termination of the Servicer's responsibilities, duties and liabilities under this Mortgage Loan Purchase and Servicing Agreement. In the event that the Servicer's duties, responsibilities and liabilities under this Mortgage Loan Purchase and Servicing Agreement should be terminated pursuant to Section 9.4, 9.5(b) or (c) or 10.1 hereof, the Servicer shall discharge such duties, responsibilities and liabilities during the period from the date it acquires knowledge of such termination until the effective date thereof with the degree of diligence and prudence which it is obligated to exercise under this Mortgage Loan Purchase and Servicing Agreement and shall take no action whatsoever that might impair or prejudice the rights or financial condition of its successor. The resignation or removal of, or assignment by, the Servicer pursuant to Section 9.4, 9.5(b) or (g) or 10.1 hereof shall not become effective until (i) in the case of a resignation or removal pursuant to Section 9.4 or 10.1 hereof, a successor shall be appointed by the Issuer pursuant to this Section 12.1, (ii) in the case of an assignment by the Servicer pursuant to Section 9.5(b) or (c) hereof, the assignee accepts its appointment as Servicer as provided in the next paragraph of this Section 12.1, and (iii) in all cases, notice thereof shall have been given to the Rating Agencies and each Swap Counterparty and the Issuer shall have received Rating Agency Confirmation, and, upon acceptance of appointment by a successor Servicer the obligations of such resigning or removed Servicer hereunder shall be terminated, provided that in no event shall such resignation, removal or assignment relieve such resigning or removed Servicer of the representations and warranties made pursuant to Section 3.1 hereof and the remedies available to the Issuer under Section 7.1 hereof, it being understood and agreed that the provisions of such Sections 3.1 and 7.1 shall be applicable to the Servicer notwithstanding any such resignation or removal of, or assignment by, the Servicer, or the termination of this Mortgage Loan Purchase and Servicing Agreement.

Any successor to the Servicer permitted hereunder shall execute, acknowledge and deliver to the Servicer and the Issuer an instrument accepting its appointment as Servicer, wherein the successor shall make the representations and warranties set forth in Section 3.1 hereof, whereupon such successor shall become fully vested with all the rights, powers, duties, responsibilities, obligations and liabilities of the Servicer, with like effect as if originally named as a party to this Mortgage Loan Purchase and Servicing Agreement. Any termination or resignation of the Servicer or termination of this Mortgage Loan Purchase and Servicing Agreement pursuant to Section 9.4, 9.5(b) or (c), 10.1 or 11.1 hereof shall not affect any claims that the Issuer may have against the Servicer arising out of the Servicer's actions or failure to act prior to any such termination or resignation.

The Servicer shall deliver promptly to the successor servicer the funds in any Collection Account and all Servicing Files and related documents and statements held by it hereunder and the Servicer shall account for all funds and shall execute and deliver such instruments and do such other things as may reasonably be required to more fully and definitively vest in the successor all such rights, powers, duties, responsibilities, obligations and liabilities of the Servicer.

The successor Servicer shall represent and warrant that it is a member of MERS in good standing and shall agree to comply in all material respects with the rules and procedures of MERS in connection with the servicing of the Mortgage Loans that are registered with MERS, in which case the predecessor Servicer shall cooperate with the successor Servicer in causing

MERS to revise its records to reflect the transfer of servicing to the successor Servicer as necessary under MERS' rules and regulations.

Section 12.2 Amendment. This Mortgage Loan Purchase and Servicing Agreement may only be amended with the written consent of the Issuer, the Seller, the Required Noteholders, each Swap Counterparty, and the Servicer, and upon written notice of such amendment to each Rating Agency; provided, however, that the Issuer may amend this Mortgage Loan Purchase and Servicing Agreement without the consent of the Required Noteholders for one or more of the following purposes: (A) to add to the covenants and agreements pursuant to this Mortgage Loan Purchase and Servicing Agreement for the benefit of the holders of the Notes; (B) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in this Mortgage Loan Purchase and Servicing Agreement or in any amendment to this Mortgage Loan Purchase and Servicing Agreement; (C) to add such provisions with respect to matters or questions arising under this Mortgage Loan Purchase and Servicing Agreement as may be necessary or desirable and not inconsistent with this Mortgage Loan Purchase and Servicing Agreement; (D) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the Mortgage Loan Purchase and Servicing Agreement or (E) to restructure the program, including to add AHL REIT as a seller of Mortgage Loans, to provide for the holding of securities secured by Mortgage Loans by the Issuer and to modify the swap arrangements; provided, however, that such action shall not adversely affect in any material respect the interests of any of the holders of the Notes; provided, further, that an Opinion of Counsel shall be furnished to the Collateral Agent or its designated agent to the effect that such amendment (x) will not prevent the Notes from being characterized as debt for federal income tax purposes and (y) will not cause the Issuer to be characterized as an association (or a publicly traded partnership) taxable as a corporation or a taxable mortgage pool for U.S. federal income tax purposes; provided, further, that no such action will be deemed to materially and adversely affect the interests of any of the holders of the Notes if the party requesting such action receives (1) an Officer's Certificate of the Issuer certifying that such action will not adversely affect in any material respect the interests of any of the holders of the Notes and (2) (x) an Opinion of Counsel stating that such action will not adversely affect in any material respect the interests of any of the holders of the Notes or (y) Rating Agency Confirmation with respect to such action; provided, finally, that any amendment under clause (E) above shall be subject to (1) Rating Agency Confirmation and (2) receipt by the Collateral Agent, the Indenture Trustee and the Swap Counterparties of an Opinion of Counsel that such restructuring shall not cause the Issuer to be required to be registered as an "investment company" under the Investment Company Act. Any material amendment shall be subject to Rating Agency Confirmation. The costs and expenses associated with any such amendment shall be borne by the party requesting the amendment.

Section 12.3 Governing Law. THIS PURCHASE AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF (OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

Section 12.4 Duration of Agreement. This Mortgage Loan Purchase and Servicing Agreement shall continue in existence and effect until terminated as provided in Section 11.1 hereof.

Section 12.5 Notices. All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered at or mailed by registered mail, postage prepaid, addressed as follows:

(i) if to the Seller or Servicer:

Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn: Melissa Dant, Esq.
Telephone: (858) 676-2134
Facsimile: (858) 521-0614

or such other address as may hereafter be furnished to the Issuer in writing;

(ii) if to the Issuer:

Camel Mountain Funding Trust
c/o U.S. Bank Trust National Association
209 S. LaSalle Street
Chicago, IL 60604
Attn: Corporate Trust Administration
Telephone: (312) 325-8902
Facsimile: (312) 325-8905

with a copy to:

Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn: David Hertzel, Esq.
Telephone: (858) 676-2104
Facsimile: (858) 521-0614

(iii) if to the Performance Guarantor:

Accredited Home Lenders Holding Co.
15090 Avenue of Science
San Diego, California 92128
Attn: John Buchanan
Telephone: (858) 676-2181
Facsimile: (858) 521-0291

Section 12.6 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Mortgage Loan Purchase and Servicing Agreement shall be held invalid for any reason whatsoever, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Mortgage Loan Purchase and Servicing Agreement and shall in no way affect the validity or enforceability of the other provisions of this Mortgage Loan Purchase and Servicing Agreement.

Section 12.7 Relationship of Parties. Nothing herein contained shall be deemed or construed to create a partnership or joint venture between the parties hereto and the services of the Servicer shall be rendered as an independent contractor and not as agent for the Issuer.

Section 12.8 Execution; Successors and Assigns. This Mortgage Loan Purchase and Servicing Agreement may be executed in one (1) or more counterparts and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed to be an original; such counterparts, together, shall constitute one (1) agreement. This Mortgage Loan Purchase and Servicing Agreement shall inure to the benefit of and be binding upon the Seller, the Servicer and the Issuer and their respective successors and permitted assigns; provided, however, that, except for the assignment set forth in Article V of the Security Agreement, the rights of the Issuer to indemnity from the Seller and the Servicer pursuant to Sections 3.3 and 7.1 hereof are not assignable and shall inure only to the benefit of the Issuer and to no other Person.

Section 12.9 Recordation of Assignments of Mortgage. To the extent permitted by applicable law, any Assignment of Mortgage is subject to recordation in the appropriate public office for real property records in the county or other comparable jurisdiction in which the related Mortgaged Property is situated, such recordation to be effected at the Issuer's expense if requested by the Issuer after the occurrence and during the continuation of a Termination Event or at such other time as the Issuer deems necessary or prudent in its reasonable business judgment in order to preserve or protect the interests of the Issuer in any Mortgage Loan.

Section 12.10 Assignment by the Issuer. The Issuer shall have the right to assign its interest under this Mortgage Loan Purchase and Servicing Agreement to the Collateral Agent for the benefit of the Secured Parties.

Section 12.11 Non-Petition Agreement. Notwithstanding any prior termination of this Mortgage Loan Purchase and Servicing Agreement, each of the Company and the Performance Guarantor severally and not jointly covenants and agrees that it shall not, prior to the date which is one year and one day (or if longer, the applicable preference period then in effect) after the payment in full of the Notes or rated obligations of the Issuer, acquiesce, petition or otherwise, directly or indirectly, invoke or cause the Issuer to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer. The provisions of this Section 12.11 shall survive the termination of this Mortgage Loan Purchase and Servicing Agreement.

Section 12.12 Waiver of Offset. The Servicer agrees to deliver to the Issuer all amounts required by this Mortgage Loan Purchase and Servicing Agreement to be delivered by the Servicer to the Issuer free and clear of any offset, counterclaim or other deduction on account of, or in respect of, any obligation of the Issuer to the Servicer hereunder.

Section 12.13 Limited Recourse. The Servicer agrees that the obligations of the Issuer to the Servicer under this Mortgage Loan Purchase and Servicing Agreement are limited recourse obligations of the Issuer payable solely from the assets of the Issuer available for such purposes under the Security Agreement and that, upon application of all assets of the Issuer available under the Security Agreement for such purposes, the Servicer shall have no recourse to the Issuer for any obligations of the Issuer to the Servicer to the extent such application does not provide for full satisfaction and payment of such obligation. The provisions of this Section 12.13 shall survive the termination of this Mortgage Loan Purchase and Servicing Agreement.

Section 12.14 No Recourse.

It is expressly understood and agreed by the parties hereto that (a) this Mortgage Loan Purchase and Servicing Agreement is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of the Carmel Mountain Funding Trust, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Carmel Mountain Funding Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only the Carmel Mountain Funding Trust, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of the Carmel Mountain Funding Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Carmel Mountain Funding Trust under this Mortgage Loan Purchase and Servicing Agreement or any other related documents.

ARTICLE XIII

ACCREDITED HOME LENDERS HOLDING CO. GUARANTEE

Section 13.1 Guarantee of Servicer's Performance and Payment Obligations. For value received, and in consideration of the financial accommodation accorded to the Company by the Issuer under this Mortgage Loan Purchase and Servicing Agreement, Accredited Home Lenders Holding Co. (the "Performance Guarantor") hereby fully, unconditionally, and irrevocably guarantees to the Issuer, the Collateral Agent (for its benefit and the benefit of the Senior Noteholders) the Indenture Trustee (for its benefit and the benefit of the Subordinated Noteholders), the Owner Trustee and each Swap Counterparty the due performance of, and punctual payment of all amounts payable by, the Company, in its capacity as Servicer under this Mortgage Loan Purchase and Servicing Agreement when and as such obligations hereunder shall become due and, in the case of any payments, payable. The Performance

Guarantor will ensure the performance and payment of every act, duty, obligation, agreement and responsibility of the Servicer set forth herein.

In case of the inability of the Servicer to punctually perform any such act, duty, obligation, responsibility or agreement or to pay punctually any such amounts, the Performance Guarantor hereby agrees, upon written demand by the Issuer, to, as applicable, (i) perform any such act, duty, obligation, responsibility or agreement and (ii) pay or cause to be paid any such amount, punctually when and as the same shall become due and, in the case of any payment, payable (exclusive of any grace period).

(A) The Performance Guarantor hereby agrees that its obligations under this Section 13.1 constitute a guarantee of performance and payment when due and not of collection.

(B) The Performance Guarantor hereby agrees that its obligations under this Section 13.1 shall be unconditional, irrespective of the validity, regularity or enforceability of this Mortgage Loan Purchase and Servicing Agreement against the Servicer, the absence of any action to enforce the Servicer's obligations under this Mortgage Loan Purchase and Servicing Agreement, any waiver or consent by the Issuer, the holders of the Notes, the Indenture Trustee, the Owner Trustee, any Swap Counterparty or the Collateral Agent with respect to any provisions thereof, the entry by the Servicer and the Issuer into additional transactions under this Mortgage Loan Purchase and Servicing Agreement or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor (other than the defenses of statute of limitations or payment, which are not waived); provided, however, that the Performance Guarantor shall be entitled to exercise any right that the Servicer could have exercised under this Mortgage Loan Purchase and Servicing Agreement to cure any default in respect of its obligations under this Mortgage Loan Purchase and Servicing Agreement or to set-off, counterclaim or withhold payment in respect of any event of default or potential event of default in respect of the Issuer or any Affiliate, but only to the extent such right is provided to the Servicer under this Mortgage Loan Purchase and Servicing Agreement. The Performance Guarantor acknowledges that the Servicer and the Issuer may from time to time enter into one (1) or more Transfer Supplements pursuant to this Mortgage Loan Purchase and Servicing Agreement and agrees that the obligations of the Performance Guarantor under this Section 13.1 will upon the execution of any such Transfer Supplement by the Servicer and the Issuer extend to all such Transfer Supplements without the taking of further action by the Performance Guarantor.

(C) The Performance Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with this Mortgage Loan Purchase and Servicing Agreement and this Section 13.1 and (ii) any requirement that the Issuer, the Indenture Trustee, the Owner Trustee, any Swap Counterparty or the Collateral Agent exhaust any right to take any action against the Servicer or

any other person prior to or contemporaneously with proceeding to exercise any right against the Performance Guarantor under this Section 13.1.]

ARTICLE XIV

ASSIGNMENT

Section 14.1 Assignment. Notwithstanding anything to the contrary contained in this Mortgage Loan Purchase and Servicing Agreement, the Issuer hereby assigns, conveys, transfers, delivers and sets over unto the Collateral Agent for the benefit of the Secured Parties, all of its right, title and interest in, to and under, whether now owned or existing, or hereafter acquired, this Mortgage Loan Purchase and Servicing Agreement including, without limitation, all monies due and to become due to the Issuer hereunder or in connection therewith, whether payable as fees, expenses, costs, indemnities, insurance recoveries, damages for the breach of this Mortgage Loan Purchase and Servicing Agreement or otherwise, and all rights, remedies, powers, privileges and claims of the Issuer under or with respect to this Mortgage Loan Purchase and Servicing Agreement (whether arising pursuant to the terms of this Mortgage Loan Purchase and Servicing Agreement or otherwise available to the Issuer at law or in equity), including, without limitation, the rights of the Issuer to enforce this Mortgage Loan Purchase and Servicing Agreement and to give or withhold any and all consents, requests, notices, directions, approvals, extensions or waivers under or with respect to this Mortgage Loan Purchase and Servicing Agreement to the same extent as the Issuer could but for the assignment and security interest granted to the Collateral Agent in this Section 14.1. The Issuer acknowledges the security interest in the Mortgage Loans of the Collateral Agent as representative secured party for the Issuer, the Secured Parties and any other Persons to whom the Issuer owes the obligations secured by such Mortgage Loans.

The Issuer and the Seller shall each treat the Collateral Agent as the Issuer under this Mortgage Loan Purchase and Servicing Agreement and each consent to such assignment and acknowledge that the Collateral Agent shall enjoy the Issuer's rights under this Mortgage Loan Purchase and Servicing Agreement pursuant to the provisions of this Section 14.1. Without limiting the generality of the foregoing, the Issuer and the Seller shall each report to and correspond and communicate with the Collateral Agent. The Collateral Agent shall have all rights of the Issuer to enforce the covenants and conditions set forth in this Mortgage Loan Purchase and Servicing Agreement with respect to the Mortgage Loans, and the Issuer and the Seller, respectively, shall each follow the instructions of the Collateral Agent under this Mortgage Loan Purchase and Servicing Agreement. The Collateral Agent shall have the right to give any waivers or consents required or allowed under this Mortgage Loan Purchase and Servicing Agreement, and such waivers and consents shall be binding upon the Issuer and any party for whom the Collateral Agent acts as representative secured party as if the Issuer or such party had given the same. All amounts due the Issuer under this Mortgage Loan Purchase and Servicing Agreement shall be remitted to the Collateral Agent in accordance with the Collateral Agent's instructions and in accordance with this Mortgage Loan Purchase and Servicing Agreement.

Section 14.2 Third-Party Beneficiary. Each of the Collateral Agent, the Indenture Trustee and the Custodian and their successors and assigns shall be an express third-party beneficiary of this Agreement and shall be entitled to rely upon and directly enforce any rights granted to them hereunder; including, without limitation, any indemnity.

IN WITNESS WHEREOF, the Company and the Issuer have caused their names to be signed hereto by their respective officers thereunto duly authorized as of the day and year first above written.

ACCREDITED HOME LENDERS, INC.,
as Seller and Servicer

By: /s/ Melissa G. Dant
Name: Melissa G. Dant
Title: Senior Secondary Markets Counsel,
AVP & Ass't Sec'y

CARMEL MOUNTAIN FUNDING TRUST,
as The Issuer

By: U.S. Bank Trust National Association,
not in its individual capacity, but solely as
Owner Trustee

By: /s/ Patricia M. Child
Name: Patricia M. Child
Title: Vice President

ACCREDITED HOME LENDERS HOLDING CO.,
solely in its capacity of Performance Guarantor of the Servicer's obligations pursuant to Article XIII of this Mortgage Loan Purchase and Servicing Agreement

By: /s/ David E. Hertzel
Name: David E. Hertzel
Title: GC, AVP & Ass't Sec'y

SCHEDULE I

PERFECTION REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the representations, warranties and covenants contained in the Mortgage Loan Purchase and Servicing Agreement, to induce the Servicer and the Issuer to enter into the Mortgage Loan Purchase and Servicing Agreement, the Seller (other than with respect to paragraph 12) and the Servicer (with respect to paragraph 12) hereby represents, warrants, and covenants to the Issuer and the Servicer as to itself as follows, on the date hereof and on each applicable Closing Date thereafter:

General

1. The Mortgage Loan Purchase and Servicing Agreement creates a valid and continuing security interest (as defined in the applicable UCC) in the Mortgage Loans transferred by the Seller to the Issuer, including the related servicing rights and all collateral related thereto now existing or hereafter arising in favor of the Issuer, which security interest is prior to all other liens, and is enforceable as such as against creditors of and purchasers from the Seller.

2. The Mortgage Loans transferred by the Seller to the Issuer constitute "instruments" and the related servicing rights constitute "general intangibles" within the meaning of the UCC as in effect in the State of New York.

Creation

3. With regard to those Mortgage Loans sold by the Seller to the Issuer hereunder, the Seller owns and has good and marketable title to such Mortgage Loans and related servicing rights free and clear of any lien, claim or encumbrance of any Person, excepting only liens of the Seller's warehouse lender to be released immediately upon payment of the related purchase price on the applicable Closing Date for the related Mortgage Loan and liens for taxes, assessments or similar governmental charges or levies incurred in the ordinary course of business that are not yet due and payable or as to which any applicable grace period shall not have expired, or that are being contested in good faith by proper proceedings and for which adequate reserves have been established, but only so long as foreclosure with respect to such a lien is not imminent and the use and value of the property to which the lien attaches is not impaired during the pendency of such proceeding.

4. The Seller has received or will receive all consents and approvals to its sale of Mortgage Loans and related servicing rights to the Issuer hereunder required by the terms of such Mortgage Loans and related servicing rights that constitute instruments or payment intangibles.

Perfection:

5. The Seller has caused or will have caused, within ten days after the effective date of the Mortgage Loan Purchase and Servicing Agreement, the filing of all appropriate financing

statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect in accordance with the UCC the sales of Mortgage Loans and related servicing rights from the Seller to the Issuer, and the security interest in the Mortgage Loans and related servicing rights transferred by the Seller granted to the Issuer hereunder.

6. The Seller or its closing agent has in its possession the original copies of such instruments that constitute or evidence the Mortgage Loans sold by it to the Issuer, and the Issuer has caused or will have caused within ten days of the effective date of the Mortgage Loan Purchase and Servicing Agreement, the filing of financing statements against the Issuer and the Seller in favor of the Collateral Agent for the benefit of Secured Parties in connection herewith describing such Mortgage Loans and containing a statement that: "A purchase of or security interest in any collateral described in this financing statement will violate the rights of the Collateral Agent for the benefit of the Secured Parties."

Priority

7. Neither the Seller nor the Issuer has authorized the filing of, or is aware of any financing statements against itself or the Issuer that include a description of collateral covering the Mortgage Loans, the related servicing rights or the Collateral, respectively, other than any financing statements (i) relating to the sale of Mortgage Loans and the related servicing rights by the Seller to the Issuer under the Mortgage Loan Purchase and Servicing Agreement or relating to the transfer of the Assigned Collateral from the Issuer to the Collateral Agent under the Security Agreement, (ii) relating to the security interest granted to the Issuer hereunder or the Collateral Agent pursuant to the Security Agreement, or (iii) that have been terminated.

8. The Seller is not aware of any judgment, ERISA or tax lien filings against itself or the Issuer.

9. None of the instruments that constitute or evidence the Mortgage Loans transferred by the Seller has any marks or notations indicating that they have been pledged, assigned or otherwise conveyed, without release or reconveyance, to any Person other than the Issuer hereunder or the Collateral Agent pursuant to the Security Agreement.

10. Notwithstanding any other provision of the Mortgage Loan Purchase and Servicing Agreement or any other Program Document, the Perfection Representations contained in this Schedule shall be continuing, and remain in full force and effect (notwithstanding any termination of any of the Program Documents or any replacement of the Servicer or termination of Servicer's rights to act as such) until such time as all Obligations have been finally and fully paid and performed.

11. The parties to the Mortgage Loan Purchase and Servicing Agreement: (i) shall not, without obtaining a confirmation of the then-current rating of all outstanding Series of Notes, waive any of the Perfection Representations; and (ii) shall provide the Ratings Agencies and Swap Counterparties with prompt written notice of any breach of the Perfection Representations, and shall not, without obtaining a confirmation of the then-current rating of the all outstanding Series of Notes (as determined after any adjustment or withdrawal of the ratings following notice of such breach) waive a breach of any of the Perfection Representations.

12. The Servicer covenants that, in order to evidence the interests of the Issuer and the Collateral Agent under this Mortgage Loan Purchase and Servicing Agreement and the Security Agreement, respectively, the Servicer shall take such action, or execute and deliver such instruments as may be necessary or advisable (including, without limitation, such actions as are requested by the Issuer or the Collateral Agent) to maintain and perfect, as a first priority interest, the Issuer's security interest in the Mortgage Loans and the Collateral Agent's security interest in the Assigned Collateral. The Servicer shall, from time to time and within the time limits established by law, prepare and present to the Issuer and the Collateral Agent for the Issuer or the Collateral Agent, as applicable, to authorize (based on the Opinion of Counsel hereinafter provided for) the Servicer to file, all financing statements, amendments, continuations, initial financing statements in lieu of a continuation statement, terminations, partial terminations, releases or partial releases, or any other filings necessary or advisable to continue, maintain and perfect the Issuer's security interest in the Mortgage Loans as a first-priority interest and the Collateral Agent's security interest in the Assigned Collateral as a first-priority interest (each a "Filing"). The Servicer shall present each such Filing to the Issuer or the Collateral Agent, as applicable, together with a form of authorization for the Issuer's signature or the Collateral Agent's signature, as applicable. Upon receipt of such Opinion of Counsel and form of authorization, the Issuer or the Collateral Agent, as applicable, shall promptly authorize in writing the Servicer to, and the Servicer shall, effect such Filing under the Uniform Commercial Code. Notwithstanding anything else in the Program Documents to the contrary, the Servicer shall not have any authority to effect a Filing without obtaining written authorization from the Issuer or the Collateral Agent, as applicable, in accordance with this paragraph.

EXHIBIT A

FORM OF TRANSFER SUPPLEMENT

[date]

Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn:

Purchase Terms Letter

Ladies and Gentlemen:

Accredited Home Lenders, Inc. (the "Company") and Carmel Mountain Funding Trust (the "Issuer") herewith confirm the terms and provisions of the Mortgage Loan Purchase and Servicing Agreement (the "Mortgage Loan Purchase and Servicing Agreement") entered into on May 10, 2005 pursuant to which the Company and the Issuer agreed upon the terms under which the Company would from time to time sell nonprime mortgage loans to the Issuer. In consideration of the promises and the mutual agreements herein and therein set forth, the Company and the Issuer hereby agree to the terms and provisions of the sale of the nonprime mortgage loans described in the Mortgage Loan Schedule attached hereto as Exhibit I, as set forth below and as described in more detail in the Mortgage Loan Purchase and Servicing Agreement. Upon execution of this Transfer Supplement by the Company and the Issuer and receipt of the Initial Purchase Price therefor, the Company hereby sells, assigns, transfers, sets over and conveys to the Issuer all right, title and interest of the Company in, to and under each nonprime mortgage loan identified on the attached Mortgage Loan Schedule (collectively, the "Mortgage Loans"). It is intended that the transfer, assignment and conveyance herein contemplated constitute a sale of the Mortgage Loans, conveying good title thereto free and clear of any liens, by the Company to the Issuer and that the Mortgage Loans not be part of the Company's estate in the event of insolvency. In the event that the Mortgage Loans are held to be property of the Company or if for any other reason this Transfer Supplement is held or deemed not to absolutely sell and assign the Mortgage Loans, the parties intend that the Company shall be deemed to have granted, and does hereby grant, to the Issuer a valid security interest, free and clear of any lien, claim or interest of any other Person, in the Mortgage Loans and all Assigned Collateral (as defined in the Security Agreement) related thereto now existing or hereafter arising for the purpose of securing the rights of the Issuer under the Mortgage Loan Purchase and Servicing Agreement, and that the Mortgage Loan Purchase and Servicing Agreement and this Transfer Supplement shall each constitute a security agreement under applicable law.

(i) Closing Date: _____. The Initial Purchase Price shall be paid by the Issuer to the Company in immediately available funds on such Closing Date. The aggregate Outstanding Principal Balance of the Mortgage Loans as of the Closing Date is $_____.

(ii) Initial Purchase Price: The Initial Purchase Price for the Mortgage Loans shall be $_____.

(iii) The Mortgage Loans: The Mortgage Loans have the characteristics set forth on the Mortgage Loan Schedule, set forth as Exhibit I attached hereto.

(iv) Representations and Warranties: Each representation and warranty of the Company set forth in Sections 3.1 and 3.2 of the Mortgage Loan Purchase and Servicing Agreement will be true and correct on the Closing Date as they relate to the Mortgage Loans.

(v) Terms: All references herein to the Mortgage Loans shall be deemed to refer only to the Mortgage Loans described in the Mortgage Loan Schedule attached hereto. Capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to such terms in the Mortgage Loan Purchase and Servicing Agreement.

(vi) Governing Law: This Transfer Supplement will be governed by the law of the State of New York.

Kindly acknowledge your agreement and consent to the terms of this letter by signing and returning to us the enclosed duplicate copy hereof.

Very truly yours,

ACCREDITED HOME LENDERS, INC.

By: _____
Name:
Title:

Dated: _____

ACCEPTED AND AGREED:

CARMEL MOUNTAIN FUNDING TRUST

By: Accredited Home Lenders, Inc., as
Administrator

By: _____
Name:
Title:

Exhibit I to Transfer Supplement

Mortgage Loan Schedule

1. identifying number for the Mortgage Loan:
2. Mortgagor's name:
3. street address of the Mortgaged Property including the state code:
4. code indicating whether the Mortgaged Property is a one family residence, a 2-4 family residence, an individual condominium unit or townhouse, an individual unit in a planned unit development, or a unit of manufactured housing treated as real estate under applicable state law:
5. months to maturity from the Closing Date based on the amortization schedule for such Mortgage Loan:
6. Loan-to-Value Ratio:
7. Mortgage Interest Rate:
8. stated maturity date:
9. amount of Monthly Payment:
10. Outstanding Principal Balance:
11. payment type (fixed rate or adjustable rate):
12. Initial Purchase Price:
13. Closing Date:
14. first-priority or second-priority security interest:
15. MERS number, if applicable:

EXHIBIT B

[RATED BIDDER]

[ADDRESS]

May __, 2005

Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn:

Deutsche Bank Trust Company Americas, as Collateral Agent
60 Wall Street
MSNYC60-2606
New York, New York 10005
Attn: Commercial Paper Group

Dear Sirs:

Reference is made to the (i) Mortgage Loan Purchase and Servicing Agreement, dated as of May 10, 2005 (the "Mortgage Loan Purchase and Servicing Agreement"), among Accredited Home Lenders, Inc., as Seller and Servicer, Accredited Home Lenders Holding Co., as Performance Guarantor, and Carmel Mountain Funding Trust, as purchaser (the "Issuer") and (ii) Security Agreement, dated as of May 10, 2005 (the "Security Agreement"), between the Issuer and Deutsche Bank Trust Company Americas, as Collateral Agent, each as may be amended, modified or supplemented. Capitalized terms used and not defined herein shall have the meanings assigned to such terms in the Mortgage Loan Purchase and Servicing Agreement and the Security Agreement.

Pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, if a Termination Event set forth in clauses (h) or (k) through (s) thereof occurs or, pursuant to Section 7.01 of the Security Agreement, if a Security Agreement Event of Default set forth in clause (e) or (m) through (r) thereof occurs or, pursuant to Schedule I of the Indenture, if an Indenture Event of Default set forth in clause (e) or (m) through (r) thereof occurs, the Servicer is required to use its best efforts to sell all non-Delinquent Loans and non-Defaulted Loans for settlement within 90 days of the date on which such Termination Event, Security Agreement Event of Default or Indenture Event of Default occurred. In the event that all non-Delinquent Loans and non-Defaulted Loans have not been so sold by such 90th day, the Collateral Agent shall hold an auction (a "Termination Event Auction") of the remaining non-Delinquent Loans and non-Defaulted Loans for settlement not later than the 118th day following the date on which such Termination Event, Security Agreement Event of Default or Indenture Event of Default occurred (the "Final Settlement Date"). Additionally, pursuant to Section 4.1 of the Mortgage Loan Purchase and Servicing Agreement, in the event the principal of any Notes becomes due and payable (a "Repayment Event"), whether pursuant to the terms thereof or by the occurrence of a Security Agreement Event of Default or an Indenture Event of

Default or optional repurchase, maturity or otherwise, the Servicer is required to arrange for the sale of Mortgage Loans at such times and in such manner so that the proceeds of the sale, together with amounts received by the Issuer in connection with the Interest Rate Swap, are available to pay amounts due and owing on such Notes on the dates the Notes are required to be repaid (each, a "Repayment Date"). Finally, pursuant to Section 3.5(c) of the Mortgage Loan Purchase and Servicing Agreement, in the event that the Seller fails to purchase any Mortgage Loans when they are required to do so, the Servicer is required to arrange for the sale of such Mortgage Loans on behalf of the Issuer. If the Servicer is unable to sell such Mortgage Loans on behalf of the Issuer by the fifteenth (15th) day following the purchase of such Mortgage Loans by the Issuer, the Servicer is required to conduct an auction for such Mortgage Loans on such fifteenth (15th) day or if such day is not a Business Day, then on the next succeeding Business Day (a "Wet Funding Auction").

In connection with any such Termination Event Auction or Repayment Event, **[RATED BIDDER]** (the "Bank"), the Servicer, the Collateral Agent and the Issuer agree as follows:

(a) With respect to the Termination Event Auction:

(i) the Bank shall participate in a Termination Event Auction and agrees to make a binding bid (the "Bid") for all Mortgage Loans which, as of the auction date, are non-Defaulted or non-Delinquent Loans. The amount of the Bid shall be determined in the sole discretion of the Bank and such Bid shall remain in effect until the Final Settlement Date; and

(ii) if the Issuer accepts the Bid, the Issuer shall notify the Bank and the Collateral Agent of such acceptance and the principal balance of Mortgage Loans to be purchased by the Bank (which amount may be all or a portion of the principal balance of the Mortgage Loans) in writing not later than two (2) Business Days prior to the Final Settlement Date. Any such purchase of Mortgage Loans by the Bank shall be settled on or prior to the Final Settlement Date.

(b) With respect to any Repayment Event, if requested by the Collateral Agent:

(i) the Bank agrees to make a Bid for the principal balance of Mortgage Loans specified by the Collateral Agent which, as of the Bid date, are non-Defaulted Loans or non-Delinquent Loans. The amount of the Bid shall be determined in the sole discretion of the Bank and such Bid shall remain in effect until such Repayment Date; and

(ii) if the Issuer accepts the Bid, the Issuer shall notify the Bank and the Collateral Agent of such acceptance and the principal balance of Mortgage Loans to be purchased by the Bank (which amount may be all or a portion of the principal balance of the Mortgage Loans) in writing on or prior to

such Repayment Date. Any such purchase of Mortgage Loans by the Bank shall be settled on or prior to such Repayment Date.

(c) With respect to any Wet Funding Auction, if requested by the Servicer:

(i) the Bank agrees to make a Bid for the principal balance of Mortgage Loans specified by the Servicer. The amount of the Bid shall be determined in the sole discretion of the Bank and such Bid shall remain in effect until the close of business on the day that it was made; and

(ii) if the Servicer accepts that bid on behalf of the Issuer, the Servicer shall notify the Bank of such acceptance and the principal balance of Mortgage Loans to be purchased by the Bank (which amount may be all or a portion of the principal balance of the Mortgage Loans) in writing on the day of such Wet Funding Auction. Any such purchase of Mortgage Loans by the Bank as a bidder in a Wet Funding Auction shall be settled on the day of such Wet Funding Auction.

(d) If the Bank's rating assigned by Moody's is either downgraded below "P-1" or withdrawn, the Bank shall give notice of such downgrade or withdrawal to the Issuer within three days of notice thereof. The Bank shall use its best efforts to assist the Issuer in finding a replacement rated bidder to assume the Bank's obligations under this agreement.

This agreement shall remain in full force and effect until all the Notes have been paid in full. This agreement and the Bank's rights and obligations hereunder may not be assigned or otherwise transferred by the Bank, whether by operation of law or otherwise, unless (i) the Issuer, the Servicer and the Collateral Agent consent in writing to such assignment, (ii) the assignee has expressly assumed the obligations of the Bank hereunder by written instrument in form and substance satisfactory to the Issuer, the Servicer and the Collateral Agent and (iii) Rating Agency Confirmation with respect to such assignment has been received by the Issuer.

In consideration of the above agreement the Issuer shall pay the Bank such fee as shall be separately agreed between the Issuer and the Bank.

This agreement shall be governed by the internal laws of the State of New York and may be executed in counterparts.

Very truly yours,

[RATED BIDDER]

By: _____
Name:
Title:

Accepted and Agreed as of the date written above:

CARMEL MOUNTAIN FUNDING TRUST

By: Accredited Home Lenders, Inc., as
Administrator

By: _____
Name:
Title:

ACCREDITED HOME LENDERS, INC.,
as Servicer

By: _____
Name:
Title:

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Collateral Agent

By: _____
Name:
Title:

EXHIBIT C

FORM OF SERVICER REPORT

C-1

EXHIBIT D

FORM OF SERVICER ADVANCE REPORT

D-1

EXHIBIT E

FORM OF MONTHLY DISPOSITION REPORT

E-1

EXHIBIT F

LOSS MITIGATION ACTION PLAN

F-1

Exhibit 4.12

(Multicurrency-Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of May 10, 2005

CALYON, NEW YORK BRANCH and **CARMEL MOUNTAIN FUNDING TRUST**

have entered and/or anticipate entering into one or more transactions (each a Transaction) that are or will be governed by this Master Agreement, which includes the schedule (the Schedule), and the documents and other confirming evidence (each a Confirmation) exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:

1. Interpretation

(a) ***Definitions***. The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) ***Inconsistency***. In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purposes of the relevant Transaction.

(c) ***Single Agreement***. All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this Agreement), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) ***General Conditions***.

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred

(b) ***Change of Account***. Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) ***Netting***. If on any date amounts would otherwise be payable:—

(i) in the same currency; and

(ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) ***Deduction or Withholding for Tax.***

(i) ***Gross-Up***. All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

(1) promptly notify the other party ("Y") of such requirement;

(2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;

(3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and

(4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) ***Liability***. If: —

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) ***Default Interest***; ***Other Amounts***. Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) ***Basic Representations***.

(i) ***Status***. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) ***Powers***. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) ***No Violation or Conflict***. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) ***Consents***. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) ***Obligations Binding***. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) ***Absence of Certain Events***. No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ***Absence of Litigation***. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ***Accuracy of Specified Information***. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) ***Payer Tax Representation***. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) ***Payee Tax Representations***. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) ***Furnish Specified Information***. It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) ***Maintain Authorisations***. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) ***Comply with Laws***. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) ***Tax Agreement***. It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) ***Payment of Stamp Tax***. Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) ***Events of Default***. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) ***Failure to Pay or Deliver***. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) ***Breach of Agreement***. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) ***Credit Support Default***.

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) ***Misrepresentation***. A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) ***Default under Specified Transaction***. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) ***Cross Default***. If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) ***Bankruptcy***. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party: —

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) ***Merger Without Assumption***. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer: —

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) ***Termination Events***. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) ***Illegality***. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party): —

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) ***Tax Event***. Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) ***Tax Event Upon Merger***. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) ***Credit Event Upon Merger***. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ***Additional Termination Event***. If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) ***Event of Default and Illegality***. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination

(a) ***Right to Terminate Following Event of Default***. If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) ***Right to Terminate Following Termination Event***.

(i) ***Notice***. If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) ***Transfer to Avoid Termination Event***. If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) ***Two Affected Parties***. If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) ***Right to Terminate***. If: —

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) ***Effect of Designation***.

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) ***Calculations***.

(i) ***Statement***. On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) ***Payment Date***. An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) ***Payments on Early Termination***. If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) ***Events of Default***. If the Early Termination Date results from an Event of Default: —

(1) *First Method and Market Quotation*. If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) *First Method and Loss*. If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) *Second Method and Market Quotation*. If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) *Second Method and Loss*. If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) ***Termination Events***. If the Early Termination Date results from a Termination Event: —

(1) *One Affected Party*. If there is one Affected Party, the amount payable will be determined in accordance with Section 6 (e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties*. If there are two Affected Parties: —

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ***Adjustment for Bankruptcy***. In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) ***Pre-Estimate***. The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that: —

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) ***Payment in the Contractual Currency***. Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) ***Judgments***. To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) ***Separate Indemnities***. To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) ***Evidence of Loss***. For tbe purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

(a) ***Entire Agreement***. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) ***Amendments***. No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) ***Survival of Obligations***. Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) ***Remedies Cumulative***. Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) ***Counterparts and Confirmations***.

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall he entered into as soon as practicable and may he executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) ***No Waiver of Rights***. A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) ***Headings***. The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) ***Effectiveness***. Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) ***Change of Addresses***. Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) ***Governing Law***. This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) ***Jurisdiction***. With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) ***Service of Process***. Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) ***Waiver of Immunities***. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means:—

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"Burdened Party" has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and ***"lawful"*** and ***"unlawful"*** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Office" means a branch or office of a party, which may be such party's head or home office.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of: —

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meanings specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

CALYON NEW YORK BRANCH
(Name of Party A)

By: /s/ Ian Cheung
Name: Ian Cheung
Title: Director
Date: May 5, 2005

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President
Date: May 5, 2005

CARMEL MOUNTAIN FUNDING TRUST
(Name of Party B)

By: U.S. Bank Trust National Association, not in its individual capacity, but solely as Owner Trustee

By: /s/ Patricia M. Child
Name: Patricia M. Child
Title: Vice President
Date:

Exhibit 4.13
EXECUTION COPY

SCHEDULE
to the Master Agreement
(Multicurrency - Cross Border)
dated as of May 10, 2005

between

CALYON NEW YORK BRANCH
("Party A"),
the New York branch of a French bank

and

CARMEL MOUNTAIN FUNDING TRUST
("Party B"),
a Delaware statutory trust

Part 1. Termination Provisions

In this Agreement:

(a) "**Specified Entity**" means in relation to Party A for the purpose of:

Section 5(a)(v)	Not Applicable.
Section 5(a)(vi)	Not Applicable.
Section 5(a)(vii)	Not Applicable.
Section 5(b)(iv)	Not Applicable.

and in relation to Party B for the purpose of:

Section 5(a)(v)	Not Applicable.
Section 5(a)(vi)	Not Applicable.
Section 5(a)(vii)	Not Applicable.
Section 5(b)(iv)	Not Applicable.

(b) "**Specified Transaction**" will have the meaning specified in Section 14 of this Agreement.

(c) The provisions of Section 5(a) and Section 5(b) will apply to Party A and to Party B as follows:

The designation below of an Event of Default as being "Applicable" to a specific party means that upon the occurrence of such an Event of Default with respect to such party, the other party shall have the rights of a Non-defaulting Party under Section 6 of the Agreement, and conversely, the designation of such an event as being "Not Applicable" means that such other party shall not have such right.

Section 5(a)	Party A	Party B
(i) "Failure to Pay or Deliver"	Applicable.	Applicable.
(ii) "Breach of Agreement"	Not Applicable.	Not Applicable.
(iii) "Credit Support Default"	Applicable.	Not Applicable.
(iv) "Misrepresentation"	Not Applicable.	Not Applicable.
(v) "Default under Specified Transaction"	Not Applicable.	Not Applicable.
(vi) "Cross Default"	Not Applicable.	Not Applicable.
(vii) "Bankruptcy"	Applicable.	Applicable.
(viii) "Merger Without Assumption"	Applicable.	Applicable.

provided that Section (5)(a)(i) of this Agreement is amended to read as follows:

Failure to Pay or Deliver. Failure by the party to make, on the date when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party (and the Collateral Agent, if Party B is the party that has failed to make the payment under this Agreement); *provided, however*, that if the due date for such payment is a Payment Date, the Final Maturity for any Extended Note, Term Note or Subordinated Note or any other day that interest is due and payable on any Extended Note, Term Note or Subordinated Note, failure by Party A to make, on the date when due, any payment under this Agreement shall be an Event of Default, without giving effect to any grace period unless Party A used its best efforts to make such payment on the date when due, and the failure of Party B to receive such payment was the result of a force majeure; *provided, further*, that any payment default by Party B may be cured prior to designation of an Early Termination Date on behalf of Party B by the Collateral Agent (but the Collateral Agent shall have no obligation to do so). Capitalized terms used in this paragraph shall have the meanings ascribed to such terms in Schedule I to the Security Agreement. For purposes of this Section 5(a)(i), "force majeure" shall mean any act of god, strikes, lockout, labor troubles, riots, insurrection, terrorist attack or other causes beyond Party A's control.

The designation below of a Termination Event as being "Applicable" to a specific party means that upon the occurrence of such a Termination Event with respect to such party, the Affected Party in the case of an Illegality, the party which is not the Affected Party in the case of an Additional Termination Event if there is only one Affected Party, as the case may be, shall have the right to terminate the Transaction in accordance with Section 6(b) of the Agreement, and conversely, the designation of such an event as being "Not Applicable" means that neither party shall have the right to terminate the Transaction in accordance with Section 6(b) of the Agreement upon the occurrence of such Termination Event with respect to such party.

Section 5(b)		Party A	Party B
(i)	"Illegality"	Applicable.	Applicable.
(ii)	"Tax Event"	Not Applicable.	Not Applicable.
(iii)	"Tax Event Upon Merger"	Not Applicable.	Not Applicable.
(iv)	"Credit Event Upon Merger"	Not Applicable.	Not Applicable.
(v)	"Additional Termination Event"	Applicable.	Applicable.

(d) **Payments on Early Termination**. For the purpose of Section 6(e) the following applies in connection with an Early Termination of this Agreement:

(i) Market Quotation will apply.

(ii) The Second Method will apply.

(e) "**Termination Currency**" means United States Dollars ("USD").

(f) The "**Automatic Early Termination**" provisions of Section 6(a) will not apply to Party A or Party B.

(g) Each of the following shall constitute an "Additional Termination Event" pursuant to Section 5(b)(v):

(i) **Party A Downgrade**. The occurrence and continuation (following the expiration of all applicable notice, grace and/or cure periods) of a Termination Event pursuant to Part 5(o) herein, in which case, the Early Termination Date shall be the date, if any, designated by Party B. Party A shall be the sole Affected Party with respect to such Additional Termination Event and Party B shall be the sole party entitled to designate the occurrence of an Early Termination Date with respect to the occurrence of such Additional Termination Event.

(ii) **Amendments Made Without Consent of Party A**. It shall be an Additional Termination Event if (x) any amendment and/or supplement to the Indenture, the Security Agreement or any other Program Document is made without the prior written consent of Party A, and (y) Party A's consent is required under the Program Documents for such amendment and/or supplement. In connection with such Additional Termination Event, Party B shall be the sole Affected Party.

Part 2. Tax Representations.

(a) **Payer Tax Representations**. For the purpose of Section 3(e) of this Agreement, Party A and Party B will each make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to

make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, *provided* that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations**. For the purpose of Section 3(f) of this Agreement, Party A and Party B will make the following representations specified below, if any:

(i) The following representation will apply to Party A:

(A) It is the New York branch of a bank organized under the laws of France, its taxpayer identification number is 36-2813095.

(B) Each payment received or to be received by it in connection with this Agreement will be effectively connected with its conduct of a trade or business in the United States.

(C) It is a "foreign person" (as that term is used in section 1.6041-4(a)(4) of the United States Treasury Regulations) for United States federal income tax purposes.

(ii) The following representation will apply to Party B:

It is a "U.S. person" within the meaning of United States Treasury Regulation section 1.1441-4(a)(3)(ii) for United States federal income tax purposes.

Part 3. Agreement to Deliver Documents.

Section 4(a) of this Agreement is amended by deleting the following in the first sentence thereof: , in certain cases under subparagraph (iii) below,

Section 4(a)(iii) of this Agreement is amended to read as follows:

any forms, documents or certificates that may be required or reasonably requested in order to allow such other party to make a payment under this

Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax, or with such deduction or withholding at a reduced rate, with any such forms, documents or certificates to be accurate and completed in a manner reasonably satisfactory to such other party, and to be executed and to be delivered with any required certification to such other party (or to such government or taxing authority as such other party reasonably directs), promptly upon the earlier of (A) reasonable demand by such other party and (B) learning that any such forms, documents or certificates are required;

For the purpose of Section 4(a)(i) and Section 4(a)(ii) of this Agreement, Party A and Party B each agree to deliver the following documents, as applicable:

Documents to be delivered are:

Party required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3(d)
Party A	An opinion of counsel to Party A (which may include in-house counsel) acceptable to counsel of Party B.	Upon execution of this Agreement.	No
Party A	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement.	Yes
Party B	An opinion of counsel to Party B acceptable to counsel of Party A.	Upon execution of this Agreement.	No
Party B	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement.	Yes
Party B	Executed copies of each Program Document and each amendment thereof.	Upon execution of this Agreement and on the date of each amendment thereof.	Yes
Party B	Copy of each notice and/or report received or delivered by the Issuer pursuant to the Program Documents.	Within five (5) Local Business Days of the Issuer's receipt or delivery of any such notice or report.	Yes
Party A and Party B	An executed U.S. Internal	(i) Before the first	N/A

Party required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3 (d)
	Revenue Service Form W-9, W-8BEN or W-8ECI, as applicable (or any successor thereto).	Payment Date under this Agreement, (ii) promptly upon reasonable demand by Party A or Party B, as applicable, and (iii) promptly upon learning that any such form previously provided by such Party has become obsolete or incorrect.	

Part 4. Miscellaneous.

(a) **Addresses for Notices**. For the purpose of Section 12(a):

Address for notices or communications to Party A:

1301 Avenue of the Americas
New York, New York 10019
Attentions: Rene Fortier

Telephone: 212-261-3577
Facsimile: 212-261-3244

with copies to:

Address: Lehman Brothers Special Financing Inc. ("LBSF")
c/o Lehman Brothers Inc.
Transaction Management
745 Seventh Avenue, 28th Floor
New York, NY 10019

Attention: Documentation Manager
Telephone No.: (212) 526-7187
Facsimile No.: (212) 526-7672

For all purposes.

Address for notices or communications to Party B:

Address: Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128

Attention: Katy Hudson
Telephone: 858-676-2177
858-676-2177
858-676-2177
Facsimile No: 866-278-5876

Address for notices or communications to Moody's:

Address: Moody's Investors Service, Inc.
99 Church Street
New York, New York 10007
Attention: Asset Backed Commercial Paper Group
Facsimile No: (212) 553-0300

Address for notices or communications to S&P:

Address: Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.
55 Water Street
New York, New York 10041
Attention: Asset Backed Surveillance Group
Facsimile No: (212) 438-2647

Notices under this Agreement and the Transaction shall be sent to Moody's and S&P only to the extent specifically required in the transaction confirmation.

(b) **Process Agent**. For the purpose of Section 13(c):

Party A appoints as its Process Agent: Not Applicable.

Party B appoints as its Process Agent: Not Applicable.

(c) **Offices**. The provisions of Section 10(a) will apply to Party A and will not apply to Party B.

(d) **Multibranch Party**. For the purpose of Section 10(c) of this Agreement:

Party A is not a Multibranch Party.

Party B is not a Multibranch Party.

(e) **Calculation Agent**. The Calculation Agent shall be the Servicer. All calculations made by the Calculation Agent shall be binding absent manifest error. Party A or LBSF acting in good faith may dispute any calculation of the Calculation Agent and the parties shall use reasonable efforts to resolve any disputes concerning such calculations.

(f) **Credit Support Document**. Details of any Credit Support Document:

In the case of Party A: Initially none; if required pursuant to Part 5(o) of this Schedule, a 1994 ISDA Credit Support Annex (New York law), including paragraph 13 thereto, if any, delivered pursuant to Part 5(o)(iii), or a guaranty, if any, delivered pursuant to Part 5(o)(iv).

In the case of Party B: The Security Agreement and the Indenture.

Notwithstanding the foregoing, each party hereto acknowledges and agrees that "Credit Support Default" (Sections 5(a)(iii) of the Agreement) shall not constitute Events of Default applicable to Party B.

(g) **Credit Support Provider**.

Credit Support Provider means in relation to Party A: Not Applicable.
Credit Support Provider means in relation to Party B: Not Applicable.

(h) "**Affiliate**" will have the meaning specified in Section 14 of this Agreement.

(i) **GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICTS OF LAWS PROVISIONS THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW)**.

(j) **Netting of Payments.** Section 2(c)(ii) will apply with respect to all payments under this Agreement.

(k) **Account Detail**:

Payments to Party A: The Account described in the related Confirmation. Payments to Party B: The Collateral Account under the Security Agreement.

Part 5. Other Provisions.

(a) **Confirmation**. Party A and Party B each agrees and acknowledges that the only Transaction that is or will be governed by this Agreement is the Transaction evidenced by the one Confirmation dated on the date hereof (it being understood that, in the event such

Confirmation shall be amended (in any respect), such amendment shall not constitute (for purposes of this paragraph) a separate Transaction or a separate Confirmation).

(b) **Amendments to Section 6 of this Agreement**.

(i) Section 6(b)(ii) is hereby amended by adding at the end of the first paragraph the following:

", *provided* that the party seeking to make the transfer to avoid a Termination Event shall obtain and deliver to LBSF and Party B (in the case of transfers by Party A) or to Party A (in the case of transfers by Party B) evidence of Rating Agency Confirmation."

(ii) Section 6(d)(i) is hereby amended and restated in its entirety as follows:

"(i) **Statement**. On or as soon as reasonably practicable following the occurrence of an Early Termination Date in which Party B is the sole Non-defaulting Party or sole non-Affected Party, the Calculation Agent shall make computations of the amounts, if any, owing pursuant to Section 6(e) (as modified by the terms of this Schedule) and will provide each party a statement showing in reasonable detail such calculations and specifying the amount payable by each party pursuant to Section 6(e). Party A and LBSF shall have the right to request a certified statement showing in reasonable detail such calculations, specifying the source of such calculations and providing copies of all material documents and information relied upon by the Calculation Agent in performing its obligations hereunder. Party A or LBSF acting in good faith may dispute any calculations of the Calculation Agent and the parties shall use reasonable efforts to resolve any disputes concerning such computations or calculations."

(c) **Transfer**. Section 7 is hereby amended by:

(i) adding the words "(and notice of the transferee to)" after the word "of" in the third line thereof, and (ii) adding the words "(subject to providing three Business Days prior written notice of the transferee to the other party, LBSF and to each Rating Agency)" after the word "transfer" in the fourth and seventh line thereof.

(ii) adding at the end thereof:

"Any party making any such transfer shall deliver evidence of Rating Agency Confirmation to the other party and LBSF. Notwithstanding the foregoing, nothing in this section shall be deemed to prohibit any party from making a transfer as expressly permitted herein."

(iii) adding a new paragraph 7(c) reading as follows:

"(c) Notwithstanding anything to the contrary set forth in the Agreement, Party A agrees to the assignment to Deutsche Bank Trust Company Americas, as Collateral Agent (the "Collateral Agent") under the Security Agreement between Party B and the Collateral Agent for the benefit of the Secured Parties under the Security Agreement of, and the grant to the Collateral Agent for the benefit of each Secured Party of a security interest in, the rights of Party B under this Agreement and the Confirmation. Party A further consents to and agrees that in connection with the realization of any of the Secured Parties' rights (including Party A's rights) under the Security Agreement, that the Collateral Agent, on behalf of the Secured Parties (including Party A) is entitled to, and shall have, all rights of Party B hereunder."

(d) **Amendments to Section 9(b) of this Agreement**. Section 9(b) of this Agreement is hereby amended by adding the following after the word "system" in the last line thereof:

", *provided, however,* that each Rating Agency and LBSF shall receive prior written notice of all such amendments, modifications or waivers; *provided, further,* that each material amendment, modification or waiver shall require, prior to its effectiveness, that Rating Agency Confirmation has been obtained in connection with such material amendment, modification or waiver and that LBSF has given prior written consent to such amendment, modification or waiver."

(e) **Swap Exemption**.

(i) The parties agree that this Agreement and the Transaction are intended to constitute a "swap agreement" within the meaning of Commodity Futures Trading Commission ("CFTC") Regulations Section 35.1(b)(1) and Section 101(53B) of the U.S. Bankruptcy Code;

(ii) Each party represents to the other that on the date hereof (a) it is an "eligible contract participant" within the meaning of Section 1a(12) of the Commodity Exchange Act, as amended; (b) this Agreement is subject to individual negotiation by each party; and (c) this Agreement will not be executed or traded on a "trading facility" within the meaning of Section 1a (33) of the Commodity Exchange Act, as amended.

(iii) The parties agree that neither this Agreement nor the Transaction is one of a fungible class of agreements that are standardized as to their material economic terms, within the meaning of CFTC Regulations Section 35.2(b); and

(iv) Each party represents to the other that the creditworthiness of the other party was or will be a material consideration in entering into or determining the terms of this Agreement and the Transaction, including

pricing, cost or credit enhancement terms of the Agreement or the Transaction, within the meaning of CFTC Regulations Section 35.2(c).

(f) **WAIVER OF RIGHT TO TRIAL BY JURY**. EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY TRANSACTION.

(g) **Section 2**. Section 2(e) of the Agreement shall not apply to payments to be made by Party B.

(h) **Notice of Events of Default**. Each party agrees, upon learning of the occurrence of any event or commencement of any condition that constitutes (or that with the giving of notice or passage of time or both would constitute) an Event of Default or Termination Event with respect to such party, promptly to give the other party and LBSF notice of such event or condition (or, in lieu of giving notice of such event or condition in the case of an event or condition that with the giving of notice or passage of time or both would constitute an Event of Default or Termination Event with respect to the party, to cause such event or condition to cease to exist before becoming an Event of Default or Termination Event).

(i) **Relationship Between Parties**.

(i) Non-Reliance. Each party represents and warrants that it is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it is based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. It has not received from the other party any assurance or guarantee as to the expected results of that Transaction.

(ii) Evaluation and Understanding. It is capable of evaluating and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the financial and other risks of that Transaction.

(iii) Status of Parties. The other party is not acting as a fiduciary or an advisor for it in respect of that Transaction.

(j) **Consent to Recording**. The parties agree that each may electronically record all telephonic conversations between marketing and trading personnel in connection with

this Agreement and that any such recordings may be submitted in evidence in any Proceedings relating to this Agreement.

(k) **Limited Recourse to Party B**. Notwithstanding anything to the contrary contained herein, all obligations of Party B shall be payable by Party B under Section 2(a)(i) of this Agreement only on a Party B Payment Date or Party B Interim Payment Date (each as defined in the related Confirmation of the Transaction) and only to the extent of funds available therefor in the Collateral Account as provided in Section 6.03 and Section 7.02 of the Security Agreement and, to the extent such funds are not available or are insufficient for the payment thereof, shall not constitute a claim against Party B to the extent of such unavailability or insufficiency until such time as Party B has assets sufficient to pay such prior deficiency; *provided, however*, that any termination payment in respect of the termination of this Agreement in whole may be made on any date from amounts available under Sections 5.02, 6.03 and 7.02 of the Security Agreement. This paragraph shall survive the termination of this Agreement but in all cases shall expire concurrently with the restriction specified in Part 5(l).

(l) **No Bankruptcy Petition**. Prior to the date that is one year and one day after the payment in full of any Note issued by Party B (or such longer preference period as may be in effect at such time), Party A, in its capacity as Swap Counterparty, shall not institute against, or join any other person in instituting against, Party B, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any federal or state bankruptcy or similar law. Nothing herein shall prevent Party A from participating in any such proceeding once commenced by another entity. The provision of this paragraph shall survive the termination of this Agreement.

(m) **No Recourse**. The obligations of Party B hereunder are solely the obligations of Party B and no recourse shall be had with respect to this Agreement, any of the obligations of Party B hereunder or for the payment of any fee or other amount payable hereunder or for any claim based on, arising out of or relating to any provision of this Agreement against any certificateholder, stockholder, employee, officer, director, incorporator, trustee, affiliate, agent or servant of Party B except to the extent that any such claim arises as a result of the intentional misconduct, fraud, bad faith and/or gross negligence of such persons. The provisions of this paragraph shall survive the termination of this Agreement.

(n) **Notice of Payment Amounts**. The Calculation Agent shall provide (via email or facsimile) Party A with estimates of payments to be made by each of Party A and Party B (including a breakdown of the components of each payment) under the Agreement on the next following Payment Date, Interim Payment Date or any other date payments are made under the Agreement. Such estimates shall be provided by 12:00 noon (eastern standard time) of the second Business Day prior to each such payment date. Final confirmation of the actual amounts to be wired shall be provided (via e-mail or facsimile and confirmed by telephone) by no later than 12:00 noon. (eastern standard time) on the Business Day immediately preceding each such payment date.

(o) **Reduction of Swap Counterparty's Rating**. In the event that one or more of Party A's ratings are withdrawn or reduced below the Requisite Ratings, Party A is obligated to immediately provide written notice thereof to Party B and, within 30 Business Days after such rating withdrawal or reduction (if such withdrawal or reduction is continuing), in Party A's discretion to effect one of the following (i) establish any arrangement, including obtaining a Successor Swap Counterparty, such that Party B shall receive written confirmation that the rating of each Series outstanding by each applicable rating agency will not be withdrawn or reduced below the applicable rating of each such Series outstanding immediately prior to such downgrade, as applicable, (ii) obtain replacement interest rate swap agreements with terms substantially the same as this Agreement with a Successor Swap Counterparty, (iii) execute and deliver to Party B a 1994 ISDA Credit Support Annex (New York law) with Party A as the pledgor, or (iv) obtain a guaranty of the obligations of Party A under the Agreement from an entity having at least the Requisite Ratings, in each case, such that Party B shall receive written confirmation that the rating of each Series outstanding by each applicable rating agency will not be withdrawn or reduced below the applicable rating of each such Series outstanding immediately prior to such downgrade, as applicable; *provided, however,* that the preceding provisions may be modified, without the consent of the holders of the Notes, upon receipt by Party B and the Indenture Trustee of Rating Agency Confirmation; *provided, further*, that Party B shall be entitled to replace Party A pursuant to this paragraph (o), after such 30 Business Day period has expired, so long as Party A shall have not already effected one of the options described in clauses (i) through (iv) above and (y) such Successor Swap Counterparty shall also replace Party A under the ISDA Master Agreement, dated as of the date hereof (including the Schedule and Confirmation thereto, the "Intermediate Swap") between Party A and LBSF. Any costs associated with obtaining a replacement swap agreement or establishing any other arrangement such that Party B shall receive written confirmation that the rating of each Series outstanding by each applicable rating agency will not be withdrawn or reduced below the applicable rating of each such Series outstanding immediately prior to such downgrade will be borne by Party A. No failure on the part of Party A to effect any of the alternatives specified above within the said 30 Business Day period shall constitute an Event of Default or Termination Date with respect to Party A, but after such 30 Business Day period, if so designated by Party B, shall constitute a Termination Event with Party A as the sole Affected Party.

(p) **Additional Swap Counterparties**. To the extent that Party B enters into Interest Rate Swap agreements with other additional swap counterparties, such swap counterparties will be required to have the Requisite Ratings at the time of execution of such Interest Rate Swaps.

(q) **Further Representations of Party B**:

(i) Assuming the due authorization, execution and delivery thereof by the other parties thereto, each of the Indenture and the other Program Documents to which Party B is a party constitutes the legal, valid and binding obligations of Party B, enforceable against Party B in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and

similar laws or legal principles affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law.

(ii) The Indenture and the other Program Documents to which Party B is a party are in full force and effect on the date hereof and there have been no amendments or waivers or modifications of any of the terms thereof since the original execution and delivery of the Indenture and the other Program Documents to which Party B is a party.

(iii) To the best of its knowledge, no event of default (or event which would, with the passage of time or the giving of notice, constitute an event of default) has occurred and is continuing under any of the Program Documents to which Party B is a party.

(r) **No Set-off**. Other than as provided in Section 2(c) of this Agreement, all payments hereunder shall be made without set-off or counterclaim. Section 6(e) of the Agreement is amended by the deletion of the following sentence: "The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off."

(s) **Severability.** Except as otherwise provided in Sections 5(b)(i) of the Agreement in the event that any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter of this Agreement and the deletion of such portion of this Agreement will not substantially impair the respective benefits and expectations of the parties to this Agreement. The parties shall endeavor, in good faith negotiations, to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(t) **No Recourse.** It is expressly understood and agreed by the parties hereto that (a) this Agreement is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of Party B, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of Party B is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only Party B, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of Party B or be liable for the breach or failure

of any obligation, representation, warranty or covenant made or undertaken by Party B under this Agreement or any other related documents.

(u) **Special Provisions in Connection with Early Termination**.

(i) Section 6(e) of this Agreement shall apply in connection with the occurrence of an Early Termination Date designated by Party A. Except as provided in Part 5(u)(iv), Section 6(e) of this Agreement shall apply in connection with the occurrence of an Early Termination Date designated by Party B. If Party A is entitled to receive a Settlement Amount in connection with the occurrence of an Early Termination Date designated by Party A, the obligation of Party B to make such payment shall be subject to the Priority of Payments, and such payment shall be made pursuant to the Confirmation as part of the Party B First Floating Amount.

(ii) Party B shall not be entitled to designate an Early Termination Date (other than an Early Termination Date arising out of an Event of Default specified in Section 5(a)(i), Section 5(a)(iii), Section 5(a)(vii) or Section 5(a)(viii) with respect to which Party A is the Defaulting Party or a Termination Event specified in Section 5(b)(i) with respect to which Party B is the sole Affected Party) unless either: (A) a Successor Swap Counterparty is appointed and the requirements of Part 5(u)(iv) are satisfied upon designation of such Early Termination Date (including the receipt of a Rating Agency Confirmation) or (B) the Downsize Conditions are satisfied in connection with such Early Termination Date.

(iii) If in connection with the occurrence of an Event of Default with respect to which Party B is entitled to designate an Early Termination Date (subject to this provisions of Part 5(u)(ii)), Party B elects to transfer Party A's rights and duties hereunder to a Successor Swap Counterparty, Party A hereby agrees that such assignment shall automatically be effected without the requirement of any action by Party A immediately following the later to occur of: (x) receipt by Party B of a copy of written confirmation from each Rating Agency that the ratings of the Notes will not be withdrawn or reduced below the ratings of such Notes prior to such Event of Default or Termination Event and (y) payment or receipt of any payments required to be made or received pursuant to Part 5(u)(iv).

(iv) In the event of a transfer of Party A's rights and obligations pursuant to Part 5(u) to a Successor Swap Counterparty or the replacement of the Transaction with a substantially similar transaction with a Successor Swap Counterparty:

(A) The Calculation Agent shall calculate an amount that would be payable to (or by) Party B assuming: (i) the Transaction governed by this Agreement, the back-to-back interest rate swap transaction, dated as of the date hereof, between Party A and Accredited Home Lenders, Inc. ("Accredited") (if any) and the back-to-back swap transaction, dated as of the date hereof, between LBSF and Accredited (if any) were Terminated Transaction and, therefore, setoff or net against each other, (ii) that Section 6(e)(i)(3) of the 1992 ISDA Multicurrency-Cross Border Master Agreement were applicable; *provided*,

however, following the Market Quotation Method, the Calculation Agent will seek firm quotations from at least four Reference Market-makers that satisfy the Requisite Ratings requirements and shall use reasonable efforts to select the Reference Market-maker who provided the quotation most favorable to Party A as the Successor Swap Counterparty and the Settlement Amount shall be the quotation submitted by such Successor Swap Counterparty, (iii) that Party A was the Defaulting Party or the Affected Party (as the case may be) and (iv) that the Early Termination Date is the date the Successor Swap Counterparty enters into or assumes its obligations under the Transaction.

(B) To the extent that the Calculation Agent determines pursuant to Part 5(u)(iv)(A) that a payment to Party A would be required, Party B and Party A agree to cause the Successor Swap Counterparty to pay such amount to Party A. Subject to Part 5 (u)(iv)(D), such amount shall constitute satisfaction in full of the obligations of Party B to Party A in respect of the assignment of the Transaction to the Successor Swap Counterparty.

(C) To the extent that the Calculation Agent determines pursuant to Part 5(u)(iv)(A) that Party A would be required to make a payment, Party A and Party B agree that Party A will pay such amount to the Successor Swap Counterparty. Subject to Part 5(u)(iv)(D), such amount shall constitute satisfaction in full of the obligations of Party A to Party B in respect of the assignment of the Transaction to the Successor Swap Counterparty.

(D) In addition to amounts payable pursuant to Part 5(u)(iv)(B) or Part 5(u)(iv)(C), each of Party A and Party B shall make all payments pursuant to the Confirmation through and including the Early Termination Date, and without duplication of such amounts Party A shall pay to Party B the Unpaid Amounts owing to Party B by Party A as of the Early Termination Date, and Party B shall pay to Party A the Unpaid Amounts owing to Party A by Party B as of the Early Termination Date. Without duplication of amounts paid by Party A to Party B pursuant to the Agreement, in the event of the appointment of a Successor Swap Counterparty, Party A shall bear or otherwise reimburse Party B and LBSF for all reasonable costs (excluding any assignment fee or termination fee, except as otherwise contemplated by Part 5(u)(iv)(C)) associated with the actions required by Part 5(u)(iii).

(v) **Additional Definitions**. Capitalized terms used in this Schedule shall have the meaning set forth in Schedule I to the Security Agreement (as defined below). Additionally, the capitalized terms set forth below shall have the following meanings:

"Downsize Conditions" means, prior to the designation of an Early Termination Date by Party B, (i) the Program Size is reduced to an amount less than or equal to the Aggregate Maximum Notional Amount of each Interest Rate Swap other than the Transaction and (ii) Rating Agency Confirmation is obtained in connection with such early termination of this Agreement.

"Requisite Ratings" means short-term senior unsecured deposit ratings of "A-1+", and "P-1" from each of S&P and Moody's, respectively and long term credit ratings of at least "AA-" and "Aa3" from each of S&P and Moody's, respectively.

"Security Agreement" means the Security Agreement, dated as of the date hereof, between Party B, as Issuer, and the Collateral Agent, as amended from time to time.

"Successor Swap Counterparty" means a successor to Party A under the Transaction, or under an agreement with Party B on substantially the same terms as the Transaction, which is a commercial bank or financial institution having the Requisite Ratings.

(w) **Third Party Beneficiary**. LBSF and its successors and assigns shall be express third-party beneficiaries of this Agreement and shall be entitled to rely upon and directly enforce any rights granted to them hereunder.

The parties executing this Schedule have executed the Agreement and have agreed as to the contents of this Schedule.

CALYON NEW YORK BRANCH

By: /s/ Ian Cheung
Name: Ian Cheung
Title: Director

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President

CARMEL MOUNTAIN FUNDING TRUST

By: U.S. Bank Trust National Association, not in its individual capacity but solely as Owner Trustee on behalf of Party B

By: /s/ Patricia M. Child
Name: Patricia M. Child
Title: Vice President

Exhibit 4.14
EXECUTION COPY

CONFIRMATION

Date: May 10, 2005

To: Carmel Mountain Funding Trust
15090 Avenue of Science
San Diego, California 92128
Attention: Katy Hudson
Telephone: (858) 676-2177
Facsimile No: (866) 278-5876

From: Calyon New York Branch
1301 Avenue of the Americas
New York, New York 10019
Attention: Rene Fortier
Telephone: 212-261-3577
Facsimile: 212-261-3244

Re: Transaction Reference Number: 40247

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Calyon New York Branch ("Party A") and Carmel Mountain Funding Trust ("Party B") on the Trade Date referred to below (the "Transaction"). It constitutes a "Confirmation" as referred to in the Master Agreement specified below.

The definitions and provisions contained in the 2000 ISDA Definitions (the "Definitions"), as published by the International Swaps and Derivatives Association, Inc. ("ISDA"), are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and the provisions of this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement, dated as of May 10, 2005, as amended and supplemented from time to time (the "Agreement"), between Party A and Party B. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in the Agreement or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in Schedule I to the Security Agreement (as defined in the Agreement).

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	May 10, 2005
Effective Date:	May 10, 2005
Termination Date:	May 10, 2008, subject to annual extension upon agreement of Party A and Party B.
Business Day:	Any day other than (i) Saturday and Sunday or (ii) a day on which banking institutions or foreign exchange markets in New York, New York or San Diego, California are authorized or required by law, regulation or executive order to be closed for business.
Business Day Convention:	Following.
Notional Amount:	With respect to any Payment Date, the notional amount of this Transaction will equal the product of (i) the Sharing Percentage and (ii) the sum of (x) the average aggregate Outstanding Purchase Price of the Mortgage Loans owned by Party B on each day during the related Calculation Period and (y) the average of any cash and Eligible Investments held by Party B in the Collateral Account at the opening of business on the first day of, and at the close of business on the last day of, the related Calculation Period.
Maximum Notional Amount:	$1,000,000,000.00. In no event will the Notional Amount of this Transaction exceed the Maximum Notional Amount without the prior written consent of Party A.
Aggregate Maximum Notional Amount:	The sum of the Maximum Notional Amount of this Transaction and the maximum notional amount of each other Interest Rate Swap.
Sharing Percentage:	With respect to any date, the percentage expressed as a fraction, the numerator of which is the Maximum Notional Amount of this Transaction and the denominator of which is the Program Size, as of such date. For the avoidance of doubt, the Sharing Percentage shall never be greater than one.
Calculation Period:	With respect to each Payment Date, the calendar month immediately preceding the month in which such Payment Date occurs; *provided, however,* solely for the purposes of calculating Issuer Funding Cost with respect to such Payment Date, "Calculation Period"

shall mean the period from and including the prior Payment Date to but excluding such Payment Date, except that in each case (i) the initial Calculation Period will commence on, and include, the Effective Date and (ii) the final Calculation Period will end on, and include, the Termination Date.

Payment Dates: The 25th day of each month (or, if any such day is not a Business Day, the next following Business Day), commencing June 27, 2005.

Interim Payment Dates: Each Business Day on which a deposit is made into the Collateral Account in respect of proceeds from (i) the sale of a Mortgage Loan pursuant to Section 4.6(b) of the Mortgage Loan Purchase and Servicing Agreement (other than a sale, or a Mortgage Loan subject to sale, to a Seller or the Servicer pursuant to Section 2.1(b), 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement) or (ii) a Mortgage Loan that is prepaid in full (each such date, a "Loan Termination Date"; and each such Mortgage Loan which is sold (other than a sale, or a Mortgage Loan subject to sale, to a Seller or the Servicer pursuant to Section 2.1(b), 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement) or prepaid in full is referred to as a "Terminated Loan"); *provided, however*, that if the Servicer is not aware by 3:00 p.m. Eastern time at least one Business Day in advance that a deposit into the Collateral Account in respect of a Terminated Loan is going to be made, such deposit shall be deemed to occur on the Business Day immediately following the day on which such deposit was made, and the Mortgage Loan in respect of which such deposit was made shall be deemed to be a Terminated Loan on the Business Day immediately following the day on which such deposit was made. Party B shall give Party A written notice of any Loan Termination Date at least one Business Day prior to any such Loan Termination Date.

Calculation Agent: The Servicer. Party B shall ensure that the Calculation Agent shall perform its obligations in good faith. Party A may dispute any calculation of the Calculation Agent, and the parties shall use reasonable efforts (and act in good faith) to resolve any disputes concerning such calculations. Party B shall ensure that the Calculation Agent shall, upon the request of Party A, provide a certified statement to Party A showing in

reasonable detail such calculations, specifying the source of such calculations and providing copies of all documents and information relied upon by the Calculation Agent in performing its obligations hereunder.

In addition, Party B or the Servicer shall provide to Party A, on or before the tenth Business Day of each month and no later than the tenth Business Day after a request, a report dated no earlier than one Business Day before the date such report is delivered, which shall include for each Mortgage Loan, as of the date of such report, the information listed on Exhibit A hereto, and such other information as may be agreed between Party A and Party B from time to time.

3. Party A Floating Amount:	On each Payment Date, Party A will pay Party B an amount equal to the product of the Sharing Percentage *times* the excess of:
	(a) (i) the Issuer Funding Cost for the related Calculation Period, *times* (ii) the Credit Reduction Factor for such Payment Date, over (b) any amounts previously paid by Party A as a Party A Accrued Interest Amount during such Calculation Period;
	provided, however that, if Party A does not receive written notice from Party B of the Party A Floating Amount by at least 12:00 p.m. Eastern time one Business Day prior to the related Payment Date, Party A shall have no obligation to pay the Party A Floating Amount until the Business Day after Party A receives written notice from Party B of the relevant Party A Floating Amount.
Party A Interim Floating Amount:	On each Interim Payment Date, Party A will pay Party B an amount equal to the product of (i) the Sharing Percentage *times* (ii) the sum of all positive Partial Removal Payments for all Mortgage Loans determined to be Terminated Loans on such date;
	provided, however that, if Party A does not receive written notice from Party B of the Party A Interim Floating Amount by at least 12:00 p.m. Eastern time one Business Day prior to the related Interim Payment

Date, Party A shall have no obligation to pay the Party A Interim Floating Amount until the Business Day after Party A receives written notice from Party B of the relevant Party A Interim Floating Amount.

Notwithstanding anything herein to the contrary, on any Business Day (other than a Payment Date, Expected Maturity, Final Maturity for any Extended Notes or date on which any Extended Notes outstanding after the Final Maturity thereof are paid in full) on which a net payment in respect of a Party A Interim Floating Amount is due and payable from Party A in an amount less than $ 500,000 (and such payment, *plus* the aggregate of all other net payments in respect of the Party A Interim Floating Amount which were due on a prior Interim Payment Date but which have not been paid due to the operation of this paragraph, are less than $500,000), Party A shall postpone such net payment until the earlier to occur of (x) the immediately succeeding Payment Date, (y) the immediately succeeding Expected Maturity or Final Maturity for any Extended Notes or date on which any Extended Notes outstanding after the Final Maturity thereof are paid in full and (z) the immediately succeeding Interim Payment Date on which a net payment in respect of the Party A Interim Floating Amount is due and the aggregate of the amount of such payment, *plus* the aggregate of all other net payments in respect of the Party A Interim Floating Amount which were due on a prior Interim Payment Date but which have not been paid due to the operation of this paragraph, is equal to or greater than $500,000. On any Business Day on which a payment in respect of the Party A Interim Floating Amount is required to be made pursuant to the immediately preceding sentence, all amounts in respect of the Party A Interim Floating Amount which theretofore have not been paid due to the operation of this paragraph shall be paid to Party B.

Party A Accrued Interest Amount: On any Business Day on which any Extended Notes are paid in full, Party A will pay Party B an amount equal to the product of the Sharing Percentage *times* the amount of unpaid Extended Note Monthly Interest accrued from and including the later of (x) the immediately preceding Payment Date and (y) the

Expected Maturity of such Extended Notes to but excluding such date;

provided, *however* that, if Party A does not receive written notice from Party B of the amount of the Party A Accrued Interest Amount by 12:00 p.m. New York City time one Business Day prior to the related date of payment of the Party A Accrued Interest Amount, Party A shall have no obligation to pay the Party A Accrued Interest Amount until the Business Day after Party A receives written notice from Party B of such Party A Accrued Interest Amount.

Notwithstanding anything herein to the contrary, on any Business Day (other than a Payment Date, Expected Maturity or Final Maturity (as defined in the Security Agreement)) on which a net payment in respect of a Party A Accrued Interest Amount is due and payable from Party A in an amount less than $500,000, Party A shall postpone such net payment until the earlier to occur of (x) the immediately succeeding Payment Date, (y) the immediately succeeding Expected Maturity or Final Maturity and (z) the immediately succeeding Business Day on which aggregate net payments in respect of Party A Accrued Interest Amounts are due and payable from Party A in an amount equal to or greater than $500,000.

4. Party B First Floating Amount:

On each Payment Date, Party B will pay Party A an amount equal to the product of (i) the Sharing Percentage and:

(ii) (A) *minus* (B), where (A) equals the sum of (a) the interest collected in respect of the Mortgage Loans with respect to the related Calculation Period, including Monthly Servicer Advances (other than amounts to be held in the Collection Account for the benefit of a Mortgage Loan Buyer pursuant to Section 4.6(b) of the Mortgage Loan Purchase and Servicing Agreement), (b) amounts on deposit in the Reserve Fund (including reinvestment income on such amounts received during the related Calculation Period) to the extent that the amount on deposit in the Reserve Fund exceeds the Required Reserve Fund Amount, (c) amounts on deposit in the Market Value Reserve Account (including reinvestment income on such amounts

received during the related Calculation Period) to the extent that the amount on deposit in the Market Value Reserve Account exceeds the Market Value Requirement and (d) the reinvestment income received during the related Calculation Period on amounts on deposit in the Collateral Account, and where (B) equals the sum of (a) Allocated Expenses and the Servicing Fee payable on such Payment Date and (b) the Holdback Amount for such Payment Date.

Party B Second Floating Amount: On each Payment Date, Party B will pay to Party A an amount equal to the product of (i) the Sharing Percentage and (ii) any amount payable to the Swap Counterparties on such Payment Date pursuant to Sections 5.02, 6.03(b)(xi) and (xiii), 6.05(g), 6.06 and clause Tenth of Section 7.02(b) of the Security Agreement.

Party B Interim Floating Amount: On each Interim Payment Date, Party B will pay Party A an amount equal to the product of (i) the Sharing Percentage and (ii) the sum of the absolute value of all negative Partial Removal Payments for all Mortgage Loans determined to be Terminated Loans on such date.

Notwithstanding anything herein to the contrary, on any Business Day (other than a Payment Date, Expected Maturity, Final Maturity for any Extended Notes or date on which any Extended Notes outstanding after the respective Final Maturity thereof are paid in full) on which a net payment in respect of a Party B Interim Floating Amount is due and payable from Party B in an amount less than $500,000 (and such payment, *plus* the aggregate of any other net payments in respect of the Party B Interim Floating Amount which were due on a prior Interim Payment Date but which have not been paid due to the operation of this paragraph, is less than $500,000), Party B shall postpone such net payment until the earliest to occur of (x) the immediately succeeding Payment Date, (y) the immediately succeeding Expected Maturity or Final Maturity or date on which any Extended Notes are paid in full and (z) the immediately succeeding Interim Payment Date on which a net payment in respect of the Party B Interim Floating Amount is due and the aggregate of the

amount of such payment, *plus* the aggregate of any other net payments in respect of the Party B Interim Floating Amount which were due on a prior Interim Payment Date but which have not been paid due to the operation of this paragraph, are equal to or greater than $500,000. On any date on which a payment in respect of the Party B Interim Floating Amount is required to be made pursuant to the immediately preceding sentence, all amounts in respect of the Party B Interim Floating Amount which theretofore have not been paid due to the operation of this paragraph shall be paid to Party A.

Party B Additional Amounts:

On any Business Day on which Party B receives any Failed Securitization Interest Amount with respect to a Mortgage Loan, Party B will pay Party A an amount equal to the product of (i) the Sharing Percentage *times* (ii) such Failed Securitization Interest Amount.

Notwithstanding anything herein to the contrary, on any Business Day (other than a Payment Date, Expected Maturity, Final Maturity for Extended Notes or date on which any Extended Notes are paid in full) on which a net payment in respect of a Party B Additional Amount is due and payable from Party B in an amount less than $500,000 (and such payment, *plus* the aggregate of any other net payments in respect of Party B Additional Amounts which were due on a prior Business Day but which have not been paid due to the operation of this paragraph, are less than $500,000) Party B shall postpone such net payment until the earliest to occur of (x) the immediately succeeding Payment Date, (y) the immediately succeeding Final Maturity or date on which any Extended Notes are paid in full and (z) the immediately succeeding Business Day on which a net payment in respect of Party B Additional Amounts is due and the aggregate of the amount of such payment, *plus* the aggregate of any other net payments in respect of Party B Additional Amounts which were due on a prior Business Day but which have not been paid due to the operation of this paragraph, are equal to or greater than $500,000. On any date on which a payment in respect of Party B Additional Amounts is required to be made pursuant to the immediately preceding sentence, all amounts in respect of Party B Additional Amounts which theretofore have not been paid due to the operation of this paragraph shall be paid to Party A.

5. Definitions:

"Credit-Adjusted Price" means, with respect to a Terminated Loan that is a Delinquent Loan or a Defaulted Loan, the hypothetical sales proceeds in cash, as determined in good faith by the Calculation Agent, that would be received in connection with the sale of a Reference Mortgage Loan to a Qualified Purchaser on the date such Delinquent Loan or Defaulted Loan, as the case may be, becomes a Terminated Loan.

"Credit Reduction Factor" means as of any Payment Date, the lesser of (A) one and (B) a fraction equal to (i) the average aggregate Outstanding Purchase Price of the Mortgage Loans owned by Party B on each day during the related Calculation Period exclusive of Defaulted Loans and Delinquent Loans (other than Defaulted Loans pursuant to clause (i) of the definition thereof and Delinquent Loans, in either case, for which the Servicer is currently making Monthly Servicer Advances) (prior to giving effect to payments and allocations on such date) divided by (ii) the sum of (x) the aggregate outstanding principal amount of the Senior Notes (except with respect to all non-interest bearing Secured Liquidity Notes outstanding as of the end of the related Calculation Period, which shall equal an amount equal to the issue price of such Secured Liquidity Notes) and (y) the aggregate Principal Amount of the Subordinated Notes outstanding as of the related Calculation Period.

"Failed Securitization Interest Amount" means the amounts released from the Collection Account in accordance with Section 4.6(g) of the Mortgage Loan Purchase and Servicing Agreement, representing interest amounts previously paid on Mortgage Loans identified for sale to any Mortgage Loan Buyer, which sale has been abandoned by Party B.

"Holdback Amount" means, (A) with respect to any Payment Date, an amount equal to the lesser of (i) the Excess Spread for such Payment Date and (ii) the sum of (x) the amount as is required to cause the Market Value Reserve Available Amount to equal the Market Value Requirement and (y) the amount as is required to cause the Reserve Fund Available Amount of the Reserve Fund to equal the Required Reserve Fund Amount and (B) with respect to any Interim Payment Date, an amount equal to the sum of (x) the amount as

is required to cause the Market Value Reserve Available Amount to equal the Market Value Requirement and (y) the amount that is required to cause the Reserve Fund Available Amount of the Reserve Fund to equal the Required Reserve Fund Amount.

"Issuer Funding Cost" means, with respect to any Calculation Period, an amount equal to the sum (without duplication) of:

(i) with respect to a Calculation Period in which occurred the Expected Maturity of interest-bearing Secured Liquidity Notes, the Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturity of such Secured Liquidity Notes (for the avoidance of doubt including without limitation any such accrued interest paid with the proceeds of the Capitalized Interest Component of additional Classes of Secured Liquidity Notes),

(ii) with respect to a Calculation Period in which occurred the Expected Maturity of non-interest bearing Secured Liquidity Notes, the Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturity, in respect of such Secured Liquidity Notes (for the avoidance of doubt including without limitation any such Interest Component paid with the proceeds of the Capitalized Interest Component of additional Classes of Secured Liquidity Notes and any Interest Component with respect to any such Secured Liquidity Notes),

(iii) with respect to any Calculation Period immediately preceding a Payment Date for Extended Notes including a Final Maturity or other maturity date for the Extended Notes (if other than a Payment Date), the amount of accrued and unpaid Extended Note Monthly Interest, payable in respect of the Extended Notes, on such Payment Date, Final Maturity or other maturity date, and

(iv) with respect to any Calculation Period immediately preceding a Payment Date for Term Notes or Subordinated Notes including a Final Maturity or other maturity date for the Term Notes or Subordinated Notes

(if other than a Payment Date), the amount of accrued and unpaid interest payable in respect of such Term Notes or Subordinated Notes on such following Payment Date.

"Partial Removal Payment" means an amount, which may be positive or negative, calculated with respect to each Terminated Loan (I) which is sold by Party B or securitized equal to the difference between (i) the Outstanding Purchase Price of such Terminated Loan and (ii) the sum of (A) (x) if such Terminated Loan is not a Delinquent or Defaulted Loan, the sales proceeds of such Terminated Loan (which sales proceeds in the case of a bundled whole loan sale or a securitization shall equal the sales proceeds for the related bundle of loans or securitization) or (y) if the Terminated Loan is a Delinquent Loan or a Defaulted Loan, the Credit-Adjusted Price of such Terminated Loan and (B) the amount, if any, withdrawn from the Market Value Reserve Account for such Terminated Loan pursuant to Section 6.05(c) of the Security Agreement or (II) which results from a prepayment in full of such Mortgage Loan equal to (i) the Outstanding Purchase Price of such Terminated Loan less (ii) the principal payments and Prepayment Charges that were deposited in the Collateral Account on or prior to such date. To the extent that the Partial Termination Payment is a positive number, Party A shall pay such amount to Party B and to the extent that it is a negative number, Party B shall pay to Party A an amount equal to the absolute value thereof.

"Qualified Purchaser" means a regular purchaser in the market for subprime mortgage loans and home equity loans.

"Reference Mortgage Loan" means a hypothetical subprime mortgage loan or home equity loan, as applicable, used by the Calculation Agent for the purposes of determining the Credit-Adjusted Price with respect to a Terminated Loan that is a Delinquent Loan or a Defaulted Loan which is otherwise substantially similar to such Delinquent Loan or Defaulted Loan in all respects, including interest rate, principal balance, cash flows and all other payment characteristics, except that such loan is not a Delinquent Loan or Defaulted Loan, as the case may be.

6. Payment Instructions: Party A

Calyon New York Branch
ABA#: 02600-807-3
Account: Derivative Products
Acct#: 01-88180-3211-00-001-180
Attn: Back Office Operations
Phone: (212) 261-7890
Facsimile: (212) 459-3166

Party B

Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Jessica Richmond

7. No Recourse. It is expressly understood and agreed by the parties hereto that (a) this Confirmation is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of Party B, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of Party B is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only Party B, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of Party B or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by Party B under this Confirmation or any other related documents.

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by execution and delivery of this Confirmation.

Yours sincerely,

CALYON NEW YORK BRANCH

By: /s/ Ian Cheung
Name: Ian Cheung
Title: Director

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President

Confirmed as of the date above:

CARMEL MOUNTAIN FUNDING TRUST

By: U.S. Bank Trust National Association, not in its individual capacity but solely as Owner Trustee on behalf of Party B

By: /s/ Patricia M. Child
Name: Patricia M. Child
Title: Vice President

Exhibit A to Confirmation

Party B Report

(i) Party B's loan number;

(ii) the Mortgagor's name;

(iii) the address of the Mortgaged Property;

(iv) the current interest rate;

(v) the original loan balance;

(vi) the current loan balance as of the last day of the immediately preceding month;

(vii) the Outstanding Purchase Price;

(viii) the interest paid-to-date and the next payment date;

(ix) the appraised value of the Mortgaged Property at the time the Mortgage Loan was originated;

(x) whether the interest rate is fixed or adjustable (and if adjustable, the "ARM" code, which includes the index, margin and caps);

(xi) the lien position of the Mortgage Loan on the Mortgaged Property (and if a second lien, the outstanding principal balance of the first lien at the time the Mortgage Loan was originated and the monthly payment and maturity of the first lien loan);

(xii) the occupancy status of the Mortgaged Property (including whether owner occupied);

(xiii) whether the Mortgage Loan is a Balloon Mortgage Loan;

(xiv) the first payment date;

(xv) the maturity date;

(xvi) the principal and interest payment;

(xvii) the property type of the Mortgaged Property;

(xviii) the applicable loan grade and the Mortgagor's FICO Score (where available in the Mortgage File);

(xix) the Mortgage Note date;

(xx) the prepayment penalty and prepayment penalty type; and

(xxi) the delinquency status.

Exhibit A-2

Exhibit 4.15
EXECUTION COPY

CARMEL MOUNTAIN FUNDING TRUST

SECURITY AGREEMENT

between

CARMEL MOUNTAIN FUNDING TRUST

and

DEUTSCHE BANK TRUST COMPANY AMERICAS

as Collateral Agent

dated as of May 10, 2005

SECURITY AGREEMENT

SECURITY AGREEMENT (the "Security Agreement"), dated as of May 10, 2005, between CARMEL MOUNTAIN FUNDING TRUST (the "Issuer"), and DEUTSCHE BANK TRUST COMPANY AMERICAS, as Collateral Agent (the "Collateral Agent").

W I T N E S S E T H:

WHEREAS, the Issuer is entering into this Security Agreement with the Collateral Agent for the purpose of, among other things, providing for the issuance of Secured Liquidity Notes and securing and providing for the repayment of all amounts at any time and from time to time owing by the Issuer to the Collateral Agent, the Depositary, the Custodian, the Indenture Trustee, the Owner Trustee, the Swap Counterparties and the Holders of the Notes (such Persons, collectively, the "Secured Parties" and each, a "Secured Party");

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants expressed herein, it is hereby agreed by and between the Issuer and the Collateral Agent as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. For all purposes of this Security Agreement, except as otherwise expressly provided herein or unless the context otherwise requires, capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Definitions List attached hereto as Schedule I (the "Definitions List").

ARTICLE II

OBLIGATIONS SECURED; CERTAIN ALLOCATIONS

Section 2.01 Obligations Secured Hereby. This Security Agreement is made to provide for and secure repayment and performance of the following indebtedness, obligations and liabilities of the Issuer whether now existing or hereafter incurred (such indebtedness, obligations and liabilities being herein called the "Obligations"):

(a) all amounts due and owing to the Swap Counterparties under the Interest Rate Swaps;

(b) all indebtedness (including interest thereon and, in the case of the Subordinated Notes, the Principal Amount Charge-offs that have not been reinstated and interest thereon), whether absolute, fixed or contingent, at any time and from time to time due and owing by the Issuer to the Holders from time to time of the outstanding Notes;

(c) all Reimburseable Expenses and Allocated Expenses without giving effect to the Maximum Indemnity Amount or the Budget Expense Limit, respectively;

(d) all unreimbursed Monthly Servicer Advances and Servicing Advances with respect to any Mortgage Loan which has been sold, up to a maximum amount of the sale proceeds received in respect of such Mortgage Loan; and

(e) any advances made by the Depositary from time to time pursuant to Section 2(b) of the Depositary Agreement.

Section 2.02 Allocations among the Secured Liquidity Notes, the Extended Notes and all Series of Term Notes. Amounts payable under Fourth of Section 7.02(b) and amounts payable under Sections 6.03(b)(iii) and 6.03(b)(iv), as applicable, shall be allocated as follows:

(i) first, pro rata, (A) to the Holders of the Secured Liquidity Notes and the Extended Notes, an amount equal to the lesser of (x) the amount available to make payments under Fourth of Section 7.02(b), Section 6.03(b)(iii) or Section 6.03(b)(iv), as applicable, multiplied by the Short-Term Note Allocable Share and (y) the amount necessary to pay the full amount that is to be paid to the Holders of Secured Liquidity Notes and Extended Notes at such time (including any Interest Shortfall) and (B) to the Holders of each Series of Term Notes, an amount for each such Series equal to the lesser of (x) the amount available to make payments under Fourth of Section 7.02(b), Section 6.03(b)(iii) or Section 6.03(b)(iv), as applicable, multiplied by the Term Note Allocable Share of such Series and (y) the amount necessary to pay the full amount that is to be paid to such Series of Term Notes at such time (including any Interest Shortfall); and

(ii) second, pro rata, to the Holders of each Series of Notes (including the Holders of Secured Liquidity Notes and Extended Notes (taken together as one Series), and the Holders of the Term Notes), the lesser of (x) the Current Shortfall for such Series and (y) the product of (I) the amount available to make payment under Fourth of Section 7.02(b), Section 6.03(b)(iii) or Section 6.03(b)(iv), after giving effect to payments under clause (i) above, and (II) the Current Shortfall Factor for such Series.

The Issuer shall cause the Servicer to provide the Collateral Agent in writing with determinations of Credits Outstanding, Short-Term Note Allocable Share, Term Note Allocable Share and such other information as the Collateral Agent may require in order to make the allocations specified in this Section 2.02 at least one Business Day prior to the date such allocations are required to be made which requirement may be satisfied through the delivery of the Monthly Report to the extent such information is provided therein.

Section 2.03 Allocations among Swap Counterparties. Amounts payable under Third, Seventh and Tenth of Section 7.02(b) and amounts payable under Section 5.02, Section 6.03(a)(ii), Section 6.03(b)(ii), Section 6.03(b)(xiii), Section 6.05(b) and Section 6.05(f) shall be allocated by the Collateral Agent in accordance with the written direction of the Servicer on behalf of the Issuer to each Swap Counterparty in accordance with such Swap Counterparty's Sharing Percentage.

ARTICLE III

REPRESENTATIONS AND WARRANTIES; COMPANY AGENTS AND DEPOSITARY AGENTS; COVENANTS

Section 3.01 Representations and Warranties of the Issuer. The Issuer hereby represents and warrants, for the benefit of the Collateral Agent and the other Secured Parties, as follows as of the date hereof:

(a) Existence and Power. The Issuer (i) is a statutory trust duly formed, validly existing and in good standing under the laws of the State of Delaware, (ii) is duly qualified to do business as a foreign trust and in good standing under the laws of each jurisdiction where the character of its property, the nature of its business or the performance of its obligations make such qualification necessary, and (iii) has all powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and for purposes of the transactions contemplated by this Security Agreement and the other Program Documents.

(b) Trust and Governmental Authorization. The execution, delivery and performance by the Issuer of this Security Agreement and the other Program Documents to which it is a party (i) are within the Issuer's trust powers, has been duly authorized by all necessary action, (ii) requires no action by or in respect of, or filing with, any Governmental Authority which has not been obtained and (iii) does not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of trust of the Issuer or the Trust Agreement or of any law or governmental regulation, rule, contract, agreement, judgment, injunction, order, decree or other instrument binding upon the Issuer or any of its Assets or result in the creation or imposition of any Lien on any Asset of the Issuer, except for Liens created by this Security Agreement or the other Program Documents. This Security Agreement and each of the other Program Documents to which the Issuer is a party have been executed and delivered by a duly authorized signatory of the Issuer.

(c) Binding Effect. This Security Agreement and each other Program Document to which the Issuer is a party, each Secured Liquidity Note when executed and delivered in accordance with the Depositary Agreement, each Extended Note upon its conversion from a Secured Liquidity Note and each Term Note and each Subordinated Note when executed and delivered in accordance with the Base Indenture and the related Indenture Supplement, is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity, including without limitation (i) the possible unavailability of specific performance, injunctive relief or any other equitable remedy, (ii) concepts of materiality, reasonableness, good faith and fair dealing, and (iii) that certain remedial or procedural provisions contained in this Security Agreement may be limited or rendered unenforceable by applicable law, but such limitations do not make the remedies and procedures that are afforded to the Collateral Agent inadequate for the practical realization of the substantive benefits purported to be provided by this Security Agreement).

(d) Financial Information; Financial Condition. All balance sheets, all statements of operations, of shareholders' equity and of cash flow, and other financial data (other than projections) which have been or shall hereafter be furnished by the Issuer to the Collateral Agent and the Rating Agencies pursuant to Section 3.05(c) have been and will be prepared in accordance with GAAP (to the extent applicable) and do and will present fairly the financial condition of the entities involved as of the dates thereof and the results of their operations for the periods covered thereby, subject, in the case of all unaudited statements, to normal year-end adjustments and lack of footnotes and presentation items.

(e) Litigation. No litigation is pending or, to the Issuer's knowledge, threatened against the Issuer which would prohibit its entering into this Security Agreement or any other Program Document or performing its obligations under this Security Agreement or any other Program Document.

(f) Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Pension Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code with respect to each Pension Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Pension Plan, (ii) failed to make any contribution or payment to any Pension Plan or Multiemployer Plan, or made any amendment to any Pension Plan, which in any such case has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(g) Tax Filings and Expenses. The Issuer has filed all federal, state and local tax returns and all other tax returns which, to the knowledge of the Issuer, are required to be filed (whether informational returns or not), and has paid all taxes due, if any, pursuant to said returns or pursuant to any assessment received by the Issuer, except such taxes, if any, as are being contested in good faith and for which adequate reserves have been set aside on its books. The Issuer has paid all fees and expenses required to be paid by it in connection with the conduct of the transactions contemplated by the Program Documents, the maintenance of its existence and its qualification as a foreign statutory trust authorized to do business in each state in which it is required to so qualify, except where the failure to pay any such fees and expenses is not reasonably likely to have a Material Adverse Effect.

(h) Full Disclosure. All certificates, reports, statements, documents and other information furnished to the Collateral Agent by or on behalf of the Issuer pursuant to any provision of this Security Agreement or any other Program Document, or in connection with or pursuant to any amendment or modification of, or waiver under, this Security Agreement or any Program Document, shall, at the time the same are so furnished, be complete and correct to the extent necessary to give the Collateral Agent true and accurate knowledge of the subject matter thereof in all material respects, and the furnishing of the same to the Collateral Agent shall constitute a representation and warranty by the Issuer made on the date the same are furnished to the Collateral Agent to the effect specified herein.

(i) Investment Company Act; Trust Indenture Act; Securities Act. The Issuer is not, and is not controlled by, an "investment company" within the meaning of, and is not required to register as an "investment company" under, the Investment Company Act. It is not necessary in connection with the offer, issuance and sale of the Senior Notes under the circumstances contemplated in this Security Agreement to register any security under the Securities Act or to qualify any indenture under the Trust Indenture Act.

(j) Regulations T, U and X. The proceeds of the Senior Notes will not be used to purchase or carry any "margin stock" (as defined or used in the regulations of the Board of Governors of the Federal Reserve System, including Regulations T, U and X thereof). The Issuer is not engaged in the business of extending credit for the purpose of purchasing or carrying any margin stock.

(k) No Consent. No consent, action by or in respect of, approval or other authorization of, or registration, declaration or filing with, any Governmental Authority or other Person is required for the valid execution and delivery of this Security Agreement or for the performance of any of the Issuer's obligations hereunder or under any other Program Document other than such consents, approvals, authorizations, registrations, declarations or filings as shall have been obtained by the Issuer prior to the date hereof or as contemplated in Section 3.01(n).

(l) Solvency. Both before and after giving effect to the transactions contemplated by this Security Agreement and the other Program Documents, the Issuer is solvent within the meaning of the Bankruptcy Code and the Issuer is not the subject of any voluntary or involuntary case or proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy or insolvency law and no Event of Bankruptcy has occurred with respect to the Issuer.

(m) Subsidiary. The Issuer has no subsidiaries and owns no capital stock of, or other interest in, any other Person, and during the term of this Security Agreement, the Issuer shall not acquire or otherwise come to have one or more subsidiaries without the prior consent of the Collateral Agent (on behalf of the Holders of the Senior Notes).

(n) Security Interests.

(i) All action necessary (including the filing of UCC-1 financing statements for the Collateral Agent's Lien for the benefit of the Secured Parties) to protect and perfect the Collateral Agent's security interest in the Collateral now in existence and hereafter acquired or created hereby has been duly and effectively taken.

(ii) No security agreement, financing statement, equivalent security or lien instrument or continuation statement listing the Issuer as debtor covering all or any part of the Collateral is on file or of record in any jurisdiction, except such as may have been filed, recorded or made by the Issuer in favor of the Collateral Agent on behalf of the Secured Parties in connection with this Security Agreement.

(iii) This Security Agreement creates a valid and continuing Lien on the Collateral in favor of the Collateral Agent on behalf of the Secured Parties, which Lien is prior to all other Liens (other than Permitted Liens and as otherwise permitted in this

Security Agreement), and is enforceable as such against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. All action necessary to perfect such prior security interest has been duly taken.

(iv) The Issuer's principal place of business and chief executive office shall be at: c/o U.S. Bank Trust National Association, as Owner Trustee, 300 Delaware Avenue, 8th Floor, Wilmington, Delaware 19801, and the place where its records concerning the Collateral are kept is at: c/o Accredited Home Lenders, Inc., 15090 Avenue of Science, San Diego, California 92128. The Issuer's "location" within the meaning of the Uniform Commercial Code is and at all times has been the State of Delaware. The Issuer does not transact, and has not transacted, business under any other name.

(v) All authorizations in this Security Agreement for the Collateral Agent to endorse checks, instruments and securities and to execute, deliver and file financing statements, continuation statements, security agreements and other instruments with respect to the Collateral are powers coupled with an interest and are irrevocable.

(vi) No Prior Names. The exact legal name of the Issuer is, and since its formation has been, the name set forth for it on the signature page hereto.

(vii) Prior Security Agreement. The Issuer is not bound under Section 9-203(d) of the Uniform Commercial Code by a security agreement previously entered into by another person or entity.

(o) Offering Memorandum. No offering memorandum or information circular used by the Issuer in connection with the offer or sale of the Senior Notes contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading.

(p) Non-Existence of Other Agreements. As of the date of the issuance of the first Secured Liquidity Notes, other than as permitted by Section 3.05(w) hereof (i) the Issuer is not a party to any contract or agreement of any kind or nature other than the Program Documents to which it is a party and (ii) the Issuer is not subject to any obligations or liabilities of any kind or nature in favor of any third party, including, without limitation, Contingent Obligations.

(q) Eligible Mortgage Loans. Based upon the representation of the Seller in the Mortgage Loan Purchase and Servicing Agreement, each Mortgage Loan purchased by the Issuer is an Eligible Loan.

(r) Other Representations. All representations and warranties of the Issuer made in each Program Document to which it is a party are true and correct and are repeated herein as though folly set forth herein.

(s) Special Purpose Entity. The Issuer is a special purpose entity formed exclusively to enter into the Program Documents and the transactions contemplated thereby or incident thereto.

(t) Perfection Representations. The Perfection Representations shall be a part of this Security Agreement for all purposes.

Section 3.02 Additional Representations and Warranties of the Issuer. The Issuer represents and warrants to the Collateral Agent and the other Secured Parties that:

(a) (i) At the date of each deposit of Deposited Funds in the Collateral Account, the Issuer was, is or will then be the lawful owner of, and had, has or will then have good title to, such Deposited Funds free and clear of all Liens except the lien and security interest granted pursuant to this Security Agreement in favor of the Collateral Agent; and (ii) the Issuer is and will be the lawful owner of, and has and will have beneficial ownership of, all Collateral, free and clear of all Liens except the lien and security interest granted pursuant to this Security Agreement in favor of the Collateral Agent.

(b) The Issuer will warrant and defend the Collateral Agent's right, title and interest in and to the Collateral for the benefit of the Collateral Agent and the Secured Parties and the income, distributions and proceeds thereof against the claims and demands of all Persons whomsoever.

Section 3.03 Issuer Agents. With the delivery of this Security Agreement, the Issuer is furnishing to the Collateral Agent, and from time to time thereafter may furnish to the Collateral Agent, a certificate (hereinafter called an "Issuer Incumbency Certificate") of an authorized signatory of the Issuer certifying the incumbency and specimen signatures of officers and agents (such officers and agents being hereinafter called the "Issuer Agents") of the Issuer authorized to act, and to give instructions and notices, on behalf of the Issuer hereunder. Until the Collateral Agent receives a subsequent Issuer Incumbency Certificate, or unless a Trust Officer of the Collateral Agent shall have actual knowledge of the lack of authority of any individual, the Collateral Agent shall be entitled to conclusively rely on the last such Issuer Incumbency Certificate delivered to it for purposes of determining the authorized Issuer Agents.

Section 3.04 Representations and Warranties of the Collateral Agent. The Collateral Agent represents and warrants to the Issuer and the Secured Parties as follows as of the date hereof:

(a) Due Organization and Authority. It has been duly organized and is validly existing and in good standing as a banking corporation under the laws of the State of New York and that this Security Agreement has been duly authorized, executed and delivered by it.

(b) Binding Effect. This Security Agreement and each other Program Document to which the Collateral Agent is a party, is a legal, valid and binding obligation of the Collateral Agent enforceable against the Collateral Agent in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity, including

without limitation (i) the possible unavailability of specific performance, injunctive relief or any other equitable remedy, (ii) concepts of materiality, reasonableness, good faith and fair dealing, and (iii) that certain remedial or procedural provisions contained in this Security Agreement may be limited or rendered unenforceable by applicable law.

(c) No Litigation Pending. There are no actions, suits or proceedings pending against or affecting Issuer which may, in any one case or in the aggregate, materially adversely affect the financial condition, operations, properties or business of the Collateral Agent or any such material subsidiary or the ability of the Collateral Agent to perform its obligations under this Security Agreement.

(d) No Consents. Under New York law, no authorization, approval or license or other action by, and no notice to or filing with any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Collateral Agent of this Security Agreement or for the consummation of the transactions contemplated thereby.

(e) No Conflicts. The Collateral Agent is not in default under any agreement or instrument to which it is a party the result of which default would materially and adversely affects its ability to perform its obligations under this Security Agreement.

Section 3.05 Covenants of the Issuer.

(a) Payment of Senior Notes. The Issuer shall pay the principal of and interest on the Senior Notes pursuant to the provisions of this Security Agreement. Principal and interest shall be considered paid on the date due if the Collateral Agent holds on that date money designated for and sufficient to pay all principal and interest then due.

(b) Maintenance of Office or Agency. The Issuer will maintain an office or agency (which may be an office of the Collateral Agent or Depositary) where Senior Notes may be surrendered for registration of transfer or exchange, where notices and demands to or upon the Issuer in respect of the Senior Notes and this Security Agreement may be served, and where, at any time when the Issuer is obligated to make a payment of principal upon the Senior Notes, the Senior Notes may be surrendered for payment. The Issuer will give prompt written notice to the Collateral Agent of the location, and any change in the location, of such office or agency. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Collateral Agent with the address thereof, such presentations and surrenders may be made at the office of the Collateral Agent's agent located at c/o DTC Transfer Services, 55 Water Street, Jeanette Park Entrance, New York, New York 10041.

The Issuer may also from time to time designate one or more other offices or agencies where the Senior Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Issuer will give prompt written notice to the Collateral Agent of any such designation or rescission and of any change in the location of any such other office or agency.

The Issuer hereby designates the office of the Collateral Agent's agent located at c/o DTC Transfer Services, 55 Water Street, Jeanette Park Entrance, New York, New York 10041 as one such office or agency of the Issuer for presentation and surrender.

(c) Information. The Issuer will:

(i) promptly provide the Collateral Agent, the Swap Counterparties and the Rating Agencies with all financial and operational information with respect to the Program Documents or the Issuer as the Collateral Agent may reasonably request; and will promptly provide the Rating Agencies, the Collateral Agent, the Swap Counterparties, the Secured Liquidity Note Dealers, the Indenture Trustee (on behalf of the Holders of the Term Notes) and the Depositary with all statements delivered under the Interest Rate Swaps, the Security Agreement, the Mortgage Loan Purchase and Servicing Agreement and the Term Notes and within 105 days after the end of each Fiscal Year of the Performance Guarantor, the consolidated audited annual financial statements of each of the Performance Guarantor and within 45 days of each quarter end (other than the last quarter of each Fiscal Year) the consolidated unaudited financial statements of the Performance Guarantor (which may be 10-Q reports);

(ii) **[Reserved]**

(iii) **[Reserved]**

(iv) **[Reserved]**

(v) promptly furnish to the Collateral Agent (on behalf of the Holders of the Secured Liquidity Notes and Extended Notes), the Swap Counterparties, the Depositary, the Secured Liquidity Note Dealers and the Indenture Trustee (on behalf of the Holders of the Term Notes) after receipt thereof copies of all written communications received by the Issuer from the Rating Agencies with respect to the Senior Notes;

(vi) promptly upon its knowledge thereof give written notice to the Collateral Agent (on behalf of the Holders of the Secured Liquidity Notes and Extended Notes), the Swap Counterparties, the Depositary, the Secured Liquidity Note Dealers and the Indenture Trustee (on behalf of the Holders of the Term Notes) and the Rating Agencies of the existence of any litigation against the Issuer (other than any non-material individual loan foreclosure action);

(vii) give prompt written notice to the Collateral Agent (on behalf of the Holders of the Secured Liquidity Notes and Extended Notes), the Swap Counterparties, the Rating Agencies, the Secured Liquidity Note Dealers and the Indenture Trustee (on behalf of the Holders of the Term Notes and Subordinated Notes) of any material change to the certificate of trust or Trust Agreement of the Issuer; and

(viii) provide, on or prior to April 30 of each year, to the Collateral Agent and the Swap Counterparties a certificate of the Issuer certifying that the ratings assigned by the Rating Agencies in respect of any outstanding Secured Liquidity Notes and Extended Notes have not been withdrawn or downgraded since the date hereof.

Delivery of such reports, information and documents to the Collateral Agent, the Depositary or the Indenture Trustee under this section is for informational purposes only and the Collateral Agent's, the Depositary or the Indenture Trustee receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants.

(d) Payment of Obligations. The Issuer will pay and discharge in a timely manner in accordance with the terms of the Program Documents, at or before maturity, all of its respective material obligations and liabilities, including, without limitation, tax liabilities and other governmental claims, except where the same may be contested in good faith by appropriate proceedings, and will maintain, in accordance with GAAP, reserves as appropriate for the accrual of any of the same.

(e) Conduct of Business and Maintenance of Existence. The Issuer will maintain its existence as a statutory trust validly existing and in good standing under the laws of the State of Delaware and duly qualified as a foreign trust licensed under the laws of each state in which the failure to so qualify would have a material adverse effect on the business and operations of the Issuer.

(f) Compliance with Laws. The Issuer will comply in all respects with all Requirements of Law and all applicable laws, ordinances, rules, regulations, and requirements of Governmental Authorities (including, without limitation, ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings and where such noncompliance would not materially and adversely affect the condition, financial or otherwise, operations, performance, properties or prospects of the Issuer or its ability to carry out the transactions contemplated in this Security Agreement and each other Program Document; provided, however, such noncompliance will not result in a Lien (other than a Permitted Lien) on any Assets of the Issuer.

(g) Inspection of Property, Books and Records. The Issuer will keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its Assets, business and activities in accordance with GAAP; and will permit the Collateral Agent, the Swap Counterparties and their respective agents or representatives, without charge, to visit and inspect any of its properties, to examine and make abstracts from any of its books and records and to discuss its affairs, finances and accounts with its representatives, employees and independent public accountants, all at such reasonable times upon reasonable notice and as often as may reasonably be requested.

(h) Compliance with Program Documents. The Issuer will perform and comply with each and every obligation, covenant and agreement required to be performed or observed by it in or pursuant to this Security Agreement and each other Program Document to which it is a party and will not take any action which would permit any party to have the right to refuse to perform any of its respective obligations under any Program Document.

(i) Notice of Defaults.

(A) Promptly upon becoming aware of any Potential Event of Default or Event of Default under this Security Agreement (and in no event more than two (2) Business Days thereafter), the Issuer shall give the Collateral Agent, the Swap Counterparties, any Secured Liquidity Note Dealers, the Indenture Trustee (on behalf of the Holders of the Subordinated Notes and the Term Notes), the Depositary and the Rating Agencies written notice thereof, together with a certificate of the Issuer setting forth the details thereof and any action with respect thereto taken or contemplated to be taken by the Issuer.

(B) Promptly upon becoming aware of any default under any Program Document other than this Security Agreement, the Issuer shall give the Collateral Agent, the Secured Liquidity Note Dealers, the Indenture Trustee (on behalf of the Holders of the Term Notes), the Depositary, the Swap Counterparties and the Rating Agencies notice thereof.

(j) Notice of Material Proceedings. Promptly upon becoming aware thereof, the Issuer shall give the Collateral Agent, the Swap Counterparties and the Rating Agencies written notice of the commencement or existence of any proceeding by or before any Governmental Authority against or affecting the Issuer which is reasonably likely to have a material adverse effect on the business, condition (financial or otherwise), results of operations, properties or performance of the Issuer or the ability of the Issuer to perform its obligations under this Security Agreement or under any other Program Document to which it is a party.

(k) Further Requests. The Issuer will promptly furnish to the Depositary, the Collateral Agent, the Swap Counterparties and the Rating Agencies such other information as, and in such form as, the Depositary, the Collateral Agent, any Swap Counterparty or the Rating Agencies may reasonably request in connection with the transactions contemplated hereby.

(l) Further Assurances.

(i) The Issuer shall do such further acts and things, and execute, file and deliver to the Depositary, the Collateral Agent, the Swap Counterparties and the Secured Parties such additional assignments, agreements, powers and instruments, as the Depositary, the Collateral Agent or the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders) reasonably determine to be necessary to carry into effect the purposes of this Security Agreement or the other Program Documents or to better assure and confirm unto the Depositary, the Collateral Agent or the other Secured Parties their rights, powers and remedies hereunder including, without limitation, the filing of any financing or continuation statements under the UCC in effect in any jurisdiction with respect to the liens and security interests granted hereby. The Issuer also hereby acknowledges that the Collateral Agent has the right but not the obligation to file any such financing statement or continuation statement without the signature of the Issuer to the extent permitted by applicable law. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note, chattel paper or other instrument, such note, chattel paper or instrument shall be deemed to be held in trust and immediately pledged and

physically delivered to the Collateral Agent hereunder, and shall, subject to the rights of any Person in whose favor a prior Lien has been perfected, be duly endorsed in a manner satisfactory to the Collateral Agent and delivered to the Collateral Agent promptly. Without limiting the generality of the foregoing provisions of this Section 3.05(1), the Issuer shall take all actions that are required to maintain the security interest of the Collateral Agent on behalf of the Secured Parties in the Collateral pledged pursuant to this Security Agreement as a perfected security interest subject to no prior Liens, including, without limitation, filing all UCC financing statements, continuation statements and amendments thereto necessary to achieve the foregoing.

Notwithstanding anything herein to the contrary, the Collateral Agent shall be under no obligation to file or prepare any financing statement or continuation statement or to take any action or to execute any further documents or instruments in order to create preserve or perfect the security interest granted hereunder, such obligations being solely the obligations of the Issuer.

(ii) The Issuer will warrant and defend the Collateral Agent's right, title and interest in and to the Collateral and the income, distributions and proceeds thereof, for the benefit of the Collateral Agent on behalf of the Secured Parties, against the claims and demands of all Persons whomsoever.

(iii) The Issuer will provide to the Collateral Agent annually on or before April 30 of each calendar year, beginning with calendar year 2006, an Opinion of Counsel to the effect that no UCC financing or continuation statements are required to be filed with respect to any of the Collateral in which a security interest may be perfected by the filing of UCC financing statements.

(m) Certain Documents. The Issuer will not take any action that would permit (i) the Seller, the Servicer or Performance Guarantor to refuse to perform any of their respective obligations under the Program Documents or (ii) the Depositary to refuse to perform its obligations under any Program Documents to which it is a party. The Issuer will not terminate the Secured Liquidity Note Dealer Agreement or the Depositary Agreement before entering into a secured liquidity note dealer agreement or depositary agreement, as the case may be, which is substantially similar to the Secured Liquidity Note Dealer Agreement or the Depositary Agreement, as the case may be.

(n) Liens. The Issuer will not create, incur, assume or permit to exist any Lien upon any of its Assets (including the Collateral), other than (i) Liens in favor of the Collateral Agent for the benefit of the Secured Parties, (ii) Permitted Liens and (iii) liabilities for services supplied or furnished to the Issuer (including reasonable accountants' and attorneys' fees).

(o) Other Indebtedness. The Issuer will not create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness other than (i) Indebtedness hereunder and (ii) Indebtedness permitted under any other Program Document.

(p) Mergers. The Issuer will not merge or consolidate with or into any other Person.

(q) Sales of Assets. The Issuer will not sell, lease, transfer, liquidate or otherwise dispose of any Assets, except as contemplated by the Program Documents.

(r) Capital Expenditures. The Issuer will not make any expenditure (by long-term or operating lease or otherwise) for capital assets (both reality and personality).

(s) Dividends. The Issuer shall not make any distributions to any holders of its securities without the consent of the Swap Counterparties and the Collateral Agent, acting at the written direction of the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders) except as provided under the Program Documents, the Subordinated Notes and the Senior Notes.

(t) Name. The Issuer will neither (a) change the location of its organization (within the meaning of the applicable UCC), (b) change its name, (c) change its identity or jurisdiction of organization nor (d) become bound as debtor under Section 9-203(d) of the UCC by a security agreement previously entered into by another person or entity, in each case, without prior written notice to the Depositary and the Collateral Agent sufficient to allow the Servicer to make all filings (including filings of financing statements on form UCC-1) and recordings necessary to maintain the perfection and priority of the interest of the Collateral Agent on behalf of the Secured Parties in the Collateral pursuant to this Security Agreement. In the event that the Issuer desires to take any action specified in the preceding sentence, the Issuer will make any required filings and prior to actually taking such action, and the Issuer will deliver to the Collateral Agent and the Depositary (i) an Officer's Certificate and an Opinion of Counsel confirming that all required filings have been made to continue the first priority perfected interest of the Collateral Agent on behalf of the Secured Parties in the Collateral in respect of such change and (ii) copies of all such required filings with the filing information duly noted thereon by the office in which such filings were made.

(u) Organizational Documents. The Issuer will not amend any of its organizational documents, including its certificate of trust or Trust Agreement, unless, prior to such amendment, each Rating Agency confirms that after such amendment the Rating Agency Confirmation Condition will be met and the Required Swap Counterparties consent to such amendment; provided, however, that the Issuer may amend its organizational documents, including its certificate of trust or Trust Agreement, without the consent of the Swap Counterparties for one or more of the following purposes: (A) to add to the covenants and agreements pursuant to the organizational documents for the benefit of the Holders of the Senior Notes; (B) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the organizational documents or in any amendment to the organizational documents; or (C) to add such provisions with respect to matters or questions arising under the organizational documents as may be necessary or desirable and not inconsistent with the organizational documents; provided, however, that such action shall not adversely affect in any material respect the interests of any Secured Party; provided, further, that such action will be deemed not to materially and adversely affect the interests of any Secured Party if the party requesting such action receives (1) an Officer's Certificate of the Issuer certifying that such

action will not adversely affect in any material respect the interests of any Secured Party and (2) an Opinion of Counsel to the effect that such action will not adversely affect in any material respect the interests of any Secured Party or Rating Agency Confirmation with respect to such action; provided, finally, that Rating Agency Confirmation shall be required for any material amendment.

(v) Investments. The Issuer will not make, incur, or suffer to exist any loan, advance, guarantee, extension of credit or other investment in any Person other than pursuant to the Program Documents and with respect to Eligible Investments and, in addition, the Issuer will not direct the Collateral Agent to make any Eligible Investments on the Issuer's behalf that would have the effect of causing the Issuer to be an "investment company" within the meaning of the Investment Company Act.

(w) No Other Agreements. The Issuer will not (a) enter into or be a party to any agreement or instrument other than any Program Document, agreements entered into in the ordinary course of its business or, in each case, documents and agreements incidental thereto or (b) except as provided for in Section 10.01, amend, modify or waive any provision of any Program Document to which it is a party, or (c) give any approval or consent or permission provided for in any Program Document, except as permitted in Article 10.

(x) Other Business. The Issuer will not engage in any business or enterprise or enter into any transaction other than (i) as contemplated by the Program Documents or (ii) activities related to or incidental to any of the foregoing.

(y) Secured Liquidity Notes. The Issuer shall not issue Secured Liquidity Notes bearing interest (or at a discount) in excess of a commercially reasonable rate to the Company or any Affiliate of the Company or any trust or other entity to which the Company or any Affiliate of the Company is a depositor or servicer.

(z) Rule 144A Information Requirement. For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, make available to any Holder of Notes in connection with any sale thereof and any prospective purchaser of Notes from such Holder of Notes in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

(aa) Use of Proceeds of Notes. The Issuer shall use the proceeds of Notes solely for one or more of the following purposes: (a) to pay the Issuer's Obligations when due, in accordance with this Security Agreement; (b) to acquire Eligible Loans from the Seller; and (c) to make required deposits to the Reserve Fund.

(bb) Program Document Information. The Issuer shall, or shall cause the Seller or Servicer to, provide the Collateral Agent with copies of all reports, notices, statements and certificates delivered under the Program Documents, and any other information that the Collateral Agent shall reasonably request. Delivery of such reports, notices, information and documents to the Collateral Agent under this section is for informational purposes only and the

Collateral Agent's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants.

(cc) Non-Petition Agreement. The Issuer shall not enter into any Program Document or any other document incidental or related to any Program Document, unless each other party to such document covenants and agrees that it shall not, prior to the date which is one year and one day (or if longer, the applicable preference period then in effect) after the payment in full of the latest maturing Note, acquiesce, petition or otherwise, directly or indirectly, invoke or cause the Issuer to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer.

ARTICLE IV

SECURED LIQUIDITY NOTES

Section 4.01 Conditions to Effectiveness. The ability of the Issuer to issue Secured Liquidity Notes shall commence on the day (the "Effective Date") which is the later of the Closing Date and the first day on which all of the following conditions have been satisfied (or waived in accordance with this Security Agreement) as evidenced by the delivery of an Officer's Certificate of the Issuer as set forth in clause (1) below:

(a) Depositary Agreement. The Issuer and the Depositary shall have executed and delivered the Depositary Agreement, which shall be in full force and effect, and the Collateral Agent shall have received a photocopy of a fully executed counterpart thereof.

(b) Mortgage Loan Purchase and Servicing Agreement. The Seller and the Issuer shall have executed and delivered the Mortgage Loan Purchase and Servicing Agreement, which shall be in full force and effect, and the Collateral Agent shall have received a photocopy of a fully executed counterpart thereof.

(c) The Performance Guarantee. Accredited Home Lending Holding Co. shall have executed and delivered the Performance Guarantee, which shall be in full force and effect, and the Collateral Agent shall have received a photocopy of the fully executed original thereof.

(d) Indenture and Subordinated Note Purchase Agreement. The Issuer and the Indenture Trustee shall have executed and delivered the Indenture, and the Collateral Agent shall have received a photocopy of a fully executed copy thereof, which shall be in full force and effect. The Issuer and the Initial Purchaser of the Subordinated Notes shall have executed and delivered the Subordinated Note Purchase Agreement, and the Collateral Agent shall have received a fully executed copy thereof, which shall be in full force and effect, and the closing thereunder shall have occurred (including the purchase of the Subordinated Notes by such purchaser). A photocopy of each closing document delivered to the Issuer under Section 6 and

the Subordinated Note Purchase Agreement shall have been delivered to the Collateral Agent. The Subordinated Notes shall have been issued in an aggregate Principal Amount of not less than the Required Enhancement Amount.

(e) Trust Agreement. The Company, the Owner Trustee and the Administrator shall have executed and delivered the Trust Agreement, which shall be in full force and effect, and the Collateral Agent shall have received a photocopy of the fully executed copy thereof.

(f) Security Agreement. The Issuer and the Collateral Agent shall have executed and delivered this Security Agreement, which shall be in full force and effect, and the Collateral Agent shall have received a photocopy of the fully executed counterpart thereof.

(g) Custodial Agreement. The Issuer, the Seller, the Collateral Agent and the Custodian shall have executed and delivered the Custodial Agreement, which shall be in full force and effect, and the Collateral Agent shall have received a fully executed counterpart thereof.

(h) Secured Liquidity Note Dealer Agreement. The Issuer and the Secured Liquidity Note Dealers shall have executed and delivered the Secured Liquidity Note Dealer Agreement in respect of the Secured Liquidity Notes, which shall be in full force and effect, and the Collateral Agent shall have received a fully executed counterpart thereof.

(i) No Event of Default. No Event of Default shall have occurred and be continuing on the Effective Date nor will any Event of Default result from the consummation of the initial issuance of Secured Liquidity Notes on such date.

(j) Representations and Warranties. All representations and warranties of (i) the Issuer contained in this Security Agreement and in the other Program Documents or in any document, certificate or financial or other statement delivered in connection herewith or therewith, (ii) the Servicer contained in the Servicer Documents, (iii) the Seller contained in the Seller Documents and (iv) the Company contained in the Trust Agreement shall, in each case, be true and correct in all material respects and with the same force and effect as though such representations and warranties had been made as of the Effective Date.

(k) Opinions of Counsel. The Collateral Agent shall have received signed opinions, addressed to the Collateral Agent from (i) Dewey Ballantine LLP, special counsel to the Seller, the Company, the Performance Guarantor and the Issuer, with respect to true sale and non-consolidation matters, corporate and securities law matters, federal tax law matters and priority and perfection matters, (ii) in-house counsel to the Seller, the Servicer and the Company with respect to certain corporate matters, (iii) special Delaware counsel to the Issuer with respect to matters relating to the Issuer, (iv) counsel to the Owner Trustee with respect to issues relating to the Owner Trustee and (v) counsel to the Indenture Trustee, Collateral Agent and Depositary with respect to issues relating to the Indenture Trustee, Collateral Agent and Depositary and (vi) an opinion of counsel for each Swap Counterparty (which may be opinions of in-house counsel for such Swap Counterparty), in each case, in form and substance reasonably satisfactory to the Collateral Agent, delivered with such changes (if any) therein as shall be acceptable to the

Collateral Agent and counsel to the Collateral Agent, as to such matters as the Collateral Agent may reasonably request. The Collateral Agent shall have also received a copy, addressed to the Collateral Agent or if not addressed to the Collateral Agent, then the Collateral Agent shall have received a letter stating that the Collateral Agent shall be entitled to rely thereon, of each opinion delivered to the Rating Agencies in connection with the rating of the Secured Liquidity Notes.

(l) Closing Certificates. The Collateral Agent shall have received a certificate substantially in the form of Exhibit A dated the date hereof and executed by the president, any vice president, secretary, treasurer, assistant secretary or any assistant treasurer (or a Person with a delegation of authority from any such officer) of (i) the Servicer stating that all of the conditions specified in Section 4.01(j) with respect to the Servicer are then satisfied, (ii) the Administrator, on behalf the Issuer, stating that the conditions with respect to the Issuer specified of Section 4.01(j) and all of the other conditions specified in Section 4.01 are then satisfied, (iii) the Seller stating that the conditions with respect to the Seller specified in Section 4.01(j) are then satisfied, (iv) the Company stating that the conditions with respect to the Company specified in Section 4.01(j) are then satisfied and (v) the Performance Guarantor stating that the conditions with respect to the Company specified in Section 4.01(j) are then satisfied.

(m) Filings, etc. All filings (including, without limitation, pursuant to the UCC) and recordings shall have been accomplished with respect to this Security Agreement in such jurisdictions as may be required by law to establish, perfect, protect and preserve the rights, titles, interests, remedies, powers, privileges, first priority liens and security interests of the Collateral Agent in the Collateral covered by this Security Agreement and any giving of notice or the taking of any other action to such end (whether similar or dissimilar) required by law shall have been given or taken (it being understood that no filings of Assignments of Mortgages relating to the Mortgage Loans purchased by the Issuer will generally be required). On or prior to the Effective Date, the Collateral Agent shall have received satisfactory evidence as to any such filing, recording, registration, giving of notice or other action so taken or made.

(n) Organizational Documents. The Collateral Agent shall have received copies of the organizational documents (certified by the appropriate authorities) of the Issuer, the Company and the Performance Guarantor, Board of Directors resolutions or similar authorizing resolutions of the Issuer and the Seller in respect of the Program Documents and the Mortgage Loan Purchase and Servicing Agreement, as applicable, and incumbency certificates of the Issuer, the Company and the Performance Guarantor.

(o) Accounts. The Collateral Account, the Collection Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, the Allocated Expenses Account and the Reserve Accounts shall have been established.

(p) Accounting Letter. The Issuer shall have received a letter from a big-four accounting firm as to the accuracy of the information reviewed by them in connection with any offering documents prepared in connection with the offering and sale of the Secured Liquidity Notes.

(q) Secured Liquidity Notes Ratings. The Secured Liquidity Notes shall have been rated A-1+ by S&P and P-1 by Moody's and the Issuer shall have received a copy of each letter evidencing any such rating and such ratings shall continue in full force and effect on the Effective Date.

(r) Fees. The due and payable fees and expenses of the Depositary, the Indenture Trustee, the Owner Trustee, the Custodian, the Swap Counterparties, the Secured Liquidity Note Dealers and the Collateral Agent, and the fees and expenses of their counsel, shall have been paid on or prior to the Effective Date.

(s) [Reserved]

(t) Interest Rate Swaps. The Issuer and the Swap Counterparties shall have executed and delivered the Interest Rate Swaps, which shall be in full force and effect, and the Collateral Agent shall have received a fully executed counterpart thereof. No Additional Termination Event (as defined in the applicable Interest Rate Swaps) shall have occurred and be continuing.

(u) Reserve Fund. The Collateral Agent shall have received evidence that the Reserve Fund has been established and funded in an amount equal to the Initial Required Reserve Fund Amount.

(v) Other Instruments and Documents. The Collateral Agent shall have received such other instruments and documents as the Collateral Agent may have reasonably requested, and all instruments and documents delivered pursuant to this Section 4.01 shall be reasonably satisfactory in form and substance to the Collateral Agent.

Section 4.02 Issuance of Secured Liquidity Notes. The issuance and payment provisions of the Secured Liquidity Notes, to the extent not covered in this Security Agreement, will be as set forth in the Depositary Agreement.

(a) The Issuer shall have the right to issue or deliver Classes of Secured Liquidity Notes from time to time on and after the Effective Date, unless (i) any condition precedent specified in Section 4.03 with respect to the issuance of Classes of Secured Liquidity Notes has not been satisfied or waived or (ii) the issuance of Classes of Secured Liquidity Notes is prohibited by the provisions of Section 4.02(d) hereof. If any of he events described in clauses (i) and (ii) of the immediately preceding sentence has occurred, then the Issuer shall not direct the Collateral Agent or Depositary to issue or deliver Classes of Secured Liquidity Notes.

(b) The Issuer agrees that each note constituting Secured Liquidity Notes shall (i) be in the form attached to the Depositary Agreement and be completed in accordance with this Security Agreement and the Depositary Agreement, (ii) be dated the date of issuance thereof, (iii) be made payable to the order of a named payee or bearer, (iv) be in a face amount (if issued on a discount basis) or a principal amount (if issued on an interest-bearing basis) of $200,000 or an integral multiple of $1,000 in excess thereof and (v) be exempt from or sold in a transaction exempt from the registration requirements of the Securities Act. Subject to the provisions of the Depositary Agreement, all Secured Liquidity Notes shall be delivered and issued against payment therefor in collected funds which are immediately available on the date of issuance, and

otherwise in accordance with the terms of this Security Agreement and the Depositary Agreement. The Secured Liquidity Notes and Extended Notes may be resold only in accordance with the Depositary Agreement.

(c) In the event that (i) an injunction suspending the issuance of Secured Liquidity Notes shall have been issued or proceedings therefor shall have been initiated by the Securities and Exchange Commission, (ii) the Issuer or any other Person shall have been found in a judicial or administrative proceeding to have violated the Securities Act in connection with the issuance of the Secured Liquidity Notes, or (iii) the Issuer shall have filed a registration statement with the Securities and Exchange Commission seeking to register the Secured Liquidity Notes under the Securities Act, then, in any such event, the Issuer shall not thereafter issue or sell any Secured Liquidity Notes. The Issuer shall give the Collateral Agent, the Depositary, the Secured Liquidity Note Dealers and the Rating Agencies written notice of any of the events described in this Section 4.02(c).

Section 4.03 Conditions Precedent to Issuance of Secured Liquidity Notes. The right of the Issuer to issue Secured Liquidity Notes is subject to the conditions that at the time of each such issuance and after giving effect thereto:

(a) Ratings. The Secured Liquidity Notes shall be rated A-l+ by S&P and P-l by Moody's.

(b) No Event of Default. No event of default under any Program Document and no Event of Default shall have occurred and be continuing and the Issuer shall have made a determination that no event of default under any Program Document and no Event of Default will result from the issuance of such Secured Liquidity Notes.

(c) Representations and Warranties. All representations and warranties of the Issuer contained in this Security Agreement and in the other Program Documents or in any document, certificate or financial or other statement delivered in connection herewith or therewith shall be true and correct in all material respects with the same force and effect as though such representations and warranties had been made on and as of the day of such issuance.

(d) Accounts. The Reserve Accounts, the Collateral Account, the Collection Account, the Extended Notes Distribution Account and the Secured Liquidity Note Account, and any funds on deposit in, or otherwise to the credit of, the Reserve Accounts, the Collateral Account, the Collection Account, the Extended Notes Distribution Account and the Secured Liquidity Note Account shall not be subject to any writ, order, stay, judgment, warrant of attachment or execution or similar process.

(e) Borrowing Base. After giving effect to such issuance of Secured Liquidity Notes on such day, the payment of Secured Liquidity Notes maturing or matured on such day, the payment of outstanding Extended Notes on such day, the issuance of Term Notes on such day, the payment of outstanding Term Notes maturing or matured on such day, the issuance of Subordinated Notes on such day, the payment of outstanding Subordinated Notes maturing or matured on such day, the purchase of additional Mortgage Loans on such day and the sale or Financing of any Mortgage Loans on such day, (i) the sum of (A) the Credits Outstanding on

such day, (B) the aggregate Principal Amount of Term Notes outstanding on such day, and (C) the Principal Amount of all Series of Subordinated Notes including the aggregate amount, if any, of Principal Amount Charge-Offs which have not been reinstated as of such date, divided by (ii) the sum of (A) the excess of the Outstanding Purchase Price of Mortgage Loans over the Outstanding Purchase Price of any Defaulted Loans owned by the Issuer on such day, (B) the Capitalized Interest Component on such day, and (C) any cash and Eligible Investments in the Collateral Account held by the Issuer on such day (to the extent not included in the definition of Credits Outstanding) (the "Borrowing Base") shall be less than or equal to 1.

(f) Downgrade. No downgrade, qualification or withdrawal of the long-term unsecured debt rating of any Swap Counterparty below AA- by S&P or Aa3 by Moody's, or of its short-term unsecured debt rating below A-1+ by S&P or P-l by Moody's shall have occurred and be continuing unless the Rating Agency Confirmation Condition is satisfied with respect to the Secured Liquidity Notes.

(g) Mortgage Loans Purchased. The aggregate amount of all Mortgage Loans purchased and held by the Issuer at any given time does not, and will not, exceed the maximum amount set forth in the Mortgage Loan Purchase and Servicing Agreement.

(h) Mortgage Loans Sold. The Mortgage Loans shall comply with the Eligibility Criteria, the Portfolio Aging Limitations, the Portfolio Criteria and the Wet Funded Loan Limitation.

(i) Secured Liquidity Note Maturity. Each Secured Liquidity Note has an Expected Maturity that is not more than 180 calendar days after its issuance date and a Final Maturity that is 120 calendar days after the Expected Maturity of the related Secured Liquidity Note.

(j) No Extended Notes. No Extended Notes are outstanding unless after giving effect to such new issuance of Secured Liquidity Notes sufficient funds will be available to My repay (x) all outstanding Extended Notes and (y) all Secured Liquidity Notes maturing on such date.

(k) Early Accumulation Event. No Early Accumulation Event has occurred and is continuing.

(l) Program Size. After giving effect to the issuance of Secured Liquidity Notes on such day, the payment of outstanding Secured Liquidity Notes having an Expected Maturity on such day, the payment of outstanding Extended Notes on such day, the issuance of Term Notes on such day, the payment of outstanding Term Notes maturing or matured on such day, the issuance of Subordinated Notes on such day, the payment of outstanding Subordinated Notes on such day and the purchase of additional Mortgage Loans on such day, the Credits Outstanding on such day plus the aggregate Outstanding Principal Amount of the Term Notes plus the aggregate Outstanding Principal Amount of the Subordinated Notes on such day shall not exceed the Program Size.

The Issuer hereby agrees that each issuance of Secured Liquidity Notes constitutes a representation and warranty by the Issuer that the conditions specified above are then satisfied and will be satisfied immediately after giving effect thereto.

Section 4.04 Conversion to Extended Notes. (a) Upon the failure of any Class of Secured Liquidity Notes to be folly paid on its Expected Maturity, without any notice or other further action by any Person, the Issuer shall be deemed to have advised the Depositary that such Class of Secured Liquidity Notes has been converted, as of such Expected Maturity, to a Class of Extended Notes.

(b) Upon any such conversion with respect to any Class of Secured Liquidity Notes, the Issuer shall notify the Depositary of such conversion to a Class of Extended Notes. The initial aggregate principal amount of each Class of Extended Notes deemed issued upon conversion of the related Class of Secured Liquidity Notes shall be equal to the aggregate face amount of such Class of Secured Liquidity Notes (or, in the case of Secured Liquidity Notes issued on an interest bearing basis, the aggregate principal and accrued interest of such Class of Secured Liquidity Notes). The Issuer shall provide written notice to the Rating Agencies of any conversion of a Class of Secured Liquidity Notes to a Class of Extended Notes.

Section 4.05 Proceeds. The proceeds of Secured Liquidity Notes shall be used by the Issuer only to (i) acquire Mortgage Loans, (ii) make required deposits to the Reserve Fund, (iii) pay matured and maturing Secured Liquidity Notes and Term Notes, including interest and/or discount thereon and (iv) pay outstanding Extended Notes, including interest thereon, in each case, in accordance with the terms of the Program Documents.

Section 4.06 Calculation of Extended Note Interest. (a) For purposes of calculating the Extended Note Rate for each Class of Extended Notes, the Issuer hereby appoints the Collateral Agent as the Extended Note Calculation Agent. The Extended Note Calculation Agent may be removed by the Issuer at any time. If the Extended Note Calculation Agent is unable or unwilling to act as such or is removed by the Issuer, or if the Extended Note Calculation Agent fails to determine the Extended Note Rate for each Class of Extended Notes and the Aggregate Extended Note Monthly Interest for any Interest Period, the Issuer will promptly appoint as a replacement Extended Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market. The Extended Note Calculation Agent may not resign its duties without a successor having been duly appointed by the Issuer.

(b) LIBOR shall be determined by the Extended Note Calculation Agent in accordance with the following provisions:

(i) On the second London Business Day prior to the commencement of the applicable Interest Period (or, in the case of the initial Interest Period, on the related Expected Maturity) (each such day, a "LIBOR Determination Date"), "LIBOR" shall equal the rate, as obtained by the Extended Note Calculation Agent, for one-month Eurodollar deposits which appears on Telerate Page 3750 (as defined in the International Swaps and Derivatives Association, Inc. 2000 Interest Rate and Currency Exchange

Definitions) or such other page as may replace Telerate Page 3750, as it relates to U.S. dollars, as of 11:00 a.m. (London time) on such LIBOR Determination Date.

(ii) If, on any LIBOR Determination Date, such rate does not appear on Telerate Page 3750, the Extended Note Calculation Agent shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for one-month Eurodollar deposits in an amount determined by the Extended Note Calculation Agent by reference to requests for quotations as of approximately 11:00 a.m. (London time) on the LIBOR Determination Date made by the Extended Note Calculation Agent to the Reference Banks. If, on any LIBOR Determination Date, at least two of the Reference Banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations. If, on any LIBOR Determination Date, only one or none of the Reference Banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in The City of New York selected by the Extended Note Calculation Agent are quoting on the relevant LIBOR Determination Date for one-month Eurodollar deposits in an amount determined by the Extended Note Calculation Agent by reference to the principal London offices of leading banks in the London interbank market; provided, however, that if the Extended Note Calculation Agent is required but is unable to determine a rate in accordance with at least one of the procedures provided above, "LIBOR" shall be LIBOR as determined on the previous LIBOR Determination Date. As used herein, "Reference Banks" means four major banks in the London interbank market selected by the Extended Note Calculation Agent.

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. (London time) on the London Business Day immediately following each LIBOR Determination Date, the Extended Note Calculation Agent will cause the Extended Note Rate for the next Interest Period and the applicable Aggregate Extended Note Monthly Interest for such Interest Period payable in respect of the Extended Notes on the related Distribution Date to be given to the Issuer, the Depositary and any paying agent. The Extended Note Calculation Agent will also specify to the Issuer and the Depositary the quotations upon which the Extended Note Rate is based, and in any event the Extended Note Calculation Agent shall notify the Issuer before 5:00 p.m. (London time) on each LIBOR Determination Date that either: (i) it has determined or is in the process of determining the Extended Note Rate and the applicable Aggregate Extended Note Monthly Interest or (ii) it has not determined and is not in the process of determining the Extended Note Rate and the applicable Aggregate Extended Note Monthly Interest, together with its reasons therefor. For the sole purpose of calculating the Extended Note Rate, "London Business Day" shall be any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

Section 4.07 Payment of Secured Liquidity Note and Extended Note Interest. (a) The discount representing interest or the accrued interest, as applicable, on each Secured Liquidity Note will be payable pursuant to the terms of Section 6(a) of the Depositary Agreement on the related Expected Maturity or redemption date (if such Secured Liquidity Note is redeemed prior to such Expected Maturity in accordance with Section 7.02 hereof) with funds provided therefor pursuant to Section 6.03(a)(iii), Section 6.03(b)(iii) and 7.02(b) of this Security Agreement; provided, however, that if such funds are insufficient to repay the face amount or the

aggregate accrued interest and unpaid principal, as applicable, of all outstanding Secured Liquidity Notes having an Expected Maturity on such date, then no interest will be paid in respect of such Secured Liquidity Notes on such date and such Secured Liquidity Notes shall thereupon be converted into Extended Notes pursuant to Section 4.04 hereof; provided, further, that Secured Liquidity Notes may only be paid if no Extended Notes would be outstanding after giving effect to all payments made on such date.

(b) (i) With respect to the payment of interest on each Class of the Extended Notes, on each Distribution Date commencing with the second Distribution Date following the Expected Maturity of such Class of Extended Notes, the Collateral Agent, in accordance with the calculation that it made on the related LIBOR Determination Date based upon the Servicer Report, shall withdraw the amounts required to be withdrawn from the Collateral Account and deposit such amounts in the Extended Notes Distribution Account, maintained with the Depositary, pursuant to this Section 4.07 in respect of all funds available for such Interest Period and allocated to the Holders of the Extended Notes pursuant to Section 6.03(b) of this Security Agreement.

(ii) On each LIBOR Determination Date, the Collateral Agent shall notify the Depositary and the Servicer in writing as to the amount to be withdrawn and paid pursuant to this Section 4.07 from the Collateral Account to the extent funds are anticipated to be available and allocable to the Extended Notes in respect of (x) first, an amount equal to Extended Note Monthly Interest for the related Interest Period and (y) second, an amount equal to the amount of any unpaid Extended Note Interest Shortfall as of the preceding Distribution Date (together with any accrued interest on such Extended Note Interest Shortfall). If the amounts described in this Section 4.07 are not sufficient to pay Extended Note Monthly Interest on any Distribution Date, payments of interest to the Holders of Extended Notes will be reduced on a pro rata basis by the amount of such deficiency, The aggregate amount, if any, of such deficiency on any Distribution Date shall be referred to as the "Extended Note Interest Shortfall." Interest shall accrue on the Extended Note Interest Shortfall at the Extended Note Rate. On each Distribution Date, the Collateral Agent shall withdraw the amounts described in this Section 4.07 from the Collateral Account and deposit such amounts in the Extended Notes Distribution Account.

Section 4.08 Payment of Secured Liquidity Note and Extended Note Principal. (a) The principal in respect of each Secured Liquidity Note will be payable pursuant to Section 6(a) of the Depositary Agreement on the related Expected Maturity or redemption date (if such Secured Liquidity Note is redeemed prior to such Expected Maturity in accordance with Section 7.02 hereof) with funds provided therefor pursuant to Section 6.03(a)(iii) or Section 6.03(b)(iii) of this Security Agreement; provided, however, that if such funds provided under such sections are insufficient to repay the face amount or the aggregate accrued interest and unpaid principal, as applicable, of all outstanding Secured Liquidity Notes having the same Expected Maturity on such date, then no principal will be paid in respect of such Secured Liquidity Notes on such date and such Secured Liquidity Notes shall thereupon be converted into Extended Notes pursuant to Section 4.04 hereof; provided, further, that Secured Liquidity Notes may only be paid if no Extended Notes would be outstanding after giving effect to all payments made on such date.

(b) The principal in respect of any Extended Note (x) may be paid in whole, but not in part, on any day (upon at least five Business Days written notice to DTC, the Depositary and the Collateral Agent, if such day is not a Payment Date) at the option of the Issuer to the extent of available principal payments on the Mortgage Loans, sale proceeds in respect of the Mortgage Loans, payments to the Issuer under the Interest Rate Swaps in respect of the Terminated Loans and proceeds from the issuance of new Classes of Notes, provided that after giving effect to all payments made on such date no outstanding Class of Extended Notes has the same or an earlier Final Maturity and (y) unless earlier redeemed, will be repaid in full on the Final Maturity of such Extended Note. With respect to each Class of Extended Notes, on the applicable principal payment date, in accordance with a certificate or other statement based upon the related report generated by the Servicer, the Collateral Agent shall withdraw the amount set forth therein as principal payable in respect of the applicable Class of Extended Notes from the Collateral Account and deposit such amount in the Extended Notes Distribution Account maintained with the Depositary, to be paid to the Holders of the applicable Class of Extended Notes on such date. On the Determination Date prior to the related Final Maturity, the Collateral Agent shall notify the Servicer in writing as to the amount of remaining principal outstanding in respect of the applicable Class of Extended Notes. On each Final Maturity, in accordance with the related Servicer Report, the Collateral Agent shall withdraw such amount of remaining principal in respect of the applicable Class of Extended Notes from the Collateral Account pursuant to Section 6.03(a)(iii) or Section 6.03(b)(iii) of this Security Agreement and deposit such amount in the Extended Notes Distribution Account maintained with the Depositary, to be paid to the Holders of the applicable Class of Extended Notes. The remaining entire principal amount (plus accrued interest thereon) of all Extended Notes of a Class shall be due and payable on the applicable Final Maturity.

Section 4.09 Credit Amount Percentage. The "Credit Amount Percentage" with respect to the Secured Liquidity Notes shall be 3.45%.

Section 4.10 Series Program Size. The "Series Program Size" with respect to the Secured Liquidity Notes initially shall be $960,000,000.00 (as such size may be increased in accordance with the Program Documents). The Issuer may, with notice to the Collateral Agent, increase the Series Program Size with respect to the Secured Liquidity Notes; provided, however, that no increase in the Series Program Size may be made unless after giving effect to such increase (i) the maximum aggregate notional amount of the Interest Rate Swaps shall be at least equal to the Program Size and (ii) the Issuer shall obtain written confirmation from each of the Rating Agencies that such increase shall not cause the reduction or withdrawal of any rating on the Senior Notes or the Subordinated Notes.

Section 4.11 Servicer Report Review. The Collateral Agent shall review each Servicer Report delivered to it by the Servicer and verify the calculations set forth in each Servicer Report. If such Servicer Report indicates that an Event of Default or Termination Event has occurred (it being understood that the Collateral Agent shall not be obligated to verify any of the information set forth therein), the Collatcral Agent Shall take the actions set forth in clauses (w) through (z) of the first sentence of Section 7.02(a) in the case of an Event of Default or instruct the Issuer to notify the Seller that the Issuer's commitment to purchase Mortgage Loans is terminated in accordance with Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, as applicable, unless the Required Senior Noteholders or Required Subordinated

Noteholders, as applicable (i) shall have instructed the Collateral Agent to take such actions or (ii) shall have waived such Event of Default, in each case within ten (10) days of the days of the delivery of such Servicer Report.

ARTICLE V

ASSIGNMENT

Section 5.01 Assignment. In order to secure and to provide for the repayment of the Obligations, each of the Issuer and the Owner Trustee hereby assigns, conveys, transfers, delivers and sets over unto the Collateral Agent for the benefit of the Secured Parties and hereby grants to the Collateral Agent for the benefit of each Secured Party a security interest in, control over, and lien on all of the following, including, without limitation, all accounts, money, chattel paper, securities, investment property, instruments, documents, deposit accounts, certificates of deposit, letters of credit, advices of credit, banker's acceptances, uncertificated securities, general intangibles, contract rights, goods and other property consisting of, arising from or relating to the following (all of the following indicated in clauses (i) through (v) being referred to as the "Collateral"):

(i) all right, title and interest of the Issuer in, to and under the Mortgage Loans (including the contents of the Mortgage Loan Files) purchased by the Issuer from time to time pursuant to the Mortgage Loan Purchase and Servicing Agreement, including without limitation, all monies due and to become due to the Issuer under or in connection with such Mortgage Loans, all dividends, earnings, income, rents, issues, profits or other distributions of cash or other property in respect of such Mortgage Loans and all rights, remedies, powers, privileges and claims of the Issuer, as holder of such Mortgage Loans, against (x) the Seller under or with respect to the Mortgage Loan Purchase and Servicing Agreement (whether arising pursuant to the terms of the Mortgage Loan Purchase and Servicing Agreement or otherwise available to the Issuer at law or in equity) and (y) the Servicer under or with respect to the Mortgage Loan Purchase and Servicing Agreement (whether arising pursuant to the terms of the Mortgage Loan Purchase and Servicing Agreement or otherwise available to the Issuer at law or in equity), including, without limitation, the rights of the Issuer to enforce the Mortgage Loan Purchase and Servicing Agreement and the respective obligations of the Seller and the Servicer thereunder and to give or withhold any and all consents, requests, notices, directions, approvals, extensions or waivers under or with respect to the Mortgage Loan Purchase and Servicing Agreement or the respective obligations of the Seller and the Servicer thereunder to the same extent as the Issuer could but for the assignment and security interest granted to the Collateral Agent in this Section 5.01;

(ii) all right, title and interest of the Issuer in, to and under the Program Documents, including, without limitation, all monies due and to become due to the Issuer thereunder or in connection therewith, whether payable as fees, expenses, costs, indemnities, insurance recoveries, damages for the breach of any of the Program Documents or otherwise, and all rights, remedies, powers, privileges and claims of the Issuer under or with respect to the Program Documents (whether arising pursuant to the terms of the Program Documents or otherwise available to the Issuer at law or in equity),

including, without limitation, the rights of the Issuer to enforce the Program Documents and to give or withhold any and all consents, requests, notices, directions, approvals, extensions or waivers under or with respect to the Program Documents to the same extent as the Issuer could but for the assignment and security interest granted to the Collateral Agent in this Section 5.01;

(iii) all right, title and interest of the Issuer in and to (x) the Pledged Accounts and all monies on deposit in (including but not limited to the Deposited Funds), or securities, financial assets, investment property or other assets credited to the Pledged Accounts, (y) all Eligible Investments held by the Issuer and (z) all cash held by the Issuer;

(iv) all additional property that may from time to time hereafter be subjected to the grant and pledge hereof by the Issuer or by anyone on its behalf, including the deposit with the Collateral Agent of additional monies by the Issuer; and

(v) all proceeds of any of the foregoing.

Notwithstanding the assignment and security interest so granted to the Collateral Agent, the Issuer shall nevertheless be permitted, subject to the provisions of Sections 5.03 and 5.04 and of Article VII hereof, to give all consents, requests, notices, directions, approvals, extensions or waivers, if any, which are required to be given by the Issuer by the specific terms of the Mortgage Loan Purchase and Servicing Agreement and the other Program Documents and the assignment and security interest so granted to the Collateral Agent shall not relieve the Issuer from the performance of any term, covenant, condition or agreement on the Issuer's part to be performed or observed under or in connection with the Mortgage Loan Purchase and Servicing Agreement and the other Program Documents, or from any liability to the Seller, the Company or the Servicer, or impose any obligation on the Collateral Agent or the Secured Parties to perform or observe any such term, covenant, condition or agreement on the Issuer's part to be so performed or observed or impose any liability on the Collateral Agent or the Secured Parties for any act or omission on the part of the Issuer relative thereto or from any breach of any representation or warranty on the part of the Issuer contained in the Mortgage Loan Purchase and Servicing Agreement or the other Program Documents, or made in connection therewith.

Section 5.02 Application of Collateral. The Issuer hereby acknowledges and agrees that, until this Security Agreement is terminated, all monies and other cash proceeds due and to become due to the Issuer under or in connection with the Collateral shall be paid directly to the Collateral Agent for deposit into the Collateral Account or, as appropriate under the Program Documents, to the Servicer for deposit into the Collection Account and that the Issuer agrees if any such monies or other cash proceeds shall be received by the Issuer, such monies and other cash proceeds will not be commingled by the Issuer with any of its other funds or property, but will be held separate and apart therefrom and shall be held in trust by the Issuer for, and promptly paid over to, the Collateral Agent, Unless and until an Event of Default shall have occurred and be continuing, and provided the Collateral Account or any funds on deposit in, or otherwise to the credit of, the Collateral Account are not then subject to any writ, order, judgment, warrant of attachment, execution or similar process, all monies and other cash proceeds received by the Collateral Agent pursuant to this Article shall be deposited in the

Collateral Account and shall be applied by the Collateral Agent as provided in Section 6.03 hereof. All monies and other cash proceeds held or deposited in the Collateral Account after the occurrence and during the continuance of an Event of Default and all monies and other cash proceeds received by the Collateral Agent pursuant to this Article V while the Collateral Account or any funds on deposit in, or otherwise to the credit of, the Collateral Account are subject to any writ, order, judgment, warrant of attachment, execution or similar process, shall be applied by the Collateral Agent to the payment or repayment in full of all outstanding Obligations, whether or not then due, in the order of priority specified in Section 7.02(b) hereof; provided, however, that any monies or other cash proceeds remaining after the payment or repayment in full of all outstanding Obligations shall be paid to the Swap Counterparties in accordance with the Interest Rate Swaps.

For purposes of determining the application to be made of such monies and other cash proceeds to the Servicer pursuant to clause Ninth of Section 7.02(b) hereof, the Collateral Agent may rely exclusively upon a certificate or other statement (a copy of which shall also be provided to the Issuer) of the Servicer as to the amount then owing to the Servicer. For purposes of determining the application to be made of such monies and other cash proceeds to any Holder of any Secured Liquidity Notes pursuant to clause Fourth of Section 7.02(b) hereof, the Collateral Agent may rely exclusively upon a certificate or other statement (a copy of which shall also be provided to the Issuer) of the Depositary as to the amount then owing to such Holder. For purposes of determining the application to be made of such monies and other cash proceeds to any Holder of any Extended Notes pursuant to clause Fourth of Section 7.02(b) hereof, the Collateral Agent may rely exclusively on a certificate or other statement (a copy of which shall also be provided to the Issuer) of the Depositary as to the amount then owing to such Holder. For purposes of determining the application to be made of such monies and other cash proceeds to any Holder of any Term Notes pursuant to clause Fourth of Section 7.02(b) hereof, the Collateral Agent may rely exclusively upon a certificate or other statement (a copy of which shall also be provided to the Issuer) of the indenture Trustee as to the amount then owing to such Holder. For purposes of determining the application to be made of such monies and other cash proceeds to the Swap Counterparties pursuant to clauses Third and Seventh of Section 7.02(b) hereof, the Collateral Agent may rely exclusively upon a certificate or other statement (a copy of which shall also be provided to the Issuer) of the Servicer, acting as Calculation Agent under the Interest Rate Swaps, as to the amount then owing to the Swap Counterparty. If either such amount exceeds $500,000, the Servicer shall also notify the Swap Counterparties in writing. For purposes of determining the application to be made of such monies and other cash proceeds to the Holders of the Subordinated Notes pursuant to clause Sixth of Section 7.02(b) hereof, the Collateral Agent may rely exclusively on a certificate or other statement (a copy of which shall also be provided to the Issuer) of the Indenture Trustee setting forth all amounts due and owing under the Subordinated Notes. Any application to be made by the Collateral Agent of such monies and other cash proceeds pursuant to clause Second or Fifth of Section 7.02(b) hereof may be made upon the Collateral Agent's, the Indenture Trustee's or the Owner Trustee's certificate or statement delivered to the Issuer setting forth in reasonable detail the nature of the Collateral Agent's, the Indenture Trustee's, the Custodian's or the Owner Trustee's claim and the amount owing to the Collateral Agent, the Indenture Trustee, the Custodian or the Owner Trustee on account thereof.

The Collateral Agent shall not be liable for any application of the monies and other cash proceeds received by the Collateral Agent pursuant to this Article V made in accordance with any certificate or direction delivered pursuant to this Section 5.02; provided, however, that no application of the monies and other cash proceeds received by the Collateral Agent pursuant to this Article V in accordance with any certificate delivered pursuant to this Section 5.02 shall be deemed to restrict or limit the right of the Issuer to contest with the purported obligee its respective liability in respect of the amount set forth in such certificate.

Section 5.03 Performance of Agreements. At the Issuer's own expense, the Issuer agrees (a) to take all such lawful action as the Collateral Agent may reasonably request to compel or secure the performance and observance by (i) the Seller, the Servicer or the Performance Guarantor of its obligations to the Issuer under or in connection with the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee in accordance with the terms thereof, and (ii) any party to any Program Document in accordance with the terms thereof, and (b) to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer (i) under or in connection with the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee and (ii) under or in connection with any Program Document, in every case to the extent and in the manner directed by the Collateral Agent, including, without limitation, the transmission of notices of default on the part of the Seller, the Servicer, the Performance Guarantor or any other party to any Program Document and the institution of legal or administrative actions or proceedings to compel or secure performance by the Seller, the Servicer, the Performance Guarantor or any other party to any Program Document of their respective obligations. Subject to Section 7.02, the Issuer further agrees that it will not, without the prior written consent of the Collateral Agent (acting at the written direction of the Holders of the Senior Notes) and each Swap Counterparty, (a) exercise any right, remedy, power or privilege available to it under or in connection with the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee, (b) take any action to compel or secure performance or observance by (i) the Seller, the Servicer or the Performance Guarantor of its obligations to the Issuer under or in connection with the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee or (ii) any other party to any Program Document, or (c) give any consent, request, notice, direction, approval, extension or waiver to the Seller, the Servicer or the Performance Guarantor under the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee not required to be exercised, taken, observed or given by the Issuer pursuant to the terms of the Mortgage Loan Purchase and Servicing Agreement or the Performance Guarantee.

Section 5.04 Amendments; Waivers. Without intending in any manner to derogate from the absolute nature of the assignment granted to the Collateral Agent by this Security Agreement or the rights of the Collateral Agent hereunder, the Issuer agrees that it will not (a) without Rating Agency Confirmation and the prior written consent of the Collateral Agent and each Swap Counterparty, agree to amend, modify, supplement, terminate, waive or surrender the terms of the Custodial Agreement or any Collateral except as specifically permitted by any of the Program Documents, or (b) without Rating Agency Confirmation and the prior written consent of the Collateral Agent and each Swap Counterparty, assign its rights under any of the Program Documents or agree to any amendment, modification, supplement, termination, except as provided in Section 8.02 hereof, or surrender which would result in the release of any security interest granted in the Collateral except as specifically permitted by any of the Program

Documents; provided, however, that the Issuer may amend the Program Documents without Rating Agency Confirmation (other than with respect to clause (H) or (I) (as set forth below), in which case a Rating Agency Confirmation will be required) and without the consent of the Collateral Agent (except with respect to clause (D) for which prior written Collateral Agent consent shall be required) and the Swap Counterparties for one or more of the following purposes: (A) to add to the covenants and agreements pursuant to the Program Documents for the benefit of the Holders of the Senior Notes; (B) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Program Documents or in any amendment to the Program Documents; (C) to add such provisions with respect to matters or questions arising under the Program Documents as may be necessary or desirable and not inconsistent with the Program Documents; (D) to add to the duties of the Issuer or the Collateral Agent; (E) to add or amend any provisions of this Security Agreement as required by any Rating Agency or any other nationally recognized statistical rating agency in order to maintain or improve any rating of the Notes; (F) to comply with any requirement imposed by changes in accounting policies that do not materially impact the Notes; (G) to comply with any requirements imposed by the Code; (H) to provide for the issuance of one or more Series of callable notes by the Issuer or (I) to add provisions to allow the Issuer to hold securities rated at least AA by S&P and Aa2 by Moody's so long as holding such securities shall not cause the Issuer to be required to be registered as an "investment company" under the Investment Company Act; provided, however, that such action shall not adversely affect in any material respect the interests of any Secured Party and the Issuer shall have delivered an Opinion of Counsel to such effect; provided further, that the Issuer, prior to any material amendment, shall obtain Rating Agency Confirmation with respect to such amendment (and provide the same to the Collateral Agent). If any such amendment, modification, supplement or waiver, as applicable, shall be so consented to by the required consenting parties, the Issuer agrees, promptly following a request by the required consenting parties to do so, to prepare, execute and deliver, in its own name and at its own expense, such agreements, instruments, consents and other documents as the required consenting parties may deem necessary or appropriate in the circumstances. The Issuer shall provide copies of all amendments, modifications, waivers and supplements. Upon provision of such direction by the required consenting parties, the Collateral Agent shall also execute and deliver any such agreements, instruments, consents and other documents. The Issuer shall give prior notice of any amendment to each of the Rating Agencies.

Section 5.05 Location of Records. The Issuer hereby covenants and agrees that its chief place of business and chief executive office shall be located c/o U.S. Bank Trust National Association, as Owner Trustee, 300 Delaware Avenue, 8th Floor, Wilmington, Delaware 19801, and the place where its records pertaining to the Collateral will be kept, shall at all times be located in the offices of Carmel Mountain Funding Trust, c/o Accredited Home Lenders, Inc., 15090 Avenue of Science, San Diego, California 92128.

Section 5.06 Notice of Default under Program Documents. The Issuer agrees, at its own expense, to give the Collateral Agent, the Depositary, the Swap Counterparties and the Rating Agencies as soon as practicable (and in no event more than two Business Days thereafter) written notice of each default coming to the Issuer's attention on the part of any Person, and of such Person's obligations under or in respect of the Program Documents.

Section 5.07 Custody of Program Documents. Simultaneously with the execution and delivery by the Issuer of this Security Agreement, the Issuer is delivering to the Collateral Agent a counterpart of each Program Document currently in effect, which at all times shall be retained in the custody and possession of the Collateral Agent until the termination of this Security Agreement.

Section 5.08 Delivery of Collateral Including Eligible Investments. All certificates representing or evidencing the Collateral (other than Mortgage Loans), including, without limitation Eligible Investments, from time to time shall be delivered to and held by or on behalf of the Collateral Agent pursuant hereto and shall, in the case of Collateral (other than Mortgage Loans), be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Collateral Agent. The Collateral Agent may appoint agents for the purpose of holding Eligible Investments.

Section 5.09 Deliveries of Mortgage Loans. Each Mortgage Note, Mortgage and Assignment of Mortgage in respect of each Mortgage Loan purchased by the Issuer from time to time shall be delivered to and held by the Custodian as agent for the Collateral Agent in accordance with Section 2 and 4 of the Custodial Agreement.

Section 5.10 No Liability. Neither the Collateral Agent, nor any director, officer, employee, agent or stockholder of the Collateral Agent, shall be liable for any action taken or omitted to be taken by it or them relative to any of the Collateral, except for its or their own negligence, bad faith or willful misconduct, and the Collateral Agent shall not be liable for any action or omission to act with respect to the Collateral (or any part thereof) on the part of any agent, nominee, attorney or custodian appointed and selected by the Collateral Agent with reasonable care.

ARTICLE VI

COLLATERAL ACCOUNT; RESERVE FUND; PAYMENT OF ALLOCATED EXPENSES

Section 6.01 Establishment of Collateral Account. For purposes of this Security Agreement and the Depositary Agreement, the Collateral Agent shall at all times during the term of this Security Agreement maintain a segregated non-interest bearing trust account in the name of and under the control of the Collateral Agent on behalf of the Secured Parties (said account being herein called the "Collateral Account", the operation of which shall be governed by this Article VI). The Collateral Account shall at all times be an Eligible Account.

It is understood and agreed by the Issuer, the Collateral Agent and the Depositary that there shall be deposited in the Collateral Account the following monies, cash and proceeds: (a) the net proceeds from the sale of Secured Liquidity Notes payable to the Issuer pursuant to the Depositary Agreement, to the extent not required to repay any advances made by the Depositary pursuant to Section 2 (b) of the Depositary Agreement or maturing Secured Liquidity Notes or outstanding Extended Notes on the Issuance Date of such Secured Liquidity Notes, whether or not presented to the Depositary for payment, and to the extent not maintained in the

Secured Liquidity Note Account pursuant to the terms of the Depositary Agreement, (b) all monies received by the Collateral Agent pursuant to this Security Agreement and required by the terms hereof to be deposited by or on behalf of the Issuer in the Collateral Account (including, without limitation, interest on the Eligible Investments), (c) all monies received by or on behalf of the Issuer under the Mortgage Loan Purchase and Servicing Agreement, (d) all monies received by or on behalf of the Issuer as proceeds from the sale or Financing of Mortgage Loans, Principal Prepayments in full of any Mortgage Loans and related Prepayment Charges and payments of the Repurchase Price of any Mortgage Loan, (e) all monies required to be transferred to the Collateral Account from the Collection Account, including principal and interest payments on Mortgage Loans, (f) all monies received by or on behalf of the Issuer under the Interest Rate Swaps, (g) all monies received by or on behalf of the Issuer from the sale of Term Notes, (h) all monies received by or on behalf of the Issuer from the sale of the Subordinated Notes, and (i) any and all monies at any time and from time to time received by or on behalf of the Issuer, and required by the terms of this Security Agreement, or any related document to be deposited in the Collateral Account.

The Collateral Agent shall have complete dominion and control over the Collateral Account and the Issuer hereby agrees that only the Collateral Agent may make withdrawals from the Collateral Account; provided, however, that the Issuer and the Depositary may request withdrawals from the Collateral Account in accordance with the terms of Section 6.03 hereof.

Except for the Pledged Accounts, the Payment Accounts, and the accounts established pursuant to the Indenture, the Issuer agrees that it will not open or maintain a bank account with any Person. The Collateral Agent shall give the Issuer and the Depositary immediate notice if any Pledged Account or any Deposited Funds become subject to any writ, order, judgment, warrant of attachment, execution or similar process of which it has notice. The Collateral Agent shall have no right of set-off against amounts on deposit in the Pledged Accounts and shall have no right to impose a lien on any Pledged Account other than on behalf of the Secured Parties.

Section 6.02 Assignment of Collateral Account. In order to secure and to provide for the repayment of the Obligations, the Issuer hereby assigns, pledges, transfers and sets over unto the Collateral Agent for the benefit of the Secured Parties, and hereby grants the Collateral Agent for the benefit of the Secured Parties a security interest in the Collateral Account and all checks, instruments, notes, documents, securities, security entitlements, other investment property or funds at any time and from time to time on deposit in or otherwise to the credit of the Collateral Account or otherwise held by the Collateral Agent and all dividends, earnings, income, rents, issues, profits or other distributions of cash or other property in respect of such checks, instruments, documents, notes, securities, security entitlement, other investment property or funds and all proceeds thereof (all such checks, instruments, documents, notes, securities, security entitlements, other investment property, funds and dividends, earnings, income, rents, issues, profits or other distributions of cash or other property in respect of such checks, instruments, documents, notes, securities, security entitlement, other investment property or funds and all proceeds being herein called the "Deposited Funds") and all claims of the Issuer in and to Deposited Funds. Throughout the term of this Security Agreement, the Collateral Agent shall be a pledgee in possession and control of the Deposited Funds and shall have the sole and

exclusive right to endorse any check or any other instrument or security presented for deposit in the Collateral Account and to withdraw or order a transfer of Deposited Funds from the Collateral Account subject to the provisions of Section 6.03, and the Issuer hereby appoints the Collateral Agent the true and lawful attorney of the Issuer for the purpose of such endorsement or making any such withdrawal or ordering any such transfer of Deposited Funds from the Collateral Account, which appointment is coupled with an interest and is irrevocable.

Section 6.03 Withdrawals and Transfers from the Collateral Account. (a) It is understood that so long as no Event of Default shall have occurred and then be continuing, the Issuer (by an Issuer Agent) with respect to clauses (ii), (v) and (vi) below, and the Depositary (by a Designated Representative) with respect to clauses (ii), (iii) and (iv) below, shall each have the right on any given day (other than a Payment Date) to instruct the Collateral Agent in writing to withdraw, or order the transfer of, Deposited Funds (other than funds deposited into the Collateral Account for a Payment Date pursuant to Section 4.6(c) of the Mortgage Loan Purchase and Servicing Agreement) from the Collateral Account for the following purposes in the following order of priority:

(i) to the repayment of unreimbursed advances made by the Depositary pursuant to Section 2(b) of the Depositary Agreement;

(ii) to the payment of any amounts due and owing on such day to the Swap Counterparties from the Issuer under the Interest Rate Swaps;

(iii) provided no Extended Notes would be outstanding after giving effect to all payments made on such day (otherwise no payments will be made in respect of the Secured Liquidity Notes having Expected Maturities on such day), to the Secured Liquidity Note Account for the payment of any Classes of Secured Liquidity Notes with Expected Maturities on such day (but only to the extent that such Secured Liquidity Notes cannot be paid from the proceeds derived through the issuance on such day of additional Classes of Secured Liquidity Notes);

(iv) if such day is the Final Maturity for any Extended Notes, pro rata based on the aggregate principal amount of all Extended Notes that have Final Maturities on such day, to the Extended Note Distribution Account for the payment of the principal and accrued and unpaid interest on such Extended Notes;

(v) at the option of the Issuer, upon at least five Business Days notice to DTC, the Depositary and the Collateral Agent, to the Extended Note Distribution Account for the payment of principal and accrued and unpaid interest on any Extended Note, provided that such Extended Note is paid in full on such day and after giving effect to all payments made on such day, no outstanding Class of Extended Notes has the same or an earlier Final Maturity than the Final Maturity of the Extended Notes being prepaid pursuant to this clause (v);

(vi) unless an Extended Note Amortization Event would be continuing after giving effect to all payments made on such date or an Early Accumulation Event has occurred, to the payment of all remaining Deposited Funds to the Issuer to pay to the

Seller the aggregate Initial Purchase Price of the additional Mortgage Loans sold to the Issuer on or before such day if not previously paid;

provided, however, that no withdrawals from the Collateral Account shall be made on any day for the purposes set forth in clause (v) above unless, after giving effect to the issuance of Secured Liquidity Notes on such day, the payment of Secured Liquidity Notes having an Expected Maturity on such day, the payment of outstanding Extended Notes on such day, the issuance of Term Notes on such day, the repayment of outstanding Term Notes maturing or matured on such day, the issuance of Subordinated Notes on such day, the payment of outstanding Subordinated Notes maturing or matured on such day and the purchase of additional Mortgage Loans on such day, the Borrowing Base on such day would be less than or equal to 1.

Any instruction delivered by the Issuer or the Depositary pursuant to the provisions of the foregoing paragraph of this Section 6.03(a) shall be effective upon receipt of written instructions from an Issuer Agent or, with respect to clauses (iii) and (iv) above, a Designated Representative.

The Collateral Agent shall promptly comply with any such approved instructions made by the Issuer or the Depositary in accordance with the provisions of the foregoing paragraphs of this Section 6.03(a); provided, that any withdrawal and transfer pursuant to an instruction received prior to 2:00 p.m. (Eastern time) on any day shall be made on such day.

Upon the occurrence and during the continuance of an Event of Default, all rights of the Issuer and the Depositary to request the Collateral Agent to withdraw, or order the transfer of, Deposited Funds from the Collateral Account shall cease, and the Collateral Agent shall appropriate and apply the Deposited Funds then, or at any time thereafter, on deposit in the Collateral Account, in accordance with the provisions of Section 7.02.

(b) It is understood that so long as no Event of Default shall have occurred and then be continuing, the Issuer (by a Issuer Agent) with respect to each clause below (other than clauses (iii) and (iv)), and the Depositary (by a Designated Representative) with respect to clauses (i), (ii) and (iii) below, shall each have the right on any Payment Date to instruct the Collateral Agent in writing (which may be satisfied by the delivery of a Servicer Report) to withdraw, or order the transfer of, Deposited Funds from the Collateral Account for the following purposes in the following order of priority:

(i) to the repayment of unreimbursed advances made by the Depositary pursuant to Section 2(b) of the Depositary Agreement,

(ii) to the payment of any amounts due and owing on such Payment Date to the Swap Counterparties from the Issuer under the Interest Rate Swaps;

(iii) pro rata, in accordance with the allocations set forth in Section 2.02 hereof, (x) provided no Extended Notes would be outstanding after giving effect to all payments made on such Payment Date (otherwise no payments will be made in respect of the Secured Liquidity Notes on such Payment Date), to the Secured Liquidity Note Account for the payment of amounts in respect of the Interest Component (including any Interest Shortfall) of the Secured Liquidity Notes then outstanding (including any such

Secured Liquidity Notes with an Expected Maturity on such Payment Date), (y) to the Extended Note Distribution Account for the payment of amounts in respect of any accrued and unpaid interest due on such Payment Date on any Extended Notes in accordance with this Security Agreement and the Depositary Agreement (including any Interest Shortfall) and (z) to the payment of any accrued and unpaid interest due on such Payment Date on the Term Notes in accordance with the Indenture (including any Interest Shortfall);

(iv) pro rata, in accordance with the allocations set forth in Section 2.02 hereof, (x) provided no Extended Notes would be outstanding after giving effect to all payments made on such Payment Date (otherwise no payments will be made in respect of the Secured Liquidity Notes having Expected Maturities on such Payment Date), to the Secured Liquidity Note Account for the payment of amounts in respect of the Principal Component of any Classes of Secured Liquidity Notes with an Expected Maturity on such Payment Date (but only to the extent that such Holders of Secured Liquidity Notes cannot be paid from the proceeds derived through the issuance on such Payment Date of additional Classes of Secured Liquidity Notes), (y) (A) to the Extended Note Distribution Account for the payment of principal in respect of any outstanding Class of Extended Notes if such Payment Date is the Final Maturity for such Extended Notes and (B) to the payment in full of principal on the Final Scheduled Payment Date of any Series of Term Notes and (z) at the option of the Issuer (upon five (5) Business Days prior notice to DTC, the Depositary or the Collateral Agent), to the Extended Note Distribution Account for the payment of principal and accrued interest on any unpaid Extended Note on such Payment Date; provided such Extended Note is paid in full on such Payment Date and after giving effect to all payments made on such Payment Date, no outstanding Class of Extended Notes has the same or an earlier Final Maturity than the Final Maturity of the Extended Notes being prepaid pursuant to this clause (z);

(v) to the payment of all unpaid Reimbursable Expenses; provided, that Reimbursable Expenses shall not be paid with any amounts withdrawn from the Reserve Accounts and deposited in the Collateral Account;

(vi) to the payment (pro rata to each Series of Subordinated Notes) of all interest due and owing on such Payment Date on the Principal Amount of all outstanding Series of Subordinated Notes (including interest on Interest Shortfall, if any);

(vii) to the payment of the Carry-Over Interest Shortfall, if any;

(viii) to the payment of any unreimbursed Monthly Servicer Advance and Servicing Advance with respect to any Mortgage Loan which has been sold, to the extent of sale proceeds on deposit in the Collateral Account in respect of such Mortgage Loan;

(ix) on the Final Scheduled Payment Date of any Series of Subordinated Notes, to pay the Principal Amount of such Series of Subordinated Notes including the aggregate amount, if any, of Principal Amount Charge-Offs which have not been reinstated and interest thereon;

(x) to fund any increase in the amount on deposit in the Reserve Fund up to the Required Reserve Fund Amount;

(xi) to the extent the Reserve Fund Available Amount exceeds the Required Draw Amount, to pay to the Swap Counterparties in accordance with the Interest Rate Swaps the aggregate Initial Purchase Price of the additional Mortgage Loans sold to the Issuer on such Payment Date or to deposit funds in the Collateral Account, in each case in an amount equal to the Principal Amount Charge-Offs, if any, reinstated on such Payment Date, and to withdraw any such amount from the Reserve Fund;

(xii) so long as no Extended Note Amortization Event has occurred and is continuing or no Early Accumulation Event has occurred, to the payment of all remaining Deposited Funds to the Issuer to pay to the Seller the aggregate Initial Purchase Price of the additional Mortgage Loans sold to the Issuer on such Payment Date;

(xiii) to the Swap Counterparties pursuant to the Interest Rate Swaps, any remaining amounts;

provided, however, no withdrawals from the Collateral Account shall be made on any day for the purposes set forth in clauses (v) through (xiii) above unless, after giving effect to the issuance of Secured Liquidity Notes on such day, the payment of Secured Liquidity Notes having an Expected Maturity on such day, the payment of outstanding Extended Notes on such day, the issuance of Subordinated Notes on such day, the payment of outstanding Subordinated Notes maturing or matured on such day, the issuance of Term Notes on such day, the repayment of outstanding Term Notes maturing or matured on such day and the purchase of additional Mortgage Loans on such day, the Borrowing Base on such day would be less than or equal to 1.

Any instruction delivered by the Issuer or the Depositary pursuant to the provisions of the foregoing paragraph of this Section 6.03(b) shall be effective upon receipt of written instructions from an Issuer Agent or, with respect to clauses (iii) and (iv) above (other than clause (iv)(y)(B)), a Designated Representative.

The Collateral Agent shall promptly comply with any such approved instructions made by the Issuer or the Depositary in accordance with the provisions of the foregoing paragraphs of this Section 6.03(b); provided, that any withdrawal and transfer pursuant to an instruction received prior to 2:00 p.m. (Eastern time) on any day shall be made on such day.

Upon the occurrence and during the continuance of an Event of Default, all rights of the Issuer, the Depositary and the Indenture Trustee to request the Collateral Agent to withdraw, or order the transfer of, Deposited Funds from the Collateral Account shall cease, and the Collateral Agent shall appropriate and apply the Deposited Funds then, or at any time thereafter, on deposit in the Collateral Account, in accordance with the provisions of Section 7.02.

Section 6.04 Eligible Investments. (a) Monies held in the Collateral Account shall be invested and the proceeds of investments shall be reinvested by the Collateral Agent in Eligible Investments pursuant to the written direction of the Servicer prior to the occurrence and continuation of an Event of Default. The Collateral Agent shall not be responsible or liable for

any loss resulting from the investment performance of any investment or reinvestment of monies held in the Collateral Account or any other account maintained by the Collateral Agent for the purposes of this Security Agreement in Eligible Investments. The Collateral Agent from time to time shall provide the Issuer with statements of account relative to the Collateral Account or any other account maintained by the Collateral Agent for the purposes of this Security Agreement in accordance with the Collateral Agent's customary practices. The parties recognize that the statements of account to be provided by the Collateral Agent pursuant to the immediately preceding sentence shall be derived from information to be supplied by the institution or institutions maintaining the Collateral Account and any such other account; and the Collateral Agent shall not be required to prepare any statements of account containing information which cannot be so derived and shall not be responsible for the correctness or accuracy of the information received by it.

(b) Prior to the occurrence and continuation of an Event of Default, monies held in the Collateral Account shall be invested at the written direction of the Servicer in Eligible Investments having maturities of no greater than one day; provided, that if there is no Secured Liquidity Note, Extended Note or Term Note then outstanding, monies held in the Collateral Account shall be invested in Eligible Investments either payable on demand or having maturities of no greater than the earlier of 30 days or the next following Payment Date. All such Eligible Investments shall be made in the name of, and shall be payable to, the Collateral Agent. If any Event of Default shall have occurred and be continuing, monies held in the Collateral Account shall be invested in Eligible Investments as directed in writing by the Designated Swap Counterparty having maturities of no greater than one day; provided, that such Eligible Investments shall be investments specified in clause (i) of the definition of Eligible Investments which mature on demand or no later than the next following Business Day. The Collateral Agent shall maintain or cause to be maintained by an Eligible Institution for the benefit of the Secured Parties possession or control of the negotiable instruments or securities, if any, evidencing such Eligible Investments. The Collateral Agent or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Collateral Agent's economic self-interest for (i) serving as investment adviser, administrator, shareholder servicing agent, custodian or subcustodian with respect to certain of the Eligible Investments, (ii) using Affiliates to effect transactions in certain Eligible Investments and (iii) effecting transactions in certain Eligible Investments. The Collateral Agent does not guarantee the performance of any Eligible Investment.

Section 6.05 Reserve Fund, Market Value Reserve Account. (a) The Collateral Agent shall establish and maintain, in the name of the Collateral Agent, for the benefit of the Secured Parties, with an Eligible Institution, (i) a segregated, non-interest bearing trust account (the "Reserve Fund"), and (ii) a segregated, non-interest bearing trust account (the "Market Value Reserve Account", and together with the Reserve Fund, the "Reserve Accounts"), each bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Secured Parties. The Reserve Accounts shall at all times be Eligible Accounts. The Reserve Accounts shall initially be established with the Collateral Agent. On the Initial Closing Date, an initial deposit shall be made in the Reserve Fund by the Seller in the amount of the Initial Required Reserve Fund Amount in accordance with Section 2.7 of the Mortgage Loan Purchase and Servicing Agreement. On each Closing Date thereafter, the Seller shall deposit such amount as required to cause the amount on deposit in the Reserve Fund to equal the

Required Reserve Fund Amount on such Closing Date in accordance with Section 2.7 of the Mortgage Loan Purchase and Servicing Agreement. At the Seller's option, the Seller may make one or more deposits in the Market Value Reserve Account from time to time. The Collateral Agent shall possess all right, title and interest in all funds on deposit from time to time in the Reserve Accounts and in all proceeds thereof. The Reserve Accounts shall be under the sole dominion and control of the Collateral Agent for the benefit of the Secured Parties. If, at any time, the institution holding the Reserve Accounts ceases to be an Eligible Institution, the Collateral Agent shall within five Business Days establish a new set of Reserve Accounts meeting the conditions specified above with an Eligible Institution and shall transfer or cause to be transferred any cash and/or any investments to such new Reserve Accounts. The Collateral Agent, at the direction of the Issuer, shall make deposits to and withdrawals from the Reserve Accounts in the amounts and at the times set forth in this Security Agreement. All withdrawals from the Reserve Accounts shall be made in the priority set forth below.

(b) Prior to the occurrence and continuation of an Event of Default, funds on deposit in the Reserve Accounts shall be invested at the written direction of the Servicer by the Collateral Agent in Eligible Investments. Funds on deposit in the Reserve Accounts on any Payment Date, after giving effect to any withdrawals from the Reserve Accounts on such Payment Date, shall be invested in such investments that will mature so that such funds will be available for withdrawal on or prior to the following Payment Date; provided, however, that the Issuer (or the Servicer on its behalf) shall instruct the Collateral Agent to allow for Eligible Investments to mature and shall reinvest the proceeds of maturing Eligible Investments on a daily basis sufficient to fund anticipated withdrawals from the Reserve Accounts under subsection (c) below in respect of Interim Payment Date losses on the sale of Defaulted Loans and Delinquent Loans. No Eligible Investment shall be disposed of prior to its maturity. If any Event of Default shall have occurred and be continuing, monies held in the Reserve Accounts shall be invested at the written direction of the Designated Swap Counterparty in Eligible Investments payable on demand or having maturities of no greater than one day; provided that such Eligible Investments shall be investments specified in clause (i) of the definition of Eligible Investments which mature on demand or no later than the next following Business Day. The Collateral Agent shall maintain or cause to be maintained by an Eligible Institution for the benefit of the Secured Parties possession or control of the negotiable instruments or securities, if any, evidencing such Eligible Investments. On each Payment Date, all interest and earnings (net of losses and investment expenses) on funds on deposit in the Reserve Fund shall be retained in the Reserve Fund until the amount on deposit in the Reserve Fund equals the Required Reserve Fund Amount. On each Payment Date, all interest and earnings (net of losses and investment expenses) on funds on deposit in the Market Value Reserve Account shall be retained in the Market Value Reserve Account until the amount on deposit in the Market Value Reserve Account equals the Market Value Requirement. On each Payment Date, after giving effect to the withdrawals from the Collateral Account pursuant to Section 6.03(b) hereof, the Collateral Agent in accordance with the written direction of the Servicer on behalf of the Issuer shall pay any amounts on deposit in the Reserve Fund in excess of the Required Reserve Fund Amount and any amounts on deposit in the Market Value Reserve Account in excess of the Market Value Requirement to the Swap Counterparties for application in accordance with the Interest Rate Swaps.

(c) The Collateral Agent, acting in accordance with the written directions of the Servicer, shall on each Interim Payment Date withdraw from the Market Value Reserve Account an amount equal to the lesser of (x) the Adjusted Partial Removal Payment (if such amount is a positive number), and (y) the Market Value Reserve Available Amount (exclusive of unmatured Eligible Investments) and pay such amount to the Swap Counterparties on such date in accordance with each such Swap Counterparty's Sharing Percentage.

(d) The Collateral Agent, acting in accordance with the written directions of the Servicer, shall on each Interim Payment Date (x) withdraw an amount from the Reserve Fund equal to the lesser of (i) the amount (each, a "Required Draw Amount") by which the aggregate cash proceeds of sales of Defaulted Loans or Delinquent Loans on such Interim Payment Date (plus or minus the amount of any payments due under the Interest Rate Swaps on such Interim Payment Date) are less than the aggregate Outstanding Purchase Price of such Mortgage Loans and (ii) the Reserve Fund Available Amount (exclusive of unmatured Eligible Investments), and (y) deposit such amount into the Collateral Account; provided that such amount may not be used to pay Reimbursable Expenses prior to the occurrence of an Event of Default.

(e) On each Payment Date, the Issuer, in accordance with the instructions set forth in the Servicer Report delivered to the Collateral Agent, shall calculate (i) the amount (each, a "Required Draw Amount") of deductions in amounts received by the Issuer under the Interest Rate Swaps in respect of Delinquent Loans (for which no Monthly Servicer Advances have been made) and Defaulted Loans (for which no Monthly Servicer Advances have been made) and Defaulted Loans (as defined in clause (ii) or (iii) of the definition thereof) and (ii) the Reserve Fund Available Amount available to pay such amounts specified below in this Section 6.05 (e). In the event that for any Payment Date the Required Draw Amount is greater than zero, the Issuer shall give written notice to the Collateral Agent of such positive Required Draw Amount on the related Payment Date. On the Payment Date, the Required Draw Amount, if any, up to the Reserve Fund Available Amount, shall be withdrawn by the Collateral Agent from the Reserve Fund, deposited into the Collateral Account, and applied to pay shortfalls in amounts payable under Section 6.03(b)(iii), (vi) and (vii); provided, that the Required Draw Amount shall not be used to pay Reimbursable Expenses prior to the occurrence of an Event of Default. In addition, on each Payment Date, the Collateral Agent, in accordance with the instructions set forth in the Servicer Report, shall withdraw from the Reserve Fund any amounts payable under Section 6.03(b)(xi) hereof.

(f) If any Event of Default shall have occurred and be continuing, at the direction of the Collateral Agent on behalf of the Secured Parties, any amounts remaining in the Reserve Fund shall be applied to the payment of the Obligations in the order of priority set forth in Section 7.02(b) hereof. Upon the sale of all non-Delinquent and non-Defaulted Mortgage Loans following the occurrence of an Event of Default and all withdrawals from the Market Value Reserve Account in connection therewith pursuant to Section 6.05 (c), at the direction of the Collateral Agent on behalf of the Secured Parties, any amounts remaining in the Market Value Reserve Account shall be applied to the payment of the obligations in the order of priority, set forth in Section 7.02(b) hereof.

(g) Upon the payment in full of all amounts owing to the Secured Liquidity Noteholders, the Extended Noteholders, the Term Noteholders, the Swap Counterparties and the

Subordinated Noteholders, the Collateral Agent, acting in accordance with the instructions of the Servicer, shall withdraw from the Reserve Accounts and pay to the Swap Counterparties pursuant to the Interest Rate Swaps all amounts, if any, held in the Reserve Accounts, and the Reserve Accounts shall be deemed to have terminated for all purposes of this Security Agreement.

Section 6.06 Payment of Allocated Expenses. The Collateral Agent shall establish and maintain, in the name of the Issuer, for the benefit of the Secured Parties, with an Eligible Institution a non-interest bearing segregated trust account (the "Allocated Expenses Account") bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Issuer. The Allocated Expenses Account shall initially be established with the Collateral Agent. The Collateral Agent shall possess all right, title and interest in all funds on deposit from time to time in the Allocated Expenses Account and in all proceeds thereof. The Allocated Expenses Account shall be under the sole dominion and control of the Collateral Agent for the benefit of the Secured Parties. If, at any time, the institution holding the Allocated Expenses Account ceases to be an Eligible Institution, the Collateral Agent shall within five Business Days establish a new Allocated Expenses Account meeting the conditions specified above with an Eligible Institution and shall transfer or cause to be transferred any cash and/or any investments to such new Allocated Expenses Account. On each Payment Date prior to giving effect to the payments pursuant to Section 6.03(b) hereof, the Collateral Agent, acting at the written direction of the Servicer, shall, from the amount of net interest collections on Mortgage Loans and Eligible Investments, make a deposit into the Allocated Expenses Account from funds on deposit in Collateral Account in the amount set forth in the Servicer Report received from the Servicer as the Allocated Expenses to be due and owing on such Payment Date; provided, however, that the sum of the aggregate Allocated Expenses paid during any calendar year shall never exceed the Budget Expense Limit. Allocated Expenses for any given calendar year in excess of the Budget Expense Limit shall accrue unpaid and, subsequently, shall be paid, if at all, from amounts included in the Budget Expense Limit for any subsequent calendar year as the Required Swap Counterparties and the Issuer may agree. The Collateral Agent, at the written direction of the Issuer (by an Issuer Agent), shall make withdrawals from the Allocated Expenses Account in the amounts and at the times set forth in written payment instructions received from the Issuer (by an issuer Agent). Upon the termination of this Security Agreement and payment in full of all Allocated Expenses, the Allocated Expenses Account shall be deemed to have terminated for all purposes and all amounts, if any, held in the Allocated Expenses Account, shall be paid to the Swap Counterparties pursuant to the Interest Rate Swaps.

ARTICLE VII

DEFAULT

Section 7.01 Events of Default. Each of the events set forth on Schedule II shall constitute an event of default under this Security Agreement with respect to the Senior Notes (or, if the Senior Notes have been paid in full, the Subordinated Notes) (each, an "Event of Default"). The Collateral Agent shall not be deemed to have knowledge of an Event of Default unless a Trust Officer of the Collateral Agent has actual knowledge or has received written notice thereof.

Section 7.02 Rights of the Collateral Agent Upon Default. (a) If an Event of Default described in clause (e) or (m) through (r) of Schedule II hereof shall have occurred and be continuing, or if an Event of Default specified in any other clause of Schedule II hereof shall have occurred and be continuing and, (i) (x) the Required Senior Noteholders shall have given the Collateral Agent written instructions to such effect or (y) in the event the Senior Notes have been paid in full, the Required Subordinated Noteholders shall have given the Collateral Agent written instructions to such effect or (ii) the Collateral Agent shall be required to do so pursuant to Section 4.11 hereof, the Collateral Agent shall, by written notice to the Issuer, the Holders of the Notes, the Indenture Trustee and the Depositary (with a copy to each Secured Liquidity Note Dealer), (w) declare the principal and premium (if applicable) of and accrued or accreted interest in respect of the Notes to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer, anything contained herein or in any Note to the contrary notwithstanding, (x) instruct the Issuer to cease purchasing Mortgage Loans, the Issuer and the Depositary to cease issuing Secured Liquidity Notes and the Indenture Trustee to cease issuing Term Notes, (y) notify the Servicer, the Seller, the Company, the Swap Counterparties and the Indenture Trustee that an Event of Default has occurred, and (z) appropriate and apply the Deposited Funds then, or at any time thereafter, on deposit in the Collateral Account to the payment in full of all outstanding Obligations, whether or not then due, in order of priority specified in Section 7.02(b) hereof; provided, that the Collateral Agent shall comply with the requirements of Section 5.02 hereof; provided, further, that if such Event of Default is not an Event of Default described in clause (c) of Schedule II hereof, or an Event of Default described in clause (e) of Schedule II hereof with respect to the Issuer, and so long as the Collateral Agent has not disposed of or sold all of the Collateral pursuant to Section 7.03 hereof, the amounts to be distributed pursuant to clauses Third and Fourth of Section 7.02(b) hereof shall be distributed, in that order, prior to the amounts to be distributed pursuant to clause Second of Section 7.02(b) hereof. Any amounts obtained by the Collateral Agent on account of or as a result of the exercise by the Collateral Agent of any right of offset or banker's lien or right of attachment or garnishment with respect to any funds at any time and from time to time on deposit in, or otherwise to the credit of, the Collateral Account, shall be held by the Collateral Agent as additional collateral security for the repayment of the Obligations and shall be applied as provided in Sections 5.02, 6.03 and 7.02(b) hereof.

If any Event of Default shall have occurred and be continuing, the Collateral Agent may, and at the written direction of the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders) shall upon receipt of an indemnity satisfactory to it, exercise all rights, remedies, powers, privileges and claims of the Issuer under the Mortgage Loan Purchase and Servicing Agreement, or any other Program Document, including the right to give any consent, request, notice, direction, approval, extension or waiver under the Mortgage Loan Purchase and Servicing Agreement, or any other Program Document, and any right of the Issuer to take such action shall be suspended.

Except as provided in Section 7.02 and 7.03, no Holder of a Secured Liquidity Note, an Extended Note or a Term Note shall have any right to require the Collateral Agent to take or fail to take any action under this Security Agreement.

(b) Subject to the second proviso of Section 7.02(a), all payments or proceeds with respect to the Collateral (including but not limited to any amounts on deposit in the Collateral Account) shall, following the occurrence of, and during the continuance of, an Event of Default, be applied by the Collateral Agent in the following order:

First, the repayment of unreimbursed advances made by the Depositary pursuant to Section 2(b) of the Depositary Agreement;

Second, pro rata, to the repayment of amounts advanced, incurred or expended (including fees and expenses of agents) by (i) the Collateral Agent, the Depositary, the Indenture Trustee or the Custodian, up to an aggregate maximum amount of $25,000 and (ii) the Owner Trustee, up to an aggregate maximum amount of $5,000;

Third, to the payment of all amounts due and owing to the Swap Counterparties under the Interest Rate Swaps (other than termination payments in connection with an early termination of such Interest Rate Swaps);

Fourth, to the payment, pro rata, of all indebtedness (including interest thereon), whether absolute, fixed or contingent, at any time and from time to time due and owing by the Issuer to the Holders from time to time of the outstanding Secured Liquidity Notes, Extended Notes and the Term Notes;

Fifth, to the payment of all Reimbursable Expenses, subject to the Maximum Indemnity Amount;

Sixth, to the payment (pro rata to each Series of Subordinated Notes) of all amounts due and owing under all outstanding Series of Subordinated Notes including the aggregate amount, if any, of Principal Amount Charge-Offs which have not been reinstated and interest thereon;

Seventh, to the payment of all amounts due and owing to the Swap Counterparties under the Interest Rate Swaps in connection with a termination payment in connection with an early termination of such Interest Rate Swaps;

Eighth, to the payment of all unpaid Reimbursable Expenses and unpaid Allocated Expenses without giving effect to the Maximum Indemnity Amount or the Budget Expense Limit;

Ninth, the payment of any unreimbursed Monthly Servicer Advances and Servicing Advances with respect to any Mortgage Loan which has been sold, up to a maximum amount of the sale proceeds; and

Tenth, any remaining amounts shall be distributed to the Swap Counterparties pursuant to the Interest Rate Swaps.

(c) The Collateral Agent hereby acknowledges and agrees to its obligations set forth in (i) Section 2.1(b) of the Mortgage Loan Purchase and Servicing Agreement in connection with any Wet Funded Loans, (ii) Section 11.2 of the Mortgage Loan Purchase and

Servicing Agreement in connection with any Termination Event Auction upon occurrence of a Termination Event described in clauses (h), or (k) through (s) of Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, (iii) Section 9.1 of the Indenture in connection with any Termination Event Auction upon the occurrence of an Indenture Event of Default described in clause (e) or (m) through (r) of Schedule I to the Indenture and (iv) Section 7.01 of the Security Agreement in connection with any Termination Event Auction upon the occurrence of a Security Agreement Event of Default described in clause (e) or clause (m) through (r) of Schedule II to this Security Agreement.

Section 7.03 Realization upon Collateral; Remedies. If any Event of Default specified in Schedule II hereof shall have occurred and be continuing, then, at any time during the continuance of any Event of Default, the Collateral Agent may, and at the direction (which direction shall be in writing) of the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders) shall, exercise any rights and remedies available to it under applicable law, including taking possession of the Collateral and leasing, assigning, optioning, discounting, disposing of or selling the whole, or from time to time any part of, the Collateral, by private or public sale or sales in such order or otherwise in such manner as the Collateral Agent may reasonably elect; provided that any such sale shall be conducted in a commercially reasonable manner; provided further, that from and after the date of an Event of Default, in the event of a sale or disposition of a Defaulted Loan, a Delinquent Loan or a portfolio of Defaulted Loans and/or Delinquent Loans (each, a "Portfolio"), the Collateral Agent shall use commercially reasonable efforts to obtain three or more bids for each such Defaulted Loan, Delinquent Loan or Portfolio; provided, however, that such bids shall be received within ten (10) Business Days of one another. The Collateral Agent shall promptly notify the Subordinated Note Representative, if any, of the highest bid price obtained on each such Defaulted Loan, Delinquent Loan or Portfolio and the Subordinated Note Representative, if any, shall have up to two Business Days from the time of notification to elect to purchase such Defaulted Loan, Delinquent Loan or Portfolio at a price at least equal to 102% of such highest bid price but in no event more than the amount of the Outstanding Purchase Price of such Mortgage Loan or Mortgage Loans (plus accrued interest thereon) after giving effect to amounts payable by the Swap Counterparties with respect to the sale of such Mortgage Loan or Mortgage Loans (the "Purchase Price"). If the Subordinated Note Representative elects to purchase such Defaulted Loan, Delinquent Loan or Portfolio within such two (2) Business Day time period, the Subordinated Note Representative shall pay to the Collateral Agent the Purchase Price for such Defaulted Loan, Delinquent Loan or Portfolio within two (2) Business Days of the date of such election. In the event that the Subordinated Note Representative fails to pay such Purchase Price to the Collateral Agent or fails to affirmatively elect to purchase such Defaulted Loan, Delinquent Loan or Portfolio, in either case, within the applicable two (2) Business Day time period, the Servicer shall have the right to sell such Defaulted Loan, Delinquent Loan or Portfolio to the highest bidder.

The Collateral Agent shall have, with respect to the Collateral in addition to any other rights and remedies which may be available to it at law or in equity or pursuant to this Security Agreement or any other contract or agreement, all rights and remedies of a secured party under any applicable version of the UCC of the relevant jurisdictions relating to the Collateral, and it is expressly agreed that if the Collateral Agent should proceed to dispose of, utilize or sell the Collateral, or any part thereof, in accordance with the provisions of relevant

versions of the UCC, ten Business Days notice by the Collateral Agent to the Issuer shall be deemed to be reasonable notice under any such provision requiring such notice.

The Issuer acknowledges that the Eligible Investments are of a type customarily sold on a recognized market. Accordingly, the Issuer hereby expressly agrees that no notice of any sale or disposition of any Eligible Investments need be given. Any sale or other disposition of Collateral by the Collateral Agent may be made on such commercially reasonable terms as it may choose, without assuming any credit risk and without any obligation to advertise or give notice of any kind other than that necessary under applicable law. The Collateral Agent shall incur no liability as a result of the sale of the Collateral, or any part thereof, at any private or public sale conducted in accordance with this Security Agreement. The Collateral Agent or the Holders of the Senior Notes may buy any Collateral at any public sale conducted in accordance with this Security Agreement free of any right or equity of redemption of the Issuer, which right or equity is hereby waived or released.

The Collateral Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession shall be to deal with it in the same manner as the Collateral Agent deals with similar property generally, subject to Section 9-207 of the UCC. Neither the Collateral Agent nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral, provided that it has acted in accordance with the instructions of the Secured Parties and in compliance with applicable law and this Security Agreement.

The Collateral Agent may sell the Collateral without giving any warranties as to the Collateral. This procedure will not be considered to adversely effect the commercial reasonableness of any sale of the Collateral.

Section 7.04 Waiver of Stays, etc. To the full extent that the Issuer may lawfully so agree, the Issuer agrees that it will not at any time plead, claim or take the benefit of any appraisement, valuation, stay, extension, moratorium or redemption law now or hereafter in force to prevent or delay the enforcement of this Security Agreement in accordance with its terms or the absolute sale of any portion of or all of the Collateral in accordance with this Security Agreement or the possession thereof by any purchaser at any sale under and in compliance with this Security Agreement, and the Issuer, for itself and all who may claim under the Issuer, as far as the Issuer now or hereafter lawfully may do so, hereby waives the benefit of all such laws.

ARTICLE VIII

ADDITIONAL COLLATERAL DISPOSITION PROVISIONS

Section 8.01 Disposition of Mortgage Loans. (a) Upon two (2) Business Days written notice to the Collateral Agent and the Custodian, the Servicer may arrange for the sale or Financing of one or more Mortgage Loans and the Custodian in accordance with the terms of the Custodial Agreement shall deliver each Loan Document in respect of each Mortgage Loan being sold to the purchaser on a delivery versus payment basis, or, in the case of a whole-loan sale

against delivery of a duly executed bailee letter (which payment shall be made directly to the Collateral Account in accordance with Section 4.6(b) of the Mortgage Loan Purchase and Servicing Agreement). The Collateral Agent shall deposit all payments received by it from the Servicer in connection with the sale or Financing from time to time of Mortgage Loans into the Collateral Account.

(b) The Servicer shall arrange for sales of Mortgage Loans owned by the Issuer to allow compliance with Section 4.03(h) hereof and Section 4.1(a)(i) of the Mortgage Loan Purchase and Servicing Agreement.

Section 8.02 Release of Security Interest. Any reduction in the amounts on deposit in the Reserve Accounts and the sale or Financing of any Mortgage Loans in accordance with Section 8.01 shall result in a release of the security interest in such reduction amount and such Mortgage Loans granted pursuant to Sections 5.01(i) and (iii) hereof. In the case of any sale or Financing of Mortgage Loans by the Issuer, the security interest granted hereunder in such Mortgage Loans shall be released when all of the cash proceeds to be received in connection with such sale or Financing have been deposited into the Collateral Account. The Issuer shall take such further steps, and shall execute and deliver to the Servicer, such additional releases, instruments and documents, including, without limitation, UCC financing statements, as are reasonably requested by the Servicer in order to achieve the foregoing. In addition, the Collateral Agent shall execute such releases, instruments and documents, including without limitation, UCC financing statements, as are prepared by the Issuer or the Servicer in order to achieve the foregoing. The Collateral Agent shall notify the Custodian in writing immediately upon becoming aware that all of the cash proceeds to be received in connection with any sale or Financing of Mortgage Loans has been deposited into the Collateral Account. The remaining portion of the amounts on deposit in the Reserve Accounts and Mortgage Loans not sold or otherwise disposed of shall remain subject to this Security Agreement in all respects.

Section 8.03 Termination Event Auction. In the event a Termination Event under the Mortgage Loan Purchase and Servicing Agreement requires that a Termination Event Auction be conducted pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, the Collateral Agent hereby agrees to perform, on behalf of the Secured Parties, those actions which it is called upon to perform in such Section 11.2.

ARTICLE IX

THE COLLATERAL AGENT

Section 9.01 Appointment and Powers of Collateral Agent. The Issuer and the Secured Parties hereby appoint the Collateral Agent to take such action and to exercise such rights, remedies, powers and privileges hereunder as are specifically authorized to be exercised by the Collateral Agent by the terms hereof, together with such rights, remedies, powers and privileges as are reasonably incidental thereto. The Collateral Agent may consult with counsel of its selection and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Collateral Agent may act through agents, custodians and nominees and shall not be liable for any misconduct or negligence on the part of,

or for the supervision of, any such agent, custodian or nominee so long as (i) such agent, custodian or nominee is appointed with due care and (ii) the Rating Agencies shall have given them prior written consent to the appointment of such agent, custodian or nominee. The Collateral Agent shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred upon it by the Security Agreement or the Program Documents. The relationship between the Collateral Agent and each Secured Party is that of agent and principal only, and nothing herein shall be deemed to constitute the Collateral Agent a trustee for any Secured Party or impose on the Collateral Agent any obligations other than those for which express provision is made herein. Holders of the Secured Liquidity Notes, by their acceptance of their Secured Liquidity Notes (or a beneficial interest therein), Holders of the Term Notes (or a beneficial interest therein) by the acceptance of their Term Notes, Holders of the Subordinated Notes (or a beneficial interest therein), by their acceptance of their Subordinated Notes, and Holders of the Extended Notes (or a beneficial interest therein), by their acceptance of their Notes, consent to the appointment of the Collateral Agent or any successor Collateral Agent hereunder.

Except as required by the specific terms of this Security Agreement, the Collateral Agent shall have no duty (of a fiduciary nature or otherwise) to exercise any rights, power, remedy or privilege granted to it hereby, or to take any affirmative action hereunder, unless directed to do so by the Required Senior Noteholders (or, if the Senior Notes have been paid in fall, the Required Subordinated Noteholders) (and shall be folly protected in acting or refraining from acting pursuant to such directions or lack of directions which shall be binding on the Secured Parties), and shall not, except as expressly provided herein, without the prior approval of the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders), consent to any material departure by the Issuer from the terms hereof or of any other agreement or instrument relating to the Collateral, waive any default on the part of the Issuer under the terms hereof or under the Collateral or amend, modify, supplement or terminate, or agree to any surrender of, this Security Agreement, except as expressly provided herein; provided that the foregoing limitation on the authority of the Collateral Agent is for the benefit of the Secured Parties and shall not impose any obligation on the Issuer to investigate or inquire into the authority of the Collateral Agent in any circumstances, and the Issuer shall be fully protected in carrying out any request, direction or instruction made or given to the Issuer by the Collateral Agent in the exercise of any right, power, remedy or privilege granted to the Collateral Agent hereby, receiving or acting upon any consent or waiver granted to the Issuer hereunder by the Collateral Agent, or entering into any amendment or modification of, or supplement to, this Security Agreement, and the Issuer shall not be subject to the claims of any Secured Party by reason of the lack of authority of the Collateral Agent to take any such action nor shall the lack of authority on the part of the Collateral Agent in any circumstances give rise to any claim on the part of the Issuer against such Secured Party; provided further, that the Collateral Agent shall not be required to take any action which is contrary to this Security Agreement or any other agreement or instrument relating to the Collateral or applicable law.

Neither the Collateral Agent, nor any of its respective directors, officers, employees, Affiliates or agents, shall be liable to any Secured Party or the Issuer for any action taken or omitted to be taken by it or them hereunder, or in connection herewith, except for its own negligence, bad faith or willful misconduct; nor shall the Collateral Agent be responsible to any other Secured Party for the validity, effectiveness, value, sufficiency or enforceability

against the Issuer of this Security Agreement or any other document furnished pursuant hereto or in connection herewith, or of the Collateral (or any part thereof), the Eligible Investments (or any part thereof) or the Deposited Funds (or any part thereof). In no event shall the Collateral Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including, but not limited to lost profits). Without limiting the generality of the foregoing, the Collateral Agent (i) makes no warranty or representation to any Secured Party (other than as set forth in Section 3.04) and shall not be responsible to any Secured Party for any statements, warranties or representations made in or in connection with this Security Agreement or any other document relating to the Collateral, and (ii) shall not have any duty, except as expressly provided herein, to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Security Agreement, any other Program Document or any other agreements or instruments relating to the Collateral on the part of any party hereto or thereto or to inspect any books and records relating to the Collateral.

The Collateral Agent shall be entitled to conclusively rely, and shall be fully protected in such reliance, on any communication, direction, instrument, resolution, certificate, opinion, affidavit, paper or other document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. The Collateral Agent shall be entitled to assume that no Event of Default or Termination Event hereunder shall have occurred and be continuing, unless a Trust Officer of the Collateral Agent charged by the Collateral Agent with the administration of any of its obligations under this Security Agreement or with knowledge of and familiarity with the Collateral Agent's obligations under this Security Agreement has actual knowledge thereof or the Collateral Agent has received written notice from the Secured Parties or the Issuer that they consider that such an Event of Default or Termination Event has occurred and is continuing and specifying the nature thereof. The Collateral Agent shall be fully justified in failing or refusing to take any action under this Security Agreement upon the advice of counsel or unless the Collateral Agent shall be indemnified to its satisfaction against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Nothing herein shall require the Collateral Agent to risk or expend its own funds, or to make advances. The Collateral Agent may accept deposits from, lend money to and generally engage in any kind of business with the Issuer and its Affiliates as if it were not the agent of the Secured Parties.

The Collateral Agent may consult with counsel, and the advice of such counsel or any opinion of counsel as to matters of law shall be full and complete authorization and protection to such extent in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon. The Collateral held by the Collateral Agent in trust hereunder need not be segregated from other collateral except to the extent required by law or the specific provisions hereof. The Collateral Agent shall be under no obligation to invest money received by it hereunder and in no event shall it have any liability for interest on any such money. The Collateral Agent shall not be responsible for recording, re-recording, filing or refiling this Security Agreement or any amendment hereto or any financing statement or continuation statement.

The Collateral Agent shall be under no obligation to exercise any of the trusts or powers vested in it by this Security Agreement or to make any investigation of matters arising hereunder or to institute, conduct or defend any litigation hereunder or in relation hereto at the

request, order or direction of any of the Secured Parties, pursuant to the provisions of this Security Agreement, unless such Secured Parties shall have offered to the Collateral Agent security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby; the Collateral Agent shall not be required to expend or risk its own funds or otherwise incur any liability, financial or otherwise, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

Whenever in the administration of the provisions of this Agreement the Collateral Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Collateral Agent, be deemed to be conclusively proved and established by an officer's certificate of the Issuer and such certificate, in the absence of negligence or bad faith on the part of the Collateral Agent, shall be full warrant to the Collateral Agent for any action taken, suffered or omitted by it under the provisions of this Agreement upon the faith thereof.

In the absence of bad faith on the part of the Collateral Agent, the Collateral Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Collateral Agent which conform to the requirements of this Agreement.

The Collateral Agent shall not be liable for any error of judgment made in good faith by an officer or officers of the Collateral Agent, unless it shall be conclusively deemed by a court of competent jurisdiction that the Collateral Agent was negligent in ascertaining the pertinent facts.

The Collateral Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction given under this Agreement.

The Collateral Agent shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, entitlement order, approval or other paper or document.

Section 9.02 Successor Collateral Agent. The Collateral Agent acting hereunder at any time may resign by an instrument in writing addressed and delivered to the Issuer and the Depositary, and may be removed at any time with or without cause by an instrument in writing duly executed by or on behalf of the Issuer. Subject to the provisions of Section 9.03 hereof, the Issuer shall have the right to appoint a successor to the Collateral Agent upon any such resignation or removal by an instrument of substitution complying with the requirements of applicable law, or in the absence of any such requirements, without other formality than appointment and designation in writing; provided, however, that no such appointment shall be effective until receipt of Rating Agency Confirmation. Upon the making and acceptance of such appointment, the execution and delivery by such successor Collateral Agent of a ratifying instrument pursuant to which such successor Collateral Agent agrees to

assume the duties and obligations imposed on the Collateral Agent by the terms of this Security Agreement, and the delivery to such successor Collateral Agent of the Collateral and documents and instruments then held by the retiring Collateral Agent, such successor Collateral Agent shall thereupon succeed to and become vested with all the estate, rights, powers, remedies, privileges, immunities, indemnities, duties and obligations hereby granted to or conferred or imposed upon the Collateral Agent named herein, and one such appointment and designation shall not exhaust the right to appoint and designate further successor Collateral Agents hereunder. No Collateral Agent shall be discharged from its duties or obligations hereunder until the Collateral and documents and instruments then held by such Collateral Agent shall have been transferred or delivered to the successor Collateral Agent (in its capacity as a bank or trust company), until all Deposited Funds held in the Collateral Account (if maintained with the retiring Collateral Agent) shall have been transferred to a new Collateral Account, and until such retiring Collateral Agent shall have executed and delivered to the successor Collateral Agent appropriate instruments substituting such successor Collateral Agent as attorney-in-fact of the Issuer for purposes of this Security Agreement and assigning the retiring Collateral Agent's security or other interest in the Collateral and Eligible Investments to the successor Collateral Agent. If no successor Collateral Agent shall be appointed, as aforesaid, or if appointed, shall not have accepted its appointment, within thirty (30) days after resignation or removal of the retiring Collateral Agent, the Collateral Agent may at the expense of the Issuer petition a court of competent jurisdiction to do so. Each such successor Collateral Agent shall provide the Issuer with its address and telephone and telecopier numbers to be used for purposes of Section 11.04 hereof, in a notice complying with the terms of said Section. Notwithstanding the resignation or removal of any Collateral Agent hereunder, the provisions of this Article IX shall continue to inure to the benefit of such Collateral Agent in respect of any action taken or omitted to be taken by such Collateral Agent in its capacity as such while it was Collateral Agent under this Security Agreement.

Section 9.03 Qualifications of Collateral Agent; Collateral Account. Any Collateral Agent at any time acting hereunder must at all times be a commercial bank or trust company having its principal office in the District of Columbia or one of the States located in the United States, be authorized to accept deposits and offer checking account facilities, have capital and surplus of at least $100,000,000 and have a long-term unsecured debt rating from each of Moody's and S&P in one of its generic credit rating categories which signifies investment grade.

Section 9.04 Instructions. In any instance in which the Collateral Agent is permitted to take action hereunder or under the Program Documents, the Collateral Agent may, except as expressly provided herein, act in accordance with the written instructions received, if any, from the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders).

Section 9.05 Merger of Collateral Agent. Any corporation into which the Collateral Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Collateral Agent shall be a party, or any corporation succeeding to the business of the Collateral Agent shall be the successor of the Collateral Agent hereunder without the 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.

Section 9.06 Authorized Agent Officers. The Collateral Agent hereby certifies that any Managing Director, Director, Senior Vice President, Vice President, Assistant Vice President, Associate or Trust Officer is authorized to give notices, requests, instructions, and demands to the Depositary and take other action on behalf of the Collateral Agent pursuant to the Depositary Agreement (the "Authorized Agent Officers").

ARTICLE X

AMENDMENTS, MODIFICATIONS, WAIVERS AND CONSENTS

Section 10.01 Execution of Amendments, etc. No amendment, modification, supplement, termination or waiver of or to any provision of this Security Agreement, nor any consent to any departure by the Issuer from any provision of this Security Agreement, shall be effective unless such amendment, modification, supplement, termination or waiver shall be in writing and signed by or on behalf of each Swap Counterparty, the Collateral Agent and the Issuer; provided, that prior written notice shall have been given by the Issuer to each of the Rating Agencies; provided, however, that the Issuer may amend this Security Agreement without the consent of the Collateral Agent (except with respect to clause (D) below for which Collateral Agent prior written consent shall be required) and the Noteholders for one or more of the following purposes: (A) to add to the covenants and agreements pursuant to this Security Agreement for the benefit of the Holders of the Senior Notes; (B) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in this Security Agreement or in any amendment to this Security Agreement; (C) to add such provisions with respect to matters or questions arising under this Security Agreement as may be necessary or desirable and not inconsistent with this Security Agreement, (D) to add to the duties of the Issuer or the Collateral Agent; (E) to add or amend any provisions of this Security Agreement as required by any Rating Agency or any other nationally recognized statistical rating agency in order to maintain or improve any rating of the Notes; (F) to comply with any requirement imposed by changes in accounting policies that do not materially impact the Notes; (G) to comply with any requirements imposed by the Code; (H) to provide for the issuance of one or more Series of callable notes by the Issuer; or (I) to restructure the Program, including to add AHL REIT as a seller of Mortgage Loans, to provide for the holding of securities secured by Mortgage Loans by the Issuer and to modify the swap arrangements; provided, however, that such action shall not adversely affect in any material respect the interests of any Secured Party; provided, further, that such action shall be deemed to not materially and adversely affect the interests of any Secured Party if the Collateral Agent receives (i) an Officer's Certificate of the Issuer certifying that such action will not adversely affect in any material respect the interests of any Secured Party and (ii) (x) an Opinion of Counsel that such action will not adversely affect in any material respect the interests of any Secured Party or (y) Rating Agency Confirmation with respect to such action; provided, that the Issuer, prior to any material amendment, shall obtain Rating Agency Confirmation with respect to such amendment (and provide the same to the Collateral Agent); provided, further, that an Opinion of Counsel shall be furnished to the Collateral Agent or its designated agent to the effect that such amendment (i) will not cause the Notes to fail to qualify as debt for United States federal income tax purposes and (ii) will not cause the Issuer to be characterized as an association (or a publicly traded partnership) taxable as a corporation or a taxable mortgage pool for United States federal income tax purposes;

provided, finally, that any amendment described under clause (1) above shall be subject to (1) Rating Agency Confirmation and (2) receipt by the Collateral Agent, the Indenture Trustee and the Swap Counterparties of an Opinion of Counsel that such restructuring shall not cause the Issuer to be required to be registered as an "investment company" under the Investment Company Act. Any waiver of any provision of this Security Agreement, and any consent to any departure by the Issuer from the terms of any provision of this Security Agreement, shall be effective (i) only in the specific instance and for the specific purpose for which given and (ii) after the Issuer has provided prior notice thereof to the Rating Agencies. No notice to or demand upon the Issuer in any instance hereunder shall entitle the Issuer to any other or further notice or demand in similar or other circumstances.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Sale of Certain Collateral. The Issuer recognizes that the Collateral Agent may be unable to effect a public sale of the Collateral by reason of certain prohibitions contained in the Securities Act and applicable state securities laws, and instead may resort to one or more private sales of the Collateral to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such security for their own account for investment and not with a view to the distribution or resale thereof. The Issuer acknowledges and agrees that any such private sale or sales may result in prices and other terms less favorable to the seller than if the disposition were made pursuant to a public sale and, notwithstanding such circumstances, agrees that any such private sale or sales made in an otherwise commercially reasonable manner shall not be deemed commercially unreasonable solely because of the private nature of such sale or sales. The Collateral Agent is hereby authorized to use the services of an investment bank in connection with any such sale. The Collateral Agent and the Secured Parties shall be under no obligation to delay a sale of any of the Collateral for the period of time necessary to permit the issuer of any securities to register them for public sale under the Securities Act or under applicable state securities laws, even if such issuers would agree to do so.

Section 11.02 Further Assurances. The Issuer agrees that it will join with the Collateral Agent in executing and, at its own expense, file and refile such financing statements, continuation statements and other documents (including this Security Agreement) in such offices as may be necessary or appropriate and wherever required in order to perfect and preserve the rights and interests granted to the Collateral Agent hereby, and hereby authorizes the Servicer to arrange for the filing of financing statements and amendments thereto and continuation statements relative to all or any part thereof without further authorization of the Issuer, and agrees to do such further acts and things, and to execute and deliver to the Collateral Agent such additional assignments, agreements, powers and instruments, as are necessary to carry into effect the purposes of this Security Agreement or to better assure and confirm unto the Collateral Agent its rights, powers and remedies hereunder (including as the Collateral Agent may request).

Section 11.03 No Waiver; Cumulative Remedies. No failure on the part of the Collateral Agent to exercise, and no delay on the part of the Collateral Agent in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy by the Collateral Agent preclude any other or further

exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies that may be available to the Collateral Agent, whether at law, in equity or otherwise.

Section 11.04 Notices, etc. Except where telephonic instructions or notices are authorized herein to be given, all notices, demands, instructions and other communications required or permitted to be given to or made upon any party hereto shall be in writing (including by electronic or facsimile transmission) and shall be personally delivered or sent by guaranteed overnight delivery or by electronic or facsimile transmission (to be followed by personal or guaranteed overnight delivery) and shall be deemed to be given for purposes of this Security Agreement on the date that such writing is received by the intended recipient thereof in accordance with the provisions of this Section 11.04. Unless otherwise specified in a notice sent or delivered in accordance with the foregoing provisions of this Section 11.04, notices, demands, instructions and other communications in writing shall be given to or made upon the parties at their respective addresses (or to their respective telecopy numbers) indicated in Schedule III hereto, and, in the case of telephonic instructions or notices, by calling the telephone number or numbers indicated for such party in Schedule III hereto.

Section 11.05 Fees, Costs and Expenses, etc. The Issuer shall pay the Collateral Agent such fee for its services as shall be agreed upon in writing by the Issuer and the Collateral Agent; provided, however, that the annual fees (which shall not include extraordinary fees) payable to the Collateral Agent shall not exceed 0.01% per annum on the weighted average of the Program Size. Subject to Sections 6.03, 6.06 and 7.02(b), the Issuer hereby agrees to (a) pay or reimburse the Collateral Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with the preparation and execution of, and any amendment, supplement or modification to, this Security Agreement and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Collateral Agent, (b) reimburse the Collateral Agent for all reasonable out-of-pocket costs and expenses (excluding expenses solely attributable to internal overhead) incurred by the Collateral Agent in connection with the enforcement of or preservation of any rights under this Security Agreement, (c) pay, indemnify, and hold the Collateral Agent harmless from any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying stamp and other documentary taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Security Agreement, and any such other documents; and (d) indemnify and hold harmless the Collateral Agent and its officers, directors, employees and agents against any and all losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by the Collateral Agent, relating to or arising out of this Security Agreement or under any other Program Document or by the Collateral Agent relating to or arising out of the enforcement of this Security Agreement or the preservation of any of its rights to the Collateral; provided, that the Collateral Agent shall not have the right to be indemnified hereunder for its own negligence, bad faith or willful misconduct. If the Issuer shall fail to do any act or thing which it has covenanted to do hereunder or any representation or warranty on the part of the Issuer contained herein or repeated and reaffirmed herein shall be breached, the Collateral Agent may, with the

consent of the Secured Parties (but shall not be obligated to), do the same or cause it to be done or remedy any such breach, and may expend its funds for such purpose. Any and all amounts so expended by the Collateral Agent shall be repayable to it by the Issuer. Subject to Sections 6.03, 6.06, 7.02(b), amounts payable to the Collateral Agent shall be paid as follows: (A) if the Collateral Agent provides the Issuer with notice of such amounts on or before the last Business Day of the calendar month in which such amount arose, the Issuer shall pay such amounts on the Payment Date occurring in the immediately succeeding calendar month and (B) if the Collateral Agent provides such notice after the last Business Day of the calendar month in which such amount arose, the Issuer shall pay such amounts on the Payment Date occurring in the calendar month after the month in which the demand was made. The obligations of the Issuer under this Section 11.05 shall survive the resignation or removal of the Collateral Agent and the termination of this Security Agreement and the discharge of the other obligations of the Issuer hereunder.

Section 11.06 Collateral Agent Appointed Attorney-in-Fact. The Issuer hereby appoints the Collateral Agent its attorney-in-fact, with full power of substitution, for the purpose of taking such action and executing agreements, instruments and other documents, in the name of the Issuer, as the Collateral Agent or the Holders of the Senior Notes may deem necessary or advisable to accomplish the purposes hereof, which appointment is coupled with an interest and is irrevocable.

Section 11.07 Termination. Except as expressly otherwise provided herein, this Security Agreement, and the assignments, pledges and security interests created or granted hereby, shall terminate when (a) all Obligations shall have been fully paid and satisfied, and (b) all Notes shall have been fully paid and satisfied, at which time the Collateral Agent shall reassign upon the written direction of the Issuer (without recourse upon, or any warranty whatsoever by, the Collateral Agent), and deliver to the Issuer all Collateral and documents then in the custody or possession of the Collateral Agent and, if directed by the Issuer in writing, shall execute and deliver to the Issuer for filing in each office in which any financing statement relative to the Collateral or the agreements relating thereto or any part thereof shall have been filed, a termination statement under the UCC releasing the Collateral Agent's interest therein, and such other documents and instruments as the Issuer may reasonably request, all without recourse upon or warranty whatsoever by, the Collateral Agent, and at the cost and expense of the Issuer.

The Issuer and the Collateral Agent hereby agree that, if any Deposited Funds remain on deposit in the Collateral Account after the payment in full of all of the Obligations, such amounts shall be released by the Collateral Agent upon the written direction of the Issuer and paid to the Servicer.

Section 11.08 Successors and Assigns; Benefit of Agreement. This Security Agreement shall be binding upon and inure to the benefit of the Issuer and the Secured Parties and their respective successors and assigns; provided, however, that the Issuer may not assign any of its rights or obligations hereunder except with the prior written consent of the Collateral Agent (on behalf of the Holders of the Senior Notes), each Swap Counterparty, each of the Rating Agencies and each Subordinated Noteholder except as set forth in the Interest Rate Swaps. This Security Agreement shall also inure to the benefit of the Holders of the Notes,

which are hereby expressly declared to be third party beneficiaries hereof. Subject to the foregoing, no Person not a party to this Security Agreement shall be deemed to be a third party beneficiary hereof nor shall any Person be empowered to enforce the provisions of this Security Agreement, except as set forth in the preceding sentence and to the extent such Person becomes a permitted successor or assign hereunder.

Section 11.09 **GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS CONFLICTS OF LAWS PROVISIONS (OTHER THAN SECTIONS 5-1402 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW), AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS. EACH PARTY HERETO HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HERETO HEREBY CONSENTS TO PROCESS BEING SERVED IN ANY SUIT, ACTION OR PROCEEDING WITH RESPECT TO THIS SECURITY AGREEMENT OR ANY DOCUMENT DELIVERED PURSUANT HERETO BY THE MAILING OF A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, RETURN RECEIPT REQUESTED, TO ITS RESPECTIVE ADDRESS SPECIFIED AT THE TIME FOR NOTICES UNDER THIS SECURITY AGREEMENT OR TO ANY OTHER ADDRESS OF WHICH IT SHALL HAVE GIVEN WRITTEN NOTICE TO THE OTHER PARTIES. THE FOREGOING SHALL NOT LIMIT THE ABILITY OF ANY PARTY HERETO TO BRING SUIT IN THE COURTS OF ANY JURISDICTION.**

EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

Section 11.10 Execution in Counterparts. This Security Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same Security Agreement.

Section 11.11 Section Headings. Section headings used in this Security Agreement are for convenience only and shall not affect the construction of this Security Agreement.

Section 11.12 Nonpetition Covenant. Notwithstanding any prior termination of this Security Agreement, the Collateral Agent as such shall not, prior to the date which is one year and one day after the payment in full of the last rated obligation of the Issuer including but not limited to the last Secured Liquidity Note, Extended Note and Term Note outstanding, acquiesce, petition or otherwise, directly or indirectly, invoke or cause the Issuer to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Issuer under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer. This Section 11.12 shall survive the termination of this Security Agreement.

Section 11.13 Severability. In case one or more of the provisions contained in this Security Agreement shall be or shall be deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. If any provision of this Security Agreement shall be or shall be deemed to be illegal, invalid or unenforceable under the applicable laws and regulations of one jurisdiction, such provision shall not thereby be rendered illegal, invalid or unenforceable in any other jurisdiction.

Section 11.14 Entire Agreement. This Security Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby and supersedes all prior agreements and understandings with respect to such matters between the parties.

Section 11.15 Limited Recourse to the Issuer. Notwithstanding anything to the contrary contained herein, all Obligations of the Issuer shall be payable by the Issuer only to the extent of funds available therefor under Sections 6.03, 6.06 and 7.02 and, to the extent such funds are not available or are insufficient for the payment thereof, shall not constitute a claim against the Issuer to the extent of such unavailability or insufficiency until such time as the Issuer has assets sufficient to pay such prior deficiency. This Section 11.15 shall survive the termination of this Security Agreement.

Section 11.16 No Recourse. The obligations of the Issuer hereunder are solely the obligations of the Issuer and no recourse shall be had with respect to this Security Agreement, any of the obligations of the Issuer hereunder or for the payment of any fee or other amount payable hereunder or for any claim based on, arising out of or relating to any provision of this Security Agreement against any employee, officer, settlor, Affiliate, agent or servant of the Issuer. The provisions of this Section 11.16 shall survive the termination of this Security Agreement.

Section 11.17 Third-Party Beneficiary. Each Swap Counterparty and its successors and assigns shall be an express third-party beneficiary of this Security Agreement, and shall be entitled to rely upon and directly enforce any rights granted to it hereunder (except

to the extent of its rights as a Secured Party (which rights shall be enforced by the Collateral Agent on its behalf)).

Section 11.18 No Recourse. It is expressly understood and agreed by the parties hereto that (a) this Security Agreement is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of the Carmel Mountain Funding Trust, in the exercise of the powers and authority conferred and vested in it, (b) each of the representations, undertakings and agreements herein made on the part of the Carmel Mountain Funding Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association but is made and intended for the purpose of binding only the Carmel Mountain Funding Trust, (c) nothing herein contained shall be construed as creating any liability on U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under the parties hereto and (d) under no circumstances shall U.S. Bank Trust National Association be personally liable for the payment of any indebtedness or expenses of the Carmel Mountain Funding Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Carmel Mountain Funding Trust under this Agreement or any other related documents.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed by their respective officers or agents thereunto duly authorized, as of the date first above written.

CARMEL MOUNTAIN FUNDING TRUST

By: U.S. BANK TRUST NATIONAL ASSOCIATION, not in its individual capacity, but solely as Owner Trustee

By: /s/ Patricia M. Child
Patricia M. Child

DEUTSCHE BANK TRUST COMPANY AMERICAS,
as Collateral Agent

By: /s/ Eileen M. Hughes
Eileen M. Hughes
Vice President

Schedule I

Definitions List

Schedule II

Events of Default

(a) Failure on the part of the Seller or the Servicer (i) to make any payment or deposit on the date required under the Mortgage Loan Purchase and Servicing Agreement (on or before five Business Days after the date such payment or deposit is required to be made); provided, however, that no grace period shall apply for purchase obligations in respect of a breach of the covenant in Section 2.1(b) of the Mortgage Loan Purchase and Servicing Agreement or (ii) to observe or perform in any material respect any other material covenants or agreements of the Seller or the Servicer under the Mortgage Loan Purchase and Servicing Agreement which failure in the case of this clause (ii) continues unremedied for a period of forty-five (45) days after the earlier of (A) the date on which the Seller or the Servicer obtains actual knowledge thereof or (B) the date on which written notice of such failure has been given to the Seller or the Servicer by the Collateral Agent or to the Seller or the Servicer and the Collateral Agent by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(b) Any representation or warranty made by the Seller pursuant to the Mortgage Loan Purchase and Servicing Agreement (other than any of the representations made in Section 3.2 thereof) proves to have been false or misleading in any material respect when made, and, if such representation or warranty is correctable, which continues to be false or misleading in any material respect for a period of forty-five (45) days after the earlier of (i) the date on which the Seller obtains actual knowledge thereof or (ii) the date on which the Seller shall have been given written notice of such false or misleading representation or warranty;

(c) The Issuer defaults in the payment of any interest on any Senior Note (or, if the Senior Notes have been paid in full, any Subordinated Note) when the same becomes due and payable and such default remains unremedied for more than one (1) Business Day after it occurs;

(d) The Issuer fails to comply with any of its other agreements or covenants in, or provisions of, the Senior Notes (or, if the Senior Notes have been paid in full, the Subordinated Notes) or this Security Agreement and the failure to so comply materially and adversely affects the interests of the Senior Noteholders (or, if the Senior Notes have been paid in full, the Holders of the Subordinated Notes) and continues to materially and adversely affect the interests of the Senior Noteholders (or, if the Senior Notes have been paid in full, the Holders of the Subordinated Notes) for a period of thirty (30) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Issuer by the Collateral Agent or to the Issuer and the Collateral Agent by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(e) The occurrence of an Event of Bankruptcy with respect to the Issuer, the Seller, the Servicer, or the Performance Guarantor;

(f) The Issuer shall have become an "investment company" or shall have become under the "control" of an "investment company" under the Investment Company Act;

(g) Any representation or warranty or statement made or deemed made by the Issuer in this Security Agreement or in any other Program Document or in any written certificate or statement made or entered into in connection herewith or therewith shall prove to have been false or misleading when made in any material respect, and, if such representation, warranty or statement is capable of being corrected, continues to be false or misleading in any material respect for a period of forty-five (45) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such incorrect representation, warranty or statement shall have been given to the Issuer by the Collateral Agent or to the Issuer and the Collateral Agent by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(h) Failure by the Issuer to observe or perform any covenant or agreement contained in any Program Document which failure would have a material adverse effect on the Secured Parties and not constituting an Event of Default under any other clause of this Schedule II and the continuance of such failure for forty-five (45) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which written notice of such failure shall have been given to the Issuer by the Collateral Agent or to the Issuer and the Collateral Agent by the Required Senior Noteholders (or, if the Senior Notes have been paid in full, the Required Subordinated Noteholders);

(i) A Servicer Event of Default not constituting an Event of Default under any other clause of this Schedule II shall have occurred and be continuing after giving effect to any applicable grace period or the Issuer shall not have replaced such Servicer in accordance with Section 12.1 of the Mortgage Loan Purchase and Servicing Agreement for a period of forty-five (45) days after the Issuer has notified the Collateral Agent of such Servicer Event of Default;

(j) The Issuer shall not be in compliance with Section 2.3(c) of the Trust Agreement in any material respect and such noncompliance shall continue for a period of thirty (30) days after the earlier of (i) the date on which the Issuer obtains actual knowledge thereof or (ii) the date on which the Issuer shall have been given written notice of such noncompliance;

(k) This Security Agreement, the Indenture or the Interest Rate Swaps in a maximum notional amount equal to the Program Size shall cease, for any reason, to be in full force and effect in accordance with their respective terms;

(l) At any time the Performance Guarantee is rejected, repudiated or no longer in full force and effect;

(m) At any time the funds on deposit in the Reserve Fund shall be less than the Required Reserve Fund Amount for sixty (60) consecutive days or more if the deficiency is less than 0.25% of the Aggregate Outstanding Principal Balance, or (ii) for two (2) consecutive Business Days if the deficiency is equal to or greater than 0.25% of the Aggregate Outstanding Principal Balance;

(n) On the last day of any calendar month, either (i) the ratio of the Outstanding Principal Balance of all Delinquent Loans owned by the Issuer to the Aggregate Outstanding Principal Balance shall equal more than seven percent (7%) or (ii) the ratio of the Outstanding Principal Balance of all Three Payment Delinquent Loans owned by the Issuer (including REO and foreclosed property) to the then Aggregate Outstanding Principal Balance shall equal more than two percent (2%);

(o) The failure of the Issuer to maintain an agreement (in substantially the form of Exhibit B to the Mortgage Loan Purchase and Servicing Agreement) with a Rated Bidder to the effect that such Rated Bidder agrees to submit a binding bid for all non-Delinquent Loans and non-Defaulted Loans in a Termination Event Auction and, in the case of a withdrawal or reduction of the long-term debt rating assigned to the Rated Bidder below "P-1" by Moody's, such failure continues for a period of thirty (30) days or more and a Rated Bidder rated at least "P-1" by Moody's has not been appointed;

(p) The failure of any Swap Counterparty to pay amounts due and owing under an Interest Rate Swap unless the maximum notional amount of the Interest Rate Swaps that are not subject to such Interest Rate Swap Event of Default are equal to or greater than the then-current Program Size;

(q) The Issuer defaults in the payment of any principal of any Term Note or Subordinated Note on its Final Scheduled Payment Date or of any Extended Note on its Final Maturity; or

(r) The occurrence of a termination event under clause (h), (p), (q) or (r) of Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement; or

(s) Any other event shall occur which may be specified in any Indenture Supplement as an "Event of Default".

Schedule III

Addresses For Notices

Carmel Mountain Funding Trust
c/o U.S. Bank Trust National Association,
as Owner Trustee
209 S. LaSalle Street
Chicago, Illinois 60604
Attn: Corporate Trust Administration
Telephone: (312) 325-8902
Facsimile: (312) 325-8905

with a copy to:

Carmel Mountain Funding Trust
c/o Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn: David Hertzel, Esq.
Telephone: (858) 676-2134
Facsimile: (858) 521-0614

with a copy to:

Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Artn: Melissa Dant, Esq.
Telephone: (858) 676-2134
Facsimile: (858) 521-0614

Deutsche Bank Trust Company Americas, as Collateral Agent
60 Wall Street
MS NYC60-2606
New York, New York 10005
Attn: Commercial Paper Group
Telephone: (212) 250-5861
Facsimile: (212) 797-8604

Calyon New York Branch
1301 Avenue of the Americas
New York, New York 10019
Attn: Rene Fortier
Telephone: (212) 261-3577
Facsimile: (212) 261-3244

with a copy to:

Lehman Brothers Special Financing Inc.
745 Seventh Avenue
New York, New York 10019
Attn: Donald Kutch
Telephone: (212) 526-5810
Facsimile: (646) 758-1964

Schedule IV

PERFECTION REPRESENTATIONS, WARRANTIES AND COVENANTS

In addition to the representations, warranties and covenants contained in the Mortgage Loan Purchase and Servicing Agreement and the Security Agreement, to induce the Collateral Agent to enter into the Security Agreement, the Issuer hereby represents, warrants, and covenants to the Collateral Agent as to itself as follows, on the Initial Closing Date and on each applicable Closing Date thereafter:

General

1. The Security Agreement creates a valid and continuing security interest (as defined in the applicable UCC) in the Collateral in favor of the Collateral Agent for the benefit of the Secured Parties, which security interest is prior to all other Liens, and is enforceable as such against creditors of and purchasers from the Issuer.

2. The Collateral constitutes "accounts," "general intangibles," "instruments," and "investment property," within the meaning of the UCC as in effect in the State of New York.

3. The Collection Account, the Collateral Account, the Reserve Accounts, the Allocated Expenses Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account and any other account established pursuant to the Security Agreement or the Depositary Agreement, and all subaccounts thereof, constitute either a deposit account or a securities account.

4. All of the Collateral that constitutes security entitlements have been and will be credited to one of the Securities Accounts (as defined below). The securities intermediary for each Securities Account has agreed to treat all assets credited to the Securities Accounts as "financial assets" within the meaning of the applicable UCC.

Creation

5. The Issuer owns and has good and marketable title to the Collateral free and clear of any Lien, claim or encumbrance of any Person, excepting only liens for taxes, assessments or similar governmental charges or levies incurred in the ordinary course of business that are not yet due and payable or as to which any applicable grace period shall not have expired, or that are being contested in good faith by proper proceedings and for which adequate reserves have been established, but only so long as foreclosure with respect to such a lien is not imminent and the use and value of the property to which the Lien attaches is not impaired during the pendency of such proceeding.

6. The Issuer has received all consents and approvals required by the terms of the Collateral that constitute accounts, general intangibles, instruments or security entitlements to grant to the Collateral Agent of a security interest in all of its interest and rights in such Collateral hereunder.

Perfection

7. The Issuer has caused or will have caused, on or before the effective date of the Security Agreement, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Collateral (which may be perfected by the filing of a financing statement) granted by the Issuer to the Collateral Agent (for the benefit of the Secured Parties) hereunder and such financing statements shall describe such Collateral and contain a statement that: "A purchase of or acquisition of a security interest in any collateral described in this financing statement will violate the rights of the Collateral Agent."

8. With respect to the Collection Account, the Collateral Account, the Reserve Accounts, the Allocated Expenses Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, any other account established pursuant to the Security Agreement or the Depositary Agreement, or any subaccounts thereof that constitute securities accounts or security entitlements (the "Securities Accounts"), either: (i) the Issuer has delivered to the Collateral Agent a fully executed agreement pursuant to which the securities intermediary has agreed to comply with all instructions originated by the Collateral Agent relating to the Securities Accounts without further consent by the Issuer or (ii) the Issuer has taken all steps necessary to cause the securities intermediary to identify in its records the Collateral Agent as the Person having a security entitlement against the securities intermediary in each of the Collection Account, the Collateral Account, the Reserve Account, the Allocated Expenses Account, the Secured Liquidity Note Account and the Extended Notes Distribution Account.

Priority

9. Other than the transfer of the Mortgage Loans to the Issuer under the Mortgage Loan Purchase and Servicing Agreement and the security interest granted to the Collateral Agent pursuant to the Security Agreement, none of the Issuer, the Servicer, nor the Seller has pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Mortgage Loans or Collateral, as applicable, or the Collection Account, the Collateral Account, Reserve Accounts, the Allocated Expenses Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, any other account established pursuant to the Security Agreement or the Depositary Agreement, or any subaccount thereof. None of the Issuer, the Servicer, nor the Seller has authorized the filing of, or is aware of any financing statements against the Issuer or the Seller that include a description of collateral covering the Mortgage Loans or the Collateral, as applicable, or the Collection Account, Collateral Account, Reserve Accounts, the Allocated Expenses Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, any other account established pursuant to the Security Agreement or the Depositary Agreement, or any subaccount thereof other than any financing statement relating to the security interest granted to the Collateral Agent hereunder, the security interest granted to the Issuer under the Mortgage Loan Purchase and Servicing Agreement, or that has been terminated.

10. The Issuer is not aware of any judgment, ERISA or tax lien filings against either the Issuer or the Seller.

11. None of the instruments that constitute or evidence the Collateral has any marks or notations indicating that they have been pledged, assigned or otherwise conveyed to any Person other than the Collateral Agent hereunder or to the Issuer pursuant to the Mortgage Loan Purchase and Servicing Agreement.

12. Neither the Collection Account, the Collateral Account, the Reserve Accounts, the Allocated Expenses Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, any other account established pursuant to the Security Agreement or the Depositary Agreement, nor any subaccount thereof are in the name of any person other than the Collateral Agent. The Issuer has not consented to the securities intermediary of any of the Securities Accounts to comply with entitlement orders of any person other than the Collateral Agent.

13. Survival of Perfection Representations. Notwithstanding any other provision of the Mortgage Loan Purchase and Servicing Agreement and the Security Agreement or any other Program Document, the Perfection Representations contained in this Schedule shall be continuing, and remain in full force and effect (notwithstanding any termination of the Program Documents or any replacement of the Servicer or termination of the Servicer's rights to act as such) until such time as all Obligations under the Security Agreement have been finally and fully paid and performed.

14. No Waiver. The parties to the Security Agreement: (i) shall not, without obtaining a confirmation of the then-current rating of all outstanding Series of Notes, waive any of the Perfection Representations; and (ii) shall provide the Ratings Agencies and each Swap Counterparty with prompt written notice of any breach of the Perfection Representations, and shall not, without obtaining a confirmation of the then-current rating of all outstanding Series of Notes (as determined after any adjustment or withdrawal of the ratings following notice of such breach) waive a breach of any of the Perfection Representations.

Exhibit A

Form of Officer's Certificate

[NAME OF ISSUER/SERVICER/SELLER]

Issuer/Servicer/Seller Certificate Pursuant to Section 4.01(k)
of the Security Agreement

[_____ ____, 2005]

The undersigned, a duly authorized officer of [NAME OF ISSUER/SERVICER/SELLER], a Delaware [corporation/statutory trust] (the "Company"), DOES HEREBY CERTIFY THAT:

(i) All representations and warranties of the Company contained in the Program Documents to which it is a party are true and correct in all material respects and with the same force and effect as though such representations and warranties had been made as of the Effective Date.

(ii) [For Issuer Only] All of the conditions specified in Section 4.01 of the Security Agreement have been satisfied.

(iii) The Effective Date is [_____, 2005].

Capitalized terms not defined herein have the meaning ascribed to such terms in the Security Agreement, dated as of May 10, 2005] (the "Security Agreement"), by and between the Issuer and Deutsche Bank Trust Company Americas, as Collateral Agent.

IN WITNESS WHEREOF, the undersigned has executed this Certificate pursuant to the Security Agreement.

[NAME OF ISSUER/SERVICER/SELLER]

By: _____

Name: _____

Title: _____

EXECUTION COPY

SCHEDULE I
TO THE
SECURITY AGREEMENT

DEFINITIONS LIST

"Account Control Agreement" means the Account Control Agreement, dated as of May 10, 2005, among the Issuer, the Servicer, the Collateral Agent and U.S. Bank National Association.

"Adjusted Partial Removal Payment" means, as of any Interim Payment Date, the amount by which the aggregate Outstanding Purchase Price of all Mortgage Loans sold on such Interim Payment Date exceeds the aggregate cash proceeds of the sales of such Mortgage Loans (without regard to amounts otherwise payable by the Swap Counterparties under the Interest Rate Swaps).

"Administrator" means Accredited Home Lenders, Inc., as administrator under the Trust Agreement, or any successor administrator under the Trust Agreement.

"Affiliate" means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities (including, without limitation, partnership interests), by contract or otherwise and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Aggregate Extended Note Monthly Interest" means, with respect to all Classes of Extended Notes, the sum of all Extended Note Monthly Interest.

"Aggregate Outstanding Principal Amount" means, as of any date of determination, the aggregate outstanding Principal Amount of all Senior Notes and Subordinated Notes.

"Aggregate Outstanding Principal Balance" means, as of any date of determination the sum of the Outstanding Principal Balances of all Mortgage Loans owned by the Issuer on such date.

"Aggregate Senior Note Enhancement Amount" means on any day the sum of all Credit Amounts for all outstanding Series of Senior Notes.

"Aggregate Short-Term Note Enhancement Amount" means on any day the product of (i) the Credit Amount Percentage with respect to the Secured Liquidity Notes set forth in Section 4.09 of the Security Agreement and (ii) the then-current Program Size.

"AHLHC" means Accredited Home Lenders Holding Co. and its Subsidiaries on a consolidated basis.

"Allocated Expenses" means the Issuer's expenses, including, without limitation, Rating Agencies fees, Administrator fees, Indenture Trustee fees, Owner Trustee fees, Depositary fees, Unrecoverable Servicing Advances, Collateral Agent fees, Custodian fees, and other anticipated costs and fees; provided, however, that in no event may the cumulative amount of Allocated Expenses in any calendar year exceed the Budget Expense Limit.

"Allocated Expenses Account" has the meaning specified in Section 6.06 of the Security Agreement.

"Annual Noteholders' Tax Statement" has the meaning specified in Section 6.4(b) of the Base Indenture.

"Appraised Value" means the value set forth in an appraisal made in connection with the origination of the related Mortgage Loan as the value of the Mortgaged Property.

"Assets" means any interest of any kind in any assets or property of any kind tangible or intangible, real, personal or mixed, now owned or hereafter acquired by the Issuer or such other Person as the context may require.

"Assignment of Mortgage" means an assignment of mortgage, notice of transfer or equivalent instrument in recordable form (excepting therefrom recording information relating to the original Mortgage to the extent that such information has not been returned by the appropriate public recording office), sufficient under the laws of the jurisdiction wherein the related Mortgaged Property is located to reflect the sale of the Mortgage to the Issuer.

"Authenticating Representative" has the meaning specified in Section 3(e) of the Depositary Agreement.

"Authorized Agent" means an employee of any Seller, the Servicer, the Administrator or the Collateral Agent that has been given the authority by resolution to execute certificates and other documents on behalf of such Seller, the Servicer, the Administrator or the Collateral Agent.

"Authorized Agent Officers" has the meaning specified in Section 9.07 of the Security Agreement.

"Authorized Officer" means as to the Issuer, any authorized employee or agent of the Administrator.

"Average Outstanding Purchase Price" means, with respect to any Mortgage Loan and any Remittance Period, means (i) the sum of the Outstanding Purchase Prices of such Mortgage Loan at the end of each day during such Remittance Period, divided by (ii) the number of days in such Remittance Period. For the avoidance of doubt, the Outstanding Purchase Price on any day of a Terminated Loan or any other Mortgage Loan not owned by the Issuer or outstanding at the end of any day shall be zero.

"Back-to-Back Swap" means each interest rate swap agreement (including the related schedules, confirmations and credit support annexes), each dated as of May 10, 2005, and

any other interest rate swap agreement entered into, between the Company and a Back-to-Back Swap Counterparty separately or any substitute interest rate swaps entered into pursuant to the provisions of the related Back-to-Back Swap.

"Back-to-Back Swap Counterparty" means each Swap Counterparty and Lehman Brothers Special Financing Inc.

"Bankruptcy Code" means The Bankruptcy Reform Act of 1978, as amended from time to time, and as codified as 11 *U.S.C.* Section 101 et seq.

"Base Indenture" means the Base Indenture, dated as of May 10, 2005, between the Issuer and the Indenture Trustee, as amended, modified or supplemented from time to time.

"Benefit Plan" means (i) an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA, (ii) a "plan" (as defined in Section 4975 of the Code) that is subject to Section 4975 of the Code, (iii) an entity deemed to be investing the "plan assets" (within the meaning of 29 C.F.R. Section 2510.3-101 or otherwise under ERISA) of any such employee benefit plan or plan, or (iv) a Governmental Plan subject to applicable law that is substantially similar to the fiduciary responsibility provisions of ERISA or Section 4975 of the Code.

"Bid Price" has the meaning specified in Section 4.2(e) of the Mortgage Loan Purchase and Servicing Agreement.

"BIF" means the Bank Insurance Fund or any successor thereto.

"Book-Entry Notes" means beneficial interests in the Term Notes and Subordinated Notes, ownership and transfers of which shall be evidenced or made through book entries by a Clearing Agency as described in Section 2.19 of the Base Indenture; provided that after the occurrence of a condition whereupon book-entry registration and transfer are no longer permitted and Definitive Notes are issued to the Term Note Owners or Subordinated Note Owners, as applicable, such Definitive Notes shall replace Book-Entry Notes.

"Book-Entry Secured Liquidity Note" has the meaning specified in Section 3(a) of the Depositary Agreement.

"Borrowing Base" has the meaning specified in Section 4.03(e) of the Security Agreement.

"Budget Expense Limit" means $10,000,000 or such other amount as the Swap Counterparties and the Issuer may agree to in writing from time to time with the prior written consent of the Collateral Agent; provided that such amount may not be increased without Rating Agency Confirmation.

"Business Day" means any day other than (i) Saturday and Sunday or (ii) a day on which banking institutions or foreign exchange markets in New York City, San Diego, California or Santa Ana, California, are authorized or required by law, regulation or executive order to be closed for business.

"Calculation Agent" means Accredited Home Lenders, Inc. or its designee.

"Calculation Period" has the meaning specified in the Interest Rate Swaps.

"Capitalized Interest Component" means, as of any date of determination, the Principal Component of Secured Liquidity Notes which represents capitalized interest on Secured Liquidity Notes which matured after the immediately preceding Payment Date.

"Carry-Over Interest Shortfall" has the meaning specified in Section 2.6 of the Base Indenture.

"Cede" means Cede & Co., a nominee of DTC.

"Certificate Agreement" has the meaning specified in Section 3(g) of the Depositary Agreement.

"Certificated Secured Liquidity Note" has the meaning specified in Section 3(a) of the Depositary Agreement.

"Certification" means a certification in the form attached to the Custodial Agreement as Exhibit A delivered to the Collateral Agent by the Custodian covering the Mortgage Loans included in a Transfer Supplement as set forth in Section 4 to the Custodial Agreement.

"Class" means (i) Secured Liquidity Notes with the same issuance date and Expected Maturity, (ii) Extended Notes with the same issuance date and Final Maturity, or (iii) Term Notes or Subordinated Notes with the same issuance date, interest rate and Final Scheduled Payment Date.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act or any successor provision thereto. The initial Clearing Agency shall be DTC.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Date" means the closing date specified in any Transfer Supplement, which is the date the sale of any Portfolio is designated to occur.

"Closing Date Outstanding Principal Balance" means, with respect to any Mortgage Loan, the Outstanding Principal Balance of such Mortgage Loan as of the Closing Date therefor.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, and any successor statute of similar import, in each case as in effect from time to time. References to sections of the Code also refer to any successor sections.

"Collateral" has the meaning specified in Section 5.01 of the Security Agreement.

"Collateral Account" means the Eligible Account maintained by the Collateral Agent as more fully described in Section 6.01 of the Security Agreement.

"Collateral Agent" means Deutsche Bank Trust Company Americas, not in its individual capacity but solely as collateral agent for the Secured Parties under the Security Agreement, or any successor collateral agent under the Security Agreement.

"Collection Account" shall mean the collection account established pursuant to Section 4.5 of the Mortgage Loan Purchase and Servicing Agreement.

"Collections" means all payments received on the Collateral.

"Company" means Accredited Home Lenders, Inc., a California corporation.

"Condemnation Proceeds" means, as to each Mortgage Loan, all awards or settlements in respect of a Mortgaged Property, whether permanent or temporary, partial or entire, by exercise of the power of eminent domain or condemnation, to the extent not required to be released to the Mortgagor pursuant to the terms of law or to the related Loan Documents.

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person (a) with respect to any indebtedness, lease, dividend, letter of credit or other obligation of another if the primary purpose or intent thereof by the Person incurring the Contingent Obligation is to provide assurance to the obligee of such obligation of another that such obligation of another will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof or (b) under any letter of credit issued for the account of that Person or for which that Person is otherwise liable for reimbursement thereof. Contingent Obligation shall include (a) the direct or indirect guarantee, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another and (b) any liability of such Person for the obligations of another through any agreement (contingent or otherwise) (i) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), (ii) to maintain the solvency of any balance sheet item, level of income or financial condition of another or (iii) to make take-or-pay or similar payments if required regardless of non-performance by any other party or parties to an agreement, if in the case of any agreement described under subclause (i) or (ii) of this sentence the primary purpose or intent thereof is as described in the preceding sentence. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported.

"Corporate Trust Office" means (x) with respect to the Collateral Agent or the Depositary, the principal office of the Collateral Agent or the Depositary at which at any particular time its corporate trust business shall be administered which office at the date of the execution of the Security Agreement is located at Deutsche Bank Trust Company Americas, 60 Wall Street, MS NYC 60-2606, New York, New York 10005, or at any other time at such other

address as the Collateral Agent or the Depositary may designate from time to time by notice to the Noteholders and the Issuer, (y) with respect to the Indenture Trustee, the office of the Indenture Trustee at which at any particular time its corporate trust business shall be administered which office at the date of the execution of the Base Indenture is located at Deutsche Bank Trust Company Americas, 60 Wall Street, MS NYC 60-2606, New York, New York 10005, or at any other time at such other address as the Indenture Trustee may designate from time to time by notice to the holders of the Term Notes and the Issuer and (z) with respect to the Owner Trustee, the office of the Owner Trustee at which at any particular time its corporate trust business shall be administered which office at the date of the execution of the Trust Agreement is located at 209 S. LaSalle Street, Chicago, Illinois, Attention: Corporate Trust Administration. For purposes of presentment and surrender as set forth in Section 8.2 of the Base Indenture, such office is located at DTC Transfer Agent Services, 55 Water Street, Jeanette Park Entrance, New York, New York 10041.

"Credit-Adjusted Price" has the meaning specified in the Interest Rate Swaps.

"Credit Amount" means, with respect to a particular Series of Senior Notes, the product of (x) the Credit Amount Percentage for such Series and (y) the Series Program Size for that Series (i.e., Principal Amount of Subordinated Notes associated with the Senior Notes).

"Credit Amount Percentage" means, with respect to any Series of Term Notes, the percentage specified in the related Supplement, and, with respect to the Secured Liquidity Notes and Extended Notes, collectively, the percentage specified in the Security Agreement.

"Credit Repositories" has the meaning specified in Section 3.2(hhh) of the Mortgage Loan Purchase and Servicing Agreement.

"Credits Outstanding" means, as of the close of business on any day (1) the Principal Component of all outstanding Secured Liquidity Notes, plus (2) the aggregate principal amount of outstanding Extended Notes, minus (3) the Deposited Funds then on deposit in the Collateral Account and allocable under Section 6.03 of the Security Agreement to the payment when payable of Principal Component or principal amount of Secured Liquidity Notes and Extended Notes outstanding under Section 6.03(a) or Section 6.03(b) of the Security Agreement, except to the extent that such funds are then subject to any writ, order, stay, judgment, warrant of attachment or execution or similar process.

"Current Shortfall" means, for any Series of Notes receiving allocations pursuant to Section 2.02(i) of the Security Agreement, the excess, if any, of (A) the amount necessary to pay the amount due in respect of such Series pursuant to Section 2.02(i)(A)(y) of the Security Agreement or Section 2.02(i)(B)(y) of the Security Agreement, as applicable (in case of each class of Extended Notes, the amount that would be due on the related Final Maturity) over (B) the amount equal to the remaining collections specified in Section 2.02(i)(A)(x) of the Security Agreement or 2.02(i)(B)(x) of the Security Agreement.

"Current Shortfall Factor" means for any Series of Notes and any date a fraction the numerator of which is the Current Shortfall for such Series for such date and the denominator of which is the aggregate Current Shortfall for all Series of Notes on such date.

"Custodial Agreement" means the Custodial Agreement, dated as of May __, 2005, entered into among the Seller, the Issuer, the Collateral Agent and the Custodian, as the same may at any time be amended, modified or supplemented.

"Custodial Delivery Failure" has the meaning specified in Section 11(b) of the Custodial Agreement.

"Custodian" means Deutsche Bank National Trust Company, in its capacity as custodian under the Custodial Agreement, or any successor custodian under the Custodial Agreement.

"Customary Servicing Procedures" means the procedures (including collection procedures) that the Servicer customarily employs and exercises in servicing and administering nonprime mortgage loans for its own account, including without limitation the Loss Mitigation Action Plan, which are in accordance with accepted customary and reasonable nonprime mortgage loan servicing practices of similar nonprime lending institutions in the jurisdiction in which the Mortgaged Property is situated for properties of a similar type.

"Cut-Off Date" means (i) with respect to the purchase of a Mortgage Loan by the Seller or the Servicer pursuant to Section 2.1 (b), 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement, the date of such purchase and (ii) with respect to any other sale by the Issuer of a Mortgage Loan, the time and date established by the Issuer and the Mortgage Loan Buyer as the time and date on and after which all principal and interest collected and other benefits accruing on the Mortgage Loan shall belong to such Mortgage Loan Buyer.

"Daily Mortgage Loan Interest" means for any day within a Remittance Period and any Mortgage Loan, the product of (a) the sum of the Outstanding Principal Balances of the Mortgage Loans and (b) the Weighted Average Interest Rate and (c) 1/365.

"Deemed Representation" has the meaning specified in Section 3.2(iii) of the Mortgage Loan Purchase and Servicing Agreement.

"Defaulted Loan" means any Mortgage Loan (i) which is a Three-Payment Delinquent Loan or (ii) which is a Delinquent Loan for which the Servicer has not made a Monthly Servicer Advance and the Servicer has delivered an Officer's Certificate pursuant to Section 5.1 of the Mortgage Loan Purchase and Servicing Agreement or (iii) where any other event (other than payment failures to the extent contemplated by clauses (i) and (ii)) has occurred which gives the holder the right to accelerate payment of the Mortgage Loan and/or take steps to foreclose on the Mortgage securing the Mortgage Loan under the related Mortgage Note or other Loan Documents.

"Definitions List" means this Definitions List, as amended or modified from time to time.

"Definitive Notes" has the meaning specified in Section 2.19(e) of the Base Indenture.

"Delinquent Loan" means any Mortgage Loan which has a Monthly Payment that is past its Due Date for a period of time extending beyond the close of business on the corresponding day of the month immediately succeeding the month in which such Due Date occurred, or, if there is no such corresponding day (e.g., as when a 30-day month follows a 31-day month in which such Due Date occurred on the 31st day of such month), then on the last day of such immediately succeeding month, without giving effect to any Monthly Servicer Advance.

"Depositary" means Deutsche Bank Trust Company Americas, in its capacity as depositary under the Depositary Agreement, or any successor depositary under the Depositary Agreement.

"Depositary Agreement" means the Depositary Agreement, dated as of May 10, 2005, entered into by the Issuer and the Depositary, as the same may at any time be amended, modified or supplemented.

"Deposited Funds" has the meaning specified in Section 6.02 of the Security Agreement.

"Designated Representative" has the meaning specified in Section 3(e) of the Depositary Agreement.

"Designated Swap Counterparty" means, if there is only one Swap Counterparty, such Swap Counterparty, otherwise, the Swap Counterparty designated as such in accordance with a letter agreement among the Swap Counterparties.

"Distribution Date" means (i) after the conversion of any Class of Secured Liquidity Notes to a Class of Extended Notes and until such Extended Notes are paid in full, the Payment Date, (ii) each Final Maturity of each Class of Extended Notes outstanding, and (iii) each date that Extended Notes are redeemed.

"Dollar" and the symbol "$" mean the lawful currency of the United States.

"DTC" means The Depository Trust Company.

"Due Date" means, with respect to each Mortgage Loan, the day on which the related Monthly Payment on such Mortgage Loan is due, exclusive of any days of grace.

"Early Accumulation Event" means the occurrence of an automatic Termination Event as set forth in Section 11.2(d) through (s) of the Mortgage Loan Purchase and Servicing Agreement or the declaration of a Termination Event by the Issuer pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement.

"Effective Date" has the meaning specified in Section 4.01 of the Security Agreement.

"Effective Interest Rate" means, with respect to any Mortgage Loan and any date of determination, the product of (i) the Mortgage Interest Rate of such Mortgage Loan and

(ii) (A) the Outstanding Principal Balance of such Mortgage Loan as of the related Closing Date, divided by (B) the Initial Purchase Price of such Mortgage Loan.

"Eligibility Criteria" means, in connection with the Issuer's purchase of Mortgage Loans on any day, the Mortgage Loans acquired on such day must satisfy the following criteria: (i) each Mortgage Loan must have been originated within sixty (60) days prior to the acquisition thereof by the Issuer; (ii) the purchase of such Mortgage Loan shall not cause the Excess Spread Rate to be less than 3.00%, (iii) such Mortgage Loan shall not then be an ICU-4 Loan, (iv) such Mortgage Loan has an Outstanding Principal Balance of $40,000 or greater; (v) if such Mortgage Loan is a Second Lien Mortgage Loan (other than a Mortgage Loan for which no FICO Score was obtained), the FICO Score thereof is 580 or greater; (vi) such Mortgage Loan has a Mortgage Interest Rate equal to or greater than the three-year U.S. Treasury note rate prevailing at the time of such purchase; and (vii) each Mortgage Loan must satisfy the Eligibility Representations.

"Eligibility Representations" means the representations and warranties made by the Seller with respect to each Mortgage Loan, set forth in Section 3.2 of the Mortgage Loan Purchase and Servicing Agreement.

"Eligible Account" means any of (i) an account or accounts maintained with an Eligible Institution or trust company the short-term unsecured debt obligations of which are rated P-1 by Moody's, and A-1+ by S&P (or comparable rating if Moody's and S&P are not the Rating Agencies) at the time any amounts are held on deposit therein, (ii) an account or accounts the deposits in which are fully insured by the FDIC to the extent allowed under applicable law and the excess is invested in Eligible Investments or (iii) a segregated non-interest bearing trust account or accounts maintained with the corporate trust department of a federal or state chartered eligible institution or trust company acting in its fiduciary capacity. Eligible Accounts may bear interest.

"Eligible Institution" means any depository institution or trust company, including the Collateral Agent, that (a) is incorporated under the laws of the United States of America or any State thereof, (b) is subject to supervision and examination by federal or state banking authorities and (c) has outstanding unsecured commercial paper or other short-term unsecured debt obligations that are rated P-1 by Moody's and A-1 by S&P (or comparable ratings if Moody's and S&P are not the Rating Agencies).

"Eligible Investments" means investments which mature no later than the day prior to the next following Payment Date in the following: (i) obligations issued by, or the full and timely payment of principal of and interest on which is fully guaranteed by, the United States of America or any agency or instrumentality thereof (which agency or instrumentality is backed by the full faith and credit of the United States of America), (ii) commercial paper notes (other than the Senior Notes) rated (at the time of purchase) at least "A-1+" by S&P and "P-1" by Moody's, (iii) certificates of deposit, other deposits or bankers' acceptances issued by or established with commercial banks having short-term deposit ratings (at the time of purchase) of at least "A-1+ by S&P and "P-1" by Moody's, (iv) repurchase agreements involving any of the Eligible Investments described in clauses (i) through (iii) hereof so long as the other party to the repurchase agreement has short-term unsecured debt obligations or short-term deposits rated (at

the time of purchase) at least "A-1+" by S&P and "P-1" by Moody's and (v) direct obligations of any money market fund or other similar investment company all of whose investments consist of obligations described in the foregoing clauses of this definition and that is rated "AAAm" by S&P and "Aam" by Moody's or higher. Eligible Investments may include investments for which the Collateral Agent or its Affiliates serves as investment manager or adviser. In addition, at no time can the Eligible Investments in any of the Pledged Accounts represent the obligations of more than seven (7) obligors or be denominated in any currency other than Dollars.

"Eligible Loan" means Mortgage Loans that satisfy the Eligibility Criteria, Eligibility Representations, Portfolio Aging Limitations, Portfolio Criteria and the Wet Funded Loan Limitation. An Eligible Loan includes, without limitation, the Mortgage Loan File, Monthly Payments, Principal Prepayments, Prepayment Charges, Liquidation Proceeds, Condemnation Proceeds, Insurance Proceeds, REO Disposition Proceeds and all other rights, benefits, proceeds and obligations arising from or in connection with such Eligible Loan.

"Enhancement" means, with respect to any Series of Notes, the rights and benefits provided to the Noteholders of such Series of Notes (other than the benefit of the Reserve Fund) pursuant to any letter of credit, surety bond, reserve fund, overcollateralization, issuance of subordinated notes, spread account, guaranteed rate agreement, maturity guaranty facility, tax protection agreement, interest rate swap or any other similar arrangement (as set forth in the Enhancement Agreement delivered to the Indenture Trustee in accordance with Section 2.2 of the Base Indenture).

"Enhancement Agreement" means any contract, agreement, instrument or document governing the terms of any Enhancement or pursuant to which any Enhancement is issued or outstanding.

"Enhancement Agreement Event of Default" means, with respect to any Series of Senior Notes, any event of default under any Enhancement Agreement specified in the related Indenture Supplement.

"Enhancement Provider" means the Person providing any Enhancement as designated in the applicable Indenture Supplement.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, in each case as in effect from time to time. References to sections of ERISA also refer to any successor sections.

"ERISA Group" means the Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company, are treated as a single employer under Section 414 of the Internal Revenue Code.

"Escrow Account" means as to each Mortgage Loan, any separate account or accounts created and maintained pursuant to Section 4.7 of the Mortgage Loan Purchase and Servicing Agreement.

"Event of Bankruptcy" shall be deemed to have occurred with respect to a Person if:

(a) such Person shall become insolvent or admit in writing its inability to pay its debts as they come due, or the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now or hereafter in effect, or any other present or future federal or state bankruptcy, insolvency or similar law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of such Person or of any substantial part of its property or the making by such Person of an assignment for the benefit of creditors or the failure by such Person generally to pay its debts as such debts become due or the taking of action by such Person in furtherance of any of the foregoing; or

(b) an involuntary petition or an involuntary proceeding shall have been filed or commenced against such Person under the federal bankruptcy laws, as now or hereafter in effect, or any other present or future federal or state bankruptcy laws, as now or hereafter in effect, or any other present or future federal or state bankruptcy, insolvency or similar law, or seeking the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of such Person or of any substantial part of its property, or seeking the winding up or liquidation of the affairs of such Person and such petition or proceeding shall not have been dismissed for a period of 45 consecutive days, or an order or decree for relief against such Person shall be entered in any such proceeding; or

(c) the board of directors of such Person (if such Person is a corporation or similar entity) shall vote to implement any of the actions set forth in clause (b) above.

"Event of Default" (i) with respect to the Secured Liquidity Notes and the Extended Notes, has the meaning specified in Section 7.01 of the Security Agreement, and (ii) with respect to the Subordinated Notes and the Term Notes, has the meaning specified in Section 9.1 of the Base Indenture.

"Excess Spread Rate" means an annual rate for each Remittance Period equal to the difference between (A) and (B) where (A) equals the Weighted Average Interest Rate for such Remittance Period and where (B) equals the sum of (i) the Note Rate for such Remittance Period, (ii) the Expense Rate for such Remittance Period and (iii) the Expected Loss Rate for such Remittance Period.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Date" has the meaning specified in Section 2.12(a)(ii) of the Base Indenture.

"Expected Loss Rate" means, for any Remittance Period, the rate equal to 12 times a fraction, the numerator of which is the aggregate amount of Non-Recoverable Advances for such Remittance Period and the denominator of which is the Aggregate Outstanding Principal Balance of the Mortgage Loans owned by the Issuer during such Remittance Period.

"Expected Maturity" means, with respect to each Class of Secured Liquidity Notes, the expected maturity date of such Class, which date shall be between 1 and 180 days from the date of issuance of such Class, as set forth in the related instructions from the Issuer Agent delivered in accordance with Section 4 of the Depositary Agreement.

"Expense Rate" means, for any Remittance Period, the rate equal to 12 times a fraction, the numerator of which is the aggregate Allocated Expenses and Servicing Fee for such Remittance Period and the denominator of which is the Aggregate Outstanding Principal Balance of the Mortgage Loans owned by the Issuer on each day during such Remittance Period.

"Extended Note Amortization Event" will occur when any Extended Note remains outstanding for thirty (30) days following the conversion of the related Secured Liquidity Note; provided, however, that any Extended Note Amortization Event shall cease to exist and shall no longer be deemed to be continuing from the date all Extended Notes are paid in full.

"Extended Note Calculation Agent" means the Collateral Agent.

"Extended Note Interest Shortfall" has the meaning specified in Section 4.07(b)(ii) of the Security Agreement.

"Extended Note Monthly Interest" means, with respect to each Class of Extended Notes and each Distribution Date on which accrued interest on such Class of Extended Notes is payable under Section 6.03 of the Security Agreement, interest distributions with respect to such Class of Extended Notes equal to the product of (i) the outstanding principal amount of such Class of Extended Notes on the preceding Distribution Date (or in the case of the first Distribution Date occurring after the related Expected Maturity, such Expected Maturity) (after giving effect to all distributions and allocations made on such preceding Distribution Date), (ii) the Extended Note Rate for the related Interest Period and (iii) the actual number of days in such Interest Period divided by 360.

"Extended Note Rate" means, for each Distribution Date, one-month LIBOR plus 0.25% per annum.

"Extended Noteholder" means the holder of any Extended Note.

"Extended Notes" means any one of the Extended Notes resulting from the conversion of a Secured Liquidity Note to an Extended Note pursuant to a SLN Extended Event.

"Extended Notes Distribution Account" has the meaning set forth in Section 2 of the Depositary Agreement.

"Fair Market Value" means, with respect to any Mortgage Loan, the fair market value of such Mortgage Loan determined by the Servicer and the Issuer in accordance with the Servicer's customary practices for valuing nonprime mortgage loans.

"Fannie Mae Guides" mean the Fannie Mae Sellers' Guide and the Fannie Mae Servicers' Guide and all amendments and additions thereto.

"FDIC" means the Federal Deposit Insurance Corporation, or any successor thereto.

"FICO Score" means a statistical credit score obtained by many mortgage lenders in connection with a loan application to help assess a borrower's creditworthiness. A FICO Score is generated by models developed by a third party and made available to lenders through three (3) national credit bureaus. The FICO Score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience.

"Filing" has the meaning specified in Paragraph 12 to Schedule I of the Mortgage Loan Purchase and Servicing Agreement.

"Final Maturity" means, with respect to each Class of Extended Notes, the date which is 120 days following the Expected Maturity of such Class (or if such day is not a Business Day, the immediately preceding Business Day) and with respect to any Series of Term Notes, shall have the meaning, if any, specified in the related Indenture Supplement.

"Final Scheduled Payment Date" means, with respect to any Series of Term Notes or Subordinated Notes, the final Payment Date for such Series of Term Notes or Subordinated Notes as set forth in the related Indenture Supplement.

"Financing" means (i) securitizing nonprime mortgage loans or (ii) funding nonprime mortgage loans through a commercial paper program, repurchase facility, or loan facility.

"First Lien Mortgage Loan" means a Mortgage Loan secured by a first lien Mortgage on the related Mortgaged Property.

"First Payment Default Mortgage Loan" means a Mortgage Loan which becomes a Defaulted Loan as a result of the related Mortgagor failing to make the first payment due under the related Mortgage Note.

"Fiscal Year" means, with respect to each of the Issuer, the Seller and the Performance Guarantor, the calendar year.

"Freddie Mac Guides" means the Freddie Mac Sellers' Guide and the Freddie Mac Servicers' Guide and all amendments and additions thereto.

"FSC" has the meaning specified in Section 4(h) of the Depositary Agreement.

"GAAP" means generally accepted accounting principles set forth in the statements and pronouncements of the Financial Accounting Standards Board and opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants or in such other statements by such other entity as may be approved by a significant segment of the accounting industry.

"Governmental Authority" means any Federal, state, local or foreign court or governmental department, commission, board, bureau, agency, authority, instrumentality or regulatory body.

"Governmental Plan" means a governmental plan within the meaning of Section 3(32) of ERISA.

"Holder" means the holder of a Senior Note or a Subordinated Note, as recorded on the Note Register.

"ICU-4 Loan" means any Mortgage Loan owned by the Issuer that is not a Defaulted Loan or Delinquent Loan that has not been sold by the Issuer after four attempts by the Servicer to sell such Mortgage Loan or otherwise is included on the Service's internal ICU-4 report in accordance with the Servicer's customary servicing procedures.

"Indebtedness", as applied to any Person, means, without duplication, (a) all indebtedness for borrowed money, (b) that portion of obligations with respect to any lease of any property (whether real, personal or mixed) that is properly classified as a liability on a balance sheet in conformity with GAAP, (c) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money, (d) any obligation owed for all or any part of the deferred purchase price for property or services, which purchase price is (i) due more than six months from the date of the incurrence of the obligation in respect thereof or (ii) evidenced by a note or similar written instrument, (e) all indebtedness secured by any Lien on any property or asset owned by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person, and (f) all Contingent Obligations of such Person in respect of any of the foregoing.

"Indenture" means the Base Indenture, together with all Indenture Supplements, as the same may be amended, modified or supplemented from time to time.

"Indenture Event of Default" means an event of default as set forth in Schedule I to the Base Indenture.

"Indenture Supplement" or "Supplement" means an indenture supplement to the Base Indenture with respect to any Series of Subordinated Notes or any Series of Term Notes.

"Indenture Trustee" means Deutsche Bank Trust Company Americas, not in its individual capacity but solely as indenture trustee under the Indenture, or any successor indenture trustee under the Indenture.

"Initial Closing Date" means May 10, 2005.

"Initial Principal Amount" means (x) with respect to the Term Notes and the Subordinated Notes, the face amount thereof.

"Initial Purchase Price" means, with respect to each Mortgage Loan, the lesser of (i) 102% of the Outstanding Principal Balance of such Mortgage Loan as of the close of business on the day prior to the Closing Date of the sale of such Mortgage Loan by the Seller of such

Mortgage Loan to the Issuer and (ii) 98% of the Fair Market Value of such Mortgage Loan at the close of business on the day of origination or acquisition of such Mortgage Loan by the Seller.

"Initial Purchaser of the Subordinated Notes" means the purchaser of the Subordinated Notes specified in the related Subordinated Note Purchase Agreement.

"Initial Purchasers of the Term Notes" means the purchasers of the Term Notes specified in the related Term Note Purchase Agreement.

"Initial Required Reserve Fund Amount" means on any day an amount equal to the greater of (i) 2.15% of the Aggregate Outstanding Principal Balance on such date and (ii) $1,000,000; provided that, (A) if the aggregate Outstanding Principal Balance of Mortgage Loans held by the Issuer for more than 90 days exceeds 55% of the Aggregate Outstanding Principal Balance or, (B) if the aggregate Outstanding Principal Balance of Mortgage Loans held by the Issuer for more than 180 days prior to such date exceeds 25% of the Aggregate Outstanding Principal Balance, the then-effective percentage set forth in clause (i) shall be increased by 0.25% if either (A) or (B) has occurred; provided, further that (A) if the aggregate Outstanding Principal Balance of Mortgage Loans that constitute Second Lien Mortgage Loans is more than 5% but less than 10% of the Aggregate Outstanding Principal Balance, the percentage set forth in clause (i) shall be increased by adding 0.35% thereto, and (B) if the aggregate Outstanding Principal Balance of Mortgage Loans that constitute Second Lien Mortgage Loans is more than 10% of the Aggregate Outstanding Principal Balance, the then-effective percentage set forth in clause (i) shall be increased by adding an additional 0.35% thereto (or 0.70% if such percentage had not previously increased pursuant to clause (A) of this proviso); and provided, finally that (A) if the aggregate Outstanding Principal Balance of Mortgage Loans that constitute Interest-Only Mortgage Loans is more than 30% but less than 35% of the Aggregate Outstanding Principal Balance, the percentage set forth in clause (i) shall be increased by adding 0.25% thereto, and (B) if the aggregate Outstanding Principal Balance of Mortgage Loans that constitute Interest-Only Mortgage Loans is more than 35% of the Aggregate Outstanding Principal Balance, the then-effective percentage set forth in clause (i) shall be increased by adding an additional 0.25% thereto (or 0.50% if such percentage had not previously increased pursuant to clause (A) of this proviso).

"Insurance Proceeds" means, with respect to each Mortgage Loan, proceeds of insurance policies insuring the related Mortgaged Property to the extent not required to be released to the Mortgagor pursuant to the terms of law or of the related Loan Documents.

"Insured Amount" has the meaning specified in Section 4.10 of the Mortgage Loan Purchase and Servicing Agreement.

"Interest Component" means, with respect to Secured Liquidity Notes outstanding at any time, the sum of (a) with respect to Secured Liquidity Notes issued on a discount basis, the portion of the face amount of such outstanding Secured Liquidity Notes issued on a discount basis representing the discount incurred in respect thereof and (b) with respect to Secured Liquidity Notes issued on an interest-bearing basis, the amount of interest that would accrue on

such Secured Liquidity Notes from the date of issuance to but excluding the Expected Maturity thereof.

"Interest-Only Mortgage Loans" means a Mortgage Loan that provides for an initial payment period, during which period the Mortgagor's monthly payment consists only of interest; when this initial period ends, the Mortgage Loan begins to amortize and will amortize folly over its remaining term.

"Interest Period" means, (x) with respect to each Class of Secured Liquidity Notes issued on an interest-bearing basis, the period from and including the date of issuance thereof to but excluding the Expected Maturity thereof, (y) with respect to each Class of Extended Notes (i) initially, the period from and including the Expected Maturity to but excluding the second Distribution Date following such Expected Maturity and (ii) thereafter, the period from and including the immediately preceding Distribution Date to and including the day immediately preceding such Distribution Date; provided, however, in the case of the final payment of an Extended Note, the Interest Period shall end on and include the day immediately preceding the date on which such Extended Note is paid in full.

"Interest Rate Swaps" means the interest rate swap agreements (including the related schedule and confirmations), each dated as of May 10, 2005, and any other interest rate swap agreement entered into, between the Issuer and each Swap Counterparty separately or any substitute interest rate swaps entered into pursuant to the provisions of the related Interest Rate Swap.

"Interest Rate Swap Event of Default" means an event of default under any Interest Rate Swap.

"Interest Rate Swap Termination Event" means a termination event under any Interest Rate Swap.

"Interest Shortfall" means, with respect to any Series of Notes and any date, accrued and unpaid interest on such Series of Notes (after giving effect to all distributions on such date), as specified in the Security Agreement, with respect to the Secured Liquidity Notes, Extended Notes, or in the related Indenture Supplement, with respect to any Series of Term Notes or Subordinated Notes.

"Interim Payment Date" has the meaning set forth in the Interest Rate Swaps.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, and any successor statute of similar import, in each case as in effect from time to time. References to sections of the Internal Revenue Code also refer to any successor sections.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"IPP Dispute Period" means a period of ninety (90) days beginning on the date on which a Margin Call Event shall occur; provided that, it is understood and agreed that if another

Margin Call Event shall occur during any IPP Dispute Period, a new IPP Dispute Period shall commence beginning the date of such Margin Call Event.

"Issuer" means Carmel Mountain Funding Trust, a Delaware statutory trust, as issuer of the Notes.

"Issuer Agent" has the meaning set forth in Section 3.03 of the Security Agreement.

"Issuer Incumbency Certificate" has the meaning specified in Section 3.03 of the Security Agreement.

"Issuer Order" and "Issuer Request" means a written order or request signed in the name of the Issuer by any one of its Authorized Officers and delivered to the Indenture Trustee and the Collateral Agent.

"Letter" has the meaning specified in Section 3(g) of the Depositary Agreement.

"LIBOR" has the meaning specified in Section 4.06 of the Security Agreement.

"LIBOR Determination Date" has the meaning specified in Section 4.06 of the Security Agreement.

"Lien" means, when used with respect to any Person, any interest in any real or personal property, asset or other right held, owned or being purchased or acquired by such Person which secures payment or performance of any obligation, and shall include any mortgage, lien, pledge, encumbrance, charge, retained security title of a conditional vendor or lessor, or other security interest of any kind, whether arising under a security agreement, mortgage, lease, deed of trust, chattel mortgage, assignment, pledge, retention or security title, financing or similar statement, or notice or arising as a matter of law, judicial process or otherwise.

"Liquidation Proceeds" means all amounts received and retained in connection with the liquidation of Defaulted Loans.

"List of Loans" has the meaning set forth in Section 9 of the Custodial Agreement.

"Loan Documents" has the meaning specified in Section 2.l(b) of the Mortgage Loan Purchase and Servicing Agreement.

"Loan Termination Date" means each day on which a deposit is made into the Collateral Account in respect of Terminated Loans.

"Loan-to-Value Ratio" or "LTV" means, with respect to each Mortgage Loan, the ratio expressed as a percentage of the outstanding principal balance of the Mortgage Loan (plus, in the case of a Second Lien Mortgage Loan, the outstanding principal balance of the related first lien mortgage loan) as of the date of origination of the Mortgage Loan, to the lesser of (i) the

most recently obtained Appraised Value of the Mortgaged Property and (ii) if the Mortgage Loan was made to finance the acquisition of the related Mortgaged Property, the purchase price of the Mortgaged Property.

"Loss Mitigation Action Plan" means the policies and procedures set forth in Exhibit F to the Mortgage Loan Purchase and Servicing Agreement relating to the realization on delinquent Mortgage Loans thereof, which are incorporated by reference into the Mortgage Loan Purchase and Servicing Agreement and shall be deemed a part hereof.

"Margin Call Event" means that, in any thirty (30) day period, the Back-to-Back Swap Counterparties shall have made two margin calls under the Back-to-Back Swaps in an amount for each such margin call equal to or greater than 0.50% times the aggregate Outstanding Purchase Price if all Mortgage Loans owned by the Issuer as of the date of such margin call; provided that, for purposes hereof, all margin calls made by any Back-to-Back Swap Counterparty on the same date shall constitute one margin call and the amount of all such margin calls shall be aggregated as though they were one margin call, provided further, for the avoidance of doubt, a Margin Call Event occurs at the time of the second margin call described above is made.

"Market Value Requirement" shall mean on any date of determination, an aggregate amount equal to the sum of, for each Mortgage Loan owned by the Issuer, the product of (a) the Outstanding Principal Balance of the Mortgage Loan as of the last day of the immediately preceding calendar month, (b) 0.25%, and (c) the number of scheduled payment dates for such Mortgage Loan that have occurred since the loan was acquired by the Issuer.

"Market Value Reserve Account" has the meaning given in Section 6.05(a) of the Security Agreement.

"Market Value Reserve Available Amount" means, on any day, the amount on deposit in the Market Value Reserve Account as of such day except to the extent that such funds are then subject to any writ, order, stay, judgment, warrant of attachment or execution or similar process.

"Master Secured Liquidity Note" has the meaning specified in Section 3(a) of the Depositary Agreement.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of the Issuer, the Seller or the Servicer, or (b) the ability of the Issuer, the Seller, the Servicer or the Performance Guarantor to perform any of its obligations under any of the Program Documents.

"Maximum Indemnity Amount" for any calendar year means $1,000,000.

"MERS" means Mortgage Electronic Registration Systems, Inc., a corporation organized and existing under the laws of the State of Delaware, or any successor thereto.

"MERS Mortgage" means any Mortgage that is recorded in the name of MERS, as nominee for the Issuer (or in such substantially similar language as the Issuer deems appropriate).

"MERS System" means the system of recording transfers of mortgages electronically maintained by MERS.

"Monthly Certificate" has the meaning specified in Section 4.1(a) of the Base Indenture.

"Monthly Interest" means for any Remittance Period, the sum of each day's Daily Mortgage Loan Interest.

"Monthly Noteholders' Statement" means a statement substantially in the form of Exhibit E to the Base Indenture.

"Monthly Payment" means the scheduled monthly payment of principal and interest on a Mortgage Loan.

"Monthly Remittance Date" means the 18th day of each month, or if such day is not a Business Day, the preceding Business Day.

"Monthly Servicer Advance" means amounts advanced by the Servicer pursuant to Section 5.1 of the Mortgage Loan Purchase and Servicing Agreement.

"Moody's" means Moody's Investors Service, Inc., and any successor thereto.

"Mortgage" means the mortgage, deed of trust or other instrument which creates a first or second priority lien on an estate in fee simple in real property securing the Mortgage Note.

"Mortgage Interest Rate" means the annualized regular rate of interest borne on a Mortgage Note relating to the Mortgage Loan.

"Mortgage Loan" means each nonprime mortgage loan listed on any Mortgage Loan Schedule annexed to any Transfer Supplement.

"Mortgage Loan Buyer" means a Securitization Vehicle or other Person that is purchasing a Portfolio from the Issuer (other than the Seller or the Servicer in the case of a repurchase of a Mortgage Loan pursuant to Section 2.1(b), 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement).

"Mortgage Loan File" means the items pertaining to each Mortgage Loan referred to in the definition of "Loan Documents" set forth in Section 1 of the Custodial Agreement, and any additional documents required to be added to the Mortgage Loan File pursuant to the Mortgage Loan Purchase Agreement.

"Mortgage Loan Purchase and Servicing Agreement" means the Mortgage Loan Purchase and Servicing Agreement, dated as of May 10, 2005, among the Issuer, the Seller, the Servicer and the Performance Guarantor, as the same may at any time be amended, modified or supplemented.

"Mortgage Loan Schedule" means the mortgage loan schedule attached to a Transfer Supplement which will contain the items/fields to be reviewed under paragraph 10 of the Review Procedures. The mortgage loan schedule may be delivered to the Custodian via electronic transmission in a mutually acceptable format between the Custodian and the Seller.

"Mortgage Note" means the note or other evidence of indebtedness (including a lost note affidavit) of the obligor under a Mortgage Loan and secured by the related Mortgage, including without limitation any note identified on a Transfer Supplement or otherwise delivered to the Custodian.

"Mortgaged Property" means the real property securing repayment of the debt evidenced by a Mortgage Note.

"Mortgagee" means the lender on a Mortgage Note.

"Mortgagor" means the obligor on a Mortgage Note.

"Multiemployer Plan" means at any time a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

"Non-Recoverable Advances" means, for any Remittance Period, the amount of Monthly Servicer Advances that the Servicer was not required to make pursuant to Section 5.1of the Mortgage Loan Purchase and Servicing Agreement, because such Monthly Servicer Advances were deemed not to be recoverable in the Servicer's reasonable judgment.

"Note Paying Agent" is defined in Section 2.9(a) of the Base Indenture.

"Note Purchase Agreement" means the Term Note Purchase Agreement or the Subordinated Note Purchase Agreement.

"Note Rate" means, for any Remittance Period, the annualized rate equal to the sum of the rates calculated for each day of such Remittance Period, which rate for each such day shall equal (A) the product of (x) the weighted average interest rate (or discount rate in the case of Secured Liquidity Notes issued on a discount basis) of the outstanding Notes at the end of such day and (y) the outstanding principal amount (or Principal Component in the case of Secured Liquidity Notes) of the Notes at the end of such day, divided by (B) the aggregate sum of the outstanding principal amount (or Principal Component in the case of Secured Liquidity Notes) of the Notes at the end of each day of such Remittance Period.

"Noteholder" means the holder of a Senior Note or a Subordinated Note.

"Note Paying Agent" has the meaning specified in Section 2.9(a) of the Base Indenture.

"Note Record Date" means, with respect to any Distribution Date or Payment Date, the 15th day prior to such Distribution Date or Payment Date whether or not such day is a Business Day; provided, that the "Note Record Date" for any Term Notes and Subordinated Notes that are Book-Entry Notes shall be the Business Day prior to such Distribution Date or Payment Date.

"Note Register" means the register maintained pursuant to Section 2.9(a) of the Base Indenture, providing for the registration of the Subordinated Notes and transfers and exchanges thereof.

"Note Registrar" has the meaning specified in Section 2.9(a) of the Base Indenture.

"Notes" means, collectively, the Senior Notes and the Subordinated Notes.

"Notice of Extension" has the meaning specified in Section 6(c) of the Depositary Agreement.

"Obligations" has the meaning specified in Section 2.01 of the Security Agreement.

"Officer's Certificate" means (x) with respect to the Issuer, a certificate signed by an Authorized Officer of the Issuer and (y) with respect to any Seller, the Servicer or the Administrator, a certificate signed by the Chairman of the Board, the Chief Executive Officer, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Secretary or any Assistant Secretary of the Seller, the Servicer or the Administrator (on behalf of the Issuer), as applicable.

"One Payment Delinquent Loan" means any Delinquent Loan (including REO and Foreclosed Property) for which the Monthly Payment that is most past due is a Monthly Payment that is more than one month but less than two months past its Due Date (or, if the Due Date in any month does not correspond to a day in such month (e.g., when a Due Date occurs on the 31St day of a 30 day calendar month) then on the last day of such month) without giving effect to any Monthly Servicer Advance.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to each party receiving such opinion, The counsel may be an employee of the party delivering such opinion, unless (i) any party receiving such opinion objects or (ii) if such opinion is being delivered to the Collateral Agent, the Owner Trustee or the Indenture Trustee, the Required Senior Noteholders or the Required Subordinated Noteholders shall notify the Collateral Agent, the Owner Trustee or the Indenture Trustee in writing of an objection thereto.

"Outstanding Principal Balance" means, with respect to any Mortgage Loan and any date of determination, the outstanding principal balance of such Mortgage Loan on such date

as reflected on the Servicer's mortgage loan servicing system in accordance with its Customary Servicing Procedures.

"Outstanding Program Amount" shall mean, on any day, the aggregate of the Outstanding Purchase Price of all Mortgage Loans owned by the Issuer on that date.

"Outstanding Purchase Price" means, with respect to any Mortgage Loan and any date of determination, (i) the Initial Purchase Price of such Mortgage Loan, less (ii) all previous principal payments made on such Mortgage Loan and deposited into the Collateral Account or Collection Account, as required under the Program Documents, on or prior to such date of determination; provided however, that after any Loan Termination Date or any date on which a Mortgage Loan is repurchased by the Seller or the Servicer pursuant to Section 2.1(b), 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement, the Outstanding Purchase Price of such Terminated Loan or such repurchased Mortgage Loan shall be zero.

"Owner Trustee" means U.S. Bank Trust National Association, not in its individual capacity, but solely as owner trustee of Carmel Mountain Funding Trust, or any successor owner trustee under the Trust Agreement.

"Partial Termination" means the termination of a portion of the Interest Rate Swaps in accordance with Section 5 thereof.

"Partial Removal Payment" means an amount, which may be positive or negative, calculated (i) if such Partial Termination occurs with respect to each Terminated Loan other than a Defaulted Loan or a Delinquent Loan, equal to the difference between (A) the Outstanding Purchase Price of such Terminated Loan and (B) the sales proceeds in cash of such Terminated Loan and (ii) if such Partial Termination occurs with respect to a Delinquent Loan or Defaulted Loan, zero.

"Payment Account" means, with respect to any Series of Term Notes or Subordinated Notes, an account established as such pursuant to the Base Indenture and the related Indenture Supplement.

"Payment Date" means the 25th day of each calendar month (or if any such day is not a Business Day, the next following Business Day), commencing June 27, 2005.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to all or any of its functions under ERISA.

"Pension Plan" means, at any time, an employee pension benefit plan within the meaning of Section 3(2) of ERISA, other than a Multiemployer Plan, that is subject to title IV of ERISA and to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five-year period.

"Perfection Representations" means the representations, warranties and covenants set forth in Schedule I to the Mortgage Loan Purchase and Servicing Agreement and Schedule IV to the Security Agreement, as applicable.

"Performance Guarantee" means the full, unconditional and irrevocable guarantee of the Servicer's performance and payment obligations, set forth in Article XIII of the Mortgage Loan Purchase and Servicing Agreement.

"Performance Guarantor" has the meaning specified in the recitals of the Mortgage Loan Purchase and Servicing Agreement.

"Permitted Liens" means (i) Liens for current taxes not delinquent or for taxes being contested in good faith and by appropriate proceedings, and with respect to which adequate reserves have been established, and are being maintained, in accordance with GAAP, (ii) mechanics', materialmen's, landlords', warehousemen's and carrier's Liens, and other Liens imposed by law, securing obligations arising in the ordinary course of business that are not more than thirty days past due or are being contested in good faith and by appropriate proceedings and with respect to which adequate reserves have been established, and are being maintained, in accordance with GAAP, (iii) the Liens in favor of the Collateral Agent pursuant to the Security Agreement, and (iv) Liens in favor of an Enhancement Provider, provided, however, that such Liens are subordinate to the Liens in favor of the Collateral Agent and have been consented to by the Collateral Agent.

"Person" means and includes an individual, a partnership, a corporation, a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a government or an agency or political subdivision or instrumentality thereof.

"Pledged Accounts" means the Reserve Accounts, the Allocated Expenses Account, the Collateral Account, the Collection Account, the Secured Liquidity Note Account, the Extended Notes Distribution Account, and any other account maintained pursuant to the Depositary Agreement, the Security Agreement, or the Mortgage Loan Purchase and Servicing Agreement (excluding any Escrow Account maintained for obligors under the Mortgage Loans and the Clearing Account).

"Portfolio" means a Mortgage Loan or pool of Mortgage Loans sold to the Issuer on a Closing Date pursuant to the terms of the Mortgage Loan Purchase and Servicing Agreement and the applicable Transfer Supplement.

"Portfolio Aging Limitations" means, with respect to the length of time the Mortgage Loans are owned by the Issuer as of any day, the following limitations shall apply:

(i) the aggregate Outstanding Principal Balance of Mortgage Loans acquired by the Issuer more than ninety (90) days prior to such day may not exceed seventy percent (70%) of the Aggregate Outstanding Principal Balance, (ii) the aggregate Outstanding Purchase Price of Mortgage Loans acquired by the Issuer more than one hundred eighty (180) days prior to such day may not exceed thirty-five percent (35%) of the Aggregate Outstanding Principal Balance and (iii) the Issuer must sell each Mortgage Loan acquired by it within one year of the date that such Mortgage Loan was acquired by the Issuer; provided, however, that, with the written

consent of each Swap Counterparty, the Required Senior Noteholders, the Required Subordinated Noteholders and the Rating Agencies, the requirements of clauses (i) and (ii) may be waived so long as an Opinion of Counsel has been delivered by the Issuer to the effect that such change will not prevent the Notes from being characterized as debt for United States federal income tax purposes and will not cause the Issuer to be characterized as an association (or a publicly traded partnership) taxable as a corporation or a taxable mortgage pool for United States federal income tax purposes.

"Portfolio Criteria" means, on any day, after giving effect to the Issuer's purchase and sale of Mortgage Loans on such day, the Mortgage Loans owned by the Issuer in the aggregate must satisfy the following criteria: (i) the aggregate Outstanding Principal Balance of Mortgage Loans secured by property located in California may not on such date exceed thirty-eight and one-half percent (38.5%) of the Aggregate Outstanding Principal Balance; (ii) the aggregate Outstanding Principal Balance of Mortgage Loans secured by property located in a single state (other than California) may not on such date exceed fifteen percent (15%) of the Aggregate Outstanding Principal Balance; (iii) the aggregate Outstanding Principal Balance of Mortgage Loans that are Second Lien Mortgage Loans may not on such date exceed fifteen percent (15%) of the Aggregate Outstanding Principal Balance; (iv) the aggregate Outstanding Principal Balance of Mortgage Loans secured by property that is non-owner occupied may not on such date exceed ten percent (10%) of the Aggregate Outstanding Principal Balance; (v) the aggregate Outstanding Principal Balance of the Mortgage Loans that have a FICO Score of less than 525 (other than Mortgage Loans for which no FICO Score was obtained) may not on such date exceed seven percent (7%) of the Aggregate Outstanding Principal Balance; (vi) the aggregate Outstanding Principal Balance of the Mortgage Loans that have a FICO Score of less than 500 (other than Mortgage Loans for which no FICO Score was obtained) may not on such date exceed one percent (1%) of the Aggregate Outstanding Principal Balance; (vii) the aggregate Outstanding Principal Balance of the Mortgage Loans that do not have a FICO Score may not on such date exceed three percent (3%) of the Aggregate Outstanding Principal Balance; (viii) the aggregate Outstanding Principal Balance of Mortgage Loans secured by a unit of manufactured housing treated as real estate under applicable state law may not on such date exceed one percent (1%) of the Aggregate Outstanding Principal Balance; (ix) the aggregate Outstanding Principal Balance of the Mortgage Loans that have a LTV greater than or equal to ninety percent (90%) may not on such date exceed fifteen percent (15%) of the Aggregate Outstanding Principal Balance; (x) the combined weighted average LTV of the Mortgage Loans may not on such date exceed ninety percent (90%); (xi) the combined weighted average FICO Score of the First Lien Mortgage Loans (other than Mortgage Loans for which no FICO Score was obtained) owned by the Issuer is greater than or equal to 600; (xii) the combined weighted average FICO Score of the Second Lien Mortgage Loans (other than Second Lien Mortgage Loans for which no FICO Score was obtained) owned by the Issuer is greater than or equal to 630; (xiii) the combined weighted average FICO Score of the Interest-Only Mortgage Loans (other than Mortgage Loans for which no FICO Score was obtained) owned by the Issuer is greater than or equal to 660; (xiv) the aggregate Outstanding Principal Balance of Interest-Only Mortgage Loans (other than Mortgage Loans for which no FICO Score was obtained) with a FICO Score less than 600 may not exceed five percent (5%) of the Aggregate Outstanding Principal Balance; (xv) the combined weighted average LTV of the Interest-Only Mortgage Loans may not on such date exceed ninety percent (90%); (xvi) the weighted average debt-to-income ratio of the Obligors related to Interest-Only Mortgage Loans may not exceed forty-five

percent (45%); (xvii) the aggregate Outstanding Principal Balance of adjustable rate Mortgage Loans may not exceed eighty percent (80%) of the Aggregate Outstanding Principal Balance; (xviii) the weighted average Outstanding Principal Balance of Mortgage Loans may not exceed $200,000; (xix) the aggregate Outstanding Principal Balance of Mortgage Loans with an Outstanding Principal Balance of greater than $750,000 may not exceed seven percent (7%) of the Aggregate Outstanding Principal Balance; (xx) the aggregate Outstanding Principal Balance of Mortgage Loans with an Outstanding Principal Balance of greater than $1,000,000 may not exceed two percent (2%) of the Aggregate Outstanding Principal Balance; (xxi) the Outstanding Principal Balance of an Interest-Only Mortgage Loan may not exceed $1,000,000; (xxii) the weighted average Outstanding Principal Balance of Interest-Only Mortgage Loans may not exceed $300,000; (xxiii) the aggregate Outstanding Principal Balance of Mortgage Loans secured by multi-family properties may not exceed ten percent (10%) of the Aggregate Outstanding Principal Balance; and (xxiv) the aggregate Outstanding Principal Balance of Interest-Only Mortgage Loans may not exceed forty percent (40%) of the Aggregate Outstanding Principal Balance.

"Potential Enhancement Agreement Event of Default" means an event which, with the giving of notice, the passage of time or both, would constitute an Enhancement Agreement Event of Default under any Enhancement Agreement.

"Potential Event of Default" means any occurrence or event which, with the giving of notice, the passage of time or both, would constitute an Event of Default.

"Prepayment Charge" means, with respect to any Mortgage Loan owned by the Issuer, any prepayment premium, fee or charge payable by the related Mortgagor and collected by the Servicer in connection with any Principal Prepayment pursuant to the terms of such Mortgage Loan.

"Principal Amount" means, (i) with respect to any Series of Term Notes and any date of determination, (A) the Initial Principal Amount of such Series of Term Notes *less* (B) any amounts paid to Holders of such Series of Term Notes in respect of the Principal Amount thereof, and (ii) with respect to any Series of Subordinated Notes and any date of determination, (A) the Initial Principal Amount of such Series of Subordinated Notes on the date of issuance thereof, *less* (B) with respect to any Series of Subordinated Notes, the aggregate amount of any Principal Amount Charge-Offs allocated to such Series of Subordinated Notes, *plus* (C) with respect to such Series of Subordinated Notes, the aggregate amount of any Principal Amount Reinstatements allocated to such Series of Subordinated Notes, *less* (D) any amounts paid to Holders of such Series of Subordinated Notes in respect of the Principal Amount thereof.

"Principal Amount Charge-Off has the meaning specified in Section 2.6 of the Base Indenture.

"Principal Amount Reinstatement" has the meaning specified in Section 2.6 of the Base Indenture.

"Principal Component" means (a) with respect to Secured Liquidity Notes issued on a discount basis, the issue price of such Secured Liquidity Notes and (b) with respect to

Secured Liquidity Notes issued on an interest-bearing basis, the outstanding principal amount of Secured Liquidity Notes.

"Principal Prepayment" means any payment or other recovery of principal made on a Mortgage Loan which is received in advance of its scheduled Due Date, which is not accompanied by an amount of interest representing scheduled interest due on any date or dates in any month or months subsequent to the month of prepayment.

"Principal Terms" has the meaning specified in Section 2.3 of the Base Indenture.

"Priority of Payments" means the priority of payments set forth in Section 6.03 or Section 7.02(b), as applicable, of the Security Agreement.

"Program Documents" means the Mortgage Loan Purchase and Servicing Agreement, the Security Agreement, the Account Control Agreement, the Custodial Agreement, the Performance Guarantee, the Trust Agreement, the Indenture, the Depositary Agreement, the Interest Rate Swaps, the Secured Liquidity Note Dealer Agreement, the Note Purchase Agreements and the Rated Bidder Letter.

"Program Size" means the sum of the Series Program Sizes (as such limit may be increased or decreased in accordance with the Program Documents).

"Purchase Notice" has the meaning specified in Section 2.1 (a) of the Mortgage Loan Purchase and Servicing Agreement.

"Purchase Option" has the meaning specified in Section 4.2(e) of the Mortgage Loan Purchase and Servicing Agreement.

"Purchase Price" has the meaning specified in Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement.

"Qualified Depository" means any depository the accounts of which are insured by the FDIC through the BIF or the SAIF and the debt obligations of which are rated "Aa2" and "Aa" or better by Moody's and S&P, respectively, or such depository as shall be acceptable to Moody's and S&P, as applicable.

"Qualified Institution" means a depositary institution or trust company (which may include the Collateral Agent) organized under the laws of the United States of America or any one of the states thereof or the District of Columbia; provided, however, that at all times such depositary institution or trust company is a member of the FDIC and has (i) from S&P a long-term indebtedness rating not lower than AA- and a short-term indebtedness rating of A-1+ and from Moody's a long-term indebtedness rating not lower than A2 and a short-term indebtedness rating of P-l, or (ii) such other rating which satisfies the Rating Agency Confirmation Condition.

"Qualified Purchaser" shall mean a leading purchaser in the market for nonprime mortgage loans having the highest credit standing which satisfy all the criteria that the

Calculation Agent would apply generally at such time in determining whether to offer or make an extension of credit thereto.

"Rated Bidder" has the meaning specified in Section 11. 2 of the Mortgage Loan Purchase and Servicing Agreement.

"Rated Bidder Letter" means the letter agreement dated as of May 10,2005, among the Issuer, the Rated Bidder, the Servicer and the Collateral Agent.

"Rating Agencies" means Moody's and S&P.

"Rating Agency Confirmation" and "Rating Agency Confirmation Condition" mean, with respect to any action, that each Rating Agency shall have notified the Issuer, the Collateral Agent, the Indenture Trustee and the Depositary in writing that such action will not result in a reduction or withdrawal of the rating (in effect immediately before the taking of such action) of any outstanding Senior Notes or Subordinated Notes with respect to which it is a Rating Agency and, with respect to the issuance of Senior Notes or Subordinated Notes, "Rating Agency Confirmation" and "Rating Agency Confirmation Condition" also mean, in addition to the above, that each Rating Agency that is referred to in the Security Agreement or the Indenture as being required to deliver its rating with respect to such Notes shall have notified the Issuer, the Collateral Agent, the Indenture Trustee and the Depositary in writing that such rating has been issued by such Rating Agency.

"Reference Banks" has the meaning specified in Section 4.06 of the Security Agreement.

"Reference Mortgage Loan" has the meaning specified in the Interest Rate Swaps.

"Regulation S " is defined in Section 2.8(b) of the Base Indenture.

"Regulation S Note" is defined in Section 2.8(b) of the Base Indenture.

"Reimbursable Expenses" means an amount equal to any costs and expenses related to indemnities, out-of-pocket expenses, tax gross up or other similar items, Secured Liquidity Note Dealer indemnity, Initial Purchaser of the Subordinated Notes indemnity, Collateral Agent indemnity, Indenture Trustee indemnity, Owner Trustee indemnity, Custodian indemnity, Depositary indemnity and any extraordinary expenses; provided, however, that, on an annualized basis, Reimbursable Expenses may not exceed the Maximum Indemnity Amount without the consent of the Required Subordinated Noteholders and Rating Agency Confirmation.

"Remittance Period" means, with respect to each Monthly Remittance Date, the calendar month immediately preceding such Monthly Remittance Date.

"REO Disposition" means the final sale by the Servicer of any REO Property.

"REO Disposition Proceeds" means all amounts received with respect to an REO Disposition pursuant to Section 4.17 of the Mortgage Loan Purchase and Servicing Agreement, net of (i) costs related thereto (including unreimbursed Servicing Advances) and

(ii) unreimbursed Monthly Servicer Advances and Monthly Interest Advances relating to the related Mortgage Loan.

"REO Property" means a Mortgaged Property acquired by the Servicer on behalf of the Issuer through foreclosure or by deed in lieu of foreclosure, as described in Section 4.17 of the Mortgage Loan Purchase and Servicing Agreement.

"Repurchase Price" means, with respect to each Mortgage Loan that is purchased by the Seller or Servicer pursuant to Section 2. l(b), 3.3, 6.2, or 7.1 of the Mortgage Loan Purchase and Servicing Agreement, the Outstanding Purchase Price of such loan plus accrued and unpaid interest to (but not including) the date of repurchase.

"Request for Release" means that certain request for release of documents in the form of Exhibit B attached to the Custodial Agreement.

"Required Draw Amount" has the meaning specified in Section 6.05(c) and (d) of the Security Agreement.

"Required Enhancement Amount" means the sum of the Credit Amounts for all of the Series of Senior Notes.

"Required Noteholders" means the Required Senior Noteholders and Required Subordinated Noteholders.

"Required Reserve Fund Amount" means, on any day, an amount equal to the Initial Required Reserve Fund Amount on such day; provided, however, that if a Reserve Fund Increase Condition is in effect on any Payment Date, then on each day on and after such Payment Date the Required Reserve Fund Amount shall be the sum of (x) the Initial Required Reserve Fund Amount on such day and (y) the Supplemental Reserve Fund Deposit on such day; provided, however, that, if an Early Accumulation Event occurs, the Required Reserve Fund Amount shall equal the aggregate amount of all Obligations outstanding on such day.

"Required Senior Noteholders" means Senior Noteholders holding in excess of 50% in aggregate principal amount of all outstanding Series of Senior Notes, voting together as a single class, unless the context specifically refers to a Series of Senior Notes, then "Required Senior Noteholders" means Senior Noteholders holding in excess of 50% of the aggregate principal amount of such Series of Senior Notes (excluding, for the purposes of making the foregoing calculations, any Senior Notes held by the Issuer, the Seller or the Servicer or any Affiliate of the Issuer, the Seller or the Servicer).

"Required Subordinated Noteholders" means Subordinated Noteholders holding in excess of 50% in aggregate principal amount of all outstanding Series of Subordinated Notes, voting together as a single class, unless the context specifically refers to a Series of Subordinated Notes, then "Required Subordinated Noteholders" means Subordinated Noteholders holding in excess of 50% of the aggregate principal amount of such Series of Subordinated Notes (excluding, for the purposes of making the foregoing calculations, any Subordinated Notes held by the Issuer, the Seller or the Servicer or any Affiliate of the Issuer, the Seller or the Servicer).

"Required Term Noteholders" means Term Noteholders holding in excess of 50% in aggregate Principal Amount of all outstanding Series of Term Notes (excluding Term Notes held by the Issuer, the Seller, the Servicer or any Affiliate of the Issuer, the Seller or the Servicer) voting together as a single class.

"Requirements of Law" means, with respect to any Person or any of its property, the certificate of incorporation or articles of association and by-laws or other organizational or governing documents of such Person or any of its property, and any law, treaty, rule or regulation, or determination of any arbitrator or Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject, whether Federal, state or local (including, without limitation, usury laws, the Federal Truth in Lending Act and retail installment sales acts).

"Reserve Accounts" has the meaning specified in Section 6.05(a) of the Security Agreement.

"Reserve Fund" means the Eligible Account established by the Issuer pursuant to Section 6.05 of the Security Agreement.

"Reserve Fund Available Amount" means, on any day, the amount on deposit in the Reserve Fund as of such day except to the extent that such funds are then subject to any writ, order, stay, judgment, warrant of attachment or execution or similar process.

"Reserve Fund Increase Condition" shall occur if, on any Payment Date (i) (x), the three-month rolling average (as calculated at the end of the Remittance Periods related to the current Payment Date and the two immediately preceding Payment Dates) of the Outstanding Principal Balance of all One Payment Delinquent Loans owned by the Issuer (including REO and Foreclosed Property) exceeds five percent (5%) of the Aggregate Outstanding Principal Balance, (y) the three-month rolling average (as calculated at the end of the Remittance Periods related to the current Payment Date and the two immediately preceding Payment Dates) of the Outstanding Principal Balance of all Two Payment Delinquent Loans (including REO and Foreclosed Property) owned by the Issuer exceeds two and a half percent (2.5%) of the Aggregate Outstanding Principal Balance or (z) (as calculated at the end of the Remittance Period related to the current Payment Date) the Outstanding Principal Balance of all Three Payment Delinquent Loans (including REO and Foreclosed Property) owned by the Issuer exceeds one percent (1%) of the Aggregate Outstanding Principal Balance.

"Restricted Global Note" is defined in Section 2.8(a) of the Base Indenture.

"Review Procedure" means the document review procedure set forth on Exhibit D attached to the Custodial Agreement.

"Rule 144A" has the meaning set forth in Section 2.8(a) of the Base Indenture.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, or any successor thereto.

"SAIF" means the Savings Association Insurance Fund, or any successor thereto.

"Sale Date" has the meaning specified in Section 4.2(b) of the Mortgage Loan Purchase and Servicing Agreement.

"Sale Notice" has the meaning specified in Section 4.2(b) of the Mortgage Loan Purchase and Servicing Agreement.

"Sale Price" has the meaning specified in Section 4.2(b) of the Mortgage Loan Purchase and Servicing Agreement.

"Second Lien Mortgage Loan" means a Mortgage Loan secured by a second lien Mortgage on the related Mortgaged Property.

"Secured Liquidity Note Account" has the meaning specified in Section 2(a) of the Depositary Agreement.

"Secured Liquidity Note Dealer Agreement" means the Private Placement Agreement, dated as of May 10, 2005, among the Secured Liquidity Note Dealers, the Company and the Issuer, as the same may at any time be amended, modified or supplemented.

"Secured Liquidity Note Dealers" means Lehman Brothers Inc. and Goldman Sachs pursuant to the Secured Liquidity Note Dealer Agreement.

"Secured Liquidity Notes" means any one of the Secured Liquidity Notes, executed from time to time by the Issuer and authenticated by or on behalf of the Depositary, as specified in Section 3(a) of the Depositary Agreement.

"Secured Parties" is defined in the recitals to the Security Agreement.

"Securities Accounts" has the meaning specific in Paragraph 8 of Schedule IV to the Security Agreement.

"Securities Act" means the Securities Act of 1933, as amended.

"Securitization Vehicle" means a special purpose entity established for the purpose of a Financing.

"Security Agreement" means the Security Agreement, dated as of May 10, 2005, between the Issuer and the Collateral Agent, as the same may at any time be amended, modified or supplemented.

"Security Agreement Event of Default" means an event of default set forth in Schedule II to the Security Agreement.

"Seller" means Accredited Home Lenders, Inc., as the Seller under the Mortgage Loan Purchase and Servicing Agreement.

"Seller Documents" means the Mortgage Loan Purchase and Servicing Agreement and the Custodial Agreement.

"Senior Note Calculation Agent" means the Collateral Agent.

"Senior Noteholder" means the registered holder of a Senior Note.

"Senior Notes" means, collectively, the Term Notes, the Secured Liquidity Notes and the Extended Notes.

"Series" means (x) the Secured Liquidity Notes and Extended Notes (such Secured Liquidity Notes and Extended Notes taken together as one series), (y) any Series of Term Notes, or (z) any Series of Subordinated Notes, as the context may require.

"Series Closing Date" means, with respect to any Series of Term Notes or Subordinated Notes, the date of issuance of such Series of Term Notes or Subordinated Notes, as specified in the related Supplement.

"Series of Subordinated Notes" means each Series of Subordinated Notes issued and authenticated pursuant to the Base Indenture and a related Supplement.

"Series of Term Notes" means each Series of Term Notes issued and authenticated pursuant to the Base Indenture and a related Supplement.

"Series Program Size" means (x) with respect to each Series of Term Notes, the amount set forth in the Indenture Supplement for such Series of Term Notes (including, without limitation, the amount of Subordinated Notes required to be issued in connection therewith) and (y) with respect to the Secured Liquidity Notes and Extended Notes, collectively, the amount set forth in the Security Agreement (including, without limitation, the amount of Subordinated Notes required to be issued in connection therewith), in each case, as increased or decreased in accordance with the Program Documents.

"Servicer" means Accredited Home Lenders, Inc., as Servicer under the Mortgage Loan Purchase and Servicing Agreement, or any successor Servicer appointed under the Mortgage Loan Purchase and Servicing Agreement.

"Servicer Advance Report" has the meaning specified in Section 4.22 of the Mortgage Loan Purchase and Servicing Agreement.

"Servicer Documents" means the Mortgage Loan Purchase and Servicing Agreement and any written certificates, statements or instruments delivered by the Servicer to the Issuer pursuant thereto from and after the Closing Date.

"Servicer Event of Default" has the meaning specified in Section 10.1 of the Mortgage Loan Purchase and Servicing Agreement.

"Servicer Report" has the meaning specified in Section 4.18 of the Mortgage Loan Purchase and Servicing Agreement.

"Servicing Advances" means all customary, reasonable and necessary "out of pocket" costs and expenses other than Monthly Servicer Advances (but including reasonable

attorneys' fees and disbursements) incurred in the performance by the Servicer in connection with a default or other unanticipated occurrence with respect to each Mortgage Loan owned by the Issuer (and not including the performance of its ordinary and customary activities as Servicer), including, but not limited to, the cost of (a) the preservation, restoration and protection of the Mortgaged Property including, without limitation, real estate taxes and insurance premiums, (b) any enforcement, collection or judicial proceedings, including foreclosures and liquidations, (c) the management and liquidation of any REO Property and (d) any advances of taxes, insurance premiums and other charges made pursuant to Section 4.9 of the Mortgage Loan Purchase and Servicing Agreement as a consequence of the default by the Mortgagor on its obligation to pay such amounts.

"Servicing Fee" means, with respect to any Payment Date and the services provided by the Servicer pursuant to this Purchase Agreement, a monthly servicing fee of 1/2 of 1% per annum on the Average Outstanding Purchase Price of Mortgage Loans held by the Issuer during the related Remittance Period.

"Servicing File" has the meaning specified in Section 2.1 (b) of the Mortgage Loan Purchase and Servicing Agreement.

"Sharing Percentage" has the meaning specified in the Interest Rate Swaps.

"Short-Term Note Allocable Share" means with respect to the Series of Secured Liquidity Notes and Extended Notes (x) the sum of the Credits Outstanding and the Credit Amount with respect to such Series divided by (y) the sum of (i) the Credits Outstanding, (ii) the aggregate Principal Amount of all Series of Term Notes outstanding and (iii) all Credit Amounts; provided that, during the continuance of a Short-Term Note Credit Support Depletion Event, the Short-Term Note Allocable Share shall be zero. For the purpose of determining the "Short-Term Note Allocable Share," "Credits Outstanding" shall be determined without reference to the deductions referred to in clause (3) of the definition thereof.

"Short-Term Note Credit Support Depletion Event" shall be in effect on any day on which the unreinstated Principal Amount Charge-offs with respect to all outstanding Series of Subordinated Notes (after giving effect to all Principal Amount Charge-offs, if any, allocated to and reinstated for any outstanding Series of Subordinated Notes on such date) are greater than the Aggregate Short-Term Note Enhancement Amount on such date and less than the Aggregate Senior Note Enhancement Amount on such date.

"SLN Extended Event" means with respect to any Secured Liquidity Note, such Secured Liquidity Note is not paid in full on its Expected Maturity and, as a result, such Secured Liquidity Note is converted to an Extended Note pursuant to Section 4.04 of the Security Agreement.

"Sold Loan Interest Accrual Period" means, the period from and including the later of the first day of the related Remittance Period and the Cut-Off Date for such sale to and including the earlier of the last day of the related Remittance Period and the day before the closing date for such sale.

"Sold Loan Interest Payment Amount" means, with respect to any Payment Date and any Mortgage Loans (i) identified for sale to a Securitization Vehicle, the amount of interest collected on such Mortgage Loans for the related Remittance Period and not deposited into the Collateral Account during the related Sold Loan Interest Accrual Period or (ii) sold to a third party other than a Securitization Vehicle, the amount of accrued and unpaid interest on such Mortgage Loans on the closing date for such sale.

"Subordinated Note Distribution Account" means, with respect to any Series of Subordinated Notes, the distribution account for such Series of Subordinated Notes established as such pursuant to the related Indenture Supplement.

"Subordinated Note Owner" means, with respect to a Book-Entry Note, the Person who is the beneficial owner of such Book-Entry Note, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly or as an indirect participant, in accordance with the rules of such Clearing Agency).

"Subordinated Note Purchase Agreement" means the subordinated note purchase agreements entered into by the Issuer, the Seller and the Initial Purchaser of the Subordinated Notes, in connection with the issuance and sale of the Variable Rate Subordinated Notes, Series 2005-A and each subordinated note purchase agreement, if any, entered into by the Issuer, the Seller and the purchasers thereof in connection with the issuance of any other Series of Subordinated Notes, as the same may at any time be amended, modified or supplemented.

"Subordinated Note Rate" means, with respect to any Series of Subordinated Notes, the annual rate at which interest accrues on the Subordinated Notes of such Series of Subordinated Notes (or formula on the basis of which such rate shall be determined) as stated in the applicable Supplement.

"Subordinated Note Representative" means, aggregating all outstanding Series of Subordinated Notes together, the holder of Subordinated Notes with the largest Principal Amount of Subordinated Notes or, in the event no single holder of Subordinated Notes holds the largest Principal Amount of Subordinated Notes, such person as holders of Subordinated Notes holding in excess of 50% of the aggregate outstanding Principal Amount of the Subordinated Notes of all Series voting as a single class shall agree (excluding Subordinated Notes held by any Seller, the Servicer or any Affiliate of any Seller or the Servicer); provided, that of all of the outstanding Subordinated Notes are held by two holders each holding exactly 50% of the aggregate outstanding Principal Amount of the Subordinated Notes, both holders shall have the rights of a Subordinated Note Representative.

"Subordinated Noteholder" means the registered holder of a Subordinated Note.

"Subordinated Notes" means, collectively, the Variable Rate Subordinated Notes, Series 2005-A and any additional series of subordinated notes that may be issued and outstanding from time to time pursuant to the Indenture.

"Subsidiary" means, with respect to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of

the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person.

"Supplemental Reserve Fund Deposit" means, as of any day 1.35% of the Outstanding Principal Balance of all Mortgage Loans owned by the Issuer as of the end of any Remittance Period.

"Swap Counterparty" means each swap counterparty which is a commercial bank or financial institution having a short-term credit rating of "A-1+" and "P-1" from S&P and Moody's, respectively, and a long-term credit rating of at least "AA-" and "Aa3" from S&P and Moody's, respectively.

"Swap Counterparty Sharing Percentage" means, with respect to each Swap Counterparty, the percentage expressed as a fraction, the numerator of which is the maximum notional amount of that Swap Counterparty's Interest Rate Swap and the denominator of which is the Program Size.

"System" has the meaning specified in Section 4(h) of the Depositary Agreement.

"Term Note Allocable Share" means, with respect to each Series of Term Notes, (x) the sum of the Principal Amount of such Series of Term Notes outstanding and the Credit Amount with respect to such Series, divided by (y) the sum of (i) the Credits Outstanding, (ii) the aggregate Principal Amount of all Series of Term Notes outstanding and (iii) all Credit Amounts; provided that during the continuance of a Short-Term Note Credit Support Depletion Event the Term Note Allocable Share shall be 1. For purposes of determining the "Term Note Allocable Share," "Credits Outstanding" shall be determined without reference to the deductions referred to in clause (3) of the definition thereof.

"Term Note Distribution Account" means, with respect to any Series of Term Notes, the distribution account for such Series of Term Notes established as such pursuant to the related Indenture Supplement.

"Term Note Owner" means, with respect to a Book-Entry Note, the Person who is the beneficial owner of such Book-Entry Note, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly or as an indirect participant, in accordance with the rules of such Clearing Agency).

"Term Note Purchase Agreement" means each Term Note purchase agreement, if any, entered into by the Issuer, the Seller and the purchasers thereof in connection with the issuance of any Series of Term Notes, as the same may at any time be amended, modified or supplemented.

"Term Note Rate" means, with respect to any Series of Term Notes, the rate at which interest accrues on the Term Notes of such Series of Term Notes (or formula on the basis of which such rate shall be determined) as stated in the applicable Supplement.

"Term Noteholder" means the holder of a Term Note.

"Term Notes" means any Series of term notes that may be issued from time to time pursuant to the Base Indenture,

"Terminated Loan" means any Mortgage Loan owned by the Issuer which is (i) sold by it to a Mortgage Loan Buyer (other than a sale, or a Mortgage Loan subject to sale, to the Seller or Servicer pursuant to Section 3.3, 6.2 or 7.1 of the Mortgage Loan Purchase and Servicing Agreement) or (ii) prepaid in full.

"Termination Event" has the meaning specified in Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement.

"Termination Event Auction" has the meaning specified in Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement.

"Three Payment Delinquent Loan" means any Delinquent Loan (including REO and Foreclosed Property) for which the Monthly Payment that is most past due is a Monthly Payment that is three months or more past its Due Date (or, if the Due Date in any month does not correspond to a day in such month (e.g, when a Due Date occurs on the 31st day of a 30-day calendar month), then on the last day of such month) without giving effect to any Monthly Servicer Advance.

"Transfer Agent" has the meaning specified in Section 2.12 of the Base Indenture.

"Transfer Supplement" means the document pursuant to which a Portfolio is sold by the Seller to the Issuer, a form of which is attached to the Mortgage Loan Purchase and Servicing Agreement as Exhibit A.

"Trust Agreement" means the Amended and Restated Trust Agreement of Carmel Mountain Funding Trust, dated as of May 10, 2005, between the Company and the Owner Trustee, as the same may at any time be amended, modified or supplemented.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

"Trust Officer" means, with respect to the Indenture Trustee, the Collateral Agent and the Owner Trustee, respectively any Managing Director, Director, Vice President, Assistant Vice President, trust officer, or any officer customarily performing functions similar to those performed by the person who at the time shall be such officer and is assigned to their respective Corporate Trust Office, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with a particular subject, or any successor thereto responsible for the administration of the Base Indenture, the Security Agreement and the Trust Agreement, respectively.

"Two Payment Delinquent Loan" means any Delinquent Loan (including REO and Foreclosed Property) for which the Monthly Payment that is most past due is a Monthly Payment that is more than two months but less than three months past its Due Date (or, if the Due Date in any month does not correspond to a day in such month (e.g, when a Due Date occurs on the 31st day of a 30-day calendar month), then on the last day of such month) without giving effect to any Monthly Servicer Advance.

"U.S. Government Obligations" means direct obligations of the United States of America, or any agency or instrumentality thereof for the payment of which the full faith and credit of the United States of America is pledged as to full and timely payment of such obligations.

"U.S. Person" shall have the meaning under Regulation S under the Securities Act.

"UCC" means the Uniform Commercial Code as in effect from time to time in the specified jurisdiction.

"United States" or "U.S." means the United States of America, its fifty States and the District of Columbia.

"Unrecoverable Servicing Advances" means Servicing Advances with respect to any Mortgage Loan as to which the Servicer has determined, acting reasonably, that no further recoveries in respect of unpaid principal and/or interest can be made.

"Weighted Average Interest Rate" means for any day within a Remittance Period, the product of (a) the Outstanding Principal Balance of each loan and (b) the Mortgage Interest Rate for the loan, with the sum of such calculation being divided by the sum of the Outstanding Principal Balances for all Mortgage Loans for such day.

"Wet Funded Loan" means a Mortgage Loan that is originated or acquired by the Seller and purchased by the Issuer, prior to the delivery of the Mortgage Note to the Custodian.

"Wet Funded Loan Limitation" means, on any day, the aggregate Outstanding Purchase Price of Wet Funded Loans may not exceed 12.5% of the then current Program Size.

"written" or "in writing" means any form of written communication, including, without limitation, by means of telex, telecopier device, computer, telegraph or cable.

Exhibit 4.16

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of May 10, 2005
between
LEHMAN BROTHERS SPECIAL FINANCING INC. ("Party A"),
a corporation organized under the laws of
the State of Delaware
and
ACCREDITED HOME LENDERS, INC. ("Party B"),
a corporation organized under the laws of
Delaware

Part 1: Termination Provisions

In this Agreement:

(a) **"Specified Entity"** means:

in relation to Party A for the purpose of:

Section 5(a)(v),	Not applicable.
Section 5(a)(vi),	Not applicable.
Section 5(a)(vii),	Not applicable.
Section 5(b)(iv),	Not applicable.

and in relation to Party B for the purpose of:

Section 5(a)(v),	All Affiliates.
Section 5(a)(vi),	All Affiliates.
Section 5(a)(vii),	All Affiliates.
Section 5(b)(iv),	All Affiliates.

(b) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement and shall also include any repurchase transactions, reverse repurchase transactions, buy/sellback transactions and securities lending transactions and any other related OTC transactions now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider or Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider or Specified Entity of such party).

(c) The **"Cross Default"** provisions of Section 5(a)(vi) will not apply to Party A and will apply to Party B.

The following provisions apply:

"Specified Indebtedness" will have the meaning specified in Section 14 of this Agreement.

"Threshold Amount" means the lesser of (i) USD 10 million or (ii) two percent (2%) of the Stockholders' Equity of Party B, in the case of Party B (or its equivalent in any other currency).

For purposes hereof, **"Stockholders' Equity"** means with respect to an entity, at any time, the sum at such time of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be

determined in accordance with generally accepted accounting principles consistently applied at most recent quarter end.

(d) The **"Credit Event Upon Merger"** provisions of Section 5(b)(iv) will not apply to Party A and will apply to Party B.

(e) The **"Automatic Early Termination"** provision of Section 6(a) will not apply to Party A and will not apply to Party B.

(f) **Payments on Early Termination**. For the purpose of Section 6(e) of this Agreement, Loss and the Second Method will apply.

(g) **"Termination Currency"** means United States Dollars ("USD").

(h) **Additional Termination Events** will apply. Each of the following shall constitute an Additional Termination Event with respect to which Party B shall be the sole Affected Party:

(i) Financial Covenants. AHLHC shall fail to maintain:

(A) at any time, a minimum Adjusted Tangible Net Worth of at least the sum of (1) $125,000,000 plus (2) 50% of the Net Income of AHLHC for each fiscal quarter in any fiscal year commencing with the fiscal quarter ending on September 30, 2003, through the applicable date of determination,

(B) as of the last business day of each fiscal quarter, an Interest Coverage Ratio of at least 1.10:1.0,

(C) at any time, a ratio of Non-Warehouse Debt to Adjusted Tangible Net Worth that is less than or equal to 2.0:1.0,

(D) as of the last business day of any month, Unrestricted Cash And Cash Equivalents and available borrowing capacity of at least $20,000,000, which continues uncured for five (5) business days, or

(E) at any time, a ratio of Recourse Debt to Tangible Net Worth Ratio that is less than or equal to 17.0:1.0.

(ii) Net Earnings. AHLHC shall report net earnings for any six rolling calendar months of less than $1.00 on a consolidated basis in accordance with GAAP.

(iii) Workout Agreement Default. An "Event of Default" (as such term is defined in the Workout Agreement) occurs and is continuing.

(iv) Computer Systems Modification. Within 90 days of the date hereof, Party B shall modify or upgrade its computer systems such that the Seller and the Servicer's computer records shall be able to recognize and track the Initial Purchase Price and the Outstanding Purchase Price of Mortgage Loans for which the Swap Counterparty disputes the Initial Purchase Price in accordance with Section 2.2 of the Mortgage Loan Purchase and Servicing Agreement.

(v) Change of Control. A Designated Event (as defined below) occurs with respect to Party B. A "Designated Event" means that:

(A) Party B or AHLHC dissolves, merges or consolidates with another entity (unless (1) it is the surviving party or (2) the entity into which it merges has equity and a market

value of at least that of Party B or AHLHC immediately prior to such merger and such entity expressly assumes the obligations of the Party B at the time of such merger), or sells, transfers, or otherwise disposes of a material portion of its business or assets, other than sales, transfers or dispositions of mortgage loans in the ordinary course of Party B's or AHLHC's business;

(B) any Person or entity or any group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) of Persons and/or entities, shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), directly or indirectly, in one or more transactions, of securities of Party B (or other securities convertible into such securities) representing more than 50% of the combined voting power of all securities of Party B entitled to vote in the election of directors (other than a Person or entity owning such securities on the date of this Agreement); or

(C) Party B shall cease to be a wholly-owned subsidiary of AHLHC.

(vi) Material Adverse Change. Party B has experienced or is experiencing a material adverse change, determined by Party A in Party A's sole discretion, in its business, assets, or operations or financial condition. For the purpose of the foregoing Termination Event, Party B shall be the Affected Party.

Capitalized terms used in this Part 1(h) shall have the meanings set forth below:

"Adjusted Tangible Net Worth" means, at any date, all amounts that would, in conformity with GAAP, constitute stockholder's equity included on the consolidated balance sheet of AHLHC plus any preferred stock not already included in the calculation of stockholders equity plus any indebtedness of AHLHC which is convertible into equity or otherwise fully subordinated to the obligations of Party B under the facility minus any intangibles (excluding mortgage-related securities and mortgage servicing rights), goodwill and deferred charges as defined under GAAP.

"AHLHC" means Accredited Home Lenders Holding Co. and its Subsidiaries on a consolidated basis.

"Consolidated Debt" means, at any time, the aggregate principal amount of Indebtedness of AHLHC outstanding at such time as reflected on the consolidated balance sheet of AHLHC, prepared in accordance with GAAP.

"EBITDA" means, for any period, Net Income for such period on a consolidated basis, plus, without duplication and to the extent reflected as a charge in the statement of such Net Income for such period, the sum of (a) total income tax expense, (b) interest expense, (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) any extraordinary expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Net Income for such period, losses on sales of assets outside of the ordinary course of business), and (f) any other noncash charges, and minus, to the extent included in the statement of such Net Income for such period, the sum of (a) any extraordinary income or gains (including, whether or not otherwise includable as a separate item in the statement of such Net Income for such period, gains on the sales of assets outside of the ordinary course of business) and (b) any other noncash income (other than any income represented by a receivable that in the ordinary course would be expected to be paid in cash), all as determined on a consolidated basis.

"Indebtedness of AHLHC" means AHLHC's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of property (whether real or personal, tangible or intangible) or services (other than accounts payable arising in the ordinary course of AHLHC's business payable on terms customary in the trade), (c) obligations, whether or not assumed,

secured by liens or payable out of the proceeds or production from property now or hereafter owned or acquired by AHLHC, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) capitalized lease obligations, (f) rate hedging obligations, (g) contingent obligations of any type which are reportable on AHLHC's balance sheet in accordance with GAAP, (h) obligations for which AHLHC is obligated pursuant to or in respect of a letter of credit or similar instrument and (i) repurchase obligations or liabilities of Party B with respect to accounts or notes receivable and chattel paper sold by AHLHC.

"Interest Coverage Ratio" means, for any applicable computation period, the ratio of (a) EBITDA to (b) Interest Expense.

"Interest Expense" means, for any applicable computation period, all interest paid or accrued during such period by AHLHC on a consolidated basis, determined in accordance with GAAP.

"Net Income" means, for any period, the consolidated net income (or loss) for such period, determined on a consolidated basis in accordance with GAAP.

"Non-Warehouse Debt" means, at any time, Consolidated Debt minus Warehouse Debt.

"Recourse Debt to Adjusted Tangible Net Worth Ratio" means, at any time, the ratio of (a) Consolidated Debt minus the liabilities related to securitizations which are accounted for as financings under Financial Accounting Standards Board (FASB) Rule 140 to (b) Adjusted Tangible Net Worth.

"Unrestricted Cash and Cash Equivalents" means, as of any date of determination, the sum of (a) the aggregate amount of unrestricted cash and (b) the aggregate amount of unrestricted cash equivalents (valued at the fair market value). As used in this definition, "Unrestricted" means the specified asset is not subject to any liens or claims of any kind in favor of any Person.

"Warehouse Debt" shall mean Indebtedness of AHLHC, whether or not it is recourse, that is secured or otherwise backed by Party B's mortgage loans, mortgage-backed securities or other mortgage assets, and that is used generally by Party B to provide it with financing or liquidity for the origination or acquisition by it of mortgage loans, mortgage-backed securities or other mortgage assets in Party B's ordinary course of business.

"Workout Agreement" means the Second Amended and Restated Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans, dated as of January 30, 2004, between Lehman Brothers Bank and Party B, dated as of the date hereof, as amended from time to time.

(i) **Additional Event of Default**. An "Event of Default" with respect to which Party B shall be the Defaulting Party under and as defined in the ISDA Master Agreement, dated as of the date hereof, between Calyon New York Branch and Party B (as amended from time to time) shall constitute an Event of Default hereunder with respect to Party B as the sole Defaulting Party.

Part 2: Tax Representations

(a) **Payer Tax Representations.** For the purpose of Section 3(e) of this Agreement, Party A and Party B will each make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Sections 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this

representation, it may rely on (i) the accuracy of any representation made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction(s) of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement; and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement,

provided that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) of this Agreement by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations.** For the purpose of Section 3(f) of this Agreement:

(i) Party A represents that it is a corporation duly organized and validly existing under the laws of the State of Delaware.

(ii) Party B represents that it is a corporation duly organized and validly existing under the laws the State of California and its federal taxpayer identification number is 33-0426859.

Part 3: Agreement to Deliver Documents

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:

(a) Party A and Party B will deliver forms and/or documents described in Section 4(a)(iii) of this Agreement upon reasonable demand by the other party.

(b) Other documents to be delivered are:

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party A and Party B	Incumbency certificate or other evidence reasonably satisfactory to the other party of the authority and genuine signature of the individual signing the Agreement and any Credit Support Document on behalf of such party to execute the same.	Upon execution of this Agreement.	Yes
Party A and Party B	Evidence reasonably satisfactory to the other party of the authority of such party and its Credit Support Provider to enter into the Agreement, any Credit Support Document and each Transaction entered into hereunder.	Upon execution of this Agreement.	Yes

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party A and Party B	A copy of the annual report (i) in the case of Party A, of its Credit Support Provider and (ii) in the case of Party B, AHLHC, containing audited consolidated financial statements for such fiscal year certified by independent public accountants and prepared in accordance with generally accepted accounting principles consistently applied.	As soon as available and in any event within 90 days of the end of each fiscal year of AHLHC.	Yes
Party A and Party B	For its most recent fiscal quarter, a copy of the unaudited financial statements of (i) in the case of Party A, its Credit Support Provider and (ii) in the case of Party B, AHLHC, prepared in accordance with generally accepted accounting principles consistently applied.	As soon as available and in any event within 60 days of the end of each fiscal quarter of AHLHC.	Yes
Party A and Party B	Any Credit Support Document(s) specified in Part 4 of this Schedule.	Upon execution of this Agreement.	No
Party A and Party B	An opinion of counsel to Party A and Party B substantially in the form of Exhibit B to this Schedule.	Upon execution of this Agreement.	No
Party B	All notices, reports, documents, certificates information, statements or instructions required to be delivered to Reference Party A (as defined in the Confirmation) under any Program Documents and such other documents as Party A may reasonable request from time to time.	Upon request.	Yes

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party B	A certificate of an authorized financial officer of Party B certifying that no Additional Termination Event has occurred and the calculations of the financial covenants set forth in Part 1(h)(i) of this Schedule for said period and the methodology used in computing said financial covenants, in form and detail satisfactory to Party A.	Within 30 days after the end of each calendar quarter.	Yes

Part 4: Miscellaneous

(a) **Addresses for Notices.** For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to **Party A**:

Address: Lehman Brothers Special Financing Inc.
c/o Lehman Brothers Inc.
Transaction Management
745 Seventh Avenue, 28th Floor
New York, NY 10019

Attention: Donald Kutch
Telephone No.: (212) 526-5810
Facsimile No.: (646) 758-1964

For all purposes.

Address for notices or communications to **Party B**:

Address: Accredited Home Lenders, Inc.
15090 Avenue of Science,
San Diego, California 92128

Attention: Katy Hudson
Telephone No.: 858-676-2177
Facsimile No.: 866-278-5876

For all purposes.

(b) **Process Agent.** For the purpose of Section 13(c) of this Agreement:

Party A appoints as its Process Agent: Not applicable.
Party B appoints as its Process Agent: Not applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party.** For the purpose of Section 10(c) of this Agreement:

Party A is not a Multibranch Party.

Party B is not a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A.

(f) **Credit Support Document.** Details of any Credit Support Document, each of which is incorporated by reference in, constitutes part of, and is in connection with, this Agreement and each Confirmation (unless provided otherwise in a Confirmation) as if set forth in full in this Agreement or such Confirmation:

In the case of **Party A**:

Guarantee of Party A's obligations hereunder in the form annexed hereto as Exhibit A to this Schedule.

In the case of **Party B**:

Credit Support Annex annexed hereto which supplements, forms part of, and is subject to, this Agreement and the guaranty issued by Party B's Credit Support Provider.

(g) **Credit Support Provider.**

Credit Support Provider means in relation to Party A: Lehman Brothers Holdings Inc.
Credit Support Provider means in relation to Party B: Accredited Home Lenders Co.

(h) **Governing Law. THIS AGREEMENT WILL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICTS OF LAWS PROVISIONS THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).**

(i) **Netting of Payments.** Subparagraph (ii) of Section 2(c) of this Agreement will apply to any Transactions.

(j) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement, provided, however, that with respect to Party A, such definition shall be understood to exclude Lehman Brothers Derivative Products Inc. and Lehman Brothers Financial Products Inc.

(k) **Jurisdiction**. Section 13(b) is hereby amended by: (i) deleting in the second line of subparagraph (i) thereof the word "non-"; and (ii) deleting the final paragraph thereof.

Part 5: Other Provisions

(a) **Representations.** Section 3 of this Agreement is hereby amended by adding the following additional subsections:

"(g) ***No Reliance.*** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction will not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party will be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(h) ***Assessment and Understanding.*** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(i) ***Status of Parties.*** The other party is not acting as a fiduciary for or an advisor to it in respect of that Transaction.

(j) ***No Agency.*** It is entering into this Agreement, including each Transaction, as principal and not as agent of any person or entity.

(k) ***Eligible Contract Participant.*** It is an "eligible contract participant" within the meaning of Section 1a(12) of the Commodity Exchange Act."

(b) **Set-off.** Section 6 of this Agreement is hereby amended by adding the following new subsection 6(f):

(f) ***Set-off.***

(i) In addition to any rights of set-off a party may have as a matter of law or otherwise, upon the occurrence of an Event of Default or an Additional Termination Event and the designation of an Early Termination Date pursuant to Section 6 of the Agreement with respect to a party ("X"), the other party ("Y") will have the right (but not be obliged) without prior notice to X or any other person to set-off or apply any obligation of X owed to Y (and to any Affiliate of Y) (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (and of any Affiliate of Y) owed to X (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation).

(ii) If the amount of an obligation is unascertained, Y may in good faith estimate that amount and set-off in respect of the estimate, subject to the relevant party accounting to the other when the amount of the obligation is ascertained.

(iii) This clause (f) shall not constitute a mortgage, charge, lien or other security interest upon any of the property or assets of either party to this Agreement.

(c) **Transfer.** Notwithstanding anything to the contrary in Section 7 of this Agreement, Party A may assign its rights and obligations under this Agreement, in whole and not in part, to any Affiliate of Holdings effective upon delivery to Party B of the guarantee by Holdings, in favor of Party B, of the obligations of such Affiliate, such guarantee to be otherwise identical to the guarantee then in effect of the obligations of the transferor at the sole expense of Party A.

(d) **Notices.** For the purposes of subsections (iii) and (v) of Section 12(a), the date of receipt shall be presumed to be the date sent if sent on a Local Business Day or, if not sent on a Local Business Day, the date of receipt shall be presumed to be the first Local Business Day following the date sent.

(e) **Service of Process.** The penultimate sentence of Section 13(c) shall be amended by adding the following language at the end thereof: "if permitted in the jurisdiction where the proceedings are initiated and in the jurisdiction where service is to be made."

(f) **Waiver of Trial By Jury.** Insofar as is permitted by law, each party irrevocably waives any and all rights to trial by jury in any legal proceeding in connection with this Agreement or any Transaction, and acknowledges that this waiver is a material inducement to the other party's entering into this Agreement and each Transaction hereunder.

(g) **Accuracy of Specified Information.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period the words "or, in the case of audited or unaudited financial statements or balance sheets, a fair presentation of the financial condition of the relevant person."

(h) **Confirmation.** Party A and Party B each agrees and acknowledges that the only Transaction that is or will be governed by this Agreement is the Transactions evidenced by the one Confirmation dated on the date hereof (it being understood that, in the event such Confirmation shall be amended (in any respect), such amendment shall not constitute (for purposes of this paragraph) a separate Transaction or a separate Confirmation).

(i) **Severability.** Except as otherwise provided in Sections 5(b)(i) or 5(b)(ii) of the Agreement in the event that any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter of this Agreement and the deletion of such portion of this Agreement will not substantially impair the respective benefits and expectations of the parties to this Agreement. The parties shall endeavor, in good faith negotiations, to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(j) **Consent to Recording.** The parties agree that each may electronically record all telephonic conversations between marketing and trading personnel in connection with this Agreement and that any such recordings may be submitted in evidence in any Proceedings relating to this Agreement.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

LEHMAN BROTHERS SPECIAL FINANCING INC.	**ACCREDITED HOME LENDERS, INC.**
(Name of Party)	*(Name of Party)*
By: /s/ Fred Madonna	By: /s/ Melissa G. Dant
Name: Fred Madonna	Name: Melissa G. Dant
Title:	Title: Senior Secondary Markets Counsel, AVP & Ass't Sec'y

EXHIBIT A to Schedule

GUARANTEE OF LEHMAN BROTHERS HOLDINGS INC.

LEHMAN BROTHERS SPECIAL FINANCING INC. ("Party A") and **ACCREDITED HOME LENDERS, INC.** ("Party B") have entered into a Master Agreement dated as of May 10, 2005 (the "Master Agreement"), pursuant to which Party A and Party B have entered and/or anticipate entering into one or more transactions (each a "Transaction"), the Confirmation of each of which supplements, forms part of, and will be read and construed as one with, the Master Agreement (collectively referred to as the "Agreement"). This Guarantee is a Credit Support Document as contemplated in the Agreement. For value received, and in consideration of the financial accommodation accorded to Party A by Party B under the Agreement, LEHMAN BROTHERS HOLDINGS INC., a corporation organized and existing under the laws of the State of Delaware ("Guarantor"), hereby agrees to the following:

(a) Guarantor hereby unconditionally guarantees to Party B the due and punctual payment of all amounts payable by Party A under each Transaction when and as Party A's obligations thereunder shall become due and payable in accordance with the terms of the Agreement. In case of the failure of Party A to pay punctually any such amounts, Guarantor hereby agrees, upon written demand by Party B, to pay or cause to be paid any such amounts punctually when and as the same shall become due and payable.

(b) Guarantor hereby agrees that its obligations under this Guarantee constitute a guarantee of payment when due and not of collection.

(c) Guarantor hereby agrees that its obligations under this Guarantee shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement against Party A (other than as a result of the unenforceability thereof against Party B), the absence of any action to enforce Party A's obligations under the Agreement, any waiver or consent by Party B with respect to any provisions thereof, the entry by Party A and Party B into additional Transactions under the Agreement or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor (excluding the defense of payment or statute of limitations, neither of which is waived) provided, however, that Guarantor shall be entitled to exercise any right that Party A could have exercised under the Agreement to cure any default in respect of its obligations under the Agreement or to setoff, counterclaim or withhold payment in respect of any Event of Default or Potential Event of Default in respect of Party B or any Affiliate, but only to the extent such right is provided to Party A under the Agreement. The Guarantor acknowledges that Party A and Party B may from time to time enter into one or more Transactions pursuant to the Agreement and agrees that the obligations of the Guarantor under this Guarantee will upon the execution of any such Transaction by Party A and Party B extend to all such Transactions without the taking of further action by the Guarantor.

(d) This Guarantee shall remain in full force and effect until such time as Party B shall receive written notice of termination. Termination of this Guarantee shall not affect Guarantor's liability hereunder as to obligations incurred or arising out of Transactions entered into prior to the termination hereof.

(e) Guarantor further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any obligation or interest thereon is rescinded or must otherwise be restored by Party B upon an Event of Default as set forth in Section 5(a)(vii) of the Master Agreement affecting Party A or Guarantor.

(f) Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with the Agreement and this Guarantee, or (ii) any requirement that Party B exhaust any right to take any action against Party A or any other person prior to or contemporaneously with proceeding to exercise any right against Guarantor under this Guarantee.

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine. All capitalized terms not defined in this Guarantee, but defined in the Agreement, shall have the meanings assigned thereto in the Agreement.

Any notice hereunder will be sufficiently given if given in accordance with the provisions for notices under the Agreement and will be effective as set forth therein. All notices hereunder shall be delivered to Lehman Brothers Holdings Inc., Attention: Corporate Counsel, 399 Park Avenue, 11th Floor, New York, NY 10022 USA (Facsimile No. (212) 526-0339) with a copy to Lehman Brothers Special Financing Inc., Attention: Transaction Management, 745 Seventh Avenue, 28th Floor, New York, NY 10019 USA.

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its corporate name by its duly authorized officer as of the date of the Agreement.

LEHMAN BROTHERS HOLDINGS INC.

By: _____

Name: Thomas J. O'Hara
Title: Senior Vice President
Date:

EXHIBIT B to Schedule

[Form of Opinion of Counsel]

[Date]

[Other Counterparty]

Ladies and Gentlemen:

I have acted as counsel to [counterparty], a [_____] corporation ("Party [A][B]"), and am familiar with matters pertaining to the execution and delivery of the Master Agreement (the "Master Agreement") dated as of [date] between Accredited Home Lenders, Inc. ("Party B") and Lehman Brothers Special Financing Inc. ("Party A").

In connection with this opinion, I have examined, or have had examined on my behalf, an executed copy of the Master Agreement, certificates and statements of public officials and officers of Party B and such other agreements, instruments, documents and records as I have deemed necessary or appropriate for the purposes of this opinion.

Based on the foregoing but subject to the assumptions, exceptions, qualifications and limitations hereinafter expressed, I am of the opinion that:

1. Party B is a corporation duly incorporated, validly existing and in good standing under the laws of [_____].
2. The execution, delivery and performance of the Master Agreement, by or on behalf of Party B, are within its corporate power, have been duly authorized by all corporate action and do not conflict with any provision of its certificate of incorporation or by-laws.
3. The Master Agreement has been duly executed and delivered by Party B and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.
4. To the best of my knowledge no consent, authorization, license or approval of or registration or declaration with, any governmental authority is required in connection with the execution, delivery and performance of the Master Agreement by Party [A][B].

The foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. My opinion in paragraph 3 above is subject to (i) the effect of any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors rights generally (including, without limitation, the effect of statutory or other laws regarding fraudulent or other similar transfers), (ii) general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law, (iii) the equitable discretion of the court before which any proceeding therefor may be brought, (iv) the application of judicial decisions involving statutes or principles of equity which have held that certain covenants and other provisions of agreements, including those providing for the acceleration of obligations upon the occurrence of events therein described, are unenforceable in circumstances where it can be demonstrated that the enforcement of such provisions is not reasonably necessary for the protection of the party invoking the right to accelerate, (v) such requirements of good

faith, fair dealing and commercial reasonableness as may be imposed by the law of the State of New York on the exercise by a party of its contractual rights and remedies, (vi) possible judicial application of foreign laws or foreign government actions affecting creditors' rights, and (v) the validity, binding effect or enforceability, under certain circumstances, of contractual provisions with respect to indemnification or waiving defenses to obligations where such indemnification or such waivers are against public policy.

B. I am qualified to practice law in [_____] and render no opinion on the laws of any jurisdiction other than the laws of [_____].

C. My opinions are limited to the present laws and to the facts as they presently exist. I assume no obligation to revise or supplement this opinion should the present laws of the jurisdictions referred to in paragraph B above be changed by legislative action, judicial decision or otherwise.

D. This letter is rendered to you in connection with the Master Agreement [and the Guarantee] and the transactions related thereto and may not be relied upon by any other person or by you in any other context or for any other purpose. This letter may not be quoted in whole or in part, nor may copies thereof be furnished or delivered to any other person, without the prior written consent of Party B, except that you may furnish copies hereof (i) to your independent auditors and attorneys, (ii) to any state or local authority having jurisdiction over you or over Party [A][B], (iii) pursuant to the order of any legal process of any court of competent jurisdiction or any governmental agency, and (iv) in connection with any legal action arising out of the Master Agreement.

E. I have assumed with your permission (i) the genuineness of all signatures by each party other than Party B, (ii) the authenticity of documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as copies, and (iii) the due execution and delivery, pursuant to due authorization, of the Master Agreement by each party other than Party B.

F. I have also assumed for the purpose of this opinion that the Master Agreement constitute the legal valid and binding obligation of Party [A][B] in accordance with New York law by which is governed.

G. I express no opinion as to the prohibition on transfers in Section 7(a) of the Master Agreement Terms in any case in which its operation would conflict with Section 9-406 or Section 9-408 of the Uniform Commercial Code as in effect in the State of New York.

Very truly yours,

Exhibit 4.17

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

Master Agreement

dated as of May 10, 2005

between

LEHMAN BROTHERS SPECIAL FINANCING INC.	**ACCREDITED HOME LENDERS, INC.**
("Party A")	***("Party B")***

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:

Paragraph 1. Interpretation

(a) ***Definitions and Inconsistency***. Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) ***Secured Party and Pledgor***. All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; *provided, however*, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

Paragraph 2. Security Interest

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without further action by either party.

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CREDIT SUPPORT ANNEX
Elections and Variables
dated as of May 10, 2005
between
LEHMAN BROTHERS SPECIAL FINANCING INC.
(hereinafter referred to as either "Party A" or "Secured Party")
and
ACCREDITED HOME LENDERS, INC.
(hereinafter referred to as either "Party B" or "Pledgor")

Paragraph 13. Elections and Variables

(a) **Security Interest for "Obligations".** The term **"Obligations"** as used in this Annex includes the following additional obligations: None.

(b) **Credit Support Obligations.**

(i) **Delivery Amount, Return Amount and Credit Support Amount**

(1) **"Delivery Amount**" has the meaning specified in Paragraph 3(a).

(2) **"Return Amount**" has the meaning specified in Paragraph 3(b).

(3) **"Credit Support Amount**" has the meaning specified in Paragraph 3; provided, however, that in the event that the sum of the Independent Amounts applicable to Pledgor exceed zero, the Credit Support Amount will not be less than the sum of all Independent Amounts applicable to the Pledgor.

(ii) **Eligible Collateral.** The following items will qualify as **"Eligible Collateral"** for the party specified:

		Party B	Valuation Percentage
(1)	Cash, in the form of USD.	☒	100%
(2)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of not more than one year.	☒	99%
(3)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than one year but not more than ten years.	☒	98%
(4)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than ten years.	☒	97%
(5)	negotiable debt obligations which are fully guaranteed as to both principal and interest by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation that are not pass-through, multi-class or multi- branch securities or paying interest only or principal only.	☒	95%
(6)	Other securities acceptable to the secured party: None, unless otherwise specified in the relevant Confirmation.	☒	As determined by Valuation Agent

(iii) **Other Eligible Support**. The following items will qualify as **"Other Eligible Support**" for the party specified: Mortgage Loans that satisfy the Eligibility Criteria with a Valuation Percentage to be determined by the Valuation Agent in its sole discretion. Such Other Eligible Support is hereby subject to the security interest granted pursuant to Paragraph 2 hereof.

(iv) **Thresholds.**

(1) **"Independent Amount"** shall mean with respect to Party B, all Hedges and shall not be subject to Minimum Transfer Amount.

"Hedge" shall mean the rights (but not the obligations) of Party B with respect to any transaction now existing or hereinafter entered into between Party B (or any Credit Support Provider of such party) and any counterparty which is an option of any type, swaption, rate swap transaction, basis swap, forward rate transaction, equity swap, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, repurchase agreement, reverse repurchase agreement, total return swap, credit default swap or any similar transaction or other financial instrument or interest (including any option with respect to any of these transactions), that relate to the Mortgage Loans, including without limitation those listed on a schedule delivered by Party B to Party A as amended from time to time.

"Specialist Account" shall mean the account(s) held at R.J. O'Brien.

(2) **"Threshold"** means, with respect to Party A, infinite; with respect to Party B shall be USD 50,000; provided that, if an Event of Default or Additional Termination Event has occurred and is continuing with respect to Party B, then the Threshold with respect to Party B shall be zero.

(3) **"Minimum Transfer Amount"** means, with respect to a party, USD 250,000; provided that, notwithstanding anything to the contrary contained herein, the Minimum Transfer Amount shall not apply to the Independent Amount, and provided further that, if an Event of Default or Additional Termination Event has occurred and is continuing with respect to Party B, then the Minimum Transfer Amount with respect to Party B shall be zero.

(4) **Rounding.** The Delivery Amount and the Return Amount shall be rounded up and down respectively to the nearest integral multiple of USD 1,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means Party A.

(ii) **"Valuation Date"** means any Local Business Day.

(iii) **"Valuation Time**" means the close of business in the location where the relevant product is traded, provided that the calculations of Value and Exposure will be made as of approximately the same time on the same date.

(iv) **"Notification Time"** means by 1:00 p.m., New York time, on a Local Business Day.

(d) **Conditions Precedent and Secured Party's Rights and Remedies.** The following Termination Event(s) will be a "Specified Condition" for the party specified (that party being the Affected Party if the Termination Event occurs with respect to that party):

	Party B
Illegality	☒
Tax Event	☒
Tax Event Upon Merger	☒
Credit Event Upon Merger	☒
Additional Termination Event(s): as set forth in Part 1 (h)	☒

(e) **Substitution.**

(i) **"Substitution Date"** has the meaning specified in Paragraph 4(d)(ii).

(ii) **Consent.** The Pledgor need not obtain the Secured Party's consent for any substitution pursuant to Paragraph 4(d).

(f) **Dispute Resolution**

(i) **"Resolution Time**" means 1:00 p.m., New York time, on the Local Business Day following the date on which notice is given that gives rise to a dispute.

(ii) **Value.** For the purpose of Paragraph 5(i)(c) and 5(ii), the Value of Posted Credit Support other than Cash will be calculated as follows:

With respect to any Eligible Collateral in the form of securities listed in Paragraph 13(b)(ii) (referred to herein as "Collateral Obligations") the sum of (1) (x) the bid price quoted on such date by a principal market maker for such Collateral Obligations selected by the Valuation Agent, or (y) if no such quotation is available from a principal market maker for such date, such bid price as of the day, next preceding such date, on which such quotation was available, in either case multiplied by the applicable Valuation Percentage, plus (2) the accrued interest on such Collateral Obligations (except to the extent Transferred to a party pursuant to any applicable section of this Agreement or included in the applicable price referred to in (1) of this clause) as of such date.

(iii) **Alternative.** Paragraph 5 will apply with the following modification. Paragraph 5 is hereby amended by adding in the sixth line the words "the disputed amount and" before the words "the undisputed amount".

(g) **Holding and Using Posted Collateral.**

(i) **Eligibility to Hold Posted Collateral; Custodians.**

Party A and/or its Custodian or Collateral Agent will be entitled to hold Posted Collateral pursuant to Paragraph 6(b), provided that the following conditions applicable to it are satisfied:

(1) Party A is not a Defaulting Party.

(2) The Custodian or Collateral Agent, if any, is a wholly owned, direct or indirect, subsidiary of Lehman Brothers Holdings Inc. or a bank or trust company located in the United States or having a branch in the United States having total assets of at least USD 1 billion.

Initially, the **Custodian** for Party A is: Not applicable.

Initially, the Collateral Agent for Party A is Lehman Brothers Special Financing Inc. and, thereafter, its successors as appointed under the Collateral Agency and Intercreditor Agreement, dated as of the date hereof, as amended from time to time.

(ii) **Use of Posted Collateral.** The provisions of Paragraph 6(c) will apply to Party A.

(h) **Distributions and Interest Amount.**

(i) **Interest Rate.** Subject to subparagraph (iii) below, the Interest Rate will be the Federal Funds Rate. "Federal Funds Rate" means the rate per annum equal to the overnight Federal Funds Rate for each day Cash is held by the Secured Party as reported in Federal Reserve Publication H.15-519.

(ii) **Transfer of Interest Amount.** Except as set forth in subparagraph (iii) below, the Transfer of the Interest Amount will be made on the first Local Business Day of each calendar month and on any Local Business Day that Posted Collateral in the form of Cash is Transferred to the Pledgor pursuant to Paragraph 3(b). The Interest Amount will constitute Posted Collateral and will be subject to the security interest granted under Paragraph 2.

(iii) **Alternative to Interest Amount.** Paragraph 6(d)(ii) will apply.

(i) **Additional Representation(s).** Not applicable.

(j) **"Other Eligible Support and Other Posted Support."**

(i) **"Value"** with respect to Other Eligible Support and Other Posted Support means: As determined by the Valuation Agent in its sole discretion.

(ii) **"Transfer"** with respect to Other Eligible Support and Other Posted Support means: As determined by the Valuation Agent in its sole discretion.

(k) **Demands and Notices.** All demands, specifications and notices made by a party to this Annex will be made pursuant to Section 12 (Notices) of this Agreement unless otherwise notified from time to time.

(l) **Addresses for Transfers.**

Party A: As agreed between the parties from time to time.

Party B: As agreed between the parties from time to time.

(m) **Other Provisions.**

(i) **No Disposition.** Without the prior written consent of Secured Party, Pledgor agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, Posted Collateral, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any of the Posted Collateral, or any interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Annex.

(ii) **Agreement as to Single Secured Party and Pledgor.** Party A and Party B agree that, notwithstanding anything to the contrary in the recital to this Annex, Paragraph 1(b) or Paragraph 2 or the definitions in Paragraph 12, (a) the term *"Secured Party"* as used in this Annex means only Party A, (b) the term *"Pledgor"* as used in this Annex means only Party B, (c) only Party B makes the pledge and grant in Paragraph 2, the acknowledgment in the final sentence of Paragraph 8(a) and the representations in Paragraph 9 and (d) only Party B will be required to make transfers of Eligible Credit Support hereunder.

(iii) This Credit Support Annex is a Security Agreement under the New York UCC.

(iv) **Specialist Account.** Party B shall not grant any security interest in, grant "control" (as such term is defined in Article 8 of the applicable Uniform Commercial Code) of, or permit to exist any adverse claim on, the Specialist Account without the prior written consent of Party A.

(v) **Certain Amendment.** Paragraph 2 shall be further amended by adding the words "and Other Posted Support" after each reference to the words "Posted Collateral" in the third and fourth lines. For purposes of Paragraph 2 hereof, Hedges shall be deemed to be included in the definition of Posted Collateral.

(vi) **Grace Period.** Clause (i) of Paragraph 7 is hereby amended by deleting the words "two Local Business Days" and substituting therefore "one Local Business Day".

(vii) The definition of "Exposure" is this Annex hereby amended as follows:

"**Exposure**" means, for any Valuation Date or other date of determination, the greater of (i) the excess of the Outstanding Purchase Price over the sum of (A) the Current Market Value and (B) the Market Value Reserve Available Amount and (ii) zero.

"**Current Market Value**" means, for any date of determination, the current market value of Mortgage Loans owned by the Issuer as determined by Party A in its sole and absolute discretion multiplied by 98%. For the avoidance of doubt, (i) the market value of any Mortgage Loan that (A) has become 60 days delinquent shall be zero, (ii) to the extent that the aggregate Outstanding Purchase Prices of ICU-4 Loans (other than 90 Day ICU-4 Loans) exceeds the greater of (A) 5%

of the aggregate Outstanding Purchase Prices of the Mortgage Loans owned by the Issuer at such time and (B) $25,000,000, the current market value of the ICU-4 Loans (other than the 90 Day ICU-4 Loans) in excess of such limit shall be zero, and (iii) the market value of any 90 Day ICU-4 Loan shall be zero.

"90 Day ICU-4 Loan" means any ICU-4 Loan that has been owned by the Issuer for 90 days since it became an ICU-4 Loan.

"ICU-4 Loan" means any Mortgage Loan owned by the Issuer that is not a Defaulted Loan or Delinquent Loan that has not been sold by the Issuer after four attempts by the Servicer to sell such Mortgage Loan or otherwise is included on Party B's internal ICU-4 report in accordance with the Servicer's customary servicing procedures.

(viii) Party B shall, at any time and from time to time during regular business hours, as requested by Party A upon two Business Days' notice, permit Party A, or its agents or representatives, (A) to examine and make copies of and take abstracts from all books, records and documents including computer tapes and disks relating to the Mortgage Loans owned by the Issuer, including the Loan Documents and (B) to visit the offices and properties of Party B for the purpose of examining such materials described in clause (A), and to discuss matters relating to the Mortgage Loans with any of the officers, directors, employees or independent public accountants of Party B having knowledge of such matters at the expense of Party B, provided that if no Early Accumulation Event, Extended Note Amortization Event or has occurred, the Servicer shall only be required to pay out-of-pocket expenses not in excess of $100,000 during any calendar year.

(ix) Capitalized terms used herein and not otherwise defined shall have the meanings signed to such terms in the Security Agreement, dated as of the date hereof between Carmel Mountain Funding Trust , as Issuer, and Deutsche Bank Trust Company Americas, as Collateral Agent, as amended from time to time.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

LEHMAN BROTHERS SPECIAL FINANCING INC. (Party A)	**ACCREDITED HOME LENDERS, INC.** (Party B)
By: /s/ Illegible	By: /s/ Melissa G. Dant
Name:	Name: Melissa G. Dant
Title:	Title: Senior Secondary Market s Counsel, AVP & Ass't Sec'y
Date:	Date:

Exhibit 4.18

GUARANTEE OF LEHMAN BROTHERS HOLDINGS INC.

LEHMAN BROTHERS SPECIAL FINANCING INC. ("Party A") and **ACCREDITED HOME LENDERS, INC.** ("Party B") have entered into a Master Agreement dated as of May 10, 2005 (the "Master Agreement"), pursuant to which Party A and Party B have entered and/or anticipate entering into one or more transactions (each a "Transaction"), the Confirmation of each of which supplements, forms part of, and will be read and construed as one with, the Master Agreement (collectively referred to as the "Agreement"). This Guarantee is a Credit Support Document as contemplated in the Agreement. For value received, and in consideration of the financial accommodation accorded to Party A by Party B under the Agreement, LEHMAN BROTHERS HOLDINGS INC., a corporation organized and existing under the laws of the State of Delaware ("Guarantor"), hereby agrees to the following:

(a) Guarantor hereby unconditionally guarantees to Party B the due and punctual payment of all amounts payable by Party A under each Transaction when and as Party A's obligations thereunder shall become due and payable in accordance with the terms of the Agreement. In case of the failure of Party A to pay punctually any such amounts, Guarantor hereby agrees, upon written demand by Party B, to pay or cause to be paid any such amounts punctually when and as the same shall become due and payable.

(b) Guarantor hereby agrees that its obligations under this Guarantee constitute a guarantee of payment when due and not of collection.

(c) Guarantor hereby agrees that its obligations under this Guarantee shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement against Party A (other than as a result of the unenforceability thereof against Party B), the absence of any action to enforce Party A's obligations under the Agreement, any waiver or consent by Party B with respect to any provisions thereof, the entry by Party A and Party B into additional Transactions under the Agreement or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor (excluding the defense of payment or statute of limitations, neither of which is waived) provided, however, that Guarantor shall be entitled to exercise any right that Party A could have exercised under the Agreement to cure any default in respect of its obligations under the Agreement or to setoff, counterclaim or withhold payment in respect of any Event of Default or Potential Event of Default in respect of Party B or any Affiliate, but only to the extent such right is provided to Party A under the Agreement. The Guarantor acknowledges that Party A and Party B may from time to time enter into one or more Transactions pursuant to the Agreement and agrees that the obligations of the Guarantor under this Guarantee will upon the execution of any such Transaction by Party A and Party B extend to all such Transactions without the taking of further action by the Guarantor.

(d) This Guarantee shall remain in fall force and effect until such time as Party B shall receive written notice of termination. Termination of this Guarantee shall not affect Guarantor's liability hereunder as to obligations incurred or arising out of Transactions entered into prior to the termination hereof.

(e) Guarantor further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any obligation or interest thereon is rescinded or must otherwise be restored by Party B upon an Event of Default as set forth in Section 5(a)(vii) of the Master Agreement affecting Party A or Guarantor.

(f) Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with the Agreement and this Guarantee, or (ii) any requirement that Party B exhaust any right to take any action against Party A or any other person prior to or contemporaneously with proceeding to exercise any right against Guarantor under this Guarantee.

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine. All capitalized terms not defined in this Guarantee, but defined in the Agreement, shall have the meanings assigned thereto in the Agreement.

Any notice hereunder will be sufficiently given if given in accordance with the provisions for notices under the Agreement and will be effective as set forth therein. All notices hereunder shall be delivered to Lehman Brothers Holdings Inc., Attention: Corporate Counsel, 399 Park Avenue, 11th Floor, New York, NY 10022 USA (Facsimile

No. (212) 526-0339) with a copy to Lehman Brothers Special Financing Inc., Attention: Transaction Management, 745 Seventh Avenue, 28th Floor, New York, NY 10019 USA.

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its corporate name by its duly authorized officer as of the date of the Agreement.

LEHMAN BROTHERS HOLDINGS INC.

By: /s/ James J. Killerlane III
Name: James J. Killerlane III
Title: Vice President
Date: May 10, 2005

Exhibit 4.19

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

Master Agreement

dated as of May 10, 2005

between

CALYON NEW YORK BRANCH	**ACCREDITED HOME LENDERS, INC.**
("Party A")	***("Party B")***

This Annex supplements, forms part of, and is subject to, the above-referenced Agreement, is part of its Schedule and is a Credit Support Document under this Agreement with respect to each party.

Accordingly, the parties agree as follows:

Paragraph 1. Interpretation

(a) ***Definitions and Inconsistency***. Capitalized terms not otherwise defined herein or elsewhere in this Agreement have the meanings specified pursuant to Paragraph 12, and all references in this Annex to Paragraphs are to Paragraphs of this Annex. In the event of any inconsistency between this Annex and the other provisions of this Schedule, this Annex will prevail and in the event of any inconsistency between Paragraph 13 and the other provisions of this Annex, Paragraph 13 will prevail.

(b) ***Secured Party and Pledgor***. All references in this Annex to the "Secured Party" will be to either party when acting in that capacity and all corresponding references to the "Pledgor" will be to the other party when acting in that capacity; *provided, however*, that if Other Posted Support is held by a party to this Annex, all references herein to that party as the Secured Party with respect to that Other Posted Support will be to that party as the beneficiary thereof and will not subject that support or that party as the beneficiary thereof to provisions of law generally relating to security interests and secured parties.

Paragraph 2. Security Interest

Each party, as the Pledgor, hereby pledges to the other party, as the Secured Party, as security for its Obligations, and grants to the Secured Party a first priority continuing security interest in, lien on and right of Set-off against all Posted Collateral Transferred to or received by the Secured Party hereunder. Upon the Transfer by the Secured Party to the Pledgor of Posted Collateral, the security interest and lien granted hereunder on that Posted Collateral will be released immediately and, to the extent possible, without further action by either party.

CREDIT SUPPORT ANNEX
Elections and Variables
dated as of May 10, 2005
between
CALYON NEW YORK BRANCH
(hereinafter referred to as either "Party A" or "Secured Party")
and
ACCREDITED HOME LENDERS, INC.
(hereinafter referred to as either "Party B" or "Pledgor")

Paragraph 13. Elections and Variables

(a) **Security Interest for "Obligations".** The term **"Obligations"** as used in this Annex includes the following additional obligations: None.

(b) **Credit Support Obligations.**

(i) **Delivery Amount, Return Amount and Credit Support Amount**

(1) **"Delivery Amount"** has the meaning specified in Paragraph 3(a).

(2) **"Return Amount"** has the meaning specified in Paragraph 3(b).

(3) **"Credit Support Amount"** has the meaning specified in Paragraph 3; provided, however, that in the event that the sum of the Independent Amounts applicable to Pledgor exceed zero, the Credit Support Amount will not be less than the sum of all Independent Amounts applicable to the Pledgor.

(ii) **Eligible Collateral.** The following items will qualify as **"Eligible Collateral"** for the party specified:

		Party B	Valuation Percentage
(1)	Cash, in the form of USD.	☒	100%
(2)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of not more than one year.	☒	99%
(3)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than one year but not more than ten years.	☒	98%
(4)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than ten years.	☒	97%
(5)	negotiable debt obligations which are fully guaranteed as to both principal and interest by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation that are not pass-through, multi-class or multi- branch securities or paying interest only or principal only.	☒	95%
(6)	Other securities acceptable to the secured party: None, unless otherwise specified in the relevant Confirmation.	☒	As determined by Valuation Agent

(iii) **Other Eligible Support**. The following items will qualify as **"Other Eligible Support"** for the party specified: Mortgage Loans that satisfy the Eligibility Criteria with a Valuation Percentage to be determined by the Valuation Agent in its sole discretion. Such Other Eligible Support is hereby subject to the security interest granted pursuant to Paragraph 2 hereof.

(iv) Thresholds.

(1) **"Independent Amount"** shall mean with respect to Party B, all Hedges and shall not be subject to Minimum Transfer Amount.

"Hedge" shall mean the rights (but not the obligations) of Party B with respect to any transaction now existing or hereinafter entered into between Party B (or any Credit Support Provider of such party) and any counterparty which is an option of any type, swaption, rate swap transaction, basis swap, forward rate transaction, equity swap, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, repurchase agreement, reverse repurchase agreement, total return swap, credit default swap or any similar transaction or other financial instrument or interest (including any option with respect to any of these transactions), that relate to the Mortgage Loans, including without limitation those listed on a schedule delivered by Party B to Party A as amended from time to time.

"Specialist Account" shall mean the account(s) held at R.J. O'Brien.

(2) **"Threshold"** means, with respect to Party A, infinite; with respect to Party B shall be USD 50,000; provided that, if an Event of Default or Additional Termination Event has occurred and is continuing with respect to Party B, then the Threshold with respect to Party B shall be zero.

(3) **"Minimum Transfer Amount"** means, with respect to a party, USD 250,000; provided that, notwithstanding anything to the contrary contained herein, the Minimum Transfer Amount shall not apply to the Independent Amount, and provided further that, if an Event of Default or Additional Termination Event has occurred and is continuing with respect to Party B, then the Minimum Transfer Amount with respect to Party B shall be zero.

(4) **Rounding.** The Delivery Amount and the Return Amount shall be rounded up and down respectively to the nearest integral multiple of USD 1,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means Party A.

(ii) **"Valuation Date"** means any Local Business Day.

(iii) "**Valuation Time**" means the close of business in the location where the relevant product is traded, provided that the calculations of Value and Exposure will be made as of approximately the same time on the same date.

(iv) **"Notification Time"** means by 1:00 p.m., New York time, on a Local Business Day.

(d) **Conditions Precedent and Secured Party's Rights and Remedies.** The following Termination Event(s) will be a "Specified Condition" for the party specified (that party being the Affected Party if the Termination Event occurs with respect to that party):

	Party B
Illegality	☒
Tax Event	☒
Tax Event Upon Merger	☒
Credit Event Upon Merger	☒
Additional Termination Event(s): as set forth in Part 1 (h)	☒

(e) **Substitution.**

(i) **"Substitution Date"** has the meaning specified in Paragraph 4(d)(ii).

(ii) **Consent.** The Pledgor need not obtain the Secured Party's consent for any substitution pursuant to Paragraph 4(d).

(f) **Dispute Resolution**

(i) **"Resolution Time"** means 1:00 p.m., New York time, on the Local Business Day following the date on which notice is given that gives rise to a dispute.

(ii) **Value.** For the purpose of Paragraph 5(i)(c) and 5(ii), the Value of Posted Credit Support other than Cash will be calculated as follows:

With respect to any Eligible Collateral in the form of securities listed in Paragraph 13(b)(ii) (referred to herein as "Collateral Obligations") the sum of (1) (x) the bid price quoted on such date by a principal market maker for such Collateral Obligations selected by the Valuation Agent, or (y) if no such quotation is available from a principal market maker for such date, such bid price as of the day, next preceding such date, on which such quotation was available, in either case multiplied by the applicable Valuation Percentage, plus (2) the accrued interest on such Collateral Obligations (except to the extent Transferred to a party pursuant to any applicable section of this Agreement or included in the applicable price referred to in (1) of this clause) as of such date.

(iii) **Alternative.** Paragraph 5 will apply with the following modification. Paragraph 5 is hereby amended by adding in the sixth line the words "the disputed amount and" before the words "the undisputed amount".

(g) **Holding and Using Posted Collateral.**

(i) **Eligibility to Hold Posted Collateral; Custodians.**

Party A and/or its Custodian or Collateral Agent will be entitled to hold Posted Collateral pursuant to Paragraph 6(b), provided that the following conditions applicable to it are satisfied:

(1) Party A is not a Defaulting Party.

(2) The Custodian or Collateral Agent, if any, is a wholly owned, direct or indirect, subsidiary of Lehman Brothers Holdings Inc. or a bank or trust company located in the United States or having a branch in the United States having total assets of at least USD 1 billion.

Initially, the **Custodian** for Party A is: Not applicable.

Initially, the Collateral Agent for Party A is Lehman Brothers Special Financing Inc. and, thereafter, its successors as appointed under the Collateral Agency and Intercreditor Agreement, dated as of the date hereof, as amended from time to time.

(ii) **Use of Posted Collateral.** The provisions of Paragraph 6(c) will apply to Party A.

(h) **Distributions and Interest Amount.**

(i) **Interest Rate.** Subject to subparagraph (iii) below, the Interest Rate will be the Federal Funds Rate. "Federal Funds Rate" means the rate per annum equal to the overnight Federal Funds Rate for each day Cash is held by the Secured Party as reported in Federal Reserve Publication H.15-519.

(ii) **Transfer of Interest Amount.** Except as set forth in subparagraph (iii) below, the Transfer of the Interest Amount will be made on the first Local Business Day of each calendar month and on any Local Business Day that Posted Collateral in the form of Cash is Transferred to the Pledgor pursuant to Paragraph 3(b). The Interest Amount will constitute Posted Collateral and will be subject to the security interest granted under Paragraph 2.

(iii) **Alternative to Interest Amount.** Paragraph 6(d)(ii) will apply.

(i) **Additional Representation(s).** Not applicable.

(j) **"Other Eligible Support and Other Posted Support."**

(i) **"Value"** with respect to Other Eligible Support and Other Posted Support means: As determined by the Valuation Agent in its sole discretion.

(ii) **"Transfer"** with respect to Other Eligible Support and Other Posted Support means: As determined by the Valuation Agent in its sole discretion.

(k) **Demands and Notices.** All demands, specifications and notices made by a party to this Annex will be made pursuant to Section 12 (Notices) of this Agreement unless otherwise notified from time to time.

(l) **Addresses for Transfers.**

Party A: As agreed between the parties from time to time.

Party B: As agreed between the parties from time to time.

(m) **Other Provisions.**

(i) **No Disposition.** Without the prior written consent of Secured Party, Pledgor agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, Posted Collateral, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any of the Posted Collateral, or any interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Annex.

(ii) **Agreement as to Single Secured Party and Pledgor.** Party A and Party B agree that, notwithstanding anything to the contrary in the recital to this Annex, Paragraph 1(b) or Paragraph 2 or the definitions in Paragraph 12, (a) the term *"Secured Party"* as used in this Annex means only Party A, (b) the term *"Pledgor"* as used in this Annex means only Party B, (c) only Party B makes the pledge and grant in Paragraph 2, the acknowledgment in the final sentence of Paragraph 8(a) and the representations in Paragraph 9 and (d) only Party B will be required to make transfers of Eligible Credit Support hereunder.

(iii) This Credit Support Annex is a Security Agreement under the New York UCC.

(iv) **Specialist Account.** Party B shall not grant any security interest in, grant "control" (as such term is defined in Article 8 of the applicable Uniform Commercial Code) of, or permit to exist any adverse claim on, the Specialist Account without the prior written consent of Party A.

(v) **Certain Amendment.** Paragraph 2 shall be further amended by adding the words "and Other Posted Support" after each reference to the words "Posted Collateral" in the third and fourth lines. For purposes of Paragraph 2 hereof, the Hedges shall be deemed to be included in the definition of Posted Collateral.

(vi) **Grace Period.** Clause (i) of Paragraph 7 is hereby amended by deleting the words "two Local Business Days" and substituting therefore "one Local Business Day".

(vii) The definition of "Exposure" is this Annex hereby amended as follows:

"**Exposure**" means, for any Valuation Date or other date of determination, the greater of (i) the excess of the Outstanding Purchase Price over the sum of (A) the Current Market Value and (B) the Market Value Reserve Available Amount and (ii) zero.

"**Current Market Value**" means, for any date of determination, the current market value of Mortgage Loans owned by the Issuer as determined by Party A in its sole and absolute discretion multiplied by 98%. For the avoidance of doubt, (i) the market value of any Mortgage Loan that (A) has become 60 days delinquent shall be zero, (ii) to the extent that the aggregate Outstanding Purchase Prices of ICU-4 Loans (other than 90 Day ICU-4 Loans) exceeds the greater of (A) 5%

of the aggregate Outstanding Purchase Prices of the Mortgage Loans owned by the Issuer at such time and (B) $25,000,000, the current market value of the ICU-4 Loans (other than the 90 Day ICU-4 Loans) in excess of such limit shall be zero, and (iii) the market value of any 90 Day ICU-4 Loan shall be zero.

"90 Day ICU-4 Loan" means any ICU-4 Loan that has been owned by the Issuer for 90 days since it became an ICU-4 Loan.

"ICU-4 Loan" means any Mortgage Loan owned by the Issuer that is not a Defaulted Loan or Delinquent Loan that has not been sold by the Issuer after four attempts by the Servicer to sell such Mortgage Loan or otherwise is included on Party B's internal ICU-4 report in accordance with the Servicer's customary servicing procedures.

(viii) Party B shall, at any time and from time to time during regular business hours, as requested by Party A upon two Business Days' notice, permit Party A, or its agents or representatives, (A) to examine and make copies of and take abstracts from all books, records and documents including computer tapes and disks relating to the Mortgage Loans owned by the Issuer, including the Loan Documents and (B) to visit the offices and properties of Party B for the purpose of examining such materials described in clause (A), and to discuss matters relating to the Mortgage Loans with any of the officers, directors, employees or independent public accountants of Party B having knowledge of such matters at the expense of Party B, provided that if no Early Accumulation Event, Extended Note Amortization Event or has occurred, the Servicer shall only be required to pay out-of-pocket expenses not in excess of $100,000 during any calendar year.

(ix) Capitalized terms used herein and not otherwise defined shall have the meanings signed to such terms in the Security Agreement, dated as of the date hereof between Carmel Mountain Funding Trust , as Issuer, and Deutsche Bank Trust Company Americas, as Collateral Agent, as amended from time to time.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

ACCREDITED HOME LENDERS, INC.
(Party A)

By: /s/ Melissa G. Dant
Name: Melissa G. Dant
Title: Senior Secondary Markets Counsel, AVP & Ass't Sec'y
Date:

CALYON, NEW YORK BRANCH
(Party B)

By: /s/ Iau Cheung
Name: Iau Cheung
Title: Director
Date: May 5, 2005

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President

Exhibit 4.20

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of May 10, 2005
between
CALYON NEW YORK BRANCH ("Party A"),
the New York branch of Calyon, a French bank organized under the laws of the Republic of France
and
ACCREDITED HOME LENDERS, INC. ("Party B"),
a corporation organized under the laws of
Delaware

Part 1: Termination Provisions

In this Agreement:

(a) **"Specified Entity"** means:

in relation to Party A for the purpose of:

Section 5(a)(v),	Not applicable.
Section 5(a)(vi),	Not applicable.
Section 5(a)(vii),	Not applicable.
Section 5(b)(iv),	Not applicable.

and in relation to Party B for the purpose of:

Section 5(a)(v),	All Affiliates.
Section 5(a)(vi),	All Affiliates.
Section 5(a)(vii),	All Affiliates.
Section 5(b)(iv),	All Affiliates.

(b) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement and shall also include any repurchase transactions, reverse repurchase transactions, buy/sellback transactions and securities lending transactions and any other related OTC transactions now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider or Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider or Specified Entity of such party).

(c) The **"Cross Default"** provisions of Section 5(a)(vi) will not apply to Party A and will apply to Party B.

The following provisions apply:

"Specified Indebtedness" will have the meaning specified in Section 14 of this Agreement.

"Threshold Amount" means the lesser of (i) USD 10 million or (ii) two percent (2%) of the Stockholders' Equity of Party B, in the case of Party B (or its equivalent in any other currency).

For purposes hereof, **"Stockholders' Equity"** means with respect to an entity, at any time, the sum at such time of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be

determined in accordance with generally accepted accounting principles consistently applied at most recent quarter end.

(d) The **"Credit Event Upon Merger"** provisions of Section 5(b)(iv) will not apply to Party A and will apply to Party B.

(e) The **"Automatic Early Termination"** provision of Section 6(a) will not apply to Party A and will not apply to Party B.

(f) **Payments on Early Termination**. For the purpose of Section 6(e) of this Agreement, Loss and the Second Method will apply.

(g) **"Termination Currency"** means United States Dollars ("USD").

(h) **Additional Termination Events** will apply. Each of the following shall constitute an Additional Termination Event with respect to which Party B shall be the sole Affected Party:

(i) Financial Covenants. AHLHC shall fail to maintain:

(A) at any time, a minimum Adjusted Tangible Net Worth of at least the sum of (1) $125,000,000 plus (2) 50% of the Net Income of AHLHC for each fiscal quarter in any fiscal year commencing with the fiscal quarter ending on September 30, 2003, through the applicable date of determination,

(B) as of the last business day of each fiscal quarter, an Interest Coverage Ratio of at least 1.10:1.0,

(C) at any time, a ratio of Non-Warehouse Debt to Adjusted Tangible Net Worth that is less than or equal to 2.0:1.0,

(D) as of the last business day of any month, Unrestricted Cash And Cash Equivalents and available borrowing capacity of at least $20,000,000, which continues uncured for five (5) business days, or

(E) at any time, a ratio of Recourse Debt to Tangible Net Worth Ratio that is less than or equal to 17.0:1.0.

(ii) Net Earnings. AHLHC shall report net earnings for any six rolling calendar months of less than $1.00 on a consolidated basis in accordance with GAAP.

(iii) Workout Agreement Default. An "Event of Default" (as such term is defined in the Workout Agreement) occurs and is continuing.

(iv) Computer Systems Modification. Within 90 days of the date hereof, Party B shall modify or upgrade its computer systems such that the Seller and the Servicer's computer records shall be able to recognize and track the Initial Purchase Price and the Outstanding Purchase Price of Mortgage Loans for which the Swap Counterparty disputes the Initial Purchase Price in accordance with Section 2.2 of the Mortgage Loan Purchase and Servicing Agreement.

(v) Change of Control. A Designated Event (as defined below) occurs with respect to Party B. A "Designated Event" means that:

(A) Party B or AHLHC dissolves, merges or consolidates with another entity (unless (1) it is the surviving party or (2) the entity into which it merges has equity and a market

value of at least that of Party B or AHLHC immediately prior to such merger and such entity expressly assumes the obligations of the Party B at the time of such merger), or sells, transfers, or otherwise disposes of a material portion of its business or assets, other than sales, transfers or dispositions of mortgage loans in the ordinary course of Party B's or AHLHC's business;

(B) any Person or entity or any group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) of Persons and/or entities, shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), directly or indirectly, in one or more transactions, of securities of Party B (or other securities convertible into such securities) representing more than 50% of the combined voting power of all securities of Party B entitled to vote in the election of directors (other than a Person or entity owning such securities on the date of this Agreement); or

(C) Party B shall cease to be a wholly-owned subsidiary of AHLHC.

(vi) Material Adverse Change. Party B has experienced or is experiencing a material adverse change, determined by Party A in Party A's sole discretion, in its business, assets, or operations or financial condition. For the purpose of the foregoing Termination Event, Party B shall be the Affected Party.

Capitalized terms used in this Part 1(h) shall have the meanings set forth below:

"Adjusted Tangible Net Worth" means, at any date, all amounts that would, in conformity with GAAP, constitute stockholder's equity included on the consolidated balance sheet of AHLHC plus any preferred stock not already included in the calculation of stockholders equity plus any indebtedness of AHLHC which is convertible into equity or otherwise fully subordinated to the obligations of Party B under the facility minus any intangibles (excluding mortgage-related securities and mortgage servicing rights), goodwill and deferred charges as defined under GAAP.

"AHLHC" means Accredited Home Lenders Holding Co. and its Subsidiaries on a consolidated basis.

"Consolidated Debt" means, at any time, the aggregate principal amount of Indebtedness of AHLHC outstanding at such time as reflected on the consolidated balance sheet of AHLHC, prepared in accordance with GAAP.

"EBITDA" means, for any period, Net Income for such period on a consolidated basis, plus, without duplication and to the extent reflected as a charge in the statement of such Net Income for such period, the sum of (a) total income tax expense, (b) interest expense, (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) any extraordinary expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Net Income for such period, losses on sales of assets outside of the ordinary course of business), and (f) any other noncash charges, and minus, to the extent included in the statement of such Net Income for such period, the sum of (a) any extraordinary income or gains (including, whether or not otherwise includable as a separate item in the statement of such Net Income for such period, gains on the sales of assets outside of the ordinary course of business) and (b) any other noncash income (other than any income represented by a receivable that in the ordinary course would be expected to be paid in cash), all as determined on a consolidated basis.

"Indebtedness of AHLHC" means AHLHC's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of property (whether real or personal, tangible or intangible) or services (other than accounts payable arising in the ordinary course of AHLHC's business payable on terms customary in the trade), (c) obligations, whether or not assumed,

secured by liens or payable out of the proceeds or production from property now or hereafter owned or acquired by AHLHC, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) capitalized lease obligations, (f) rate hedging obligations, (g) contingent obligations of any type which are reportable on AHLHC's balance sheet in accordance with GAAP, (h) obligations for which AHLHC is obligated pursuant to or in respect of a letter of credit or similar instrument and (i) repurchase obligations or liabilities of Party B with respect to accounts or notes receivable and chattel paper sold by AHLHC.

"Interest Coverage Ratio" means, for any applicable computation period, the ratio of (a) EBITDA to (b) Interest Expense.

"Interest Expense" means, for any applicable computation period, all interest paid or accrued during such period by AHLHC on a consolidated basis, determined in accordance with GAAP.

"Net Income" means, for any period, the consolidated net income (or loss) for such period, determined on a consolidated basis in accordance with GAAP.

"Non-Warehouse Debt" means, at any time, Consolidated Debt minus Warehouse Debt.

"Recourse Debt to Adjusted Tangible Net Worth Ratio" means, at any time, the ratio of (a) Consolidated Debt minus the liabilities related to securitizations which are accounted for as financings under Financial Accounting Standards Board (FASB) Rule 140 to (b) Adjusted Tangible Net Worth.

"Unrestricted Cash and Cash Equivalents" means, as of any date of determination, the sum of (a) the aggregate amount of unrestricted cash and (b) the aggregate amount of unrestricted cash equivalents (valued at the fair market value). As used in this definition, "Unrestricted" means the specified asset is not subject to any liens or claims of any kind in favor of any Person.

"Warehouse Debt" shall mean Indebtedness of AHLHC, whether or not it is recourse, that is secured or otherwise backed by Party B's mortgage loans, mortgage-backed securities or other mortgage assets, and that is used generally by Party B to provide it with financing or liquidity for the origination or acquisition by it of mortgage loans, mortgage-backed securities or other mortgage assets in Party B's ordinary course of business.

"Workout Agreement" means the Second Amended and Restated Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans, dated as of January 30, 2004, between Lehman Brothers Bank and Party B, dated as of the date hereof, as amended from time to time.

(i) **Additional Event of Default**. An "Event of Default" with respect to which Party B shall be the Defaulting Party under and as defined in the ISDA Master Agreement, dated as of the date hereof, between Lehman Brothers Special Financing Inc. and Party B (as amended from time to time) shall constitute an Event of Default hereunder with respect to Party B as the sole Defaulting Party.

Part 2: Tax Representations

(a) **Payer Tax Representations.** For the purpose of Section 3(e) of this Agreement, Party A and Party B will each make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Sections 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this

representation, it may rely on (i) the accuracy of any representation made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction(s) of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement; and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement,

provided that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) of this Agreement by reason of material prejudice to its legal or commercial position.

(b) **Payee Tax Representations.** For the purpose of Section 3(f) of this Agreement:

(i) Each payment received or to be received by it in connection with this Agreement will be effectively connected with its conduct of a trade or business in the United States.

(ii) Party B represents that it is a corporation duly organized and validly existing under the laws the State of California and its federal taxpayer identification number is 33-0426859.

Part 3: Agreement to Deliver Documents

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:

(a) Party A and Party B will deliver forms and/or documents described in Section 4(a)(iii) of this Agreement upon reasonable demand by the other party.

(b) Other documents to be delivered are:

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party A and Party B	Incumbency certificate or other evidence reasonably satisfactory to the other party of the authority and genuine signature of the individual signing the Agreement and any Credit Support Document on behalf of such party to execute the same.	Upon execution of this Agreement.	Yes
Party A and Party B	Evidence reasonably satisfactory to the other party of the authority of such party and its Credit Support Provider to enter into the Agreement, any Credit Support Document and each Transaction entered into hereunder.	Upon execution of this Agreement.	Yes

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party A and Party B	A copy of the annual report (i) in the case of Party A, Party A and (ii) in the case of Party B, AHLHC, containing audited consolidated financial statements for such fiscal year certified by independent public accountants and prepared in accordance with generally accepted accounting principles consistently applied.	As soon as available and in any event within 90 days of the end of each fiscal year of AHLHC.	Yes
Party A and Party B	For its most recent fiscal quarter, a copy of the unaudited financial statements of (i) in the case of Party A, Party A and (ii) in the case of Party B, AHLHC, prepared in accordance with generally accepted accounting principles consistently applied.	As soon as available and in any event within 60 days of the end of each fiscal quarter of AHLHC.	Yes
Party A and Party B	Any Credit Support Document(s) specified in Part 4 of this Schedule.	Upon execution of this Agreement.	No
Party A and Party B	An opinion of counsel to Party A and Party B substantially in the form of Exhibit A to this Schedule.	Upon execution of this Agreement.	No
Party B	All notices, reports, documents, certificates information, statements or instructions required to be delivered to Reference Party A (as defined in the Confirmation) under any Program Documents and such other documents as Party A may reasonable request from time to time.	Upon request.	Yes
Party B	A certificate of an authorized financial officer of Party B certifying that no Additional Termination Event has occurred and the calculations of the financial covenants set forth in Part 1(h)(i) of this Schedule for said period and the methodology used in computing said financial covenants, in form and detail satisfactory to Party A.	Within 30 days after the end of each calendar quarter.	Yes

Part 4: Miscellaneous

(a) **Addresses for Notices.** For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to **Party A**:

Address:	1301 Avenue of the Americas, New York, New York 10019
Attention:	Treasury Department
Telephone No.:	(212) 261-7310
Facsimile No.:	(212) 459-3167

For all purposes.

Address for notices or communications to **Party B**:

Address:	Accredited Home Lenders, Inc. 15090 Avenue of Science, San Diego, California 92128
Attention:	Katy Hudson
Telephone No.:	858-676-2177
Facsimile No.:	866-278-5876

For all purposes.

(b) **Process Agent.** For the purpose of Section 13(c) of this Agreement:

Party A appoints as its Process Agent:	Not applicable.
Party B appoints as its Process Agent:	Not applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party.** For the purpose of Section 10(c) of this Agreement:

Party A is not a Multibranch Party.

Party B is not a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A.

(f) **Credit Support Document.** Details of any Credit Support Document, each of which is incorporated by reference in, constitutes part of, and is in connection with, this Agreement and each Confirmation (unless provided otherwise in a Confirmation) as if set forth in full in this Agreement or such Confirmation:

In the case of **Party A**:

None.

In the case of **Party B**:

Credit Support Annex annexed hereto which supplements, forms part of, and is subject to, this Agreement and the guaranty issued by Party B's Credit Support Provider.

(g) **Credit Support Provider.**

Credit Support Provider means in relation to Party A: Not applicable.
Credit Support Provider means in relation to Party B: Accredited Home Lenders Co.

(h) **Governing Law. THIS AGREEMENT WILL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO CONFLICTS OF LAWS PROVISIONS THEREOF, OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW)**.

(i) **Netting of Payments.** Subparagraph (ii) of Section 2(c) of this Agreement will apply to any Transactions.

(j) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement.

(k) **Jurisdiction**. Section 13(b) is hereby amended by: (i) deleting in the second line of subparagraph (i) thereof the word "non-"; and (ii) deleting the final paragraph thereof.

Part 5: Other Provisions

(a) **Representations.** Section 3 of this Agreement is hereby amended by adding the following additional subsections:

"(g) ***No Reliance*.** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisors as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of the Transaction will not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party will be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(h) ***Assessment and Understanding.*** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(i) ***Status of Parties.*** The other party is not acting as a fiduciary for or an advisor to it in respect of that Transaction.

(j) ***No Agency.*** It is entering into this Agreement, including each Transaction, as principal and not as agent of any person or entity.

(k) ***Eligible Contract Participant*.** It is an "eligible contract participant" within the meaning of Section 1a(12) of the Commodity Exchange Act."

(b) **Set-off.** Section 6 of this Agreement is hereby amended by adding the following new subsection 6(f):

(f) ***Set-off***.

(i) In addition to any rights of set-off a party may have as a matter of law or otherwise, upon the occurrence of an Event of Default or an Additional Termination Event and the designation of an Early Termination Date pursuant to Section 6 of the Agreement with respect to a party ("X"), the other party ("Y") will have the right (but not be obliged) without prior notice to X or any other person to set-off or apply any obligation of X owed to Y (and to any Affiliate of Y) (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (and of any Affiliate of Y) owed to X (whether or not matured or contingent and whether or not arising under this Agreement, and regardless of the currency, place of payment or booking office of the obligation).

(ii) If the amount of an obligation is unascertained, Y may in good faith estimate that amount and set-off in respect of the estimate, subject to the relevant party accounting to the other when the amount of the obligation is ascertained.

(iii) This clause (f) shall not constitute a mortgage, charge, lien or other security interest upon any of the property or assets of either party to this Agreement.

(c) **Notices.** For the purposes of subsections (iii) and (v) of Section 12(a), the date of receipt shall be presumed to be the date sent if sent on a Local Business Day or, if not sent on a Local Business Day, the date of receipt shall be presumed to be the first Local Business Day following the date sent.

(d) **Service of Process.** The penultimate sentence of Section 13(c) shall be amended by adding the following language at the end thereof: "if permitted in the jurisdiction where the proceedings are initiated and in the jurisdiction where service is to be made."

(e) **Waiver of Trial By Jury.** Insofar as is permitted by law, each party irrevocably waives any and all rights to trial by jury in any legal proceeding in connection with this Agreement or any Transaction, and acknowledges that this waiver is a material inducement to the other party's entering into this Agreement and each Transaction hereunder.

(f) **Accuracy of Specified Information.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period the words "or, in the case of audited or unaudited financial statements or balance sheets, a fair presentation of the financial condition of the relevant person."

(g) **Confirmation.** Party A and Party B each agrees and acknowledges that the only Transaction that is or will be governed by this Agreement is the Transactions evidenced by the one Confirmation dated on the date hereof (it being understood that, in the event such Confirmation shall be amended (in any respect), such amendment shall not constitute (for purposes of this paragraph) a separate Transaction or a separate Confirmation).

(h) **Severability**. Except as otherwise provided in Sections 5(b)(i) or 5(b)(ii) of the Agreement in the event that any one or more of the provisions contained in this Agreement should be held invalid, illegal, or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter of this Agreement and the deletion of such portion of this Agreement will not substantially impair the respective benefits and expectations of the parties to this Agreement. The parties shall endeavor, in good faith negotiations, to replace the

invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(i) **Consent to Recording.** The parties agree that each may electronically record all telephonic conversations between marketing and trading personnel in connection with this Agreement and that any such recordings may be submitted in evidence in any Proceedings relating to this Agreement.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

ACCREDITED HOME LENDERS, INC.
(Name of Party)

By: /s/ Melissa G. Dant
Name: Melissa G. Dant
Title: Senior Secondary Markets Counsel, AVP & Ass't Sec'y

CALYON, NEW YORK BRANCH
(Name of Party)

By: /s/ Ian Cheung
Name: Ian Cheung
Title: Director

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President

EXHIBIT A to Schedule

[Form of Opinion of Counsel]

[Date]

[Other Counterparty]

Ladies and Gentlemen:

I have acted as counsel to [counterparty], a [_____] corporation ("Party [A][B]"), and am familiar with matters pertaining to the execution and delivery of the Master Agreement (the "Master Agreement") dated as of [date] between Accredited Home Lenders, Inc. ("Party B") and Calyon New York Branch ("Party A").

In connection with this opinion, I have examined, or have had examined on my behalf, an executed copy of the Master Agreement, certificates and statements of public officials and officers of Party B and such other agreements, instruments, documents and records as I have deemed necessary or appropriate for the purposes of this opinion.

Based on the foregoing but subject to the assumptions, exceptions, qualifications and limitations hereinafter expressed, I am of the opinion that:

1. Party B is a corporation duly incorporated, validly existing and in good standing under the laws of [_____].
2. The execution, delivery and performance of the Master Agreement, by or on behalf of Party B, are within its corporate power, have been duly authorized by all corporate action and do not conflict with any provision of its certificate of incorporation or by-laws.
3. The Master Agreement has been duly executed and delivered by Party B and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.
4. To the best of my knowledge no consent, authorization, license or approval of or registration or declaration with, any governmental authority is required in connection with the execution, delivery and performance of the Master Agreement by Party [A][B].

The foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. My opinion in paragraph 3 above is subject to (i) the effect of any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors rights generally (including, without limitation, the effect of statutory or other laws regarding fraudulent or other similar transfers), (ii) general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law, (iii) the equitable discretion of the court before which any proceeding therefor may be brought, (iv) the application of judicial decisions involving statutes or principles of equity which have held that certain covenants and other provisions of agreements, including those providing for the acceleration of obligations upon the occurrence of events therein described, are unenforceable in circumstances where it can be demonstrated that the enforcement of such provisions is not reasonably necessary for the protection of the party invoking the right to accelerate, (v) such requirements of good

faith, fair dealing and commercial reasonableness as may be imposed by the law of the State of New York on the exercise by a party of its contractual rights and remedies, (vi) possible judicial application of foreign laws or foreign government actions affecting creditors' rights, and (v) the validity, binding effect or enforceability, under certain circumstances, of contractual provisions with respect to indemnification or waiving defenses to obligations where such indemnification or such waivers are against public policy.

B. I am qualified to practice law in [_____] and render no opinion on the laws of any jurisdiction other than the laws of [_____].

C. My opinions are limited to the present laws and to the facts as they presently exist. I assume no obligation to revise or supplement this opinion should the present laws of the jurisdictions referred to in paragraph B above be changed by legislative action, judicial decision or otherwise.

D. This letter is rendered to you in connection with the Master Agreement [and the Guarantee] and the transactions related thereto and may not be relied upon by any other person or by you in any other context or for any other purpose. This letter may not be quoted in whole or in part, nor may copies thereof be furnished or delivered to any other person, without the prior written consent of Party B, except that you may furnish copies hereof (i) to your independent auditors and attorneys, (ii) to any state or local authority having jurisdiction over you or over Party [A][B], (iii) pursuant to the order of any legal process of any court of competent jurisdiction or any governmental agency, and (iv) in connection with any legal action arising out of the Master Agreement.

E. I have assumed with your permission (i) the genuineness of all signatures by each party other than Party B, (ii) the authenticity of documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as copies, and (iii) the due execution and delivery, pursuant to due authorization, of the Master Agreement by each party other than Party B.

F. I have also assumed for the purpose of this opinion that the Master Agreement constitute the legal valid and binding obligation of Party [A][B] in accordance with New York law by which is governed.

G. I express no opinion as to the prohibition on transfers in Section 7(a) of the Master Agreement Terms in any case in which its operation would conflict with Section 9-406 or Section 9-408 of the Uniform Commercial Code as in effect in the State of New York.

Very truly yours,

Exhibit 4.21

EXECUTION COPY

COLLATERAL AGENCY AND INTERCREDITOR AGREEMENT

Collateral Agency and Intercreditor Agreement, dated as of May 10, 2005 (this "Agreement"), is by and among CALYON NEW YORK BRANCH ("Calyon"), and LEHMAN BROTHERS SPECIAL FINANCING INC., in its individual capacity ("Lehman" and, together with Calyon, the "Swap Counterparties") and as agent under this Agreement for Lehman and Calyon (in such capacity and together with any successor thereto in such capacity, "Collateral Agent").

Recitals:

WHEREAS, Lehman has entered into that certain ISDA Master Agreement, dated as of May 10, 2005 (including the Schedule, each Confirmation and Credit Support thereto, the "Lehman Swap"), between Lehman and Accredited Home Lenders, Inc. ("Accredited");

WHEREAS, Calyon has entered into that certain ISDA Master Agreement, dated as of May 10, 2005 (including the Schedule and each Confirmation and Credit Support Annex thereto, the "Calyon Swap" and, together with the Lehman Swap, the "Swaps"), between Calyon and Accredited;

WHEREAS, Accredited has pledged pursuant to the Credit Support Annex to the Lehman Swap (the "Lehman CSA") certain posted debt obligations, securities and cash and its hedges and other assets (collectively, the "Lehman Collateral") to support its obligations under the Lehman Swap (the "Lehman Obligations");

WHEREAS, Accredited has pledged pursuant to the Credit Support Annex to the Calyon Swap (the "Calyon CSA" and, together with the Lehman CSA, the "Security Documents") certain posted debt obligations, securities and cash and its hedges and other assets (the "Calyon Collateral" and, together with the Lehman Collateral, the "Collateral") to support its obligations under the Calyon Swap (the "Calyon Obligations" and, together with the Lehman Obligations, the "Obligations");

WHEREAS, the Swap Counterparties desire to appoint Lehman as Collateral Agent under this Agreement and the Security Documents and to define the rights and duties of the Collateral Agent and the Collateral Agent desires to set forth the terms and conditions upon which it shall accept such agency; and

WHEREAS, the Swap Counterparties also desire to enter into agreements with one another as to certain matters relating to the Security Documents, including the administration of liens and the application of the proceeds of the Collateral.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Enforcement of Collateral.

1.1 Events of Enforcement. Anything contained in the Security Documents to the contrary notwithstanding, the Swap Counterparties agree among themselves and for their own benefit alone that, except as expressly provided otherwise in this Agreement (including, without limitation, actions permitted pursuant to the provisions of Section 4.4), the Collateral Agent shall only be authorized to take such actions under the Security Documents and to enforce or prepare to enforce such remedies available under such Security Documents as it may be directed to take or enforce pursuant to the written instruction of the Instructing Swap Counterparty (as defined in Section 4.7) (each such instruction being herein called an "Event of Enforcement"). In furtherance of the foregoing, the Collateral Agent agrees to make such demands and give such notice under the Security Documents as may be requested by, and to take such action to enforce the Security Documents and to foreclose upon, collect and dispose of the Collateral or any portion thereof as may be directed by, the Instructing Swap Counterparty; provided, however, that (i) the Collateral Agent shall not be required to take any action that it has been advised by legal counsel is contrary to law or the terms of the Swaps, the Security Documents, or this Agreement and (ii) the Collateral Agent shall not be required to take any action unless indemnified in accordance with the provisions of Section 4.6 hereof.

1.2 Collateral Agent's Enforcement Against Collateral. Upon the occurrence of any Event of Enforcement, the Collateral Agent shall, on behalf of the Swap Counterparties, seek to realize upon the liens and security interests and other rights granted and provided for in the Security Documents in accordance with the instructions of the Instructing Swap Counterparty, but in the absence of such instructions, then in such manner as it deems appropriate and in that regard shall have the right to incur costs and expenses (including reasonable costs and expenses of attorneys) which, to the extent are not paid by Accredited or out of the proceeds of the Collateral, shall be shared by the Swap Counterparties in the manner provided for in Section 4.11 of this Agreement. The Collateral Agent shall not be obligated to exhaust its remedies against the Collateral or Accredited prior to seeking reimbursement for its costs and expenses from the Swap Counterparties.

1.3 Restrictions on Actions. Each Swap Counterparty agrees that, so long as any Obligations are outstanding, the provisions of this Agreement shall provide the exclusive method by which any Swap Counterparty may realize the benefits afforded by the Security Documents. Each Swap Counterparty shall, for the mutual benefit of all Swap Counterparties, except as expressly provided otherwise by this Agreement:

(a) refrain from taking or filing any action, judicial or otherwise, to enforce rights or pursue any remedy with respect to or under the Security Documents, except for delivering notices hereunder;

(b) refrain from (i) selling any Obligations to Accredited or any affiliate of Accredited, and (ii) accepting any guaranty of, or any other security for, the Obligations from Accredited or any affiliate of Accredited, except any guaranty or security granted to the Collateral Agent for the benefit of all Swap Counterparties; and

(c) refrain (except in connection with action taken by the Instructing Swap Counterparty) from exercising or requesting the Collateral Agent to exercise any rights or remedies under the Security Documents which have or may have arisen or which may arise as a result of an event of default or event of termination (as such terms are defined in the Swaps, an "Event of Default" or "Termination Event") under any Swap;

provided, however, that nothing contained in subsections (a) through (c) above shall prevent any Swap Counterparty from imposing a default interest in accordance with the Swaps, or prevent a Swap Counterparty from raising any defenses in any action in which it has been made a party defendant or has been joined as a third party; provided, further that nothing contained herein shall prevent any Swap Counterparty from accepting a guaranty from any person or entity which, contemporaneously with the granting of such guaranty to such Swap Counterparty, is granting a guaranty or guaranties to the other Swap Counterparty to secure the Obligations owed to them, which guaranty or guarantees has or have the same or substantially the same terms as the terms of the guaranty or guarantees given to such Swap Counterparty; and provided, further that nothing contained herein shall affect or impair the right any Swap Counterparty may have under the terms and conditions governing the Obligations owing to such Swap Counterparty to accelerate, demand and take any action to enforce repayment of such Obligations or to file a lawsuit and obtain and enforce a judgment against Accredited, subject to the provisions of Article 3 hereof.

1.4 Terms of Obligations. Subject to the terms of the Swaps, the terms and conditions applicable to the Obligations owing to each Swap Counterparty by Accredited shall be such as such Swap Counterparty and Accredited shall from time to time agree upon and may be changed or modified at any time in accordance with the applicable Swap without in any manner affecting this Agreement or impairing this Agreement.

2. Release of Collateral.

2.1 The Collateral Agent may, without notice to or the consent of any Swap Counterparty, release from the liens and security interests of the Security Documents any portion of the Collateral in connection with the sale, transfer or disposition of such Collateral by Accredited in the ordinary course of its business to the extent permitted by, and subject to the terms and conditions of, the Swaps.

3. Allocation of Proceeds of Collateral.

3.1 Application of Proceeds. The proceeds of the Collateral, including proceeds received through enforcement of the liens and security interests and other rights granted and provided for in the Security Documents, shall be applied and shared among the Swap Counterparties as follows:

(a) First, to the payment of any outstanding costs and expenses incurred by the Collateral Agent in enforcing such liens and security interests and in protecting and maintaining the Collateral and collecting the proceeds of the Collateral, to the extent that it has not theretofore been reimbursed for same by Accredited or out of the proceeds of the Collateral or, if not reimbursed promptly by Accredited or out of such proceeds, by the Swap Counterparties; and

(b) Second, to the Swap Counterparties ratably in accordance with the respective outstanding amount of Obligations owing to such Swap Counterparty under the Swaps for application to Obligations arising under and in connection with the Swaps.

3.2 Sharing of Proceeds.

(a) Subject to the remaining provisions of this Section 3.2, if a Swap Counterparty obtains any payments (other than scheduled payments on any Obligations, in each case received in the ordinary course either (i) prior to such Swap Counterparty's receipt of written notice from another Swap Counterparty that an Event of Default or Termination Event has occurred and is continuing under which Accredited is the Defaulting Party or the Affected Party (as such terms are used in the Swaps) or (ii) after such Event of Default no longer shall be continuing) or proceeds of the Collateral, from Accredited with respect to any of the Obligations, including from the exercise of any setoff rights (hereinafter called a "Sharing Payment"), such Swap Counterparty shall either (i) promptly cause such amounts to be delivered to or put in the custody, possession or control of the Collateral Agent for disposition and distribution in accordance with Section 3.1 hereof or (ii) if such Swap Counterparty has not promptly complied with subclause (i) next above, promptly purchase from the remaining Swap Counterparties participations in the Obligations owing to the remaining Swap Counterparties and shall make such other adjustments from time to time as shall be equitable (herein, the purchase of such participations or the making of such other adjustments being called "Sharing Adjustments") to the end that all Swap Counterparties shall share the benefit of such Sharing Payment pro rata in accordance with the respective outstanding principal amount of Obligations then owing to each Swap Counterparty.

(b) If, during the course of, or pursuant to, any bankruptcy, insolvency, reorganization, receivership, dissolution or similar proceeding or the assignment for the benefit of creditors or any other marshalling of assets (a "Bankruptcy Proceeding") of Accredited, a Swap Counterparty (the "Returning Swap Counterparty") is required by a court or other tribunal of competent jurisdiction, pursuant to Section 547 of the Bankruptcy Code or an analogous provision of other applicable law, to disgorge, refund, rebate or otherwise return any payment received for which there has been a distribution under Section 3.1 hereof to such Returning Swap Counterparty with respect to the Obligations (a "Disputed Payment") to any trustee presiding over such Bankruptcy Proceeding or to any other person or entity, the other Swap Counterparty shall promptly pay to the Returning Swap Counterparty its respective pro rata shares of such Disputed Payment, such pro rata share being determined by multiplying the amount of the

Disputed Payment by a fraction, the numerator of which is the portion of such Disputed Payment received by such Swap Counterparty and the denominator of which is the amount of such Disputed Payment.

4. The Collateral Agent.

4.1 Appointment. Each of the Swap Counterparties hereby appoints Lehman as the initial Collateral Agent for the Swap Counterparties under, and subject to the provisions of, this Agreement, the Swaps and the Security Documents, and each of the Swap Counterparties authorizes the Collateral Agent to act as the agent of the Swap Counterparties under, and to effectuate the purposes of, this Agreement, the Swaps (to the extent of the duties delegated to the Collateral Agent thereunder) and the Security Documents (to the extent of the duties delegated to the Collateral Agent thereunder). The Collateral Agent agrees to act as such upon the express conditions contained in this Agreement.

4.2 Duties. (a) By the execution of this Agreement, each Swap Counterparty (i) authorizes the Collateral Agent to file all financing statements and amendments to and/or assignments of financing statements necessary to perfect the security interests granted pursuant to the Security Documents or to continue the perfection of such security interests as are covered by the financing statements in favor of Collateral Agent, and (ii) ratifies the Collateral Agent's prefiling, if any, prior to the date hereof of financing statements as part of such perfection process. All of such financing statements or amendments to and/or assignments of financing statements shall name the Collateral Agent, as agent, as secured party for the benefit of all of the Swap Counterparties in accordance with the interests of each Swap Counterparty as described in this Agreement.

(b) Subject to the terms of this Agreement, the Swaps and the Security Documents, the Collateral Agent agrees to receive, hold, administer and enforce the Collateral and the Security Documents (including, without limitation, acting as Valuation Agent and making the calculation of Exposure (as defined in the Swaps), the determination of Value, Current Market Value and Exposure (as defined in the Swaps) and making market calls under the Security Documents), and to foreclose upon, collect and dispose of the Collateral and to apply the proceeds therefrom, in such manner and on such terms as are set forth herein and therein, and for the ratable benefit of the Swap Counterparties as provided herein and therein, and otherwise to perform its duties and obligations as Collateral Agent hereunder and under each Security Document to which it is a party in accordance with the respective terms hereof and thereof. Notwithstanding any provision to the contrary set forth elsewhere in this Agreement or the Security Documents, the Collateral Agent shall not have any duties or responsibilities in its capacity as Collateral Agent except those expressly set forth herein (including, without limitation, Section 4.4 hereof) or therein or any fiduciary relationship with any Swap Counterparty, and no implied duties shall be read into this Agreement, any Swap or any Security Document or otherwise exist with respect to the Collateral Agent, and the Collateral Agent and its directors, officers, employees, agents and representatives shall not be liable to any Swap Counterparty for any action taken or omitted to be taken by it or them under this Agreement, any

of the Swaps or any of the Security Documents, except for its or their own willful misconduct or gross negligence.

4.3 Powers. The Collateral Agent shall have and may exercise such powers as are specifically delegated to the Collateral Agent by the terms of the Security Documents and hereof, together with such powers as are reasonably incidental thereto. The Collateral Agent shall not be required to take any action under this Agreement or any of the Security Documents or prosecute or defend any action in respect of any thereof unless indemnified to its satisfaction by the Swap Counterparties against loss, cost, liability and expense that the Collateral Agent incurs in connection therewith. If any indemnity furnished to the Collateral Agent shall become impaired, it may call for additional indemnity and cease to do all acts indemnified against until such additional indemnity is given.

4.4 Administrative Actions. The Collateral Agent shall have the right to take any action, or omit to take any action, hereunder and under the Security Documents that is not inconsistent with the instructions of the Instructing Swap Counterparty or the terms of this Agreement, including (without limitation) actions that the Collateral Agent deems necessary or appropriate to perfect or continue the perfection of the liens on and security interests in the Collateral for the benefit of the Swap Counterparties or to protect or insure the Collateral. Except as provided in this Agreement and in the Security Documents above and as otherwise provided pursuant to applicable law, the Collateral Agent shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the preservation of rights pertaining to the Collateral beyond the safe custody of any Collateral in the Collateral Agent's possession.

4.5 No Responsibility for Recitals, Etc. The Collateral Agent shall not be responsible to the Swap Counterparties for any recitals, reports, statements, warranties or representations contained in the Security Documents or any document related thereto, or be bound to ascertain or inquire as to the performance or observance of any of the terms of the Security Documents. The Collateral Agent shall not be responsible for the validity, effectiveness or sufficiency of any of the Security Documents, or for the validity or priority of any lien or security interest created or arising under or pursuant to the Security Documents; provided, however, that, notwithstanding the foregoing, the Collateral Agent shall be responsible for the performance of its duties and obligations hereunder, including all duties and obligations with respect to the Security Documents and to liens and security interests created or arising under or pursuant to the Security Documents. Any written information furnished to the Collateral Agent about the Collateral and/or evidencing compliance by Accredited with the terms of the Security Documents shall be furnished by the Collateral Agent as soon as practicable, and in any event no later than three (3) business days, after the receipt thereof to all the Swap Counterparties.

4.6 Indemnity. Each of the Swap Counterparties hereby, ratably in accordance with the principal amounts then outstanding on the Obligations that are owed to such Swap Counterparty, severally agrees to indemnify the Collateral Agent in its capacity as such (to the extent the Collateral Agent is not reimbursed by Accredited, and without limiting the obligations of Accredited to do so, and to the extent it is not reimbursed out of proceeds of the Collateral)

against any cost, expense (including reasonable attorneys' fees and court costs), claim, demand, action, loss or liability that the Collateral Agent may suffer or incur in connection with this Agreement the Swaps or the Security Documents (with respect to the duties delegated to the Collateral Agent thereunder), provided, however, that no Swap Counterparty shall be liable for the payment of any portion of such cost, expense, claim, demand, action, loss or liability determined by a court of competent jurisdiction in a final, non-appealable decision or order to have resulted solely from the Collateral Agent's gross negligence or willful misconduct.

4.7 Action on Instructions of Instructing Swap Counterparty. Except as otherwise provided herein, the Collateral Agent shall act or refrain from acting under the Security Documents or hereunder in accordance with written instructions from the Instructing Swap Counterparty. The term "Instructing Swap Counterparty" as used in this Agreement shall mean Lehman, so long as no Termination Event or Event of Default in which Lehman is the Affected Party or Defaulting Party has occurred under the Lehman Swap, and otherwise, Calyon. The Collateral Agent may at any time request directions from the Swap Counterparties as to any course of action or other matter relating to the performance of its duties under this Agreement and the Security Documents and the Swap Counterparties shall promptly comply with such request. The Collateral Agent shall in all cases be fully protected in acting or refraining from acting pursuant to any such instructions (including telephonic instructions received by the Collateral Agent from any person purporting to act on behalf of a Swap Counterparty), and any such instructions and any such action or inaction by the Collateral Agent shall be binding upon all of the Swap Counterparties. If the Collateral Agent has asked the Swap Counterparties for instructions with regard to an event of default under any Swap and if the Instructing Swap Counterparty have not responded promptly to such request, the Collateral Agent shall be authorized to take such actions with regard to such event of default as the Collateral Agent, in good faith, believes to be reasonably required to promote and protect the interests of the Swap Counterparties and to maximize both the value of the Collateral and the present value of the recovery by each of the Swap Counterparties on the Obligations; provided, however, that upon receipt of instructions from the Instructing Swap Counterparty, the actions of the Collateral Agent shall be governed thereby and the Collateral Agent shall not take any further action which would be contrary thereto. The Collateral Agent as soon as reasonably practicable shall notify each Swap Counterparty of any such actions taken by it, provided, further, that in no event shall the Collateral Agent consent to any action or inaction by Accredited not otherwise permitted under this Agreement, any of the Security Documents or the Swaps without written instructions from the Instructing Swap Counterparty. Each Swap Counterparty shall promptly confirm in writing any telephonic instructions, but the Collateral Agent shall be fully protected in relying on such telephonic instructions notwithstanding its failure to receive such written confirmation thereof.

4.8 Employment of Agents and Counsel. The Collateral Agent may execute any of its duties as Collateral Agent under the Security Documents by and through agents and attorneys-in-fact and shall not be answerable to the Swap Counterparties, except as to money or securities actually received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Collateral Agent shall be entitled to

advice of counsel concerning all matters pertaining to the agency created hereby and under the Security Documents and its duties as Collateral Agent.

4.9 Reliance on Documents; Counsel. The Collateral Agent shall be entitled to rely in good faith upon any note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of legal counsel selected by the Collateral Agent.

4.10 May Treat Swap Counterparty as Owner, Ascertainment of Obligations, Etc. The Collateral Agent may deem and treat the Swap Counterparties as the sole owners of the Obligations for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Collateral Agent. Any request, authorization or consent of any person, firm or corporation who at the time of making such request or giving such authorization or consent is the holder of any Obligations shall be conclusive and binding on any subsequent holder, transferee or assignee of such Obligations.

4.11 Collateral Agent's Reimbursement and Compensation. Accredited has agreed to reimburse the Collateral Agent for all of its costs and expenses incurred in connection with performance of its obligations under this Agreement and the Security Documents. Each Swap Counterparty agrees, severally and for itself alone, to reimburse the Collateral Agent in the amount of such Swap Counterparty's pro rata share (determined by reference to its share of the aggregate notional amount of the Swaps) for any expenses (including, without limitation, reasonable attorneys fees and expenses) not reimbursed by Accredited for which the Collateral Agent is entitled to reimbursement by Accredited under the Security Documents or the Swaps.

4.12 Rights as a Swap Counterparty. With respect to Obligations owing to it, the Collateral Agent shall have the same rights and powers hereunder and under the Security Documents as any Swap Counterparty and may exercise the same as though it were not the Collateral Agent, and the term "Swap Counterparty" or "Swap Counterparties" shall, unless the context otherwise indicates, include the Collateral Agent in its individual capacity. The Collateral Agent may accept deposits from, lend money to, and generally engage in any kind of banking or trust business with, Accredited as if it were not the Collateral Agent.

4.13 Resignation of Collateral Agent. The Collateral Agent may resign as agent for the Swap Counterparties hereunder and under the Security Documents at any time by giving thirty days prior notice in writing to the Swap Counterparties. If Lehman is the resigning Collateral Agent, Calyon shall become the successor Collateral Agent. If Lehman or Calyon is not the resigning Collateral Agent, or if Calyon elects not to become Collateral Agent upon a Lehman resignation, the Instructing Swap Counterparty may appoint a successor Collateral Agent who shall be entitled to all of the rights of, and shall be vested with the same powers and duties as, the original Collateral Agent. If no successor Collateral Agent shall have been so appointed and shall have accepted such appointment within thirty days after the retiring Collateral Agent's giving of notice of resignation, then the retiring Collateral Agent may appoint a successor

Collateral Agent, which shall be a commercial bank organized under the laws of the United States of America or any State thereof having capital and surplus of not less than $50,000,000.

Calyon may remove Lehman as Collateral Agent upon the occurrence of a Bankruptcy Event (as defined in the Lehman Swap) or a payment default under the Lehman Swap by giving five days prior written notice to Lehman and, upon such removal, Calyon shall replace Lehman as Collateral Agent and shall be entitled to all of the rights of, and shall be vested with the same powers and duties as, the original Collateral Agent and Lehman shall transfer possession of the Collateral to Calyon in accordance with Calyon's instructions.

The term "Collateral Agent" shall mean the successor collateral agent effective upon its appointment. Upon such successor collateral agent's acceptance of such appointment, the former Collateral Agent's rights, powers and duties as Collateral Agent shall be terminated, without any other or further act or deed on the part of such former Collateral Agent or any of the parties to this Agreement or the Security Documents and the successor collateral agent shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Collateral Agent, and the retiring Collateral Agent shall be discharged from all further duties and obligations arising under this Agreement and the Security Documents from and after the date on which its resignation is effective. The resigning or removed Collateral Agent agrees that it shall take all actions and execute all documents which may be reasonably required by the Swap Counterparties and the successor collateral agent to give effect to its replacement as the Collateral Agent hereunder. After the Collateral Agent's resignation or removal hereunder as Collateral Agent, the provisions of this Article 4 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Collateral Agent under this Agreement.

5. Notices.

5.1 Required Notices. Each Swap Counterparty shall give notice to the Collateral Agent and each of the other Swap Counterparties within one (1) business day of the occurrence thereof of any Event of Default or Termination Event for which Accredited is the Defaulting Party or Affected Party as the case may be, and of any judicial proceedings which it has commenced against Accredited in connection with such Event of Default or Termination Event. Further, each Swap Counterparty shall give the other Swap Counterparties five (5) business days' prior written notice of such Swap Counterparty's intention to commence any other judicial proceedings against Accredited; provided that each of the Swap Counterparties and the Collateral Agent agrees that it shall not disclose the existence or contents of such notice to Accredited or any affiliate of Accredited.

5.2 Method of Notices. Any notice hereunder shall be in writing and transmitted by telegram, telex or facsimile or sent by certified or registered first class U.S. Mail, return receipt requested, reputable overnight courier service or by personal delivery. Any notice, if personally delivered, shall be deemed given when received; any notice if mailed and properly addressed with postage prepaid and sent by registered or certified mail, shall be deemed given three (3) business days after the date on which it was sent; any notice, if given to a reputable overnight courier and properly addressed, shall be deemed given two (2) business days after the date on

which it was sent, unless it is actually received sooner by the named addressee; and any notice, if transmitted by telex or facsimile, shall be deemed given when received (answerback confirmed in the case of telexes and receipt confirmed in the case of telecopies). Any notice shall be addressed to the Collateral Agent or the applicable Swap Counterparty at its address shown on Exhibit B, or at such other address as it may, by written notice received by the Collateral Agent and the other parties hereto, have designated as its address for such purpose by a notice given in accordance with this Section 5.2.

6. Miscellaneous.

6.1 Swap Counterparty Credit Decision. Each Swap Counterparty acknowledges that it has, independently and without reliance upon the Collateral Agent or any other Swap Counterparty and based on the financial statements furnished by Accredited and such other documents and information as it has deemed appropriate, made its own credit analysis and decision with respect to the Obligations held by it. Each Swap Counterparty also acknowledges that it will, independently and without reliance upon the Collateral Agent or any other Swap Counterparty and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action with respect to the Obligations and the Security Documents.

6.2 Termination. This Agreement shall continue in full force and effect with respect to each Swap Counterparty if and so long as such Swap Counterparty is owed any Obligations by Accredited or has any obligations under the applicable Swap and shall thereafter continue in full force and effect until the payment in full of all such Obligations and the satisfaction of all such Obligations; provided, however, that if all or any part of any payments to any Swap Counterparty are thereafter invalidated or set aside or required to be repaid to any person or entity for any reason other than as a result of such Swap Counterparty's own wrongful conduct, then this Agreement shall be renewed and reinstated as of such date and shall thereafter continue in full force and effect to the extent of the Obligations so invalidated, set aside or repaid.

6.3 No Third Party Beneficiary. This Agreement is for the sole and exclusive benefit of the parties hereto and their successors and assigns and no other person or entity (including Accredited) shall under any circumstances be deemed to be a third party beneficiary hereof or be entitled to assume that any or all of the parties hereto will insist upon strict compliance with all of the terms and conditions hereof. This Agreement may be amended, modified or terminated and its provisions may be waived at any time without notice to or consent of any other person or entity upon the written consent of the parties hereto (other than Accredited) pursuant to Section 6.7 hereof.

6.4 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto, including any subsequent holder of any Obligations. Each Swap Counterparty agrees with each other Swap Counterparty that any transfer or assignment of any indebtedness owing to it which is subject to the terms of this Agreement shall bind and subject the transferee or assignee and all successive assignees and transferees to the terms and conditions of this Agreement. It is understood and agreed that the

granting of participations in the Obligations shall not constitute a transfer of indebtedness for the purposes of this Section 6.4.

6.5 Counterparts. This Agreement may be executed in any number of counterparts, and by the different parties on different counterparts, all of which taken together shall constitute one and the same instrument. Any of the parties hereto may execute this Agreement by signing any such counterparts and each of such counterparts shall for all purposes be deemed to be an original. This Agreement shall become effective when each of the parties hereto have executed this Agreement, or a separate counterpart thereof, and delivered the same to the Collateral Agent or have indicated to the Collateral Agent in a manner satisfactory to it that such party has executed a counterpart hereof and is transmitting the same to the Collateral Agent. The Collateral Agent shall notify the parties hereto as and when each such party has so executed this Agreement.

6.6 Governing Law. This Agreement and the rights and duties of the parties hereto, shall be construed and determined in accordance with the laws of the State of New York without regard to its conflict of law principals (other than the Section 5-1401 of the New York General Obligations Law).

6.7 Amendment. Neither this Agreement nor the Security Documents may be amended or modified, and no waiver of any of the terms and conditions hereof or thereof shall be granted, except in each case by a written instrument signed by the Collateral Agent and all of the Swap Counterparties.

6.8 Section Headings. Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

6.9 Additional Collateral. The Swap Counterparties agree that all of the provisions of this Agreement shall apply to any and all properties, assets and rights of each of Accredited in which the Collateral Agent, at any time, acquires a security interest or lien pursuant to the Security Documents or any Swap. The Collateral Agent shall not acquire any interest in any real estate collateral without the prior written consent of the Instructing Swap Counterparty.

6.10 Cooperation; Accountings. To the extent that the exercise of the rights, powers and remedies of the Collateral Agent in accordance with this Agreement requires that any action be taken by any Swap Counterparty, such Swap Counterparty shall take such action and cooperate with the Collateral Agent to ensure that the rights, powers and remedies of all Swap Counterparties and the Collateral Agent are exercised in full. Each of the Swap Counterparties will, upon the reasonable request of another Swap Counterparty or the Collateral Agent, from time to time execute and deliver or cause to be executed and delivered such further instruments and do and cause to be done such further acts as may be necessary or proper to carry out more effectively the provisions of this Agreement. The Swap Counterparties agree to render accountings to each other upon reasonable request, giving effect to the application of proceeds of the Collateral as hereinbefore provided.

6.11 Purchase of Collateral. Any Swap Counterparty may purchase all or any part of the Collateral at any public or private sale of such Collateral. Each of the Swap Counterparties shall cooperate with each other Swap Counterparty in order to obtain the maximum sale price reasonably possible upon any foreclosure or other sale of all or any part of the Collateral. Notwithstanding the foregoing, all sales, transfers and other dispositions of any Collateral shall be accomplished in a commercially reasonable manner.

IN WITNESS WHEREOF, the parties have caused this instrument to be executed as of the date first above written.

LEHMAN BROTHERS SPECIAL FINANCING INC., as Collateral Agent and in its individual capacity

By: /s/ Illegible
Name:
Title:

CALYON NEW YORK BRANCH

By: /s/ Ian Cheung
Name: Ian Cheung
Title: Director

By: /s/ Ricardo L. Gomes
Name: Ricardo L. Gomes
Title: Vice President

Consent

The undersigned consents to the provisions of the Collateral Agency and Intercreditor Agreement.

ACCREDITED HOME LENDERS, INC.

By: _____

Name: _____

Title: _____

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for Accredited Home Lenders Holding Co. and its wholly owned subsidiaries for each of the periods indicated. We calculated the ratio of earnings to fixed charges by dividing earnings by total fixed charges. Earnings are defined as income before income taxes and minority interest plus fixed charges less preferred dividend requirements of our consolidated subsidiary. Fixed charges are defined as the sum of interest expensed plus amortized capitalized expenses related to indebtedness plus an estimate of the interest within rental expense plus preferred dividend requirements of our consolidated subsidiary

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Ratio of earnings to fixed charges	1.8	2.5	3.6	2.7	2.9

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

1. Accredited Home Lenders, Inc., a California corporation, a wholly owned subsidiary of Accredited Home Lenders Holding Co.
2. Accredited Home Lenders Canada, Inc., a Canada corporation, a wholly owned subsidiary of Accredited Home Lenders Holding Co.
3. Vendor Management Services, LLC, a Pennsylvania limited liability company (dba Inzura Settlement Services), a wholly owned subsidiary of Accredited Home Lenders Holding Co.
4. Accredited Mortgage Loan REIT Trust, a Maryland investment trust, a wholly owned subsidiary of Accredited Home Lenders, Inc.
5. Inzura Insurance Services, Inc., a Delaware corporation, a wholly owned subsidiary of Accredited Home Lenders, Inc.
6. Accredited Processing Services, Inc., a Canada corporation, a wholly owned subsidiary of Accredited Home Lenders Canada, Inc.
7. Vendor Management Services of Alabama, LLC, an Alabama limited liability company (dba Inzura Settlement Services), a wholly owned subsidiary of Vendor Management Services, LLC.
8. Accredited Home Lenders Funding Corp., a Canada corporation, a wholly owned subsidiary of Accredited Home Lenders Canada Trust.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-117037 on Form S-3 and Registration Statements No. 333-128072, 333-124090, 333-117828, 333-112490 and 333-103671 on Form S-8 of our report dated March 30, 2005, relating to the consolidated financial statements as of December 31, 2004 and for the two years then ended of Accredited Home Lenders Holding Co., and of our report dated March 30, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to economic and operational dependency on its parent) related to the financial statements as of December 31, 2004 and for the period inception (May 4, 2004) to December 31, 2004 of Accredited Mortgage Loan REIT Trust all appearing in this Annual Report on Form 10-K of Accredited Home Lenders Holding Co. for the year ended December 31, 2005.

/s/ DELOITTE & TOUCHE LLP
San Diego, California
March 15, 2006

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James A. Konrath, certify that:

1. I have reviewed this annual report on Form 10-K of Accredited Home Lenders Holding Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of trustees (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

By: /s/ JAMES A. KONRATH
James A. Konrath
Chief Executive Officer and
Chairman of the Board

Exhibit 31.2

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John S. Buchanan, certify that:

1. I have reviewed this annual report on Form 10-K of Accredited Home Lenders Holding Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of trustees (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

By: /s/ JOHN S. BUCHANAN
John S. Buchanan
Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

I, James A. Konrath, Chief Executive Officer of Accredited Home Lenders Holding Co. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Annual Report on Form 10-K of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: March 15, 2006

By: /s/ JAMES A. KONRATH
James A. Konrath
Chief Executive Officer and
Chairman of the Board

A signed original of this written statement required by Section 906 has been provided to Accredited Home Lenders Holding Co. and will be retained by Accredited Home Lenders Holding Co. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

I, John S. Buchanan, Chief Executive Officer of Accredited Home Lenders Holding Co. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Annual Report on Form 10-K of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: March 15, 2006

By: /s/ JOHN S. BUCHANAN
John S. Buchanan
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Accredited Home Lenders Holding Co. and will be retained by Accredited Home Lenders Holding Co. and furnished to the Securities and Exchange Commission or its staff upon request.