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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

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

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 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 number of outstanding shares of the registrant's common stock as of November 3, 2006 was 25,261,309.

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SERVICE MARKS AND TRADE NAMES

Accredited Home Lenders®, Home Funds Direct®, Axiom Financial Services®, FRONTDOOR®, Inzura℠ , Common Sense for Uncommon Loans™, InformedBroker™, LendingBridge℠, Accredited Home Lenders Canada® and their related logos are trademarks of Accredited Home Lenders, Inc. ("AHL"), 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, mix and performance of the loans we originate; the characteristics of our borrowers; and fluctuations in the real estate market, the interest rates or the market in which we sell or securitize our loans;
- the degree and nature of our competition, including without limitation their impact on the rates that we are able to charge our borrowers;
- a general deterioration in economic or political conditions, including without limitation any slow down in the national and/or local real estate markets;
- our ability to employ and retain qualified employees;
- 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 realize cost savings, synergies and economies of scale from our acquisition of Aames Investment Corporation and our ability to improve profitability of the combined operations;
- our ability to protect and hedge our mortgage loan portfolio against adverse interest rate movements;
- 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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-Q, unless the context requires otherwise, "Accredited," "Company," "we," "our," and "us" means Accredited Home Lenders Holding Co. and its subsidiaries.

PART I

ITEM 1. Financial Statements

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

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

	September 30, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	$ 201,359	$ 44,714
Restricted cash	312,459	46,207
Accrued interest receivable	43,502	42,878
Mortgage loans held for sale, net	1,842,248	2,252,252
Mortgage loans held for investment, net of allowance of $124,173 and $106,017, respectively	7,230,511	7,195,872
Derivative assets, including margin account	68,953	89,409
Deferred income tax asset, net	98,566	68,024
Other assets	136,647	78,043
Furniture, fixtures and equipment, net	38,300	35,847
Total assets	$9,972,545	$9,853,246
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Credit facilities	$2,046,208	$2,805,119
Securitization financing	7,050,283	6,240,820
Income taxes payable, current	15,239	82,479
Accounts payable and accrued liabilities	111,982	73,494
Total liabilities	9,223,712	9,201,912
COMMITMENTS AND CONTINGENCIES (Note 13)		
MINORITY INTEREST IN REIT 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 75,000,000 shares; issued and outstanding 21,592,459 shares and 21,312,367 shares, respectively	22	22
Additional paid-in capital	94,312	90,268
Accumulated other comprehensive income	8,252	19,421
Retained earnings	548,325	443,701
Total stockholders' equity	650,911	553,412
Total liabilities and stockholders' equity	$9,972,545	$9,853,246

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

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
REVENUES:				
Interest income	$ 207,343	$164,147	$ 606,850	$ 430,194
Interest expense	(138,197)	(84,571)	(377,308)	(207,022)
Net interest income	69,146	79,576	229,542	223,172
Provision for losses on loans and real estate owned	(9,673)	(15,427)	(39,273)	(46,378)
Net interest income after provision	59,473	64,149	190,269	176,794
Gain on sale of loans, net	47,288	81,904	198,514	227,799
Loan servicing income	3,642	3,243	11,081	8,082
Other income	3,906	2,460	9,305	5,800
Total net revenues	114,309	151,756	409,170	418,475
OPERATING EXPENSES:				
Salaries, wages and benefits	54,571	48,378	151,371	140,501
General and administrative expenses	16,285	15,441	46,978	41,019
Occupancy	6,655	5,247	19,392	15,694
Advertising and promotion	5,635	5,388	16,094	13,480
Depreciation and amortization	4,989	3,999	14,110	10,929
Total operating expenses	88,135	78,453	247,945	221,623
Income before income taxes and minority interest	26,174	73,303	161,225	196,852
Income tax provision	5,246	29,517	58,236	77,217
Minority interest—dividends on preferred stock of REIT subsidiary	2,495	2,495	7,484	7,484
Net income	$ 18,433	$ 41,291	$ 95,506	$ 112,151
Earnings per common share:				
Basic	$ 0.85	$ 1.95	$ 4.41	$ 5.34
Diluted	$ 0.83	$ 1.87	$ 4.28	$ 5.11
Weighted average shares outstanding:				
Basic	21,739	21,217	21,656	21,017
Diluted	22,292	22,059	22,327	21,932

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

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine months ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 95,506	$ 112,151
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,110	10,929
Provision for losses on loans	39,273	46,378
Provision for losses on repurchases and premium recapture	21,617	6,902
Minority interest—dividends paid on preferred stock of REIT subsidiary	7,484	7,484
Deferred income tax provision (benefit)	(23,418)	29,042
Unrealized losses on derivatives and hedged assets	26,934	7,032
Adjustment into earnings for gain on derivatives from other comprehensive income	(27,101)	(10,029)
Stock-based compensation expense	8,300	4,634
Excess tax benefit from stock-based payment arrangements	(3,600)	—
Other	3,666	(2,291)
Changes in operating assets and liabilities:		
Restricted cash	(266,251)	(134,696)
Mortgage loans originated, net of fees	(11,847,469)	(11,870,478)
Cost of loans sold, net of fees	10,263,908	7,850,953
Principal payments received and other changes in loans held for sale	112,031	101,904
Accrued interest receivable	(554)	(10,488)
Derivative assets, including margin account	(232)	(43,155)
Other assets	(29,021)	37,182
Income taxes payable	(63,197)	2,311
Accounts payable and accrued liabilities	15,366	9,549
Net cash used in operating activities	(1,652,646)	(3,844,686)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on loans held for investment	1,790,741	1,403,442
Capital expenditures	(16,344)	(12,132)
Purchase of AaRCS, LLC, net of cash acquired	(2,063)	—
Net cash provided by investing activities	1,772,334	1,391,310
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net changes in credit facilities	(764,092)	855,482
Proceeds from issuance of securitization financing	2,627,943	3,003,173
Payments on securitization financing	(1,825,103)	(1,417,245)
Proceeds from issuance of common stock through employee stock plans	818	4,354
Excess tax benefit from stock-based payment arrangements	3,600	—
Payment by REIT subsidiary of preferred stock dividends	(7,484)	(7,484)
Net cash provided by financing activities	35,682	2,438,280
Effect of exchange rate changes on cash	1,275	1,466
Net increase (decrease) in cash and cash equivalents	156,645	(13,630)
Beginning balance, cash and cash equivalents	44,714	35,155
Ending balance, cash and cash equivalents	$ 201,359	$ 21,525

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

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2006 and 2005

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"), Accredited Home Lenders Canada, Inc., Vendor Management Services, LLC d/b/a Inzura Settlement Services ("Inzura") and AaRCS, LLC, and AHL's wholly owned subsidiaries Accredited Mortgage Loan REIT Trust herein reported separately (the "REIT") and Inzura Insurance Services Inc., (collectively referred to as "Accredited").

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three and nine months ending September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. All intercompany balances and transactions are eliminated in consolidation. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in AHLHC's Annual Report on Form 10-K for the year ended December 31, 2005.

Accredited engages in the business of originating, financing, securitizing, servicing and selling non-prime and to a lesser degree Alt-A mortgage loans secured by residential real estate located in the United States and Canada. 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.

In March of 2006, Accredited entered the mortgage settlement services business under the trade name Inzura Settlement Services. Inzura's customers are primarily borrowers closing loans originated by Accredited. Inzura is based in Pittsburgh, PA.

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, its results of operations 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.

Acquisitions

Effective as of October 1, 2006, Accredited acquired Aames Investment Corporation ("Aames") pursuant to an Agreement and Plan of Merger dated as of May 24, 2006. Aames was a public REIT formed in February 2004 to originate and sell high yielding, non-prime residential mortgage loans. Accredited paid a total of $77.6 million in cash and issued approximately 4.4 million shares of its common stock to the shareholders of Aames as consideration for the acquisition for a total consideration of $235 million. Additional information regarding the terms of the merger, its pro forma impact in the financial statements and the risks related to the merger can be found in the registration statement filed on Form S-4 and Form 8-K filed with the Securities and Exchange Commission.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

On September 29, 2006 (prior to the October 1, 2006 effective date of the merger with Aames) Accredited acquired the stock of AaRCS, LLC, an indirect wholly-owned subsidiary of Aames. The $12.3 million purchase price is to be paid in November 2006. The resulting liability at September 30, 2006 is included in the consolidated balance sheet in accounts payable and accrued liabilities. The fair value of the net tangible assets acquired was approximately $9.3 million and the excess over fair value of the assets acquired of $3 million was allocated to goodwill and included in other assets at September 30, 2006.

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, market valuation on derivatives and hedging strategies
- stock-based compensation expense
- income taxes
- fair value of assets and liabilities acquired in business combinations

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 (see Note 2).

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 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. Accredited does not recognize loan servicing income on its 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. Accredited estimates fair value by evaluating a variety of market indicators including recent trades, outstanding commitments or current investor yield requirements.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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.

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 Investment, Securitization Financing and Provision for Losses

Accredited's securitization program calls for the execution of securitization transactions as the principal means of increasing the size of its held for investment portfolio. In support of this program, Accredited periodically 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, Accredited 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 loans in the portfolio according to their contractual delinquency status and applying Accredited's expected loss experience. A number of other analytical tools are used to determine the reasonableness of the allowance for loan losses. Loss estimates are reviewed periodically and adjustments, if any, 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. Loans foreclosed upon or deemed uncollectible are carried at estimated net realizable value.

Shortly before the execution of a securitization transaction, 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 and are thereafter designated as Loans Held for Investment. The loans remain in the Loans Held for Securitization for approximately 10 business days prior to the close of the securitization transaction.

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. In June 2006, Accredited closed a $1.4 billion securitization. Collateral of $1.05 billion in mortgage loans was delivered in June 2006 with the balance of approximately $350 million delivered during the quarter ended September 30, 2006.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

These securitizations are structured legally as sales, but for accounting purposes are treated as financings under SFAS No. 140 *Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities—a replacement of FASB Statement No. 125*. 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.

Derivative Financial Instruments

As part of Accredited's interest rate risk 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 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 gain on sale 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 relationship between the derivative and the underlying asset 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 the loans are sold. 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 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

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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 of 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 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.

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. 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. 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.

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, miscellaneous loan services and revenues from settlement services fees 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 borrowers' property tax and hazard insurance premium payments that are escrowed by borrowers. These bank accounts totaled $145.8 million and $139.4 million at September 30, 2006 and December 31, 2005, respectively, and are excluded from Accredited's assets and liabilities.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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.

Other Assets

Other assets consisted of the following:

	September 30, 2006	December 31, 2005
	(In thousands)	
Real estate owned(a)	$ 52,468	$16,088
Deferred debt issuance cost	31,673	24,925
Corporate and escrow advances	12,554	10,030
Assets held under Deferred Compensation Plan	13,221	13,159
Goodwill(b)	6,961	—
Other	19,770	13,841
Total other assets	$136,647	$78,043

(a) 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 which impact current earnings. Legal fees and other direct costs incurred after foreclosure are expensed as incurred.

(b) Goodwill represents the excess of purchase price and related costs over the fair value assigned to net assets of the business acquired. The goodwill is not being amortized which is in accordance with generally accepted accounting principles, but is tested for impairment annually.

Share-Based Payments

Effective January 1, 2006, Accredited adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2005), *Share-Based Payments (SFAS 123R),* which establishes accounting standards for share-based payments issued in exchange for goods and services. SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which an employee is to provide service in exchange for the award.

Accredited adopted the provisions of SFAS 123R, using the modified prospective application method. Under this transition method, financial statements for prior periods are not restated and compensation cost is recognized for all new awards and for the portion of prior awards for which the requisite service period was not complete as of the adoption date. Compensation cost for awards issued prior to the effective date is based on the grant-date fair value as determined under the pro forma provisions of SFAS No. 123, *Accounting for Stock-Based*

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Compensation (SFAS 123). In addition, under the modified prospective method, unearned compensation is not included in stockholders' equity for share-based compensation plans. Instead, the awards are included in stockholders' equity when services required are rendered and expensed. Further information regarding share-based compensation can be found in Note 11.

Other Comprehensive Income

Other comprehensive 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.

Comprehensive income is determined as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Net income	$ 18,433	$41,291	$ 95,506	$112,151
Net unrealized gains (losses) on cash flow hedges, net of taxes of ($16,438), $8,027, $2,981 and $11,424, respectively	(28,834)	13,180	3,993	18,247
Reclassification adjustment into earnings for realized gain on derivatives, net of taxes of ($3,855), ($1,535),($10,106) and ($3,985) respectively	(6,947)	(2,342)	(16,995)	(6,044)
Foreign currency translation adjustments	461	1,615	1,833	1,885
Total comprehensive income (loss)	$(16,887)	$53,744	$ 84,337	$126,239

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 to these groups. Accordingly, Accredited operates in one reportable operating segment.

Reclassifications

Certain items in the prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported net income. Accredited changed the presentation of its consolidated statements 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 for the year ended December 31, 2005. Previously these amounts were included in provision for losses. All interim periods for 2005 have been reclassified to conform to this presentation.

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

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Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). Fin No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). FIN No. 48 clarifies FAS 109 and establishes criteria for the recognition of benefits for various tax positions. The effective date for applying FIN 48 will be January 1, 2007. The impact of FIN No. 48 on the Company's financial statements has not been fully analyzed.

2. RESTRICTED CASH

Restricted cash consisted of the following deposits:

	September 30, 2006	December 31, 2005
	(In thousands)	
Asset backed commercial paper collateral account	$286,753	$30,897
Errors and omissions liability insurance	3,500	4,200
Canada financing collateral for loans securitized	16,026	8,157
Cash in escrow on Canada loans pending closing	4,216	779
Other	1,964	2,174
Total restricted cash	$312,459	$46,207

3. CONCENTRATIONS OF RISK

Significant Customers

During the three months ended September 30, 2006, Accredited sold $0.8 billion, $0.8 billion and $0.4 billion in loans to three separate investors, which represented 22%, 22% and 12%, respectively, of total loans sold. During the three months ended September 30, 2005, Accredited sold $1.0 billion, $0.7 billion and $0.6 billion in loans to three separate investors, which represented 34%, 25% and 19%, respectively, of total loans sold. No other sales to individual investors accounted for more than 10% of total loans sold during the three months ended September 30, 2006 and 2005.

During the nine months ended September 30, 2006, Accredited sold $2.8 billion, $1.4 billion, and $1.3 billion in loans to three separate investors, which represented 27%, 13%, and 13%, respectively, of total loans sold. During the nine months ended September 30, 2005, Accredited sold $2.0 billion, $1.8 billion and $1.0 billion in loans to three separate investors, which represented 26%, 22% and 13%, respectively, of total loans sold. No other sales to individual investors accounted for more than 10% of total loans sold during the nine months ended September 30, 2006 and 2005.

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. At September 30, 2006 and December 31, 2005, the reserve for potential future repurchase losses totaled $17.3 million and $7.4 million,

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respectively. During the three months ended September 30, 2006 and 2005 loans repurchased totaled $61.8 million and $21.3 million, respectively, and during the nine months ended September 30, 2006 and 2005 loans repurchased totaled $114.9 million and $55.3 million, respectively. These repurchased loans are included in mortgage loans held for sale until disposed and included in the lower of cost or market ("LOCOM") valuation.

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.

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 serviced for others, are geographically dispersed throughout the United States. At September 30, 2006, 18% and 11% 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, 2005, 20% and 10% of the unpaid principal balance of mortgage loans in Accredited's servicing portfolio was secured by properties located in California and Florida, respectively. The remaining properties securing mortgage loans serviced did not exceed 10% in any other state at September 30, 2006 and December 31, 2005.

Loan originations are geographically dispersed throughout the United States and, to a much lesser extent, in Canada. During the three months ended September 30, 2006, 16% and 12% of loans originated were collateralized by properties located in California and Florida, respectively. During the three months ended September 30, 2005, 18% and 11% of loans originated were collateralized by properties located in California and Florida, respectively. During the nine months ended September 30, 2006, 15% and 12% of loans originated were collateralized by properties located in California and Florida, respectively. During the nine months ended September 30, 2005, 20% and 11% of loans originated were collateralized by properties located in California and Florida, respectively. The remaining originations did not exceed 10% in any other state during these periods.

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 decline, in turn, would increase the risk of

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For the Three and Nine Months Ended September 30, 2006 and 2005

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.

4. MORTGAGE LOANS

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

	September 30, 2006	December 31, 2005
	(In thousands)	
Mortgage loans held for sale—principal balance	$1,862,705	$2,267,611
Basis adjustment for fair value hedge accounting	12,214	5,004
Net deferred origination fees	(4,363)	(2,584)
Market valuation allowance	(28,308)	(17,779)
Mortgage loans held for sale, net	$1,842,248	$2,252,252

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

	September 30, 2006	December 31, 2005
	(In thousands)	
Mortgage loans securitized—principal balance	$7,252,396	$6,421,805
Mortgage loans held for securitization—principal balance(1)	144,423	899,803
Basis adjustment for fair value hedge accounting	(10,515)	(4,766)
Net deferred origination fees	(31,620)	(14,953)
Allowance for loan losses	(124,173)	(106,017)
Mortgage loans held for investment, net	$7,230,511	$7,195,872

(1) Includes $116.0 million and $139.3 million of Canadian loans at September 30, 2006 and December 31, 2005, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

Allowance for losses on loans held for investment—Activity in the allowance was as follows:

	Balance at Beginning of Period	Provision for Losses	Chargeoffs, net	Balance at End of Period
		(In thousands)		
Three Months Ended September 30,:				
2006:				
Mortgage loans held for investment	$125,389	$ (778)	$ (438)	$124,173
Real estate owned	12,784	10,451	(5,940)	17,295
Total	$138,173	$ 9,673	$ (6,378)	$141,468
2005:				
Mortgage loans held for investment	$ 84,228	$11,847	$ (347)	$ 95,728
Real estate owned	7,010	3,580	(2,631)	7,959
Total	$ 91,238	$15,427	$ (2,978)	$103,687
Nine Months Ended September 30,:				
2006:				
Mortgage loans held for investment	$106,017	$19,254	$ (1,098)	$124,173
Real estate owned	10,725	20,019	(13,449)	17,295
Total	$116,742	$39,273	$(14,547)	$141,468
2005:				
Mortgage loans held for investment	$ 60,138	$36,129	$ (539)	$ 95,728
Real estate owned	4,405	10,249	(6,695)	7,959
Total	$ 64,543	$46,378	$ (7,234)	$103,687

The following table summarizes the delinquency amounts for the serviced portfolio, including mortgage loans and real estate owned before valuation allowance, but excluding loans serviced on an interim basis:

	September 30, 2006		December 31, 2005	
	Total Principal Amount	Delinquent Principal Over 90 Days	Total Principal Amount	Delinquent Principal Over 90 Days
		(In thousands)		
Mortgage loans held for sale(1)	$1,862,705	$ 94,012	$2,267,611	$ 20,861
Mortgage loans held for investment	7,396,819	136,839	7,321,608	71,361
Real estate owned	69,763	69,763	26,811	26,811
On balance sheet portfolio	9,329,287	300,614	9,616,030	119,033
Mortgage loans sold servicing retained(2)	65,288	8,772	90,181	10,228
Total serviced portfolio	$9,394,575	$309,386	$9,706,211	$129,261

(1) Includes loans repurchased.

(2) Includes real estate owned, off balance sheet.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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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 September 30, 2006 and December 31, 2005 fair value hedge basis adjustments of $12.2 million and $5.0 million, respectively, are included in mortgage loans held for sale. Losses from hedge ineffectiveness associated with these fair value hedges of $0.3 million and ($0.06 million) were recorded in earnings during the three months ended September 30, 2006 and 2005, respectively, and are included as adjustments to gain on sale of loans in the consolidated statements of operations. Hedge ineffectiveness gains (losses) associated with these fair value hedges of ($0.6 million) and $0.3 million were recorded in earnings during the nine months ended September 30, 2006 and 2005, respectively, and are included as adjustments to gain on sale of loans in the consolidated statements of operations.

At September 30, 2006 and December 31, 2005, fair value hedge basis adjustments of ($10.5 million) and ($4.8 million), respectively, are included in loans held for investment.

Cash Flow Hedges

Accredited uses hedge accounting in accordance with SFAS No. 133 for certain derivative financial instruments used to hedge the variability of the cash flows associated with variable rate portion of securitization debt. Effective unrealized losses associated with cash flow hedges of $45.2 million, net of tax benefit of $16.4 million, were recorded in other comprehensive income during the three months ended September 30, 2006. Effective unrealized gains associated with cash flow hedges of $21.2 million, net of taxes of $8.0 million, were recorded in other comprehensive income during the three months ended September 30, 2005.

Effective unrealized gains, net of effective unrealized losses, associated with cash flow hedges of $7.0 million and $29.7 million, reduced by related tax expense of $3.0 million and $11.4 million, were recorded in other comprehensive income during the nine months ended September 30, 2006 and 2005, respectively. These contracts settle on various dates ranging from September 2006 to September 2015. A total of $15.4 million in net effective gains before taxes, included in other comprehensive income at September 30, 2006, is expected to be recognized in earnings during the next twelve months. Hedge ineffectiveness gains (losses) associated with cash flow hedges of ($2.4 million) and $1.5 million was recorded in earnings during the three months ended September 30, 2006 and 2005, respectively, and are included as a component of interest expense in the consolidated statements of operations. Hedge ineffectiveness gains (losses) associated with cash flow hedges of ($1.3 million) and $2.0 million was recorded in earnings during the nine months ended September 30, 2006 and 2005, respectively, and are included as a component of interest expense in the consolidated statements of operations.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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

At September 30, 2006 Accredited had outstanding Eurodollar futures contracts, options contracts, interest rate swap agreements and interest rate cap agreements that were designated as hedge instruments. The fair value of the options contracts, interest rate swap and cap agreements, and the fair value of the margin account balances required for these derivatives and the futures contracts were as follows:

	September 30, 2006	December 31, 2005
	(In thousands)	
Options contracts	$ 3,034	$ 4,739
Interest rate cap and swap agreements	11,163	14,737
Futures contracts	5,522	8,099
Total fair value of derivatives	19,719	27,575
Margin account balances	49,234	61,834
Derivative assets, including margin account	$ 68,953	$89,409
Derivative liabilities(1)	$(12,545)	$ (1,815)

(1) Derivative liabilities are included in accounts payable and accrued liabilities.

The change in the fair value of derivative financial instruments and the related hedged asset or liability recorded in the consolidated statements of operations was as follows:

	Interest Income	Interest Expense	Gain on Sale	Other Income	Total
			(In thousands)		
Three Months Ended September 30, 2006:					
Net unrealized gain (loss)	$ 1,883	$ (8,208)	$ 5,351	$—	$ (975)
Net realized gain (loss)	—	16,613	(12,302)	—	4,311
Total	$ 1,883	$ 8,405	$ (6,951)	$—	$ 3,336
2005:					
Net unrealized gain (loss)	$(1,046)	$ (3,970)	$ (5,464)	$—	$(10,480)
Net realized gain	—	9,372	13,334	—	22,706
Total	$(1,046)	$ 5,402	$ 7,870	$—	$ 12,226

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For the Three and Nine Months Ended September 30, 2006 and 2005

	Interest Income	Interest Expense	Gain on Sale	Other Income	Total
			(In thousands)		
Nine Months Ended September 30,					
2006:					
Net unrealized gain (loss)	$ 3,860	$(23,604)	$ (7,191)	$—	$(26,934)
Net realized gain	—	49,413	16,561	—	65,974
Total	$ 3,860	$ 25,809	$ 9,370	$—	$ 39,040
2005:					
Net unrealized loss	$(4,506)	$(11,303)	$ (2,690)	$—	$(18,499)
Net realized gain	—	24,665	16,324	46	41,035
Total	$(4,506)	$ 13,362	$13,634	$ 46	$ 22,536

6. CREDIT FACILITIES

Credit facilities consisted of the following:

	September 30, 2006	December 31, 2005
	(In thousands)	
A $660 million warehouse credit facility expiring December 2007(a)	$ 272,565	$ 281,428
A $650 million warehouse credit facility expiring February 2007(a)	194,443	472,457
A $650 million warehouse credit facility expiring July 2007(a)	169,691	315,812
A $600 million warehouse credit facility expiring August 2007(a)	197,607	135,353
A $600 million warehouse credit facility expiring December 2006(b)	129,549	303,953
A $500 million warehouse credit facility expiring June 2007(a)	182,516	385,317
A $300 million warehouse credit facility expiring January 2007(a)	68,541	5,923
A $75 million credit facility expiring September 2007	—	—
A $40 million warehouse credit facility expiring November 2006(a)	4,272	9,513
A $200 million (Canadian dollar) warehouse credit facility expiring June 2007(a)	87,232	127,826
A $2.5 billion asset-backed commercial paper facility(c)	739,792	767,537
Total credit facilities	$2,046,208	$2,805,119

(a) The outstanding warehouse facilities bear interest based on one-month or overnight LIBOR (one-month bankers' acceptance rate for Canada) plus a spread. The spread over LIBOR varies depending on the mortgage asset class being financed.

(b) Bears interest at overnight LIBOR plus a specified spread.

(c) Accredited issues asset-backed commercial paper in the form of (i) short-term secured liquidity notes ("SLNs") with initial maturities ranging from one to one hundred eighty days and (ii) subordinated notes, $40.0 million of which were initially issued with a maturity date of May 26, 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 (5.43% at September 30, 2006), which vary depending on the prevailing market conditions. During the third quarter 2006, the capacity of this facility was increased to $2.5 billion and issued an additional $40.0 million subordinated notes which mature August 25, 2011.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

The above facilities are collateralized by substantially all mortgage loans held for sale, certain restricted cash (see Note 2) and unsold portions of securitized debt.

At September 30, 2006, Accredited was in compliance with all covenant requirements for each of the facilities. Accredited's warehouse and other credit facilities contain customary covenants including maximum leverage, 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 or securitization of loans and other assets, cash flows from operations, or from refinancing the borrowings.

7. SECURITIZATION FINANCING

Securitization financing consisted of the following:

	Balance		Interest Rate Range		
	September 30, 2006	December 31, 2005	Fixed	Variable (LIBOR+)	Final Stated Maturity
Bond financing:					
2002 – two securitizations	$ 81,845	$ 136,634	4.48% - 4.93%	.32% - .50%	2033
2003 – three securitizations	264,559	406,650	3.58% - 4.46%	.35% - .38%	2034
2004 – four securitizations	1,278,576	1,882,537	2.90% - 5.25%	.15% - 2.50%	2035
2005 – four securitizations	2,922,695	3,747,597	N/A	.08% - 2.50%	2035
2006 – two securitizations	2,215,187	—	N/A	.04% - 2.10%	2036
Total bond financing(a)	6,762,862	6,173,418			
Other:					
2005 – Private placement – Canadian mortgages(b)	61,685	70,934	N/A	CP rate + .27%	None
2006 – Private placement – Canadian mortgages(c)	228,630	—	N/A	CP rate + .25% - .85%	None
	7,053,177	6,244,352			
Unamortized debt discounts	(2,894)	(3,532)			
Total securitization financing, net	$7,050,283	$6,240,820			

(a) Collateralized by U.S. loans securitized with an aggregate outstanding balance of $7.0 billion and $6.4 billion at September 30, 2006 and December 31, 2005, respectively.

(b) Collateralized by Canadian loans with an aggregate outstanding balance of $60.8 million and $70.9 million at September 30, 2006 and December 31, 2005, respectively.

(c) Collateralized by Canadian loans with an aggregate outstanding balance of $234.8 million at September 30, 2006.

In addition, $16.0 million and $8.2 million of restricted cash at September 30, 2006 and December 31, 2005, respectively, are pledged as collateral in connection with the private placements of Canadian mortgages (see Note 2).

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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 dates set forth above.

The following table summarizes the expected repayments relating to the securitization financing at September 30, 2006 and are based on anticipated receipts of principal and interest on underlying mortgage loan collateral using historical prepayment speeds:

	(In thousands)
Three months ending December 31, 2006	$ 407,169
Year Ending December 31:	
2007	2,481,040
2008	1,508,885
2009	899,904
2010	551,448
2011	351,882
Thereafter	852,849
Discount	(2,894)
Total	$7,050,283

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

8. INCOME TAXES

The income tax provision consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Current:				
Federal	$ 7,567	$24,057	$ 68,834	$40,580
State	(1,382)	4,017	12,820	7,595
Total current provision	6,185	28,074	81,654	48,175
Deferred:				
Federal	(1,924)	255	(19,985)	22,472
State	985	1,188	(3,433)	6,570
Total deferred provision (benefit)	(939)	1,443	(23,418)	29,042
Total provision	$ 5,246	$29,517	$ 58,236	$77,217

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Federal income tax at statutory rate	$ 9,161	$25,656	$56,429	$68,898
State income tax, net of federal effects	(1,050)	3,383	5,310	9,207
REIT dividends on preferred stock	(873)	(873)	(2,619)	(2,619)
Other	(1,992)	1,351	(884)	1,731
Total provision	$ 5,246	$29,517	$58,236	$77,217

The deferred income tax (benefit) 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, loans held for sale at quarter-end, and various reserves and accruals where taxable income has been recognized in excess of book income.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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

	September 30, 2006	December 31, 2005
	(In thousands)	
Deferred tax assets:		
Loans held for sale	$ 2,010	$ 6,303
Market reserve on loans held for sale	14,131	8,639
Loan securitizations	68,957	54,991
State taxes	2,547	6,151
Other reserves and accruals	23,105	12,289
Total deferred tax assets	110,750	88,373
Deferred tax liabilities:		
Mortgage-related securities	(9,760)	(10,800)
Cash flow hedging	(2,424)	(9,549)
Total deferred tax liabilities	(12,184)	(20,349)
Net deferred tax asset	$ 98,566	$ 68,024

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities were as follows:

	September 30, 2006	December 31, 2005
	(In thousands)	
Accrued liabilities—salary, wages and benefits	$ 27,713	$28,116
Accrued liabilities—general	49,429	32,812
Derivative liabilities	12,545	1,815
Reserve for repurchases and premium recapture	22,295	10,751
Total	$111,982	$73,494

Activity in the reserve for repurchases and premium recapture was as follows:

	Balance at Beginning of Period	Provision (1)	Chargeoffs, net	Balance at End of Period
	(In thousands)			
Three Months Ended September 30,:				
2006:				
Reserve for repurchases	$ 8,686	$10,658	$(2,068)	$17,276
Reserve for premium recapture	3,876	3,817	(2,674)	5,019
Total	$12,562	$14,475	$(4,742)	$22,295
2005:				
Reserve for repurchases	$ 6,328	$ 973	$ (533)	$ 6,768
Reserve for premium recapture	1,625	1,462	(2,334)	753
Total	$ 7,953	$ 2,435	$(2,867)	$ 7,521

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

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For the Three and Nine Months Ended September 30, 2006 and 2005

	Balance at Beginning of Period	Provision (1)	Chargeoffs, net	Balance at End of Period
		(In thousands)		
Nine Months Ended September 30,:				
2006:				
Reserve for repurchases	$ 7,434	$13,570	$ (3,728)	$17,276
Reserve for premium recapture	3,317	8,047	(6,345)	5,019
Total	$10,751	$21,617	$(10,073)	$22,295
2005:				
Reserve for repurchases	$ 5,126	$ 2,977	$ (1,335)	$ 6,768
Reserve for premium recapture	2,410	3,925	(5,582)	753
Total	$ 7,536	$ 6,902	$ (6,917)	$ 7,521

(1) Reduces gain on sale of loans

10. MINORITY INTEREST IN REIT SUBSIDIARY

The minority interest in the REIT (a wholly owned subsidiary of AHL) represents Series A Preferred Shares issued to outside investors in the aggregate amount of $102.3 million. The Series A Preferred Shares bear a dividend of 9.75% annually. The preferred shares are reported as minority interest in subsidiary in the consolidated balance sheet.

11. STOCK-BASED COMPENSATION

Accredited has three types of equity instruments issued under its share-based compensation programs: stock options, restricted stock units, and restricted stock awards. Accredited discontinued its Employee Stock Purchase Plan on December 31, 2005. Compensation expense included in the consolidated statements of operations for the three and nine months ended September 30, 2006 and 2005, and the related tax benefit is shown in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands, except per share amounts)			
Stock options	$ 1,511	$ 27	$ 3,932	$ 190
Restricted stock units (Deferred Compensation Plan)	1,621	1,087	4,010	4,350
Restricted stock awards	119	57	358	94
Total share-based compensation expense	3,251	1,171	8,300	4,634
Income tax benefit recognized	(1,074)	(468)	(2,747)	(1,852)
Compensation expense, net of tax benefit	$ 2,177	$ 703	$ 5,553	$ 2,782
Change in the following due to the adoption of SFAS 123R:				
Net income	$(1,148)		$(2,914)	
Basic earnings per share	$ (0.05)		$ (0.13)	
Diluted earnings per share	$ (0.05)		$ (0.13)	

For the three and nine months ended September 30, 2006, compensation expense recognized for stock options is based on the fair value provisions of the newly adopted SFAS 123R. For the three and nine months

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

ended September 30, 2005, compensation expense was not recognized for most of Accredited's options in accordance with APB 25. However, compensation cost was recognized in 2005 on options granted to non-employees or when the exercise price of the options was not equal to the market value on the date of grant. The details of the share-based compensation programs are described below.

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 by the board of directors and approved by the stockholders in 2002. The share reserve established in the 2002 Plan consists of the number of shares remaining available for option grants and the number of options outstanding under all stock option plans.

All options granted in 2006 were granted at an exercise price equal to the closing market price on the date of grant. The options are scheduled to vest over four years and expire no later than 10 years after the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes multiple option model. The assumptions used in the option-pricing model for options granted during the three and nine months ended September 30, 2006 are noted in the following table:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Weighted-average risk-free rate	5.67%	4.87%
Weighted-average expected life	3.9 yrs	3.9 yrs
Expected Volatility	43%	43%
Dividend Yield	0%	0%
Weighted-average grant date fair value	$18.45	$19.58

In determining the expected volatility, historical and implied volatility was reviewed. As a result of our analysis, the computation of expected volatility for new grants is based on the historical volatility of Accredited's common stock, excluding 2003, the year Accredited became a public entity. Prior to the first quarter of 2006, Accredited's expected volatility was based on the average of its own volatility and the volatility of several of its closest competitors. The weighted-average expected life assumption was also modified in the first quarter to include an estimate for outstanding options that have not yet been exercised and have not yet reached their full contractual term. The change in computation of volatility and weighted-average expected life was applied on a prospective basis beginning with awards granted after December 31, 2005. A summary of the change in options outstanding under Accredited's Stock Option Plans during the nine months ended September 30, 2006 follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)			(In thousands)
Outstanding at December 31, 2005	1,398	$26.29		
Options granted	533	$50.58		
Options exercised	(173)	$16.61		
Options cancelled	(233)	$43.45		
Outstanding at September 30, 2006	1,525	$33.25	7.74 yrs	$14,013
Options vested and expected to vest at September 30, 2006	1,331	$31.37	7.55 yrs	$13,858
Options exercisable at September 30, 2006	644	$18.91	6.26 yrs	$12,299
Shares authorized for issuance	2,654			
Shares available for grant	1,129			

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

Aggregate intrinsic value disclosed above represents the amount by which Accredited's closing stock price of $35.94 on September 30, 2006 exceeds the exercise price of the options. The actual intrinsic value of options exercised was $0.4 million and $5.9 million for the three and nine-month periods ended September 30, 2006, respectively, and $2.1 million and $8.7 million for the three and nine-month periods ended September 30, 2005, respectively. At September 30, 2006, Accredited had $11.3 million of gross unrecognized compensation expense related to stock option plans that will be recognized over the weighted-average period of 1.8 years. Cash received from stock option exercises was $0.2 million during the quarter ended September 30, 2006.

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 key employees. Under the plan, a participant may defer up to 100% of their base salary, director fee, bonus and/or commissions on a pre-tax basis. The Deferred Compensation Plan permits the granting of restricted stock units ("RSUs") to eligible participants at fair market value on the date of grant. The per share weighted-average grant date fair value of units awarded was $45.65 and $51.76 for the three and nine-month periods ended September 30, 2006, respectively, and $47.39 and $43.18 for the three and nine-month periods ended September 30, 2005, respectively. The RSUs generally vest 50% two years from the date of grant and 25% each year thereafter until fully vested and are payable in Accredited's common stock upon distribution. RSUs granted to directors cliff vest two years from the date of grant.

A summary of the change in RSUs outstanding under Accredited's Deferred Compensation Plan during the nine months ended September 30, 2006 follows:

	Units (In thousands)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2005	774	
Awarded	109	
Released	(146)	
Forfeited	(60)	
Outstanding at September 30, 2006	677	$24,343
Authorized	2,000	
Authorized and not issued	1,844	
Available for grant	1,167	
Units vested not released	166	$ 5,977
Units vested and expected to vest at September 30, 2006	607	$21,817

The aggregate intrinsic value of restricted stock units is calculated based on the number of units and the quoted market price of $35.94 at September 30, 2006. The total intrinsic value of net units released was $0.9 million and $7.7 million for the three and nine-month periods ended September 30, 2006, respectively, and $0 and $25,000 for the three and nine-month periods ended September 30, 2005, respectively. At September 30, 2006, there was approximately $13.5 million in gross unrecognized compensation expense related to the nonvested units, which is expected to be recognized over 2.2 years.

Restricted Stock Awards—Accredited issued 41,000 shares of restricted stock shares 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.

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

The expense for these shares is recognized over the awards' service period of approximately five-years. As of September 30, 2006, 3,231 awards had vested, and unrecognized compensation related to these stock awards totaled $0.9 million.

Pro Forma Information

Prior to the adoption of SFAS 123R, Accredited accounted for stock-based compensation based on the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB *25).* Under APB 25, recognition of compensation cost was not required for most of Accredited's stock options. However, pro forma disclosures of the effects of recognizing compensation cost under the SFAS 123 fair value method was required. As previously reported for the three and nine months ended September 30, 2005, stock option compensation expense and its effect on income and earnings per share if Accredited had applied SFAS 123 is reflected below.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(In thousands, except for per share amounts)	
Net income, as reported	$41,291	$112,151
Add: Stock option compensation included in reported net income, net of tax	16	190
Deduct: Stock option compensation expense determined using fair value method, net of tax	(431)	(2,071)
Pro forma net income	$40,876	$110,270
Earnings per share:		
Basic—as reported	$ 1.95	$ 5.34
Basic—pro forma	$ 1.93	$ 5.25
Diluted—as reported	$ 1.87	$ 5.11
Diluted—pro forma	$ 1.85	$ 5.03

The pro forma effects of estimated share-based compensation reflected above were estimated as of the date of grant using the Black-Scholes multiple option-pricing model. The underlying assumptions used to estimate the fair value were as follows:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Weighted-average risk-free rate	3.88%	3.52%
Weighted-average expected life	2.5 yrs	2.7 yrs
Volatility	46%	45%
Dividend Yield	—	—
Weighted-average grant date fair value	$14.13	$14.08

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

12. 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 vested, restricted common stock units 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 vested, restricted common stock units, plus potential common shares from outstanding stock options and unvested restricted stock units where the effect of those securities is dilutive. The computations for basic and diluted earnings per share are as follows:

	Net Income (numerator)	Shares (denominator)	Per Share Amount
	(In thousands, except per share amounts)		
Three Months Ended September 30, 2006:			
Basic earnings per share	$ 18,433	21,739	$0.85
Effect of dilutive shares:			
Stock options		368	
Restricted stock units		185	
Diluted earnings per share	$ 18,433	22,292	$0.83
Potentially dilutive stock options not included above since they are antidilutive		1,002	
Three Months Ended September 30, 2005:			
Basic earnings per share	$ 41,291	21,217	$1.95
Effect of dilutive shares:			
Stock options		610	
Restricted stock units		232	
Diluted earnings per share	$ 41,291	22,059	$1.87
Potentially dilutive stock options not included above since they are antidilutive		317	
Nine Months Ended September 30, 2006:			
Basic earnings per share	$ 95,506	21,656	$4.41
Effect of dilutive shares:			
Stock options		439	
Restricted stock units		232	
Diluted earnings per share	$ 95,506	22,327	$4.28
Potentially dilutive stock options not included above since they are antidilutive		593	
Nine Months Ended September 30, 2005:			
Basic earnings per share	$112,151	21,017	$5.34
Effect of dilutive shares:			
Stock options		678	
Restricted stock units		237	
Diluted earnings per share	$112,151	21,932	$5.11
Potentially dilutive stock options not included above since they are antidilutive		272	

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

13. COMMITMENTS AND CONTINGENCIES

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 borrowers satisfying various terms and conditions. These commitments totaled $741.0 million as of September 30, 2006.

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 September 30, 2006 there were no forward loan sale commitments awaiting settlement.

Accredited's mortgage banking business is subject to certain rules and regulations of the Department of Housing and Urban Development ("HUD") which require that Accredited maintain a minimum net worth of $250,000. Accredited is in compliance with this requirement.

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 these 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 September 30, 2006.

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 10. Minority Interest in REIT Subsidiary.

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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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. Subject to court approval, the parties have agreed to a settlement with respect to the named plaintiffs and with respect to a class of current and former AHL employees which the parties will jointly request the court to certify. The amount payable by AHL under the settlement is not material to AHL's financial condition.

In June 2005, AHL was served with a complaint, *Williams et al. v. Accredited Home Lenders, Inc.,* brought in the 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. The plaintiffs' motion to certify a collective class was denied on July 25, 2006, leaving the two named plaintiffs as the only plaintiffs in the lawsuit. On August 24, 2006, plaintiffs filed a Notice of Appeal with the Eleventh Circuit requesting that it reverse the lower court's order denying plaintiffs' motion to certify a collective class. However, the court issued an Order to Show Cause why it had subject matter jurisdiction to hear this issue, and plaintiffs subsequently dismissed their appeal. This will not preclude the filing of other non-class action lawsuits alleging similar claims on behalf of other current or former employees. The ultimate outcome of this matter and any related individual filings, and the amount of liability, if any, which may result, is not presently determinable. AHL intends to continue to vigorously defend this matter and any related filings, and does not believe it or they 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 plaintiff and similarly situated

ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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 continue 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.

In March 2006, AHL was served with a class action complaint, *Cabrejas v. Accredited Home Lenders, Inc.*, brought in the Circuit Court for Prince George's County, Maryland. The complaint alleges that AHL's origination of second lien loans in Maryland violated the Maryland Secondary Mortgage Loan Law and Consumer Protection Act in that fees charged on such loans exceeded 10% of the respective loan amounts. The plaintiffs seek to recover, on behalf of themselves and similarly situated individuals, damages, disgorgement of fees, pre-judgment interest, declaratory and injunctive relief, attorneys' fees, and any other relief the court may grant. On April 13, 2006, AHL removed the action to the United States District Court, District of Maryland. On May 15, 2006, AHL filed a motion to dismiss plaintiffs' second cause of action alleging a violation of the Maryland Consumer Protection Act on the basis that full disclosure of the fees cannot be an unfair or deceptive trade practice. A hearing date for the motion to dismiss has not been set. 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, and the ultimate outcome of this matter and the amount of liability, if any, which 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 October 2006, by virtue of the merger of AHLHC and Aames Investment Corporation (AIC), and the related merger of certain subsidiaries of AHLHC and AIC, AHLHC and certain of its subsidiaries succeeded to the litigation interests of AIC and certain of its subsidiaries. Two of those matters, *Webb, et al., v. Aames Investment Corporation, et al.* (U.S. District Court, Central District of California) and *Cooper, et al., v. Aames Funding Corporation* (U.S. District Court, Eastern District of Wisconsin), are class action complaints which allege violations of the Fair Credit Reporting Act in connection with prescreened offers of credit and are similar in nature to the *Phillips* matter referenced above. The *Cooper* matter was transferred to the Central District of California and consolidated with the *Webb* matter by stipulation of counsel on September 29, 2006. 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. AHLHC and each affected subsidiary intends 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.

In October 2006, as a result of the merger referenced above, AHL succeeded to the position of Aames Funding Corporation (AFC) under a class action complaint, *Miller v. Aames Funding Corporation,* filed in the United States District Court, Eastern District of Texas. The complaint alleges that adjustable-rate home equity loans originated by AFC in Texas violate the Texas Constitution's requirement that such loans be scheduled to be repaid in substantially equal installments. The plaintiffs seek to recover, on behalf of themselves and similarly

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situated individuals, damages, declaratory and injunctive relief, attorneys' fees, and any other relief the court may grant. On September 29, 2006, the court on its own motion stayed the action, pending the resolution of class certification issues in a similar action pending before the court. 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 intends 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.

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents supplemental cash flow information:

	Nine Months Ended September 30, 2006	2005
	(In thousands)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 382,795	$ 212,664
Income Taxes	$ 144,849	$ 45,864
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of mortgage loans held for sale to mortgage loans held for investment	$1,671,599	$3,233,710
Transfer of mortgage loans held for sale to real estate owned, net of reserve, included in other assets	$ 30,677	$ 12,318
Transfer of mortgage loans held for investment to real estate owned, net of reserve, included in other assets	$ 27,558	$ 5,537
Unrealized gains on cash flow hedges recorded to other comprehensive income	$ 6,974	$ 29,671
Purchase of net assets of AaRCS, LLC:		
Fair value of non-cash assets	$ 3,043	
Liabilities assumed	$ 980	

ACCREDITED MORTGAGE LOAN REIT TRUST

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

	September 30, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	$ 11,289	$ 6,158
Accrued interest receivable	34,750	32,604
Mortgage loans held for investment, net of allowance of $120,928 and $98,399, respectively	6,803,199	6,240,136
Derivative assets, including margin account	46,916	65,347
Other assets	61,540	30,322
Receivable from parent	214,202	99,642
Total assets	$7,171,896	$6,474,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Credit facilities	$ 16,368	$ 15,640
Securitization bond financing	6,759,968	6,169,886
Accounts payable and accrued liabilities	18,327	5,115
Total liabilities	6,794,663	6,190,641
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 September 30 2006 and December 31,2005	4,094	4,094
Common stock, $.001 par value; authorized 100,000,000 shares; issued and outstanding 100,000 at September 30, 2006 and December 31, 2005	1	1
Additional paid-in capital	314,488	303,180
Accumulated other comprehensive income	6,145	23,991
Retained earnings (deficit)	52,505	(47,698)
Total stockholders' equity	377,233	283,568
Total liabilities and stockholders' equity	$7,171,896	$6,474,209

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) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES:				
Interest income (including $3,034, $1,151, $7,081, and $1,582 from parent)	$147,998	$109,369	$ 408,623	$ 288,957
Interest expense	(97,425)	(52,811)	(249,975)	(131,939)
Net interest income	50,573	56,558	158,648	157,018
Provision for losses on loans and real estate owned	(3,107)	(2,578)	(16,158)	(12,624)
Net interest income after provision	47,466	53,980	142,490	144,394
Other income	863	502	2,700	859
Total net revenues	48,329	54,482	145,190	145,253
OPERATING EXPENSES:				
Management fee assessed by parent	9,072	6,750	25,193	18,247
Direct general and administrative expenses	1	51	10	112
Total operating expenses	9,073	6,801	25,203	18,359
Net income	39,256	47,681	119,987	126,894
Dividends on preferred stock	(2,495)	(2,495)	(7,484)	(7,484)
Net income available to common stockholders	$ 36,761	$ 45,186	$ 112,503	$ 119,410
Basic and diluted earnings per common share	$ 367.61	$ 451.86	$1,125.03	$1,194.10
Weighted average shares outstanding for basic and diluted	100	100	100	100

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

ACCREDITED MORTGAGE LOAN REIT TRUST

STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 119,987	$ 126,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net deferred origination fees on securitized loans	(5,070)	(2,388)
Amortization of deferred costs	9,483	782
Provision for losses	16,158	12,624
Unrealized loss (gain) on derivatives and hedged assets	18,669	(6,808)
Adjustment into earnings for gain on derivatives from other comprehensive income	(25,625)	(10,023)
Changes in operating assets and liabilities:		
Accrued interest receivable	(2,146)	(8,463)
Derivative assets, including margin account	3,681	17,591
Other assets	(11,010)	(8,725)
Accounts payable and accrued liabilities	13,212	335
Net cash provided by operating activities	137,339	121,819
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on mortgage loans held for investment	1,760,681	1,403,252
Net cash provided by investing activities	1,760,681	1,403,252
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of securitization bond financing, net of fees	2,381,320	3,003,173
Payments on securitization bond financing	(1,804,207)	(1,417,245)
Net change in credit facilities	(2,344,046)	(2,942,626)
Capital contributions from parent	8,388	3,000
Net increase in receivable from parent	(114,560)	(161,806)
Payments of common stock dividends	(12,300)	(5,000)
Payments of preferred stock dividends	(7,484)	(7,484)
Net cash used in financing activities	(1,892,889)	(1,527,988)
Net (decrease) increase in cash and cash equivalents	5,131	(2,917)
Beginning balance cash and cash equivalents	6,158	4,018
Ending balance cash and cash equivalents	$ 11,289	$ 1,101

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

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2006 and 2005

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., ("AHLHC").

The accompanying unaudited financial statements of the REIT have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The unaudited financial statements presented herein should be read in conjunction with the audited financial statements and related notes thereto included in the REIT's Annual Report on Form 10-K for the year ended December 31, 2005.

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 operations or financial condition may not be indicative as 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 is generally not 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.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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 Investment, Securitization Bond Financing and Provision for Losses

Periodically, Loans Held for Securitization, which are originated by and 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 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. In June 2006, Accredited closed a $1.4 billion securitization. Collateral of $1.05 billion in mortgage loans was delivered in June with the balance of approximately $350 million delivered in the quarter ended September 30, 2006.

The securitization is structured legally as a sale, but for accounting purposes is treated as a financing under SFAS No. 140. The securitization does not meet the qualifying special purpose entity criteria under SFAS No. 140 and related interpretations because after the loans are securitized, the securitization trust 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 securitization over the life of the securitization. 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. Loans foreclosed upon or deemed uncollectible are carried at estimated net realizable value.

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 six 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.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

Fair Value Hedges

As part of the contribution by AHL of loans held for securitization, the REIT acquires certain fair value hedge derivative financial instruments. The REIT continues fair value hedge accounting on these mortgage loans up to several days prior to the close of the securitization. At this time, the fair value hedge instruments are lifted and the hedge positions are capitalized. These capitalized hedge marks are then amortized to interest income, utilizing an effective yield method, over the life of the securitization transaction.

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.

Interest Income

Interest income is recorded when earned. Interest income represents the interest earned 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.

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.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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 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 September 30, 2006 and December 31, 2005, real estate owned amounting to $35.2 million and $10.5 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.

Comprehensive income is determined as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Net income	$ 39,256	$47,681	$119,987	$126,894
Net unrealized gains (losses) on cash flow hedges	(41,010)	20,250	7,778	28,715
Reclassification adjustment into earnings for realized gain on derivatives	(9,919)	(3,871)	(25,624)	(10,023)
Total comprehensive income (loss)	$(11,683)	$64,060	$102,141	$145,586

2. CONCENTRATIONS OF RISK

Geographical Concentration

Properties securing mortgage loans held for investment are geographically dispersed throughout the United States. At September 30, 2006, 19% and 12% of the unpaid principal balance of mortgage loans held for investment were secured by properties located in California and Florida, respectively. 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. The remaining properties securing mortgage loans did not exceed 10% in any other state at September 30, 2006 and December 31, 2005.

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.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

3. MORTGAGE LOANS HELD FOR INVESTMENT

Mortgage loans held for investment were as follows:

	September 30, 2006	December 31, 2005
	(In thousands)	
Principal balance	$6,956,819	$6,350,870
Basis adjustment for fair value hedge accounting	(10,515)	(4,766)
Net deferred origination fees	(22,177)	(7,569)
Allowance for loan losses	(120,928)	(98,399)
Loans held for investment, net	$6,803,199	$6,240,136

Allowance for losses on loans held for investment—Activity in the allowance was as follows:

	Balance at Beginning of Period	Contributions from Parent	Provision for Losses	Chargeoffs, net	Balance at End of Period
			(In thousands)		
Three Months Ended September 30,:					
2006:					
Mortgage loans held for investment	$121,247	$ 2,863	$ (2,800)	$ (382)	$120,928
Real estate owned	7,762	—	5,907	(3,854)	9,815
Total	$129,009	$ 2,863	$ 3,107	$(4,236)	$130,743
2005:					
Mortgage loans held for investment	$ 78,140	$ 9,685	$ 317	$ (394)	$ 87,748
Real estate owned	2,995	—	2,261	(847)	4,409
Total	$ 81,135	$ 9,685	$ 2,578	$(1,241)	$ 92,157
Nine Months Ended September 30,:					
2006:					
Mortgage loans held for investment	$ 98,399	$18,315	$ 5,323	$(1,109)	$120,928
Real estate owned	6,996	—	10,835	(8,016)	9,815
Total	$105,395	$18,315	$16,158	$(9,125)	$130,743
2005:					
Mortgage loans held for investment	$ 54,960	$25,682	$ 7,691	$ (585)	$ 87,748
Real estate owned	2,028	—	4,933	(2,552)	4,409
Total	$ 56,988	$25,682	$12,624	$(3,137)	$ 92,157

The following table summarizes delinquency amounts for mortgage loans and real estate owned before valuation allowance:

	At September 30, 2006		At December 31, 2005	
	Total Principal Amount	Delinquent Principal Over 90 Days	Total Principal Amount	Delinquent Principal Over 90 Days
		(In thousands)		
Mortgage loans held for investment	$6,956,819	$130,462	$6,350,870	$70,990
Real estate owned	45,047	45,047	17,490	17,490
Total	$7,001,866	$175,509	$6,368,360	$88,480

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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 September 30, 2006 and December 31, 2005, fair value hedge basis adjustments of ($10.5 million) and ($4.8 million) are included as additions to loans held for investment. No hedge ineffectiveness associated with fair value hedges was recorded in earnings during the three or nine months ended September 30, 2006 or 2005, 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 (losses) gains associated with cash flow hedges of $(41.0 million) and $20.2 million were recorded in other comprehensive income during the three months ended September 30, 2006 and 2005, respectively. Effective unrealized gains, net of effective unrealized losses, associated with cash flow hedges of $7.8 million and $28.7 million were recorded in other comprehensive income during the nine months ended September 30, 2006 and 2005, respectively. Other comprehensive income is reported as a component of stockholders' equity. These contracts settle on various dates ranging from September 2006 to September 2015. A total of $14.6 million in net effective gains, included in other comprehensive income at September 30, 2006, is expected to be recognized in earnings during the next twelve months. Hedge ineffectiveness gains (losses) associated with cash flow hedges of ($1.6 million) and $1.5 million was recorded in earnings during the three months ended September 30, 2006 and 2005, respectively, and are included as a component of interest expense in the statements of operations. Hedge ineffectiveness gains (losses) associated with cash flow hedges of ($0.2 million) and $2.0 million was recorded in earnings during the nine months ended September 30, 2006 and 2005, respectively, and are included as a component of interest expense in the Consolidated Statements of Operations.

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

At September 30, 2006, 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. The fair value of the options contracts, interest rate swap and cap agreements, and the fair value of the margin account balances required for these derivatives and the futures contracts were as follows:

	September 30, 2006	December 31, 2005
	(In thousands)	
Options contracts	$ 3,047	$ 4,792
Interest rate cap and swap agreements	6,947	12,113
Futures contracts	5,439	8,099
Total fair value of derivatives	15,433	25,004
Margin account balances	31,483	40,343
Derivative assets, including margin account	$46,916	$65,347

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

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)	
Three Months Ended September 30,:			
2006:			
Net unrealized gain (loss)	$ 1,883	$ (7,339)	$ (5,456)
Net realized gain	—	15,703	15,703
Total	$ 1,883	$ 8,364	$ 10,247
2005:			
Net unrealized loss	$(1,046)	$ (3,970)	$ (5,016)
Net realized gain	—	9,372	9,372
Total	$(1,046)	$ 5,402	$ 4,356
Nine Months Ended September 30,:			
2006:			
Net unrealized gain (loss)	$ 3,860	$(22,529)	$(18,669)
Net realized gain	—	47,930	47,930
Total	$ 3,860	$ 25,401	$ 29,261
2005:			
Net unrealized loss	$(4,506)	$(11,314)	$(15,820)
Net realized gain	—	24,659	24,659
Total	$(4,506)	$ 13,345	$ 8,839

5. CREDIT FACILITIES

AHL and the REIT have entered into aggregate warehouse facilities to permit the securitization of mortgage loans. AHL is the primary obligor under these facilities until the loans are contributed to the REIT for securitization. The REIT then becomes the primary obligor until the loans are securitized, a period of 30 days or less. Each of the facility agreements has cross-default and cross-collateralization provisions and AHL provides a guarantee of the REIT's obligations under the facilities during the time that the REIT owns the mortgage loans.

Amounts outstanding on these warehouse facilities at September 30, 2006 and December 31, 2005 were collateralized by unsold portions of the securitized debt.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

6. SECURITIZATION BOND FINANCING

Securitization bond financing consisted of the following:

	Balance		Interest Rate Range		Final Stated Maturity
	9/30/2006	12/31/2005	Fixed	Variable (LIBOR+)	
	(in thousands)				
2002—two securitizations	$ 81,845	$ 136,634	4.48% - 4.93%	.32% - .50%	2033
2003—three securitizations	264,558	406,650	3.58% - 4.46%	.35% - .38%	2034
2004—four securitizations	1,278,576	1,882,537	2.90% - 5.25%	.15% - 2.50%	2035
2005—four securitizations	2,922,695	3,747,597	N/A	.08% - 2.50%	2035
2006—two securitizations	2,215,188	—	N/A	.04% - 2.10%	2036
	6,762,862	6,173,418			
Unamortized bond discounts	(2,894)	(3,532)			
Total securitization bond financing, net	$6,759,968	$6,169,886			

The bonds are collateralized by loans held for investment with an aggregate outstanding principal balance of $7.0 billion and $6.4 billion as of September 30, 2006 and December 31, 2005, respectively.

Unamortized debt issuance costs, included in other assets, are $25.9 million and $19.7 million at September 30, 2006 and December 31, 2005, 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, to Accredited Home Lenders, Inc. as servicer, 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.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

The following table summarizes the expected repayments relating to the securitization bond financing at September 30, 2006. Amounts listed as bond payments are based on anticipated receipts of principal and interest on underlying mortgage loan collateral using historical prepayment speeds:

	(In thousands)
Three months ending December 31, 2006	$ 430,036
Year Ending December 31:	
2007	2,444,937
2008	1,378,942
2009	797,917
2010	514,034
2011	344,147
Thereafter	852,849
Discount	(2,894)
Total	$6,759,968

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 is generally not 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 its 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:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(In thousands)			
Federal income tax at statutory rate	$ 13,739	$ 16,688	$ 41,995	$ 44,413
Preferred stock dividends at statutory rate	(873)	(873)	(2,619)	(2,619)
Common stock dividends paid deduction and other	(12,866)	(15,815)	(39,376)	(41,794)
Total provision	$ —	$ —	$ —	$ —

8. 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, and limitations as to dividends or other distributions, qualifications and terms and conditions of redemption.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

9.75% Series A Perpetual Cumulative Preferred Shares

The REIT's Board of Trustees has classified and designated 4,093,678 preferred shares as Series A Preferred Shares. At September 30, 2006 and December 31, 2005, there were 4,093,678 preferred shares issued and outstanding.

In March, June and September 2006, the REIT's board of trustees declared quarterly cash dividends on the Preferred Shares at the rate of $0.609375 per share to shareholders of record on March 15, June 15 and September 15, which aggregated $7.5 million for the nine months ended September 30, 2006 and 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 September 30, 2006, the REIT was in compliance with the covenants applicable to date in 2006.

AHLHC irrevocably and unconditionally has agreed 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 AHLHC 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. AHLHC's guarantee is subordinated in right of payment to AHLHC's indebtedness, on parity with the most senior class of AHLHC's preferred stock and senior to AHLHC's common stock.

9. 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 $9.1 million and $6.8 million for the three months ended September 30, 2006 and 2005, respectively. Interest income under this agreement totaled $3.0 million and $1.2 million for the three months ended September 30, 2006 and 2005, respectively. Management fee expense under this agreement totaled $25.2 million and $18.2 million for the nine months ended September 30, 2006 and 2005, respectively. Interest income under this agreement totaled $7.0 million and $1.6 million for the nine months ended September 30, 2006 and 2005, respectively. The net receivable from parent results from advances of excess cash holdings by the REIT to AHL. AHL utilizes the funds advanced to pay down its warehouse lines. The net receivable will be liquidated at the time the REIT pays common stock dividends to AHL. Pursuant to the right of offset under the agreement between the parties, the net receivable will accrue interest at an annual rate equal to the six-month LIBOR plus 1.0%.

ACCREDITED MORTGAGE LOAN REIT TRUST

NOTES TO UNAUDITED FINANCIAL STATEMENTS—(Continued)

For the Three and Nine Months Ended September 30, 2006 and 2005

10. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents supplemental cash flow information:

	Nine Months Ended September 30,	
	2006	2005
	(In thousands)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 260,828	$ 144,911
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	$ 27,558	$ 5,538
Unrealized gains on cash flow hedges recorded to other comprehensive income	$ 7,778	$ 28,715
Detail of assets and liabilities contributed from parent:		
Cash contributions	$ 8,388	$ 3,000
Mortgage loans, net of reserves	2,376,980	3,019,222
Other net assets (liabilities)	(29,286)	(11,932)
Outstanding balances on warehouse credit facilities	(2,344,773)	(2,942,223)
Assets in excess of liabilities contributed	$ 11,309	$ 68,067

ITEM 2. 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 3 of this Form 10-Q. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed under the section entitled "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 hold loans for investment utilizing securitization financing transactions.

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.

Historically, we have generated the majority of our earnings and cash flows from whole loan sales. During the third quarter, earnings and cash flows from our securitization portfolio exceeded the profit contribution from whole loan sales. We expect our securitization portfolio to contribute significantly to future earnings and cash flows. However, market premiums paid on whole loan sales and the level of whole loan sales could result in the relative profit contribution from our securitization program and whole loan sales to fluctuate in relative size over time. 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." 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

Three Months Ended September 30, 2006 Compared to the Three Months Ended September 30, 2005

Executive Summary

- Net income was $18.4 million for the three months ended September 30, 2006, or $0.83 per diluted share, a decrease of 55.4% from $41.3 million, or $1.87 per diluted share in 2005.
- The decrease in net income was primarily driven by a decrease in total revenue of 24.7% and an increase in operating expenses of 12.3% from the three months ended September 30, 2005.
- Origination costs net of points and fees declined to 1.53% of loans originated during the three months ended September 30, 2006 from 1.57% during the same period in 2005.

Net Revenues

Net revenues and key indicators that affect our net revenues are as follows for the three months ended September 30:

	2006	2005	Change	% Change
		(Dollars in thousands)		
Interest income(1)	$ 207,343	$ 164,147	$ 43,196	26.3%
Interest expense(2)	(138,197)	(84,571)	(53,626)	63.4%
Net interest income	69,146	79,576	(10,430)	(13.1%)
Provision for losses(3)	(9,673)	(15,427)	5,754	37.3.%
Net interest income after provision(3)	59,473	64,149	(4,676)	(7.3%)
Gain on sale of loans(3)	47,288	81,904	(34,616)	(42.3%)
Loan servicing income	3,642	3,243	399	12.3%
Other income	3,906	2,460	1,446	58.8%
Total net revenues	$ 114,309	$ 151,756	$ (37,447)	(24.7%)
Net interest income after provision as percentage of net revenues	52.0%	42.3%		
Gain on sale of loans as a percentage of net revenues	41.4%	54.0%		
Mortgage loan originations	$ 4,229,041	$4,492,719	$ (263,678)	(5.9%)
Whole loan sales	$ 3,670,353	$2,979,088	$ 691,265	23.2%
Mortgage loans securitized	$ 349,858	$1,120,042	$ (770,184)	(68.8%)
Average portfolio of mortgage loans	$10,202,292	$8,495,639	$1,706,653	20.1%
Annualized interest income as a percentage of average inventory of mortgage loans	8.13%	7.73%		
Average outstanding borrowings	$ 9,975,903	$8,131,966	$1,843,937	22.7%

(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 changed the presentation of our consolidated statements 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 for the year ended December 31, 2005. Previously these amounts were included in provision for losses. All interim periods for 2005 have been reclassified to conform to this presentation.

Interest Income. Interest income increased 26.3% during the three months ended September 30, 2006 from the comparable period in 2005 reflecting the 20.1% increase in our average portfolio of mortgage loans during the period and an increase in the weighted average interest rates earned on mortgage loans during the three months ended September 30, 2006 when compared to the same period in 2005. The increase in our average inventory of mortgage loans is due to an increase in loans retained on our balance sheet through securitizations.

Interest Expense. The increase in interest expense during the three months ended September 30, 2006 of 63.4% reflects an increase in our average outstanding borrowings, which increased from $8.1 billion during the three months ended September 30, 2005 to $10.0 billion during the same period in 2006, or 22.7% and an increase in our average borrowing rates. The average rate on our warehouse lines increased from 4.28% during the three months ended September 30, 2005 to 5.84% during the same period in 2006. In addition, the interest cost on our securitizations increased from 4.01% during the three months ended September 30, 2005 to 5.43% during the same period in 2006.

The components of our net interest margin are as follows for the three months ended September 30:

	2006			2005		
	Interest Income (Expense)	Average Balance Outstanding	Average Rate	Interest Income (Expense)	Average Balance Outstanding	Average Rate
	(Dollars in thousands)					
Warehouse:						
Interest income	$ 57,047	$ 2,760,936	8.26%	$ 58,670	$3,115,998	7.53%
Other interest income	—		0.00	(164)		(0.02)
Interest expense	(36,774)	2,461,845	(5.84)	(32,316)	2,935,474	(4.28)
Other interest expense	(1,795)		(0.29)	(1,227)		(0.17)
Spread	18,478		2.13%	24,963		3.06%
Securitizations:						
Interest income	132,992	7,441,356	7.15%	92,481	5,379,641	6.88%
Other interest income	17,304		0.93	13,160		0.98
Interest expense	(104,102)	7,514,058	(5.43)	(53,304)	5,196,492	(4.01)
Other interest expense	4,474		0.24	2,276		0.18
Spread	50,668		2.89%	54,613		4.02%
Net interest margin	$ 69,146	$10,202,292	2.83%	$ 79,576	$8,495,639	3.84%

The net interest spread for our portfolio loans (loans held for sale and loans held for securitization) declined from 3.06% during the three months ended September 30, 2005 to 2.13% for the comparable period in 2006. 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. Other Interest Expense consists primarily of amortized facility fees. The decline in net interest margin resulted from continued pricing pressure in the industry and a flat yield curve.

The net interest spread for our securitized loans declined from 4.02% during the three months ended September 30, 2005 to 2.89% for the comparable period in 2006. The decline reflects higher cost of borrowings due to market interest rates increasing, partially offset by increases in coupon rate. Other interest income consists primarily of prepayment penalties and other interest expense is primarily gains from hedging.

Provision for Losses. The provision for losses is comprised of the following for the three months ended September 30:

	2006	2005	Change	% Change
	(Dollars in thousands)			
Current period provision for:				
Loans held for investment	$ (778)	$ 11,847	$ (12,625)	(106.6%)
Real estate owned	10,451	3,580	6,872	191.9%
Total provision for losses	$ 9,673	$ 15,427	$ (5,754)	(37.3%)
Reserve balance at period end:				
Loans held for investment	$ 124,173	$ 95,728	$ 28,445	29.7%
Principal balance at period end:				
Loans held for investment	$7,396,819	$6,685,780	$711,039	10.6%
Reserve balance on loans as a percentage of the principal balance at period end	1.7%	1.4%		

The decrease in provision for losses on loans held for investment was primarily due to a decline in the loans outstanding for the current quarter versus growth in the loans outstanding for the third quarter of last year. The provision for losses on real estate owned increased 191.9% for the three months ended September 30, 2006, as compared to the same period in 2005 as a result of the increase in the level of real estate owned held at the end of the reporting periods partially offset by lower loss severity levels recently.

The ratio of loss reserve to principal outstanding at September 30, 2006, increased to 1.7% from 1.4% for the same period in 2005. The increase is due primarily to an increase in the average age of the portfolio and higher delinquency levels on recent vintages.

Gain on Sale of Loans. The components of the gain on sale of loans is as follows for the three months ended September 30:

	2006		2005	
	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)			
Gain on whole loan sales(1)	$ 75,136	2.05%	$ 84,099	2.82%
Net gain (loss) on derivatives	(6,951)	(0.19)	7,870	0.26
Net premium received on whole loan sales	68,185	1.86	91,969	3.08
Provisions for reserves (2)	(31,026)	(0.85)	(5,203)	(0.17)
Direct loan origination fees (expenses)	10,128	0.28	(4,862)	(0.16)
Total net gain on sale of loans	$ 47,288	1.29%	$ 81,904	2.75%
Whole loan sales	$3,670,353		$2,979,088	

(1) The percentage is determined by dividing the gain by whole loan sales.

(2) We changed the presentation of our consolidated statements 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 for the year ended December 31, 2005. Previously these amounts were included in provision for losses. All interim periods for 2005 are being reclassified to conform to this presentation.

Total net gain on sale of loans decreased 42.3% during the three months ended September 30, 2006 from the comparable period in 2005 due to a decrease in net premium received associated with lower net interest margins in the current competitive environment. In addition, the net gain on sales decreased as a result of higher

provisions for repurchases and premium recapture and an increase in the provision for lower of cost of market valuation due to higher delinquencies in loans held for sale offset in part by an increase in the direct loan origination fees earned.

Loan Servicing Income. Loan servicing income increased 12.3% during the three months ended September 30, 2006 from the comparable period in 2005 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 58.8% during the three months ended September 30, 2006 from the comparable period in 2005 due primarily to the increase in the earnings on bank accounts as a result of higher interest rates during the current period and an increase in the revenues from the mortgage settlement services business.

Operating Expenses. Operating expenses are as follows for the three months ended September 30:

	2006	2005	Change	% Change
		(Dollars in thousands)		
Salaries, wages and benefits	$ 54,571	$ 48,378	$ 6,193	12.8%
General and administrative	16,285	15,441	844	5.5%
Occupancy	6,655	5,247	1,408	26.9%
Advertising and promotion	5,635	5,388	247	4.6%
Depreciation and amortization	4,989	3,999	990	24.8%
Total operating expenses	$ 88,135	$ 78,453	$ 9,682	12.3%
Total serviced loans at period end	$9,394,575	$9,176,234	$218,341	2.4%
Total number of employees at period end	3,164	2,639	525	19.9%

Salaries, Wages and Benefits. Salaries, wages and benefits increased 12.8% during the three months ended September 30, 2006 compared to the three months ended September 30, 2005 primarily due to staff growth and the related salaries, partially offset by lower bonuses and commissions.

General and Administrative. General and administrative expenses increased 5.5% during the three months ended September 30, 2006 compared to the three months ended September 30, 2005 due primarily to the increase in technology related costs.

Occupancy. Occupancy expenses increased 26.9% due to increased leasing costs associated with the expansion of various wholesale, retail, and administrative offices.

Advertising and Promotion. Advertising and promotion expenses increased 4.6% during the three months ended September 30, 2006 due primarily to increased spending on referrals and leads to support our growth in retail loan originations.

Depreciation and Amortization. Depreciation and amortization increased 24.8% during the three months ended September 30, 2006 due primarily to additional investments in technology and infrastructure.

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 three months ended September 30:

	2006	2005	% Change
	(Dollars in thousands)		
Total operating expenses	$ 88,135	$ 78,453	
Add: deferred direct loan origination expenses(1)	13,416	17,419	
Less: servicing cost(2)	(8,534)	(5,809)	
Loan origination expenses	93,017	90,063	
Less: deferred net origination points and fees(3)	(28,236)	(19,231)	
Net cost to originate	$ 64,781	$ 70,832	(8.5%)
Total mortgage loan originations	$4,229,041	$4,492,719	(5.9%)
Net cost to originate as percentage of volume	1.53%	1.57%	

(1) Represents the amount of direct expenses incurred and deferred in the period in accordance with Financial Accounting Standard No. 91. These items are included in origination expenses to reflect the complete economic operating expenses for the period.
(2) Consists of direct expenses and corporate overhead allocated to servicing activities.
(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 1.57% for the three months ended September 30, 2005 to 1.53% for the same period in 2006 is a result of increased points and fees collected which more than offsets the increase in loan origination expenses.

Income Taxes. The provision for income taxes as a percentage of pre-tax income was 20.0% for the three months ended September 30, 2006, as compared with 40.3% for the same period in 2005. This reduction was caused by refinements in our estimates of the components of book and tax income for the full year 2006. The full impact of these changes was included in our estimate of book and tax income as they occurred or as we became aware of them. Unique to the third quarter of 2006 was our ability to utilize loss carry-forwards generated by our Canadian subsidiary against its operating profit. Other significant changes to our third quarter tax provision included the true-up of our estimated effective state income tax rate and the impact resulting from the settlement or clarification of tax positions taken in prior years. The two major components of our effective tax rate are the Federal corporate tax rate of 35% and the effective state income tax rate. We operate and pay tax in nearly every state. Changes in our effective state tax rate occur due to changes in the relative level of our business activities amongst the various states and the differing tax burden imposed by the states we do business in. These two factors combined to cause a slight increase in our effective 2006 state tax rate as compared to 2005.

REIT Operating Results. Net revenues for the REIT were $48.3 million for the three months ended September 30, 2006, resulting primarily from net interest income after provision for losses on loans held for investment. The REIT incurred expenses of $9.1 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 $36.8 million.

Nine Months Ended September 30, 2006 Compared to the Nine Months Ended September 30, 2005

Executive Summary

- Net income was $95.5 million for the nine months ended September 30, 2006, or $4.28 per diluted share, a decrease of 14.8% from $112.2 million, or $5.11 per diluted share in 2005.
- The decrease in net income was primarily driven by a decrease in net revenues of 2.2% and an increase in operating expenses of 11.9%.

- Origination costs net of points and fees declined to 1.48% of loans originated during the nine months ended September 30, 2006 from 1.73% during the same period in 2005.

Net Revenues

Net revenues and key indicators that affect our net revenues are as follows for the nine months ended September 30:

	2006	2005	Change	% Change
		(Dollars in thousands)		
Interest income(1)	$ 606,850	$ 430,194	$ 176,656	41.1%
Interest expense(2)	(377,308)	(207,022)	(170,286)	(82.3%)
Net interest income	229,542	223,172	6,370	2.9%
Provision for losses(3)	(39,273)	(46,378)	7,105	15.3%
Net interest income after provision(3)	190,269	176,794	13,475	7.6%
Gain on sale of loans(3)	198,514	227,799	(29,285)	(12.9%)
Loan servicing income	11,081	8,082	2,999	37.1%
Other income	9,306	5,800	3,506	60.5%
Total net revenues	$ 409,170	$ 418,475	$ (9,305)	(2.2%)
Net interest income after provision as percentage of net revenues	46.5%	42.2%		
Gain on sale of loans as a percentage of net revenues	48.5%	54.4%		
Mortgage loan originations	$11,895,778	$11,862,013	$ 33,765	0.3%
Whole loan sales	$10,385,612	$ 7,915,870	$2,469,742	31.2%
Mortgage loans securitized	$ 2,403,685	$ 3,045,080	$ (641,395)	(21.1%)
Average portfolio of mortgage loans	$10,124,856	$ 7,524,187	$2,600,669	34.6%
Annualized interest income as a percentage of average inventory of mortgage loans	7.99%	7.62%		
Average outstanding borrowings	$ 9,803,821	$ 7,139,307	$2,664,514	37.3%

(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 changed the presentation of our consolidated statements 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 for the year ended December 31, 2005. Previously these amounts were included in provision for losses. All interim periods for 2005 are being reclassified to conform to this presentation.

Interest Income. Interest income increased 41.1% during the nine months ended September 30, 2006 from the comparable period in 2005 reflecting the 34.6% increase in our average portfolio of mortgage loans during the period and an increase in the weighted average interest rates earned on mortgage loans during the nine months ended September 30, 2006 when compared to the same period in 2005. The increase in our average inventory of mortgage loans is a result of our securitization program.

Interest Expense. The increase in interest expense during the nine months ended September 30, 2006 of 82.3% reflects an increase in our average outstanding borrowings, which increased from $7.1 billion during the nine months ended September 30, 2005 to $9.8 billion during the same period in 2006, or 37.3% and an increase in our average borrowing rates. The average rate on our warehouse lines increased from 3.99% during the nine months ended September 30, 2005 to 5.52% during the same period in 2006. In addition, the interest cost on our securitizations increased from 3.71% during the nine months ended September 30, 2005 to 5.11% during the same period in 2006.

The components of our net interest margin are as follows for the nine months ended September 30:

	2006			2005		
	Interest Income (Expense)	Average Balance Outstanding	Average Rate	Interest Income (Expense)	Average Balance Outstanding	Average Rate
	(Dollars in thousands)					
Warehouse:						
Interest income	$ 202,966	$ 3,309,005	8.18%	$ 150,314	$2,670,973	7.50%
Other interest income	—		0.00	4		0.00
Interest expense	(124,405)	2,988,596	(5.52)	(74,258)	2,457,890	(3.99)
Other interest expense	(4,994)		(0.22)	(5,482)		(0.30)
Spread	73,567		2.44%	70,578		3.21%
Securitizations:						
Interest income	361,445	6,815,850	7.07%	249,698	4,853,213	6.86%
Other interest income	42,439		0.83	30,178		0.83
Interest expense	(263,597)	6,815,225	(5.11)	(131,919)	4,681,417	(3.71)
Other interest expense	15,688		0.31	4,637		0.13
Spread	155,975		3.10%	152,594		4.11%
Net interest margin	$ 229,542	$10,124,855	3.07%	$ 223,172	$7,524,187	3.99%

The net interest spread for our warehouse loans (loans held for sale and loans held for securitization) declined from 3.21% during the nine months ended September 30, 2005 to 2.44% for the comparable period in 2006. 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 decline in the margin earned was the result of continuing pricing pressure in the industry and a flat yield curve.

The net interest spread for our securitized loans declined from 4.11% during the nine months ended September 30, 2005 to 3.10% for the comparable period in 2006. The decline reflects higher cost of borrowings due to market interest rates increasing, partially offset by increases in coupon rate. Other interest income consists primarily of prepayment penalties and other interest expense is primarily gains from hedging.

Provision for Losses. The provision for losses is comprised of the following for the nine months ended September 30:

	2006	2005	Change	% Change
	(Dollars in thousands)			
Current period provision for:				
Loans held for investment	$ 19,254	$ 36,129	$ (16,875)	(46.7%)
Real estate owned	20,019	10,249	9,770	95.3%
Total provision for losses	$ 39,273	$ 46,378	$ (7,105)	(15.3%)
Reserve balance at period end:				
Loans held for investment	$ 124,173	$ 95,728	$ 28,445	29.7%
Principal balance at period end:				
Loans held for investment	$7,396,819	$6,685,780	$711,039	10.6%
Reserve balance on loans as a percentage of the principal balance at period end	1.7%	1.4%		

The provision for losses related to loans held for investment decreased 46.7% for the nine months ended September 30, 2006, as compared to the same period in 2005. The decrease in provision for losses on loans held

for investment was primarily due to the lower growth rate of securitization assets in 2006 as compared to 2005. The provision for losses on real estate owned increased 95.3% for the nine months ended September 30, 2006, as compared to the same period in 2005 as a result of the increase in the level of real estate owned held at the end of the reporting periods partially offset by lower loss severity levels recently.

The ratio of loss reserve to principal outstanding at September 30, 2006, increased to 1.7% from 1.4% for the same period in 2005. The increase is due primarily to an increase in the average age of the portfolio and higher delinquency levels on recent vintages.

Gain on Sale of Loans. The components of the gain on sale of loans are as follows for the nine months ended September 30:

	2006		2005	
	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)			
Gain on whole loan sales(1)	$ 207,188	1.99%	$ 234,995	2.97%
Gain on sale of loans required in clean-up call			3,172	.04
Net gain (loss) on derivatives	9,371	0.09	13,634	0.17
Net premium received on whole loan sales	216,559	2.08	251,801	3.18
Provisions for reserves (2)	(41,284)	(0.39)	(14,013)	(0.17)
Direct loan origination fees (expenses)	23,239	0.22	(9,989)	(0.13)
Total net gain on sale of loans	$ 198,514	1.91%	$ 227,799	2.88%
Whole loan sales	$10,385,612		$7,915,870	

(1) The percentage is determined by dividing the gain by whole loan sales.

(2) We changed the presentation of our consolidated statements 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 for the year ended December 31, 2005. Previously these amounts were included in provision for losses. All interim periods for 2005 are being reclassified to conform to this presentation.

Total net gain on sale of loans decreased 12.9% during the nine months ended September 30, 2006 from the comparable period in 2005 due to a reduction in premium on loan sold resulting from lower net interest margins in the current competitive environment. In addition, the net gain on sale decreased as a result of higher provisions for repurchases and premium recapture and higher market value allowance caused by higher delinquencies, offset in part by the increased volume of whole loan sales and higher loan origination fees earned.

Loan Servicing Income. Loan servicing income increased 37.1% during the nine months ended September 30, 2006 from the comparable period in 2005 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 60.5% during the nine months ended September 30, 2006 from the comparable period in 2005 due primarily to the increase in the earnings on bank accounts as a result of higher interest rates during the current period and an increase in the revenues from the mortgage settlement services business.

Operating Expenses. Operating expenses are as follows for the nine months ended September 30:

	2006	2005	Change	% Change
	(Dollars in thousands)			
Salaries, wages and benefits	$ 151,371	$ 140,501	$ 10,870	7.7%
General and administrative	46,978	41,019	5,959	14.5%
Occupancy	19,392	15,694	3,698	23.6%
Advertising and promotion	16,094	13,480	2,614	19.4%
Depreciation and amortization	14,110	10,929	3,181	29.1%
Total operating expenses	$ 247,945	$ 221,623	$ 26,322	11.9%
Total serviced loans at period end	$9,394,575	$9,176,234	$218,341	2.4%
Total number of employees at period end	3,164	2,639	525	19.9%

Salaries, Wages and Benefits. Salaries, wages and benefits increased 7.7% during the nine months ended September 30, 2006 due to the recognition of approximately $3.9 million in stock option expense as a result of SFAS 123R and an increase in salaries associated with staff growth offset by a decrease in incentive compensation associated with lower revenue per loan.

General and Administrative. General and administrative expenses increased 14.5% during the nine months ended September 30, 2006 primarily from increases in technology related costs.

Occupancy. Occupancy expenses increased 23.6% due to increased leasing costs associated with the expansion of five of our wholesale origination centers and the consolidation of our San Diego offices in a new office complex.

Advertising and Promotion. Advertising and promotion expenses increased 19.4% during the nine months ended September 30, 2006 due primarily to increased spending on referrals and leads to support our growth in retail loan originations.

Depreciation and Amortization. Depreciation and amortization increased 29.1% during the nine months ended September 30, 2006 due primarily to additional investments in technology and infrastructure.

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 nine months ended September 30:

	2006	2005	% Change
	(Dollars in thousands)		
Total operating expenses	$ 247,945	$ 221,623	
Add: deferred direct loan origination expenses(1)	40,276	47,345	
Less: servicing cost(2)	(23,527)	(17,507)	
Loan origination expenses	264,694	251,461	
Less: deferred net origination points and fees(3)	(88,050)	(46,132)	
Net cost to originate	$ 176,644	$ 205,329	(13.9%)
Total mortgage loan originations	$11,895,777	$11,862,013	0.3%
Net cost to originate as percentage of volume	1.48%	1.73%	

(1) Represents the amount of direct expenses incurred and deferred in the period in accordance with Financial Accounting Standard No. 91. These items are included in origination expenses to reflect the complete economic operating expenses for the period.

(2) Consists of direct expenses and corporate overhead allocated to servicing activities.

(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 1.73% for the nine months ended September 30, 2005 to 1.48% for the same period in 2006 is primarily a result of increased points and fees collected.

Income Taxes. The decrease in our effective tax rate from 39.2% for the nine months ended September 30, 2005 to 36.1% for the same period in 2006 was due to refinements in our estimates of the components of book and tax income for the full year 2006. We included the impact of these changes in our estimate of book and tax income as they occurred or as we became aware of them. During the third quarter of 2006 we were able to utilize for the first time loss carry-forwards generated by our Canadian subsidiary against its current operating profit. Other significant changes to our third quarter tax provision included the true-up of our estimated effective state income tax rate and the impact resulting from the settlement or clarification of tax positions taken in prior years.

The two major components of our effective tax rate are the Federal corporate tax rate of 35% and the effective state income tax rate. We operate and pay tax in nearly every state. Changes in our effective state tax rate occur principally as a result of changes in the relative level of our business activities amongst the various states and the differing tax burden imposed by the states we do business in.

REIT Operating Results. Net revenues for the REIT were $145.2 million for the nine months ended September 30, 2006, resulting primarily from net interest income after provision for losses from securitizations. The REIT incurred expenses of $25.2 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 $112.5 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, 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.

On September 14, 2006, the Board of Directors authorized Accredited to repurchase up to 5 million shares of the Company's stock from time to time through October 1, 2007. Under the program adopted by the Board, shares of Accredited's common stock may be repurchased from time to time in both privately negotiated and open market transactions, including pursuant to a 10b5-1 plan, subject to management's evaluation of market conditions, applicable legal requirements and other factors. A 10b5-1 plan allows Accredited to repurchase shares at times when it would ordinarily not be in the market because of its trading policies. The repurchases may be commenced or suspended at any time without prior notice and without further announcement. As of November 8, 2006, Accredited had repurchased 1,000,000 shares.

Our liquidity strategy is to maintain sufficient and diversified 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 $1.7 billion and $3.8 billion during the nine months ended September 30, 2006 and 2005, respectively. The negative cash flow from these periods 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. At September 30, 2006, Accredited had approximately $201.4 million of unrestricted cash compared to $44.7 million at December 31, 2005. The increase was partially due to having approximately $80 million on hand for the purchase of Aames.

Credit Facilities

We use our various credit facilities to finance the funding of our loan originations. We sell or securitize our mortgage loans generally within one to four months from origination and use the proceeds primarily to pay down the warehouse credit facilities. At September 30, 2006, we had voluntary and recoverable warehouse line paydowns of $149.4 million that increased our warehouse line availability by a corresponding amount. These voluntary and recoverable warehouse line paydowns plus cash of $201.4 million brought our total liquidity to $350.8 million at September 30, 2006. All of our current warehouse credit facilities are committed lines. 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 credit facilities accrue interest at a rate based upon one-month LIBOR plus a specified spread and as of November 3, 2006 have other material terms and features as follows:

	Total Facility Amount	Maximum Portion Available for Wet Funding	Expiration Date
		(in millions)	
Goldman Sachs Mortgage Company	$ 660	$ 120	Dec 15, 2007
Merrill Lynch Bank USA	650	260	Feb 14, 2007
Morgan Stanley Bank and Morgan Stanley Mortgage Capital Inc	650	163	Jul 31, 2007
IXIS Real Estate Capital Inc.	600	240	Aug 14, 2007
Credit Suisse First Boston Mortgage Capital LLC(1)	600	240	Dec 29, 2006
Lehman Brothers Bank, FSB	500	110	Jun 29, 2007
Residential Funding Corporation	300	150	Jan 31, 2007
JP Morgan Chase	75	n/a	Sep 27, 2007
HSBC Mortgage Services Warehouse Lending Inc.	40	40	Nov 30, 2006
Merrill Lynch Canada Capital Inc (Canadian Dollar)(2)	200	—	Jun 28, 2007
Total	$4,275	$1,323	

(1) Bears interest at overnight LIBOR plus a specified spread.
(2) Bears interest at one-month Bankers' Acceptance rate plus a spread.

One or more 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 September 30, 2006, we were in compliance with all covenant requirements for each of the facilities.

On November 6, Accredited signed a $100 million master repurchase agreement with JP Morgan Chase Bank, N.A. The agreement will provide available funds for the financing of certain owner trust certificates and retained bonds related to our securitizations. The advances will accrue interest at one-month libor plus a spread, the amount of which varies according to the advance rate and the collateral.

Asset Backed Commercial Paper Facility

Accredited maintains a $2.5 billion asset-backed commercial paper ("ABCP") program utilizing short-term secured liquidity notes ("SLNs") with initial maturities ranging from one to one hundred eighty days. As

additional security under this program, AHL issued $80.0 million of subordinated notes maturing in $40 million increments on May 26, 2010 and August 25, 2011. In support of the ABCP program, 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 (5.43% at September 30, 2006), which vary depending on the prevailing market conditions.

At September 30, 2006, Accredited had $739.8 million outstanding; the facility is collateralized by mortgage loans held for sale or securitization and certain restricted cash balances.

REIT Activity

At September 30, 2006 the REIT had cash of $11.3 million, an increase of $5.1 million from December 31, 2005. During the nine months ended September 30, 2006, net cash provided by operating activities totaled $137.3 million, net cash provided by investing activities totaled $1.8 billion and net cash used in financing activities totaled $1.9 billion.

In June 2006, Accredited closed a $1.4 billion securitization. Collateral of $1.05 billion in mortgage loans was delivered in June with the balance of approximately $350 million delivered in the quarter ended September 30, 2006.

The securitizations utilize 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 and September of 2006, 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 and September 15, which aggregated $7.5 million for the nine months ended September 30, 2006.

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 September 30, 2006, the aggregate redemption value of the total preferred shares outstanding was $102.3 million. Based on total preferred shares outstanding at September 30, 2006, 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 September 30, 2006:

	+50 bp	+100 bp	-50 bp	-100 bp
		(In thousands)		
Change in fair value of:				
Mortgage loans committed and held for sale	$(28,317)	$ (56,141)	$ 28,814	$ 58,151
Derivatives related to mortgage loans committed and held for sale	23,170	46,340	(23,170)	(46,340)
Warehouse debt and asset backed commercial paper	(1,089)	(2,177)	1,089	2,177
Securitized debt subject to portfolio-based accounting and mortgage-related securities	(52,405)	(104,154)	53,079	106,849
Derivatives related to securitized debt subject to portfolio-based accounting and mortgage-related securities	44,355	88,824	(44,314)	(88,108)
Total	$(14,286)	$ (27,308)	$ 15,498	$ 32,729

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

Contractual Obligations

Our March and June 2006 securitizations significantly increased our securitization bond financing balance from the balance at December 31, 2005. The following table summarizes our contractual obligations, excluding future interest, at September 30, 2006, 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	$2,046,208	$1,966,208	$ —	$ 80,000	$ —
Securitization bond financing(1)	7,050,283	2,265,055	2,804,073	1,040,336	940,819
Operating lease obligations	147,917	—	65,842	38,349	43,726
Total	$9,244,408	$4,231,263	$2,869,915	$1,158,685	$984,545

(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 $741.0 million as of September 30, 2006.

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 September 30, 2006, the aggregate redemption value of the total preferred shares outstanding was $102.3 million. Based on total preferred shares outstanding at September 30, 2006, the REIT's current annual dividend obligation totals $10.0 million.

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. The securitization 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*. Under such a structure, 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
- stock-based compensation expense
- fair value of assets and liabilities acquired in business combinations

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 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 risk 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.

Stock-Based Compensation

As of January 1, 2006, we adopted SFAS 123(R), which requires us to measure compensation cost for stock awards at fair value and recognize compensation over the service period the awards expected to vest. The determination of compensation cost requires us to make highly judgmental assumptions regarding volatility, expected option life, and forfeiture rates. In addition, changes in our stock price or prevailing interest rates will also impact the determination of fair value and compensation cost. If any of our assumptions used to determine fair value change significantly, future share-based compensation may differ materially from that recorded in the current period.

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). Fin No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). FIN No. 48 clarifies FAS 109 and establishes criteria for the recognition of benefits for various tax positions. The effective date for applying FIN No. 48 will be January 1, 2007. The impact of FIN No. 48 on the Accredited's financial statements has not been fully analyzed.

Risk Factors

You should carefully consider the following risks, together with other matters described in this Form 10-Q in evaluating our business and prospects. Additional information regarding the risks related to our merger with Aames can be found in the registration statement on Form S-4 that we filed with the Securities and Exchange Commission on July 14, 2006. 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-Q (including certain of the following risk factors) constitute forward-looking statements. Please refer to the section entitled "Forward-Looking Statements" on page 3 of this Form 10-Q.

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 offer Alt A loan products or 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 three months ended September 30, 2006 and 2005 loans repurchased totaled $61.8 million and $21.3 million, respectively, and during the nine months ended September 30, 2006 and 2005 loans repurchased totaled $114.9 million and $55.3 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 5.44% at September 30, 2006. Historically, our delinquency rate has increased, and may increase in the future, as the mortgage loans in our portfolio age.

A future 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 5.84% during the three months ended September 30, 2006. The weighted average cost of financing our mortgage loans, prior to sale or securitization, was 5.52% during the nine months ended September 30, 2006.
- 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.

Defective and repurchased 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. In addition, the number of loans that we are required to repurchase may increase as a result of our merger with Aames, since we assumed their repurchase obligations upon the closing of the merger. 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.

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. More so, the competition often will offer above market sign-on bonuses and above market compensation and incentive plans to attract our employees. 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.

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 three months ended September 30, 2006, 16% and 12% of the principal balance of the loans we originated were collateralized by properties located in California and Florida, respectively. During the nine months ended September 30, 2006, 15% and 12% of the principal balance of the loans we originated were collateralized by properties located in California and Florida, respectively. At September 30, 2006, 18% and 11% 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 2. 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 2. 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 September 30, 2006, 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
- finance 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 September 30, 2006, we had 3,164 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.

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, compromise or leak customer and other confidential information and/or 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 the three and nine months ended September 30, 2006, 88% 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.

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 U.S. securitized loans we serviced during the three and nine months ended September 30, 2006, 29.3% and 28.4%, respectively, 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.

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 not 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.

As a result of our merger with Aames, our management may be distracted from their focus on our business and operations in order to attend to merger-related matters.

There is a significant degree of difficulty and management distraction inherent in the process of integrating the Accredited and Aames businesses. These difficulties include:

- integrating the Accredited and Aames businesses while carrying on the ongoing operations of each business;
- the necessity of coordinating geographically separate organizations;
- the challenge of integrating the business cultures of each company, which may prove to be incompatible;
- the challenge and cost of integrating the information technology systems of each company; and
- the potential difficulty in retaining key officers and personnel of Accredited and Aames.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business. Members of our senior management may be required to devote considerable amounts of time to

this integration process, which will decrease the time they will have to manage our business, service existing borrowers and vendors, attract new borrowers and develop new products or strategies. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer.

Failure to successfully integrate Aames into Accredited's operations could reduce the surviving company's profitability.

Realization of the anticipated benefits of the merger will depend on our ability to successfully integrate the businesses and operations of Accredited and Aames. Our integration of the Aames operations will require significant efforts, including the combination of sales and marketing efforts. If we are not able to successfully integrate the business and operations of Aames, our expectations of future results of operations may not be met.

Our management may have to devote significant management attention and resources to integrating the business and operations of Aames. Such diversion of management's attention or difficulties in the transition process could have a material adverse impact on us. Additionally, personnel may leave or be terminated because of the merger. Such employee terminations or resignations or facility closures may require us to make severance or other payments and may result in related litigation. The integration process could result in the disruption of our ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, employees and others with whom we have business dealings. The integration process may also result in additional and unforeseen expenses and may have unanticipated adverse results relating to our existing businesses.

The merger is expected to generate cost savings and expense reductions achieved by eliminating duplicative operations, outside services and redundant staff and by consolidating facilities. Even if we are able to integrate operations, there can be no assurance that these expected synergies will be achieved. The failure to achieve synergies could have a material adverse effect on the business results of operations and financial condition of the combined company.

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 at any time during the last half of its taxable year (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 2009. 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 3. Quantitative and Qualitative Disclosures About Market Risk

See discussion under Market Risk in "ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Accredited maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules and regulations of the SEC. Based on an evaluation of Accredited's disclosure controls and procedures as of the end of the period covered by this report conducted by Accredited's management, Accredited's Chief Executive Officer and Principal Financial Officer believe that Accredited's disclosure controls and procedures were effective to ensure that Accredited is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

(b) Changes in Internal Controls. There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. Legal Proceedings

See Note 13 to the Notes to Unaudited Consolidated Financial Statements.

ITEM 1A. Risk Factors

We have provided updated risk factors in the section labeled "Risk Factors" in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Risk Factors" section provides certain updated information in specific areas (such as delinquency rate and loan repurchases, financing rates, geographic concentration of loans, and prepayment rates), that we do not believe materially change the type or magnitude of the risks we face in comparison to the disclosure provided in our most recent Annual Report on Form 10-K. In addition, we have updated certain risk factors relating to our acquisition of Aames Investment Corporation. We strongly advise the reader to review these risk factors and the risk factors contained in our registration statement on Form S-4 filed with the Securities and Exchange Commission on July 14, 2006, for a more thorough discussion of the merger and related risks.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 14, 2006, we announced that our Board of Directors had authorized the repurchase of up to 5 million shares of our common stock (from time to time through October 1, 2007) in both privately negotiated and open market transactions, subject to management's evaluation of market conditions, applicable legal requirements and other factors. No shares were repurchased during the period covered by this Quarterly Report. Through November 8, 2006, we have repurchased a total of 1,000,000 shares as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 – October 31, 2006	679,400	$31.05	679,400	4,320,600
November 1 – November 8, 2006	320,600	$30.13	320,600	4,000,000
Total	1,000,000	$30.75	1,000,000	4,000,000

ITEM 3. Defaults Upon Senior Securities

None.

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

On September 14, 2006, Accredited held a special meeting of stockholders in order to approve (i) the issuance of shares of approximately 4.4 million shares of Accredited common stock in the merger of Aames into AHL Acquisition, LLC ("Merger Sub") pursuant to the Agreement and Plan of Merger, dated as of May 24, 2006 among Aames, Accredited and Merger Sub; and (ii) amendment of the Accredited's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 45 million shares to 80 million shares, consisting of 75 million shares of common stock and 5 million shares of preferred stock . At this meeting, the issuance of shares in connection with the acquisition of Aames was approved by the stockholders, with 18,561,236 shares voting in favor of the proposal, 52,476 shares voting against the proposal and 1,546,749 abstentions and broker non-votes. Additionally, the stockholders approved the amendment of

Accredited's Amended and Restated Certificate of Incorporation with 17,341,903shares voting in favor of the amendment, 2,812,735 shares voting against the amendment and 5,823 abstentions and broker non-votes.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

For a list of exhibits filed with this Quarterly Report on Form 10-Q, refer to the Exhibit Index beginning on page 83.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 9, 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)

BY: /S/ STUART D. MARVIN

Stuart D. Marvin
Executive Vice President and Secretary
(Principal Financial Officer)

EXHIBIT INDEX

2.1[(1)]	Agreement and Plan of Merger.
2.2[(2)]	Agreement and Plan of Merger, dated as of May 24, 2006, among Aames Investment Corp., Accredited Home Lenders Holding Co. and AHL Acquisition LLC.
3.1[(3)]	Amended and Restated Certificate of Incorporation of the Registrant.
3.2[(3)]	Bylaws of the Registrant.
4.1	Amendment No. 1 to the Base Indenture by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated August 23, 2006.
4.2	Series 2006-A Supplement to Base Indenture by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated August 23, 2006.
4.3	Amendment No. 1 to the Mortgage Loan Purchase and Servicing Agreement by and among Carmel Mountain Funding Trust, Accredited Home Lenders, Inc., and Accredited Home Lenders Holding Co., dated August 23, 2006.
4.4	Amended and Restated Security Agreement by and between Carmel Mountain Funding Trust and Deutsche Bank Trust Company Americas, dated August 23, 2006.
4.5	Amended and Restated Schedule to the Master Agreement by and between Calyon New York Branch and Carmel Mountain Funding Trust, dated August 23, 2006.
4.6	Amended and Restated Confirmation of Swap Transaction by and between Carmel Mountain Funding Trust and Calyon New York Branch, dated August 23, 2006.
4.7	Amended and Restated Schedule to the Master Agreement by and between Lehman Brothers Special Financing Inc. and Accredited Home Lenders, Inc., dated August 23, 2006 and Guarantee of Lehman Brothers Holdings, Inc., dated August 23, 2006.
4.8	Amended and Restated 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 August 23, 2006.
4.9	Amended and Restated Confirmation of Swap Transaction by and between Lehman Brothers Special Financing Inc. and Accredited Home Lenders, Inc., dated August 23, 2006.
4.10	Amended and Restated Confirmation of Swap Transaction by and between Calyon New York Branch and Accredited Home Lenders, Inc., dated August 23, 2006.
4.11	Amended and Restated ISDA Credit Support Annex to the Schedule to the Master Agreement between Calyon New York Branch and Accredited Home Lenders, Inc., dated August 23, 2006.
4.12	Amended and Restated Schedule to the Master Agreement between Calyon New York Branch and Accredited Home Lenders, Inc., dated August 23, 2006.
4.13	ISDA Master Agreement and Schedule between Bank of America, N.A. and Carmel Mountain Funding Trust, dated August 23, 2006.
4.14	Confirmation of Swap Transaction by and between Bank of America, N.A. and Carmel Mountain Funding Trust, dated August 23, 2006.
4.15	ISDA Master Agreement and Schedule between HSBC Bank USA and Carmel Mountain Funding Trust, dated August 23, 2006.
4.16	Confirmation of Swap Transaction by and between HSBC Bank USA and Carmel Mountain Funding Trust, dated August 23, 2006.
4.17	ISDA Master Agreement and Schedule between Barclays Bank PLC and Carmel Mountain Funding Trust, dated August 23, 2006.
4.18	Confirmation of Swap Transaction by and between Barclays Bank PLC and Carmel Mountain Funding Trust, dated August 23, 2006.

4.19	ISDA Master Agreement and Schedule between Barclays Bank PLC and Accredited Home Lenders, Inc., dated August 23, 2006.
4.20	ISDA Credit Support Annex to the Schedule to the Master Agreement between Barclays Bank PLC and Accredited Home Lenders, Inc., dated August 23, 2006.
4.21	Confirmation of Swap Transaction by and between Barclays Bank PLC and Accredited Home Lenders, Inc., dated August 23, 2006.
4.22	ISDA Master Agreement and Schedule between HSBC Bank USA and Accredited Home Lenders, Inc., dated August 23, 2006.
4.23	ISDA Credit Support Annex to the Schedule to the Master Agreement between HSBC Bank USA and Accredited Home Lenders, Inc., dated August 23, 2006.
4.24	Confirmation of Swap Transaction by and between HSBC Bank USA and Accredited Home Lenders, Inc., dated August 23, 2006.
4.25	ISDA Master Agreement and Schedule between Bank of America, N.A. and Accredited Home Lenders, Inc., dated August 23, 2006.
4.26	ISDA Credit Support Annex to the Schedule to the Master Agreement between Bank of America, N.A. and Accredited Home Lenders, Inc., dated August 23, 2006.
4.27	Confirmation of Swap Transaction by and between Bank of America, N.A. and Accredited Home Lenders, Inc., dated August 23, 2006.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14 (a).
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14 (a).
32.1(4)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350.
32.2(4)	Certification of Principal Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350.

(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 Registration Statement on Form S-4 (File No.333-135787) dated July 14, 2006.

(3) 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.

(4) The information contained in these certifications is furnished to the Securities and Exchange Commission pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350 and shall not be incorporated by reference into any filing with the Securities and Exchange Commission made by the Company whether before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 4.1

AMENDMENT NO. 1
TO THE
INDENTURE

Amendment No. 1, dated as of August 23, 2006 (the "Amendment"), to the Indenture (the "Agreement") dated as of May 10, 2005, by and between Carmel Mountain Funding Trust (the "Issuer") and Deutsche Bank Trust Company Americas (the "Indenture Trustee"). Capitalized terms used and not defined herein shall have the meaning set forth in the Amended and Restated Security Agreement, dated as of August 23, 2006, by and between the Issuer and Deutsche Bank Trust Company Americas, as the collateral agent, and Schedule I thereto.

WHEREAS the parties hereto have entered into the Agreement;

WHEREAS the parties hereto now wish to amend certain provisions in the Agreement pursuant to Section 12.1 of the Agreement; and

WHEREAS the Issuer shall not consent to this Amendment to the Agreement unless (a) it shall have first received Rating Agency Confirmation with respect to this Amendment and (b) any applicable requirements and conditions set forth in the Agreement with respect to the adoption of amendments thereto have been complied with.

NOW, THEREFORE, in consideration of the promises and mutual agreements contained herein, the parties hereto agree to amend the Agreement pursuant to Section 12.1 of the Agreement and restate certain provisions thereof as follows:

1. Amendments. Upon the execution of this Amendment by each party hereto and effective as of the date of this Amendment:

A. The second paragraph of Section 9.1 of the Agreement will be replaced in its entirety with the following paragraph:

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, the 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 Second 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 (or, in the case of the failure of the Servicer, in its capacity as a party to a Back-to-Back Swap Agreement, to perform its obligations to pay or post under such Back-to-Back Swap Agreement (after giving effect to any grace periods therein) such shorter period not less than 60 days as requested in writing by the related Swap Counterparty (such period measured from the date such request is received by the

Servicer) or such shorter period not less than 30 days as requested in writing by all the Swap Counterparties (such period measured from the date such request is received by the Servicer)) (such 30 day, 60 day or 90 day period, as applicable, the "Sale Period"); it being understood that, in the case of the 30 day or 60 day period, the Servicer's obligation will be to enter into a purchase and sale agreement for the sale of such Mortgage Loans; provided, that if the Servicer, in its capacity as a party to the Back-to-Back Swap Agreement, shall cure the failure to pay or post under such Back-to-Back Swap Agreement within such 30 day or 60 day period, the obligation of the Servicer and the Collateral Agent to sell the Mortgage Loans within such 30 day or 60 day period will cease and be of no further effect. In the event that all non-Delinquent Loans and non-Defaulted Loans have not been so sold within the Sale Period, the Indenture Trustee shall instruct the Collateral Agent to hold a Termination Event Auction of the remaining non-Delinquent Loans and non-Defaulted Loans for settlement not later than the Sale Deadline Date. The Servicer shall notify potential bidders of the Termination Event Auction, including the Rated Bidder. During the Termination Event Auction, the Servicer shall promptly notify each Swap Counterparty of the highest bid price obtained in the Termination Event Auction for each such non-Delinquent Loan and non-Defaulted Loan and each 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 any of the Swap Counterparties.

3. Conditions to Effectiveness. As conditions to the effectiveness of this Amendment, an Officer's Certificate satisfying the requirements of Section 12.1 of the Agreement and Rating Agency Confirmation have been received by the parties hereto.

4. Effect of Amendment. This Amendment to the Agreement shall be effective and the Agreement shall be deemed to be modified and amended in accordance herewith on the Payment Date on the date on which the Indenture Trustee receives an executed copy of this Amendment. This Amendment, once effective, shall be effective as of the date first set forth above. The respective rights, limitations, obligations, duties, liabilities and immunities of the Issuer and the Indenture Trustee shall hereafter be determined, exercised and enforced subject in all respects to such modifications and amendments, and all the terms and conditions of this Amendment shall be and be deemed to be part of the terms and conditions of the Agreement for any and all purposes. The Agreement, as amended hereby, is hereby ratified and confirmed in all respects.

5. The Agreement in Full Force and Effect as Amended. Except as specifically amended hereby, all the terms and conditions of the Agreement shall remain in full force and effect and, except as expressly provided herein, the effectiveness of this Amendment shall not operate as, or constitute a waiver or modification of, any right, power or remedy of any party to the Agreement. All references to the Agreement in any other document or instrument shall be deemed to mean the Agreement as amended by this Amendment.

6. Counterparts. This Amendment may be executed by the Parties in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. This Amendment shall become effective when counterparts hereof executed on behalf of such party shall have been received.

7. Governing Law. This Amendment 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.

8. No Recourse. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of the Issuer, 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 Issuer 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 Issuer, (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 Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents. Nothing in this paragraph 5 shall release U.S. Bank Trust National Association from its obligations under the Trust Agreement.

IN WITNESS WHEREOF, the Issuer, and the Indenture Trustee have caused this Amendment to be duly executed by their officers thereunto duly authorized, all 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

By: /s/ Lisa Karlsen
Name: Lisa Karlsen
Title: Vice President

[Signature Page to Amendment No. 1 to the Indenture]

Exhibit 4.2

CARMEL MOUNTAIN FUNDING TRUST,

as Issuer

and

DEUTSCHE BANK TRUST COMPANY AMERICAS,

as Indenture Trustee and Paying Agent

SERIES 2006-A SUPPLEMENT

dated as of August 23, 2006

to

BASE INDENTURE

dated as of May 10, 2005

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Exhibit A: Form of Restricted Global Series 2006-A Subordinated Note
Exhibit B: Form of Definitive Note Series 2006-A Subordinated Note

SERIES 2006-A SUPPLEMENT, dated as of August 23, 2006 (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 2006-A Subordinated Noteholders (the "Paying Agent"), to the Base Indenture, dated as of May 10, 2005, as amended by Amendment No. 1 thereto, dated as of August 23, 2006 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 2006-A (the "Series 2006-A Subordinated Notes"). The Series 2006-A Subordinated Notes shall be issued in an Initial Principal Amount of $40,000,000.

The proceeds from the sale of the Series 2006-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 Amended and Restated Security Agreement, dated as of August 23, 2006 (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 2006-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 2006-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 2006-A Subordinated Note" has the meaning specified in Section 3.1 hereof.

"Series 2006-A Carry-Over Interest Deficiency" means for each Payment Date an amount equal to the excess, if any, of (i) the Series 2006-A Carry-Over Interest Shortfall Amount for such Payment Date, *over* (ii) all amounts paid to the Series 2006-A Subordinated Noteholders in respect of the Series 2006-A Carry-Over Interest Shortfall Amount on such Payment Date.

"Series 2006-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 2006-A Subordinated Notes on such Payment Date, *plus* the Series 2006-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 2006-A Subordinated Notes), (ii) the applicable Series 2006-A Subordinated Note Rate for the preceding Series 2006-A Interest Period and (iii) the actual number of days in such Series 2006-A Interest Period divided by 360.

"Series 2006-A Closing Date" means August 23, 2006.

"Series 2006-A Collateral" means the Collateral and the Series 2006-A Payment Account Collateral.

"Series 2006-A Final Scheduled Payment Date" means August 25, 2011.

"Series 2006-A Initial Purchaser" means Lehman Brothers Inc.

"Series 2006-A Interest Amount" means for each Payment Date an amount equal to the product of (i) the Series 2006-A Principal Amount plus the Series 2006-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 2006-A Subordinated Notes, on the Series 2006-A Closing Date), (ii) the applicable Series 2006-A Subordinated Note Rate for the preceding Series 2006-A Interest Period and (iii) the actual number of days in such Series 2006-A Interest Period divided by 360.

"Series 2006-A Interest Period" means, with respect to any Payment Date, the period from and including the immediately preceding Payment Date (or the Series 2006-A Closing Date in the case of the first Payment Date) to and including the day immediately preceding such Payment Date.

"Series 2006-A Interest Shortfall" means the excess, if any of (a) the Series 2006-A Interest Amount over (b) the amount paid to the Series 2006-A Subordinated Noteholders in respect of the Series 2006-A Interest Amount for the related Series 2006-A Interest Period.

"Series 2006-A Payment Account" has the meaning specified in Section 2.6(a) hereof.

"Series 2006-A Payment Account Collateral" has the meaning specified in Section 2.6(d) hereof.

"Series 2006-A Principal Amount" shall be an amount equal to (i) the Initial Principal Amount of the Series 2006-A Subordinated Notes issued on the Series 2006-A Closing Date, *less* (ii) the aggregate amount of any Principal Amount Charge-Offs allocated to the Series 2006-A Subordinated Notes, *plus* (iii) the aggregate amount of any Principal Amount Reinstatements allocated to the Series 2006-A Subordinated Notes, *less* (iv) any amounts distributed to Series 2006-A Subordinated Noteholders in respect of the Series 2006-A Principal Amount thereof.

"Series 2006-A Required Subordinated Noteholders" means Series 2006-A Subordinated Noteholders holding in excess of 50% of the Series 2006-A Principal Amount (excluding Series 2006-A Subordinated Notes held by any Seller, the Servicer or Affiliate of any Seller or the Servicer).

"Series 2006-A Subordinated Note Calculation Agent" means, with respect to the Series 2006-A Subordinated Notes, Deutsche Bank Trust Company Americas, as agent for purposes of calculating the Series 2006-A Subordinated Note Rate, or its designee.

"Series 2006-A Subordinated Note Rate" means a per annum rate equal to LIBOR *plus* 1.30%.

"Series 2006-A Subordinated Noteholders" shall mean the holders of the Series 2006-A Subordinated Notes.

"Series 2006-A Subordinated Notes" means any one of the Variable Rate Subordinated Notes, Series 2006-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 2006-A SUBORDINATED NOTES

With respect to the Series 2006-A Subordinated Notes, the following shall apply:

Section 2.1 Payment of Principal.

The Issuer will issue the Series 2006-A Subordinated Notes in the forms set forth as Exhibits A and B to this Supplement. The Series 2006-A Subordinated Notes will be issued in an aggregate Series 2006-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 2006-A Principal Amount will be payable on the Series 2006-A Subordinated Notes until the Series 2006-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 2006-A Principal Amount will be due or become due.

Section 2.2 Payment of Interest.

(a) Interest will accrue during each Series 2006-A Interest Period on the Series 2006-A Principal Amount plus the Series 2006-A Interest Shortfall, each as of the preceding Payment Date, at a per annum rate equal to the Series 2006-A Subordinated Note Rate, commencing on the Series 2006-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 2006-A Payment Account *pro rata* to Series 2006-A Subordinated Noteholders the Series 2006-A Interest Amount. The Series 2006-A Interest Amount will be payable on each Payment Date to the holders of the Series 2006-A Subordinated Notes as of the close of business on the immediately preceding Note Record Date, commencing September 25, 2006 and ending on the Series 2006-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 2006-A Interest Amount, additional interest on the Series 2006-A Interest Shortfall shall accrue at the applicable Series 2006-A Subordinated Note Rate. The Series 2006-A Interest Shortfall and additional interest on

the Series 2006-A Interest Shortfall shall be paid to Series 2006-A Subordinated Noteholders in accordance with the Priority of Payments.

(c) In the event that the Series 2006-A Principal Amount is reduced by any Principal Amount Charge Off, additional interest on the aggregate Principal Amount Charge-Offs allocated to the Series 2006-A Subordinated Notes and the Series 2006-A Carry-Over Interest Deficiency, each as of the preceding Payment Date, shall accrue at the applicable Series 2006-A Subordinated Note Rate. The related Series 2006-A Carry Over Interest Shortfall Amount and the Series 2006-A Carry Over Interest Deficiency shall be paid to the Series 2006-A Subordinated Noteholders in accordance with the Priority of Payments.

Section 2.3 Calculation of Interest.

(a) For purposes of calculating the Series 2006-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 2006-A Subordinated Note Calculation Agent. The Series 2006-A Subordinated Note Calculation Agent may be removed by the Series 2006-A Required Subordinated Noteholders at any time. If the Series 2006-A Subordinated Note Calculation Agent is unable or unwilling to act as such or is removed by the Series 2006-A Required Subordinated Noteholders, or if the Series 2006-A Subordinated Note Calculation Agent fails to determine the Series 2006-A Subordinated Note Rate, the Series 2006-A Interest Amount, the Series 2006-A Interest Shortfall, the Series 2006-A Carry Over Interest Shortfall Amount and the Series 2006-A Interest Deficiency Amount for any Series 2006-A Interest Period, the Series 2006-A Required Subordinated Noteholders will promptly appoint as a replacement Series 2006-A Subordinated Note Calculation Agent a leading bank which is engaged in transactions in Eurodollar deposits in the international Eurodollar market. The Series 2006-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 2006-A Subordinated Note Calculation Agent in accordance with the following provisions:

(i) On the second Business Day prior to the commencement of a Series 2006-A Interest Period (each such day, a "LIBOR Determination Date"), "LIBOR" shall equal the rate, as obtained by the Series 2006-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 2006-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 2006-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 2006-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 2006-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 2006-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 2006-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 2006-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 2006-A Subordinated Note Calculation Agent will cause the Series 2006-A Subordinated Note Rate, the Series 2006-A Interest Amount, the Series 2006-A Interest Shortfall, the Series 2006-A Carry Over Interest Shortfall Amount and the Series 2006-A Carry Over Interest Deficiency for the next Series 2006-A Interest Period payable in respect of the Series 2006-A Subordinated Notes on the related Payment Date to be given to the Issuer and the Paying Agent. The Series 2006-A Subordinated Note Calculation Agent will also specify to the Issuer the quotations upon which the Series 2006-A Subordinated Note Rate is based, and in any event the Series 2006-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 2006-A Subordinated Note Rate and the Series 2006-A Interest Amount or (ii) it has not determined and is not in the process of determining the Series 2006-A Subordinated Note Rate and the Series 2006-A Interest Amount, together with its reasons therefor. For the sole purpose of calculating the Series 2006-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 2006-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 2006-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 2006-A Principal Amount, *plus* the aggregate amount of any Principal Amount Charge-Offs allocated to the Series 2006-A Subordinated Notes which have not been reinstated, will be payable in full on the Series 2006-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 2006-A Payment Account.

(a) Establishment of Series 2006-A Payment Account. The Issuer shall establish and maintain in the name of the Indenture Trustee for the benefit of the Series 2006-A Subordinated Noteholders, or cause to be established and maintained, a segregated non-interest bearing trust account (the "Series 2006-A Payment Account"), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Series 2006-A Subordinated Noteholders. The Series 2006-A Payment Account will not be subjected to the lien of the Security Agreement. The Series 2006-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 2006-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 2006-A Payment Account with a new Qualified Institution. If the Series 2006-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 2006-A Payment Account into the new Series 2006-A Payment Account. Initially, the Series 2006-A Payment Account will be established with the Indenture Trustee.

(b) Administration of the Series 2006-A Payment Account. The Indenture Trustee, at the written instruction of the Servicer, may instruct the institution maintaining the Series 2006-A Payment Account to invest funds on deposit in the Series 2006-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 2006-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 2006-A Payment Account.

(c) Earnings from Series 2006-A Payment Account. All interest and earnings (net of losses and investment expenses) paid on funds on deposit in the Series 2006-A Payment Account shall be deemed to be on deposit and available for distribution.

(d) Series 2006-A Payment Account Constitutes Additional Collateral for Series 2006-A Subordinated Notes. In order to secure and provide for the repayment and payment of the Issuer's obligations with respect to the Series 2006-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 2006-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 2006-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 2006-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 2006-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 2006-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 2006-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 2006-A Payment Account and in all proceeds thereof, and shall be the only person authorized to originate entitlement orders in respect of the Series 2006-A Payment Account. The Series 2006-A Payment Account Collateral shall be under the sole dominion and control of the Paying Agent for the benefit of the Series 2006-A Subordinated Noteholders.

ARTICLE 3
FORM AND TRANSFER RESTRICTIONS OF SERIES 2006-A NOTES

Section 3.1 Restricted Global Series 2006-A Subordinated Notes; Definitive Notes

The Series 2006-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 2006-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 2006-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 2006-A Subordinated Note Sold Pursuant to Regulation S.

The Series 2006-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 2006-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 2006-A Subordinated Note is permitted pursuant to the Base Indenture and this Supplement, a transferee of a Series 2006-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 2006-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 2006-A Subordinated Noteholder, shall provide to such Series 2006-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 2006-A Subordinated Notes or the Series 2006-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 2006-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 2006-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 2006-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 2006-A Subordinated Notes without the consent of the Series 2006-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 2006-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 2006-A Subordinated Notes until the Indenture Trustee has obtained the written direction of the Series 2006-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 2006-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 2006-A Subordinated Note intends, by its acceptance of a Series 2006-A Subordinated Note, to treat such Series 2006-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/ Lisa Karlsen
Name: Lisa Karlsen
Title: Vice President

[Signature Page to 2006-A Subordinated Notes Indenture Supplement]

EXHIBIT A

Form of Restricted Global Series 2006-A Subordinated Note

Exhibit A

Form of Restricted Global Series 2006-A Subordinated Note

CARMEL MOUNTAIN FUNDING TRUST
FORM OF RESTRICTED GLOBAL SUBORDINATED NOTE, SERIES 2006-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 2006-A

CUSIP No.: 143348 AB 6 up to $40,000,000
ISIN No.: US143348AB63

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 August 25, 2011 (the "Series 2006-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 September 25, 2006 (each, a "Payment Date"), at a rate of one-month LIBOR (determined as set forth in the Indenture) plus 1.3% (the "Series 2006-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 2006-A (the "Series 2006-A Subordinated Notes"), issued under a Base Indenture dated as of May 10, 2005, as amended by Amendment No. 1 thereto, dated as of August 23, 2006 (the "Base Indenture"), between the Issuer and Deutsche Bank Trust Company Americas, as indenture trustee (the "Indenture Trustee"), as supplemented by the Series 2006-A Supplement dated as of August 23, 2006 (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 Amended and Restated Security Agreement dated as of August 23, 2006, 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 2006-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.

This Note is issued with the intention that for United States federal, state and local income, single business, franchise and any other income tax purposes, the Notes will be characterized as indebtedness. Each holder of this Note, by acceptance of this Note (and each beneficial owner by acceptance of a beneficial interest in this Note), agrees to treat the Notes for United States federal, state and local income, single business, franchise and any other income tax purposes as indebtedness.

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: August 23, 2006

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: August 23, 2006

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 2006-A Subordinated Note

CARMEL MOUNTAIN FUNDING TRUST
FORM OF DEFINITIVE SUBORDINATED NOTE, SERIES 2006-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 2006-A

CUSIP No.: 143348 AB 6 $[_____]

ISIN No.: US143348AB63

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 [_____] (the "Series 2006-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 [_____] (each, a "Payment Date"), at a rate of one-month LIBOR (determined as set forth in the Indenture) plus 1.3% (the "Series 2006-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 2006-A (the "Series 2006-A Subordinated Notes"), issued under a Base Indenture dated as of May 10, 2005, as amended by Amendment No. 1 thereto, dated as of August 23, 2006 (the "Base Indenture"), between the Issuer and Deutsche Bank Trust Company Americas, as indenture trustee (the "Indenture Trustee"), as supplemented by the Series 2006-A Supplement dated as of August 23, 2006 (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 Amended and Restated Security Agreement dated as of August 23, 2006, 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 2006-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.

This Note is issued with the intention that for United States federal, state and local income, single business, franchise and any other income tax purposes, the Notes will be characterized as indebtedness. Each holder of this Note, by acceptance of this Note (and each beneficial owner by acceptance of a beneficial interest in this Note), agrees to treat the Notes for United States federal, state and local income, single business, franchise and any other income tax purposes as indebtedness.

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: August , 2006

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: August , 2006

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 4.3

AMENDMENT NO. 1
TO THE
MORTGAGE LOAN PURCHASE AND SERVICING AGREEMENT

Amendment No. 1, dated as of August 23, 2006 (the "Amendment"), to the Mortgage Loan Purchase and Servicing Agreement (the "Agreement") dated as of May 10, 2005, by and among Carmel Mountain Funding Trust (the "Issuer"), Accredited Home Lenders, Inc. (the "Seller" or "Servicer") and Accredited Home Lenders Holding Co. (the "Performance Guarantor"). Capitalized terms used and not defined herein shall have the meaning set forth in the Amended and Restated Security Agreement, dated as of August 23, 2006, by and between the Issuer and Deutsche Bank Trust Company Americas, as the collateral agent and Schedule I thereto.

WHEREAS the parties hereto have entered into the Agreement;

WHEREAS the parties hereto now wish to amend certain provisions in the Agreement pursuant to Section 12.2 of the Agreement; and

WHEREAS the Issuer shall not consent to this Amendment to the Agreement unless (a) it shall have first received Rating Agency Confirmation with respect to this Amendment and (b) any applicable requirements and conditions set forth in the Agreement with respect to the adoption of amendments thereto have been complied with.

NOW, THEREFORE, in consideration of the promises and mutual agreements contained herein, the parties hereto agree to amend the Agreement pursuant to Section 12.2 of the Agreement and restate certain provisions thereof as follows:

1. Amendments. Upon the execution of this Amendment by each party hereto and effective as of the date of this Amendment:

A. Sections 3.1(f), 3.1(j) and 3.2(f) are revised as follows: references to "the Swap Counterparty" will be changed to "each Swap Counterparty".

B. Section 3.1(h) will be replaced in its entirety with the following:

(h) Selection Process. Any Portfolio sold pursuant to a Transfer Supplement was selected from mortgage loans originated by the Seller or an affiliate of 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.

C. Section 4.2(e) of the Agreement will be replaced in its entirety with the following paragraph and paragraphs (e) through (i) will be added to Section 4.2 as follows:

(e) If the Servicer arranges for the sale of Mortgage Loans by the Issuer pursuant to this 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. Each Swap Counterparty shall have two (2) Business Days from the receipt of such written notice to dispute the Sale Price; provided, that no Swap Counterparty shall 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 Balance for the Mortgage Loans in such pool; provided, further, that the Servicer may request in writing that each 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 with respect to a Swap Counterparty if (i) such Swap Counterparty shall not have responded by the close of business San Diego time on the date such request was received by such Swap Counterparty so long as such request was received by 3:00 p.m. 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 any Swap Counterparty disputes the Sale Price, the Servicer and such 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 such Swap Counterparty disputes the Sale Price of any Mortgage Loan or Mortgage Loans and such dispute is not resolved, then such Swap Counterparty, or its designee, shall be permitted to submit a bid 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 such Swap Counterparty of the written notice of the Sale Price. If each 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 this Agreement. The Servicer shall be permitted to sell such Mortgage Loans to the highest bidding Swap Counterparty. To the extent that more than one Swap Counterparty has submitted the highest bid, the Servicer shall be permitted to sell to such Swap Counterparties as indicated by the Designated Swap Counterparty pursuant to the letter agreement among the Swap Counterparties.

(f) If the Servicer arranges for the sale of Mortgage Loans by the Issuer pursuant to this Agreement and (x) the aggregate Sale Price of any portfolio of Mortgage Loans sold on any Business Day to a particular buyer (including any Securitization Vehicle), as set forth in the related Sale Notice, is less than ninety-one percent (91%) of the aggregate Outstanding Purchase Price of such Mortgage Loans or (y) a Termination Event has occurred and is continuing and the sale of such Mortgage Loans would be for a purchase price less than the aggregate Outstanding Purchase Price of such Mortgage Loans, then each Swap Counterparty shall have an option to submit a bid to purchase (a "Purchase Option") such Mortgage Loans on the related Sale Date from the Issuer at a price equal to the Sale Price. Each Swap Counterparty that elects to exercise its Purchase Option shall submit a written notice (the "Purchase Option Notice") to the Servicer no later than 9:30 am Eastern time on the related Sale Date. The Servicer shall be permitted to sell such Mortgage Loans to the highest bidding Swap Counterparty. To the extent that more than one Swap Counterparty has submitted the highest bid, the Servicer shall be permitted to sell to such Swap Counterparties as indicated by the Designated Swap Counterparty pursuant to the letter agreement among the Swap Counterparties.

(g) If any Swap Counterparty notifies the Servicer in writing that the current Fair Market Value, as determined by it in its sole reasonable discretion, of the non-Delinquent and non-Defaulted Mortgage Loans then owned by the Issuer, is less than ninety-six percent (96%) of the aggregate Outstanding Purchase Price of such Mortgage Loans, then the Servicer shall arrange for the sale of individual Mortgage Loans or portfolios of Mortgage Loans sufficient to cause the Fair Market Value of the non-Delinquent and non-Defaulted Mortgage Loans owned by the Issuer to be greater than or equal to ninety-six percent (96%) of the aggregate Outstanding Purchase Price as determined by such Swap Counterparty in its sole reasonable discretion.

If the Servicer fails to arrange for the sale of Mortgage Loans in order to cause the Fair Market Value of the non-Delinquent and non-Defaulted Mortgage Loans owned by the Issuer to be greater than or equal to ninety-six percent (96%) of the aggregate Outstanding Purchase Price, as determined by such Swap Counterparty in its sole reasonable discretion, on or before the 90th day following its receipt of notice from such Swap Counterparty, then the Designated Swap Counterparty shall have the sole and exclusive right, on behalf of and for the benefit of the Issuer, to arrange for the sale of individual Mortgage Loans or portfolios of Mortgage Loans sufficient to cause the Fair Market Value of the non-Delinquent and non-Defaulted Mortgage Loans owned by the Issuer to be greater than or equal to ninety-six percent (96%) of the aggregate Outstanding Purchase Price of the Mortgage Loans, as determined by the notifying Swap Counterparty in its sole reasonable discretion.

If, at any time following such receipt of notice, if the then current Fair Market Value, as determined by the Swap Counterparty delivering the additional notice referred to in this sentence, of the non-Delinquent and non-Defaulted Mortgage Loans then owned by the Issuer is less than ninety-five percent (95%) of the aggregate Outstanding Purchase Price of the non-Delinquent and non-Defaulted Mortgage Loans owned by the Issuer, then any Swap Counterparty may deliver an additional notice to such effect and on the 15th Business Day after the delivery of such additional notice, the Designated Swap Counterparty shall have the sole and exclusive right, on behalf of and for the benefit of the Issuer, to arrange for the sale of individual Mortgage Loans or portfolios of Mortgage Loans sufficient to cause the Fair Market Value of the non-Delinquent and non-Defaulted Mortgage Loans owned by the Issuer to be greater than or equal to ninety-five percent (95%) of the aggregate Outstanding Purchase Price of the Mortgage Loans, as determined by the notifying Swap Counterparty in its sole reasonable discretion.

In connection with the sales contemplated by this paragraph (g), the Designated Swap Counterparty shall use commercially reasonable efforts to maximize the Sale Price of any Mortgage Loans that it arranges to sell on behalf of the Issuer.

(h) If the Servicer arranges for a sale of a group of Mortgage Loans pursuant to this Agreement and the Sale Price, as set forth in the related Sale Notice to be received by the Issuer for the sale of such group of Mortgage Loans is less than ninety-one percent (91%) of the aggregate Outstanding Purchase Price of such group of

Mortgage Loans then such sale may only be made by the Servicer with the written consent of each Swap Counterparty.

(i) "Fair Market Value" as used in this Section 4.2, shall mean the fair market value of the Mortgage Loans, as determined by the related Swap Counterparty in its sole reasonable discretion in good faith.

D. The first sentence of the last paragraph of Section 10.1 shall be replaced with the following language:

At any time during the continuance of an event described in clauses (a) through (i) above, the Issuer may, and shall (x) at the written request of the Required Subordinated Noteholders, with the consent of the Required Senior Noteholders or (y) at the written request of the Majority 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.

E. Clauses (t) and (u) are added to Section 11.2 as follows:

(t) At any time the Credit Amount shall be less than the Required Enhancement Amount and such noncompliance shall continue for a period of thirty (30) days; or

(u) Failure of the Issuer to satisfy the Partial Termination Condition within 90 days of the occurrence of a Partial Termination Event.

F. Section 11.2(p) is deleted in its entirety and replaced with the following language:

(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 (3.00%); provided, however that if (i) the Excess Spread Rate is not less than two percent (2.00%) and (ii) the increase contemplated by the final proviso in the definition of "Initial Required Reserve Fund Amount" relating to the Excess Spread Rate has been satisfied, then no Termination Event shall have occurred.

G. The last paragraph of Section 11.2 is deleted in its entirety and replaced with the following language:

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 (x) the Majority Swap Counterparties or (y) in the case of a Servicer Event of Default as set forth in Section 10.1(h) occasioned by (i) the failure of the Servicer to pay or to post under a Back-to-Back Swap Agreement, (ii) an Event of Default under Section 5(a)(vii) of the related Back-to-Back Swap Agreement or (iii) any other default under a Back-to-Back Swap Agreement (after giving effect to any related grace period (any of the events described in this clause (y), a "Related Party Default"), then at the request of the related Back-to-Back Swap Counterparty, notify the Seller that the commitment of the Issuer to purchase Mortgage Loans from the Seller shall terminate.

Provided, further, that 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 (u) above occurs, a Servicer Event of Default as set forth in Section 10.1(h) hereof occurs, at the written request of the Majority Swap Counterparties, or in the event of a Related Party Default, at the written request of the related Back-to-Back Swap Counterparty, a Security Agreement Event of Default described in clause (e) or (m) through (t) 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 (or, in the case of the failure of the Servicer, in its capacity as a party to a Back-to-Back Swap Agreement, to perform its obligations to pay or post under such Back-to-Back Swap Agreement (after giving effect to any grace periods therein) such shorter period not less than 60 days as requested in writing by the related Swap Counterparty (such period measured from the date such request is received by the Servicer) or such shorter period not less than 30 days as requested in writing by all the Swap Counterparties (such period measured from the date such request is received by the Servicer)) (such 30 day, 60 day or 90 day period, as applicable, the "Sale Period"); it being understood that, in the case of the 30 day or 60 day period, the Servicer's obligation will be to enter into a purchase and sale agreement for the sale of such Mortgage Loans; provided, that if the Servicer, in its capacity as a party to the Back-to-Back Swap Agreement, shall cure the failure to pay or post under such Back-to-Back Swap Agreement within such 30 day or 60 day period, the obligation of the Servicer and the Collateral Agent to sell the Mortgage Loan within such 30 day or 60 day period will cease and be of no further effect. In the event that all non-Delinquent Loans and non-Defaulted Loans have not been so sold within the Sale Period, the Collateral Agent shall hold a Termination Event Auction of the remaining non-Delinquent Loans and non-Defaulted Loans for settlement not later than the 28th day following the end of the Sale Period (the "Sale Deadline Date"). The Servicer shall notify potential bidders of the

Termination Event Auction, including the Rated Bidder. During the Termination Event Auction, the Servicer shall promptly notify each Swap Counterparty of the highest bid price obtained in the Termination Event Auction for each such non-Delinquent Loan and non-Defaulted Loan and each Swap Counterparty shall have up to two (2) Business Days from the time of notification (but in no event beyond the Sale Deadline Date) 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 any Swap Counterparty elects to purchase such non-Delinquent Loans or non-Defaulted Loans within such two (2) Business Day time period, such 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 Sale Deadline Date). If each 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.

provided, further, that, notwithstanding the foregoing, if the Issuer shall have received written request of less than the Majority Swap Counterparties with respect to an event described in Section 10.1(h) above (unless such event is a Related Party Default occasioned by (i) the failure of the Servicer to pay or to post under a Back-to-Back Swap Agreement or (ii) an Event of Default under Section 5 (a)(vii) of the related Back-to-Back Swap Agreement and the related Back-to-Back Swap Counterparty has requested that the Issuer declare a Termination Event) (a "Partial Termination Event") then the Issuer shall notify the Seller that the Issuer's commitment to purchase Mortgage Loans from the Seller shall terminate until the Partial Termination Condition has been satisfied. If a Partial Termination Event occurs, so long as the Partial Termination Condition has not been satisfied, the Issuer will not be permitted to purchase additional Mortgage Loans, and principal collections on Mortgage Loans, proceeds of sales of Mortgage Loans and amounts received from the Swap Counterparties will be retained under the Security Agreement and used to pay outstanding obligations of the Issuer pursuant to the terms thereof, and the related Swap Agreement will remain outstanding in accordance with its terms until the Partial Termination Condition has been satisfied. If a Partial Termination Event occurs, then the Issuer shall either (i) cause the Servicer to use its best efforts to sell non-Delinquent and non-Defaulted Loans, and/or (ii) enter into replacement Interest Rate Swaps for Interest Rate Swaps to which any Departing Swap Counterparty is a party, in each case within 60 days of the occurrence of the Partial Termination Event to the extent required to cause the Partial Termination Condition to be satisfied. If the Partial Termination Condition is not satisfied by such 60th day, then the Collateral Agent shall hold an auction (a "Partial Termination Event Auction") of non-Delinquent Loans and non-Defaulted Loans for settlement not later than the 90th day following the date on which such Partial Termination Event occurred and in an amount sufficient to cause the Partial Termination Condition to be satisfied. The Servicer shall notify potential bidders of the Partial Termination Event Auction, including the Rated Bidder. During the Partial Termination Event Auction, the Servicer shall promptly notify each Swap Counterparty of the highest bid price obtained in the Partial Termination Event Auction for each such

non-Delinquent Loan and non-Defaulted Loan being offered for sale at such Partial Termination Event Auction and each Swap Counterparty shall have the right pursuant to Section 4.2(e) or (f) 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) or (f) to sell such Mortgage Loans to the highest bidding Swap Counterparty.

Provided, finally, that should at any time during the continuance of a Partial Termination Event, additional Termination Event shall occur, the Departing Swap Counterparties shall have the option to waive the Partial Termination Event, by giving written notice of the same to the Servicer and the Collateral Agent. If the Departing Swap Counterparties do not elect to waive the Partial Termination Event, then the Servicer and the Collateral Agent will proceed with the actions described above to affect the termination of the related Swap Agreements, in addition to taking the actions, if any, required in connection with the subsequent Termination Event.

H. Exhibits B, C, and D are replaced in their entirety with Exhibits B, C, and D attached hereto.

3. Conditions to Effectiveness. As conditions to the effectiveness of this Amendment, an Officer's Certificate satisfying the requirements of Section 12.2 of the Agreement and Rating Agency Confirmation have been received by the parties hereto.

4. Effect of Amendment. This Amendment to the Agreement shall be effective and the Agreement shall be deemed to be modified and amended in accordance herewith on the Payment Date on the date on which the Indenture Trustee and the Collateral Agent receives an executed copy of this Amendment. This Amendment, once effective, shall be effective as of the date first set forth above. The respective rights, limitations, obligations, duties, liabilities and immunities of the Issuer, the Seller, the Servicer and the Performance Guarantor shall hereafter be determined, exercised and enforced subject in all respects to such modifications and amendments, and all the terms and conditions of this Amendment shall be and be deemed to be part of the terms and conditions of the Agreement for any and all purposes. The Agreement, as amended hereby, is hereby ratified and confirmed in all respects.

5. The Agreement in Full Force and Effect as Amended. Except as specifically amended hereby, all the terms and conditions of the Agreement shall remain in full force and effect and, except as expressly provided herein, the effectiveness of this Amendment shall not operate as, or constitute a waiver or modification of, any right, power or remedy of any party to the Agreement. All references to the Agreement in any other document or instrument shall be deemed to mean the Agreement as amended by this Amendment.

6. Counterparts. This Amendment may be executed by the Parties in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. This Amendment shall become

effective when counterparts hereof executed on behalf of such party shall have been received.

7. Governing Law. This Amendment 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.

8. No Recourse. It is expressly understood and agreed by the parties hereto that (a) this Amendment is executed and delivered by U.S. Bank Trust National Association, not individually or personally but solely as Owner Trustee of the Issuer, 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 Issuer 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 Issuer, (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 Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents. Nothing in this paragraph 5 shall release U.S. Bank Trust National Association from its obligations under the Trust Agreement.

IN WITNESS WHEREOF, the Issuer, the Seller, the Servicer and the Performance Guarantor have caused this Amendment to be duly executed by their officers thereunto duly authorized, all 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

ACCREDITED HOME LENDERS, INC., as Seller and Servicer

By: /s/ Charles O. Ryan
Name: Charles O. Ryan
Title: Securitization Coordinator

ACCREDITED HOME LENDERS HOLDING CO., as the Performance Guarantor

By: /s/ Melissa Dant
Name: Melissa Dant
Title: Senior Secondary Markets Counsel, Ass't Vice President, and Ass't Secretary

[Signature Page for Amendment No. 1 to the MLPSA]

Exhibit 4.4

CARMEL MOUNTAIN FUNDING TRUST

AMENDED AND RESTATED SECURITY AGREEMENT

between

CARMEL MOUNTAIN FUNDING TRUST

and

DEUTSCHE BANK TRUST COMPANY AMERICAS

as Collateral Agent

dated as of August 23, 2006

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AMENDED AND RESTATED SECURITY AGREEMENT

AMENDED AND RESTATED SECURITY AGREEMENT (the "Security Agreement"), dated as of August 23, 2006, 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 payments 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 fully 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 and are attached hereto as schedule IV.

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 or the Funding 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 realty and personalty).

(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 each Swap Counterparty consents 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 (l) 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 Credit Amount shall equal or exceed 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 Funding 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 l+ 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 the 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-1+ by S&P and P-1 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 Funding 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, Funding 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, (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) and (D) any cash and Eligible Investments in the Funding Account held by the Issuer on such day (the "Borrowing Base") shall be less than or equal to 1.

(f) Downgrade. No downgrade, qualification or withdrawal of the short term unsecured debt rating below A-1+ by S&P or P-1 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 fully 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 fully 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 3.65%.

Section 4.10 Series Program Size. The "Series Program Size" with respect to the Secured Liquidity Notes initially shall be $2,420,000,000 (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 Collateral 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 Sections 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; FUNDING ACCOUNT; 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 and Funding 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, the Funding 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, the Funding 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 or the Funding Account and to withdraw or order a transfer of Deposited Funds from the Collateral Account or the Funding Account subject to the provisions of Section 6.03 and Section 6.07, respectively, 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 (i), (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 (other than any termination payment owed by the Issuer to a Departing Swap Counterparty in connection with a Partial Termination Event);

(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 or Funding 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 and, to the extent of the Funding Amount, from the Funding 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 (other than any termination payment owed by the Issuer to a Departing Swap Counterparty in connection with a Partial Termination Event);

(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; provided, that, if the Borrowing Base is less than or equal to 1, no such payment shall be made to the extent that any amounts owed by the Issuer to a Departing Swap Counterparty as a termination payment with respect to the related Interest Rate Swap will remain unpaid; and

(xiii) to the Swap Counterparties pursuant to the Interest Rate Swaps, any remaining amounts;

provided, however, no withdrawals from the Collateral Account or the Funding 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 and the Funding 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 and the Funding 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 sub-custodian 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.

The security interest of the Collateral Agent in favor of the Swap Counterparties in the Market Value Reserve Account (the "Swap Counterparty MRVA Security Interest") shall be superior in right and priority to the security interest of the Collateral Agent for the benefit of each of the Secured Parties other than the Swap Counterparties (the "Other Secured Parties") therein (the "Other Secured Party MVRA Security Interest") and the Other Secured Party MVRA Security Interest shall be subordinate to the Swap Counterparty MVRA Security Interest. Without limitation of the foregoing, none of the Other Secured Parties shall have any right to any property deposited in or credited to the Market Value Reserve Account until the final and indefeasible payment and performance of all amounts owed to the Swap Counterparties secured by the Swap Counterparty MVRA Security Interest.

(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 (or any Swap Counterparty, if a Termination Event has occurred and is continuing), 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 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 each Swap Counterparty 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.

Section 6.07 Funding 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 a non-interest bearing segregated trust account (the "Funding Account"). At the Seller's option, the Seller may make one or more deposits into the Funding Account from time to time. The Funding Account shall initially be established with the Collateral Agent. The Funding 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 Funding Account ceases to be an Eligible Institution, the Collateral Agent shall within five Business Days establish a new Funding 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 Funding Account. The Collateral Agent, at the written direction of the Issuer (by an Issuer Agent), shall make withdrawals from the Funding 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, the Funding Account shall be deemed to have terminated for all purposes and all amounts, if any, held in the Funding Account shall be paid to the Swap Counterparty for application in accordance with the Interest Rate Swaps.

(b) Prior to the occurrence and continuation of an Event of Default, funds on deposit in the Funding Account shall be invested at the written direction of the Servicer by the Collateral Agent in Eligible Investments. Funds on deposit in the Funding Account on any Payment Date, after giving effect to any withdrawals from the Funding Account 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. 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 Funding Account 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 Funding Account shall be paid to the Servicer.

(c) On each Payment Date, the Issuer, in accordance with the instructions set forth in the Servicer Report delivered to the Collateral Agent, shall calculate the amount (each a "Funding Amount") by which the Deposited Funds (other than amounts on deposit in the Funding Account) are insufficient to pay the amounts set forth in Sections 6.03(b)(iii) and 6.03(b)(iv); provided, however that any such shortfall shall first be allocated to amounts payable to the Term Notes.

(d) 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 Funding Account shall be applied to the payment of the Obligations in the order of priority set forth in Section 7.02(b) hereof.

(e) The Collateral Agent shall have complete dominion and control over the Funding Account and the Issuer hereby agrees that only the Collateral Agent may make withdrawals from the Funding Account; provided, however, the Collateral Agent shall release amounts on deposit in the Funding Account to the Issuer to the extent that after such release the Credit Amount shall equal or exceed the Required Enhancement Amount; provided, however, that the Collateral Agent shall not release any amounts on deposit in the Funding Account to the Issuer if an Event of Default has occurred under any Back-to-Back Swap where the Company is the defaulting party.

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 (t) 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 and the Funding 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 (u) of Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement or a Servicer Event of Default as set forth in Section 10.1(h) of the Mortgage Loan Purchase and Servicing Agreement, at the written request of any Swap Counterparty, (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 (t) 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 full, the Required Subordinated Noteholders) (and shall be fully 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 (I) 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 or the Funding 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 and subject to Section 11.17 hereof, 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 Section 11.17 hereof 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
Name: Patricia M. Child
Title: Vice President

DEUTSCHE BANK TRUST COMPANY AMERICAS, as Collateral Agent

By: /s/ Lisa Karlsen
Name: Lisa Karlsen
Title: Vice President

[Amended and Restated Security Agreement Signature Page]

Schedule I

Definitions List

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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;

(r) At any time the Credit Amount shall be less than the Required Enhancement Amount and such noncompliance shall continue for a period of thirty (30) days;

(s) 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

(t) 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) 676-2104
Facsimile: (858) 521-0614

with a copy to:

Accredited Home Lenders, Inc.
15090 Avenue of Science
San Diego, California 92128
Attn: 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

Bank of America, N.A.
233 South Wacker Drive, Suite 2800
Chicago, IL 60606
Attn: Swap Operations
Telephone: (312) 234-2732
Facsimile: (312) 234-3603

Barclays Bank PLC
200 Park Avenue
New York, New York 10166
Attention: General Counsel
Telephone: (212) 412-4000
Facsimile: (212) 412-7519

HSBC Bank USA, National Association
452 Fifth Avenue
New York, NY 10018
Attention: Cecile Hollevoet
Telephone: (212) 525-3158
Facsimile: (212) 525-6509

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 Funding 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 Funding 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 Funding 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, the Funding 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 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, Funding 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 Funding 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"), as amended by the Amended and Restated Security Agreement, dated as of August 23, 2006, each 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:

SCHEDULE I
TO THE
SECURITY AGREEMENT

DEFINITIONS LIST

"40/30 Mortgage Loan" means a Mortgage Loan with a 30 year maturity and a 40 year amortization schedule.

"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 for all outstanding Series of Senior Notes of the product of (i) the Credit Amount Percentage with respect to such Series and (ii) the Series Program Size for such Series.

"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 Series 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 the sum of (i) the Overcollateralization Amount, (ii) the amounts on deposit in the Funding Account and (iii) the Principal Amount of Subordinated 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 10, 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.

"Departing Swap Counterparty" means a Swap Counterparty that has given a written request in connection with a Partial Termination Event.

"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 Back-to-Back 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%, provided, however that if the increase contemplated by the final proviso in the definition of "Initial Required Reserve Fund Amount" relating to the Excess Spread Rate has been satisfied, then this criterion will be deemed to have been satisfied; (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.

"Funding Account" means the Eligible Account maintained by the Collateral Agent as more fully described in Section 6.07 of the Security Agreement.

"Funding Amount" has the meaning specified in Section 6.07(c) of the Security 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 Servicer'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, then then-effective 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); provided, further that (A) if the aggregate Outstanding Principal Balance of the Mortgage Loans that have a LTV greater than or equal to ninety percent (90%) is more than 15% of the Aggregate Outstanding Principal Balance but less than 25% of the Aggregate Outstanding Principal Balance, then the percentage set forth in clause (i) shall be increased by adding 0.10% thereto; provided, further that (B) if the aggregate Outstanding Principal Balance of Mortgage

Loans secured by multi-family properties is more than 10% of the Aggregate Outstanding Principal Balance but less than 20% of the Aggregate Outstanding Principal Balance, then the percentage set forth in clause (i) shall be increased by adding 0.10% thereto; and provided, finally that if the Excess Spread Rate is lower than 3.00% (but not less than 2.00%), then the percentage set forth in clause (i) shall be increased by adding a rate equal to the product of (x) the difference between 3.00% and the Excess Spread Rate and (y) 178/360 (i.e. an interest rate representing the interest that would accrue on the shortfall in the Excess Spread Rate during the 118 day sale period (plus 60 days) following a Termination Event).

"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 fully 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" has the meaning specified in the Interest Rate Swaps.

"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.

"Majority Swap Counterparties" means the Swap Counterparties representing more than 50% of the aggregate notional amount under the Swap Agreements.

"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 of 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 5.1 of 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" means (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 the Depositary 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.

"Overcollateralization Amount" means as of any date of determination, an amount equal to (A) the excess of (i) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer over (ii) the aggregate Outstanding Purchase Price of any Defaulted

Loans owned by the Issuer on such date, *plus* (B) the Capitalized Interest Component on such date, *plus* (C) any cash and Eligible Investments in the Collateral Account held by the Issuer on such date, *minus* (D) the sum of (i) the Credits Outstanding on such date, (ii) the principal amount of the Term Notes and (iii) the principal amount of the Subordinated Notes, including any Principal Amount Charge-Offs not reinstated as of such date.

"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 Termination Condition" means that following the occurrence of a Partial Termination Event, the aggregate maximum notional amount of the Interest Rate Swaps (without giving effect to Interest Rate Swaps relating to the Departing Swap Counterparties) shall be at least equal to the Program Size.

"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, the Funding 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 the 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 twenty-five percent (25%) 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 twenty percent (20%) of the Aggregate Outstanding Principal Balance; (xxiv) the aggregate Outstanding Principal Balance of the Interest-Only Mortgage Loans may not exceed twenty percent (20%) of the Aggregate Outstanding Principal Balance and (xxv) the aggregate Outstanding Principal Balance of 40/30 Mortgage Loans may not exceed fifty percent (50)% 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 Amount" means the amount, if any, by which the Required Draw Amount exceeds the Reserve Fund Available Amount.

"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-1, 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 August 23, 2006, 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" 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, lien position and all other payment characteristics, except that such loan is not a Delinquent Loan or Defaulted Loan, as the case may be.

"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 2.1(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 for all Series of Senior Notes, of the product of (i) the Credit Amount Percentage for such Series and (ii) the Series Program Size for such 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" means the date on which Mortgage Loans are scheduled to be sold by the Servicer on behalf of the Issuer.

"Sale Notice" means the written notice delivered by the Company to the Issuer, the Collateral Agent and the Swap Counterparties on the Business Day prior to the Sale Date.

"Sale Price" means the proposed sale price or aggregate sale price for Mortgage Loans sold on each Sale Date.

"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 0.50% 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 (A) the Credits Outstanding and (B) the product of (I) the related Credit Amount Percentage and (II) the Series Program Size thereof divided by (y) the sum of (i) the Credits Outstanding, (ii) the aggregate Principal Amount of all Series of Term Notes outstanding and (iii) the Credit Amount; 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 sum of (i) 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) and (ii) the aggregate amount of funds withdrawn from the Funding Account to pay Secured Liquidity Notes and Extended Notes under Sections 6.03(b) and 7.02 of the Security Agreement for which there have not been corresponding deposits by the Seller pursuant to Section 6.07(a) of the Security Agreement is 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, 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 2006-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.

"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 (iii) 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" has the meaning specified in the Interest Rate Swaps.

"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; plus, for the purposes of determining the "Excess Spread Rate," and with respect to each Remittance Period, the sum of (i) the available amount of prepayment penalties and (ii) income earned on amounts in deposit in the Collection Account, the Collateral Account, the Reserve Account, the Funding Account and the Market Value Reserve Account, such sum divided by the actual number of days in the Remittance Period multiplied by 360, divided by the Average Outstanding Principal Balance of Mortgage Loans during the Remittance Period.

"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 4.5

EXECUTION COPY

AMENDED AND RESTATED
SCHEDULE
to the Master Agreement
(Multicurrency - Cross Border)
dated as of August 23, 2006

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

This Amended and Restated Schedule to the Master Agreement amends and restates in its entirety the Schedule, dated as of May 10, 2005, between Party A and Party B.

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) (as modified by (g) below) 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, either 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.

(iii) **Partial Termination Event**. It shall be an Additional Termination Event if a Partial Termination Event occurs pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement and Party A is a Departing Swap

Counterparty. Unless such Partial Termination Event shall have been subsequently waived by Party A pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, the Early Termination Date with respect to this Additional Termination Event shall be deemed to occur automatically on the date on which the Partial Termination Condition has been satisfied, if such date occurs on or prior to the date which is ninety (90) days after the occurrence of the related Partial Termination Event. For purposes of the foregoing 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 required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3 (d)
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 Revenue Service Form W-9, W-8BEN or W-8ECI, as applicable (or any successor thereto).	(i) Before the first 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.	N/A

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
Attention: Treasury Documentation

Telephone: 212-261-7310
Fax: 212-459-3167

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" (Section 5(a)(iii) of the Agreement) shall not constitute an Event 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 Sections 5.02, 6.03 and 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 in accordance with Part 5(u), 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 (x) unless 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) and (y) 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) Notwithstanding anything in the Agreement and/or this Confirmation to the contrary, following the occurrence of an Additional Termination Event pursuant to Part 1(g)(iii) of this Agreement, no termination payments shall be payable by Party A except (A) Party A shall make all payments due pursuant to this Confirmation through and including the Early Termination Date; and (B) without duplication of the amounts payable pursuant to the foregoing clause (A), 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 A shall not have any further liability to Party B in respect of the termination of this Agreement.

(vi) **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 4.6

EXECUTION COPY

AMENDED AND RESTATED CONFIRMATION

Date: August 23, 2006

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:

This Amended and Restated Confirmation amends and restates in its entirety the Confirmation, with the Transaction Reference Number set forth above, between Party A and Party B dated as of May 10, 2005. 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 August 23, 2006 (which amends and restates 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 of Amendment and Restatement:	August 23, 2006
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 of the 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 (other than a Payment Date) 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 on each Party A Accrued Interest Payment Date with respect to which Delinquent Loans or Defaulted Loans existed during the related Calculation Period, the Party A Accrued Interest Payment shall be multiplied by the Credit Reduction Factor for such Party A Accrued Interest Payment 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 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 and (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 Expected Maturity or 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 or Party A Accrued Interest 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 and the Principal Amount Charge-Offs (to the extent not reinstated) 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 Maturities of interest-bearing Secured Liquidity Notes, the accrued and unpaid Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturities 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, lien position 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; (xxi) the delinquency status;

(xxii) IO Term;

(xxiii) Loan Purpose;

(xxiv) Documentation Type;

(xxv) ARM Code;

(xxvi) Minimum Rate (if ARM Code does not include it); and

(xxvii) Maximum Rate (if ARM Code does not include it).

Exhibit A-2

Exhibit 4.7

EXECUTION COPY

(Multicurrency-Cross Border)

AMENDED AND RESTATED SCHEDULE
to the
Master Agreement
dated as of August 23, 2006
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

This Amended and Restated Schedule to the Master Agreement amends and restates in its entirety the Schedule dated as of May 10, 2005, between Party A and Party B.

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) $300,000,000 plus (2) 50% of AHLHC's positive quarterly net income for such quarter from the calendar quarter beginning on October 1, 2006,

(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) Repo Agreement Default. An "Event of Default" (as such term is defined in the Repo Agreement) occurs and is continuing.

(iv) 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.

(v) 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, for any Person, Net Worth of such person plus (a) Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% of Subordinated Debt) plus minority interest in Accredited Mortgage Loan REIT Trust as shown on the most recent financial statement of Seller, minus (b) (i) servicing rights, and (ii) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organization expenses, deferred expenses, prepaid expenses, prepaid assets, receivables from shareholders, unconsolidated Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with 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.

"Repo Agreement" means the Fourth Amended and Restated Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans, dated as of June 23, 2006, between Lehman Brothers Bank, FSB, Accredited Mortgage Loan REIT Trust and Party B, dated as of the date hereof, as amended from time to time.

"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.

(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 or 30 days after request by Party A.	Yes
Party B	Notice of Amendment to any Program Document	Upon execution of such amendment.	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 as amended, extended, supplemented or otherwise modified in writing from time to time, and 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, is a Credit Support Document:

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.

(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: Not Applicable

(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.

(k) **Furnishing Specified Information.** Section 4(a)(iii) is hereby amended by inserting "promptly upon the earlier of (i)" in lieu of the word "upon" at the beginning thereof and inserting "or (ii) such party learning that the form or document is required before the word "any" on the first line thereof.

(l) **Consent to Disclosure.** Party B consents to Party A effecting such disclosure as Party A may deem appropriate to enable Party A to transfer Party B's records and information, to process and execute Party B's instructions, or in pursuance of Party B's or Party A's commercial interest, to any of its Affiliates. For the avoidance of doubt, Party B's consent to disclosure includes the right on the part of Party A to allow access to any intended recipient of Party B information to the records of Party A by any means.

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.
(Name of Party)

By: /s/ FRED MADONNA
Name: Fred Madonna
Title: Senior Vice President

ACCREDITED HOME LENDERS, INC.
(Name of Party)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

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, which has been amended and restated by an Amended and Restated Schedule to Master Agreement dated as of August 23, 2006 (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: /s/ JAMES J. KILLERLANE III
Name: James J. Killerlane III
Title: Vice President
Date: August 18, 2006

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 4.8

EXECUTION COPY

ISDA®

International Swaps and Derivatives Association, Inc.

AMENDED AND RESTATED CREDIT SUPPORT ANNEX

to the Amended and Restated Schedule to the

Master Agreement

dated as of August 23, 2006

between

LEHMAN BROTHERS SPECIAL FINANCING INC.	**ACCREDITED HOME LENDERS, INC.**
("Party A")	***("Party B")***

This Amended and Restated Credit Support Annex amends and restates in its entirety the Credit Support Annex, dated as of May 10, 2005 (which Credit Support Annex supplements the Schedule dated as of May 10, 2005, between Party A and Party B, which is being amended and restated on the date hereof). 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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AMENDED AND RESTATED CREDIT SUPPORT ANNEX
Elections and Variables
dated as of August 23, 2006
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.	[X]	100%
(2)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of not more than one year.	[X]	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.	[X]	98%
(4)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than ten years.	[X]	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.	[X]	95%
(6)	Other securities acceptable to the secured party: None, unless otherwise specified in the relevant Confirmation.	[X]	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	[X]
Tax Event	[X]
Tax Event Upon Merger	[X]
Credit Event Upon Merger	[X]
Additional Termination Event(s): as set forth in Part 1 (h)	[X]

(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.

For purposes of Paragraph 5(i)(B), "Reference Market-makers" shall not include Party A or any other party that has entered into an interest rate swap agreement with Party B in connection with Carmel Mountain Funding Trust.

(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 aggregate Outstanding Purchase Prices of all Mortgage Loans held by the Issuer 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 Potential Event of Default or Event of Default 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.

(x) This Credit Support Annex is subject to the provisions to that certain Swap Counterparty Side Letter, dated as of August 23, 2006, by and among Bank of America N.A., Barclays Bank PLC, HSBC Bank USA, N.A., Calyon New York Branch, Lehman Brothers Special Financing Inc., and Accredited Home Lenders Inc.

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)

By: /s/ FRED MADONNA
Name: Fred Madonna
Title: Senior Vice President
Date:

ACCREDITED HOME LENDERS, INC.
(Party B)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

Exhibit 4.9

EXECUTION VERSION

AMENDED AND RESTATED CONFIRMATION

Dated: August 23, 2006

To: Accredited Home Lenders, Inc. ("Party B")
15090 Avenue of Science
San Diego, California 92128
Attention: Katy Hudson
Telephone: 858-676-2177
Fax: 866-278-5876

From: Lehman Brothers Special Financing Inc. ("Party A")
745 Seventh Avenue
New York, NY 10019
Attention: Donald Kutch
Telephone: 212-526-5810
Fax: 646-758-1964

Re: Swap Transaction Reference No. 2065465

Ladies and Gentlemen:

This Amended and Restated Confirmation amends and restates in its entirety the Confirmation, with the Swap Transaction number 2065465, between Party A and Party B, dated as of May 10, 2005. The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Lehman Brothers Special Financing Inc. ("Party A") and Accredited Home Lenders, Inc. ("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") and the defined terms set forth in the Reference Transaction (as defined below), to the extent used but not defined herein, are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement, dated as of August 23, 2006 (which amends and restates the ISDA Master Agreement dated as of May 10, 2005), as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in this Confirmation or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in the Security Agreement.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	May 10, 2005
Effective Date of Amendment and Restatement:	August 23, 2006
Termination Date:	The earliest to occur of (a) the Termination Date of the Reference Transaction, and (b) an Early Termination Date (as defined in the Agreement referred to in the Reference Transaction) with respect to the Reference Transaction (a "Reference Transaction Early Termination Date"). In connection with a Termination Date hereunder resulting from a Reference Transaction Early Termination Date, each party shall make all payments pursuant to this Agreement through such Termination Date. Without limitation of the foregoing, Party B shall pay any Party B First Floating Amount relating to any amount owed by Party A to the Reference Counterparty in respect of the early termination of the Reference Transaction. For the avoidance of doubt, no additional payment pursuant to Section 6(e) of this Agreement shall be payable by either party in connection with a termination of this Agreement caused by a Reference Transaction Early Termination Date.
Business Day:	As specified in the Reference Transaction.
Business Day Convention:	As specified in the Reference Transaction.
Notional Amount:	$500,000,000.00, subject to adjustment as and when occurring, of the Notional Amount of the Reference Transaction, such that the Notional Amount hereof shall equal the product of (x) the Notional Amount hereof immediately prior to such adjustment and (y) a fraction the numerator of which is the Notional Amount of the Reference Transaction immediately prior to such adjustment and the denominator of which is the Notional Amount of the Reference Transaction after giving effect to such adjustment.
Back Sharing Percentage:	With respect to any date, the percentage expressed as a fraction, the numerator of which is the Notional Amount of this Transaction and the denominator of which is the Aggregate Maximum Notional Amount of the Reference Transaction as of such date. For the avoidance of doubt, the Back Sharing Percentage shall never be greater than one.
Payment Date:	As specified in the Reference Transaction.
Interim Payment Date:	As specified in the Reference Transaction.
Calculation Agent:	Party A

3. Floating Amounts:

A. Party A Floating Amounts

Party A First Floating Rate Amounts: The product of (x) the Back Sharing Percentage and (y) any and all amounts actually received by Reference Party A under and pursuant to the Reference Transaction (including amounts received from the Reference Counterparty in connection with the early termination of a Reference Transaction).

Party A First Floating Rate Amount Payment Dates: Each day on which the Reference Party A receives a payment under the Reference Transaction and Party A receives a payment equal to the Party A First Floating Rate Amount under the Intermediate Transaction by 3:00 p.m. New York City time and the immediately succeeding Business Day if such payment is received by Party A after such time.

Party A Second Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the Settlement Amount paid by Party B to Party A in respect of this Transaction, over (y) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by Reference Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.

Party A Second Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction so long as Party A receives a payment under the Intermediate Transaction equal to the Party A Second Floating Rate Amount.

Survival: The provisions regarding the Party A Second Floating Rate Amount and the Party A Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party A Third Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by the Reference Counterparty to Reference Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction over (y), the Settlement Amount paid by Party A to Party B in respect of this Transaction.

Party A Third Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction so long as Party A receives a payment under the Intermediate Transaction equal to the Party A Third Floating Rate Amount.

Survival: The provisions regarding the Party A Third Floating Rate Amount and the Party A Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

B. Party B Floating Amounts and Fixed Amounts

Party B First Floating Rate Amounts: The product of (x) the Back Sharing Percentage and (y) any and all amounts due from Reference Party A under and pursuant to the Reference Transaction (including amounts owed by Reference Party A to the Reference Counterparty or any successor Counterparty in connection with the occurrence of a Reference Transaction Early Termination Date); provided, however, that prior to the occurrence of an Early Accumulation Event or prior to the occurrence and continuation of any Extended Note Amortization Event, any amount payable by Party B on any Interim Payment Date in respect of any Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A under the Reference Transaction shall be equal to the lesser of (i) the Party A Interim Floating Amount payable by Party A under and pursuant to the Reference Transaction on such Interim Payment Date, and (ii) the positive difference (if any) of (A) the Back Swap Sharing Percentage (B) 10% of the product of (I) the Sharing

Percentage and (II) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period ending on such Interim Payment Date and (B) the aggregate amounts paid by Party B in respect of any such Party A Interim Floating Amount during the 89 days immediately preceding such Interim Payment Date; provided, further, that, after the occurrence of an Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, the sum of the Party B First Floating Rate Amounts payable after the occurrence of such Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, shall not exceed the Swap Payment Threshold.

"Swap Payment Threshold" means the product of (x) the Back Sharing Percentage and (y) the greater of (i) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period immediately preceding the occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable, and (ii) 10% of the product of (A) the Sharing Percentage and (B) the sum of (x) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer on the date such Early Accumulation Event or Extended Note Amortization Event, as applicable, occurred and (y) any cash and Eligible Investments held by the Reference Counterparty on the date of occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable.

Party B First Floating Rate Amount

Payment Dates: Each Payment Date, Interim Payment Date and any Business Day on which Reference Party A owes any Party A Accrued Interest Payment (as defined in the Reference Transaction) and the Termination Date.

Party B Second Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by Reference Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the

Reference Transaction; provided that such amounts shall be calculated as though the Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Reference Party A was subject to the limitations set forth in the provisos of the Party B First Floating Rate Amounts hereunder from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction, over (y) the Settlement Amount paid by Party B to Party A in respect of this Transaction.

Party B Second Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party B Second Floating Rate Amount and the Party B Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party B Third Floating Rate Amounts: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, (x) the Settlement Amount paid by Party A to Party B in respect of this Transaction over (y), the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by the Reference Counterparty to Reference Party A to pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.

Party B Third Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party B Third Floating Rate Amount and the Party B Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party B Fourth Floating Rate Amounts: The sum of (A) plus (B) where (A) is equal to the product of (x) 0.08%; (y) the Program Size; and (z) the actual number of days in the relevant Calculation Period, divided by 365 and (B) is equal to the product of: (a) 0.12%; (b) the Average Outstanding Principal Balance; and (c) the actual number of days in the relevant Calculation Period, divided by 365.

"Average Outstanding Principal Balance" means, as of the last day of any Calculation Period, the sum of the Aggregate Outstanding Principal Balances for each day in such Calculation Period divided by the actual number of days in such Calculation Period.

Party B Fourth Floating Rate Amount Payment Dates: Each Payment Date referred to in the Reference Transaction.

Party B Fifth Floating Rate Amounts: Any reasonable fees, costs, damages, expenses or forbearance of interest or other remuneration incurred or otherwise suffered by Party A (collectively, "Damages") in connection with the Reference Transaction or the Intermediate Transaction (including any assignment or transfer thereof, except for Damages resulting out of an Early Termination of the Reference Transaction or the Intermediate Transaction as a result of an Event of Default where Reference Party A or Party A, respectively, is the sole Defaulting Party or Termination Event pursuant to Part 1(g)(i) of the Reference Transaction where Reference Party A or Party A, respectively, is the sole Affected Party) which are not paid or otherwise reimbursed to Party A; provided that such Damages would not have been incurred by Party A but for the Reference Transaction or the Intermediate Transaction. This shall also include any amount received by Party A pursuant to the Intermediate Transaction which Party A was compelled to return to Intermediate Party B or to the Reference Counterparty or its respective successor (including any liquidator, receiver, bankruptcy trustee, or similar entity).

Party B Fifth Floating Rate Amount Payment Date: No later than the second Business Day after Party A notifies Party B of the Party B Fifth Floating Rate Amounts if such notice is received by Party B (orally or otherwise) on or prior to 1:00 p.m. New York time, and no later than the third Business Day after receipt if such notice is received by Party B after such time.

Survival: The provisions regarding the Party B Fifth Floating Rate Amounts and the Party B Fifth Floating Rate Amount Payment Date shall survive the termination of this Transaction.

4. Other Provisions:

Assignment: This Transaction shall be assigned concurrently with any assignment or transfer of the Reference Transaction by Reference Party A or the Intermediate Transaction by Party A pursuant to the terms thereof. Party B covenants and agrees that it shall directly bear any and all costs associated with such assignment or transfer of this Transaction; *provided, however*, Party A shall bear its own cost associated with the assignment of this Transaction if Party A is the sole Defaulting Party under the Intermediate Transaction.

If an Event of Default or Termination Event shall have occurred and Party A is the Defaulting Party or Affected Party, Party B shall not be entitled to declare an Early Termination and this Transaction shall automatically be assigned to and assumed by Intermediate Party B, *provided,* that no Event of Default or Termination Event in which Intermediate Party B is the Defaulted Party or Affected Party shall have occurred under, and as defined in, the ISDA Master Agreement, dated as of the date hereof between Party B and Intermediate Party B. No Settlement Amounts or assignment costs shall be paid by either Party A or Party B in connection with such assignment other than Unpaid Amounts owed as of the date of such assignment. This Transaction and the Agreement shall be deemed to be terminated as of the date of such assignment.

Reference Counterparty: Carmel Mountain Funding Trust

Reference Party A: Calyon New York Branch

Reference Transaction: The Transaction between Reference Party A and the Reference Counterparty, dated as of the date hereof (which amends and restates the Transaction between Reference Party A and the Reference Counterparty dated as of May 10, 2005), as further amended from time to time (Ref. No. (40247).

Intermediate Transaction: The Transaction between Intermediate Party B and Party A, dated as of the date hereof (which amends and restates the Transaction between Intermediate Party B and Party A dated as of May 10, 2005), as further amended from time to time (Ref. No. (40249).

Intermediate Party B: Calyon New York Branch

Payment Instructions:

Payments to Party A:
ABA #: 021000021
Bank: JPMorgan Chase Bank (CHASUS33)
ACCT: 066-143-543
Acct Name: Lehman Brothers Special Financing

Payments to Party B:

US Bank
4180 La Jolla Village Drive, Suite 430
La Jolla, CA 92037
ABA # 122235821
Account Name: Accredited Home Lenders, Inc.
Account #153491827918
Attn: Katy Hudson/CMF

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning an executed copy of this Confirmation to us.

Yours Sincerely,

LEHMAN BROTHERS SPECIAL FINANCING INC.

By: /s/ FRED MADONNA
Name: Fred Madonna
Title: Senior Vice President

Confirmed as of the date first written:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

Accepted solely for the purposes of the second paragraph of Section 4 under the heading "Assignment":

CALYON NEW YORK BRANCH

By: /s/ RICARDO L. GOMES
Name: Ricardo L. Gomes
Title: Vice President

By: /s/ IAN CHEUNG
Name: Ian Cheung
Title: Director

Exhibit 4.10

EXECUTION VERSION

AMENDED AND RESTATED CONFIRMATION

Dated: August 23, 2006

To: Accredited Home Lenders, Inc. ("Party B")
15090 Avenue of Science
San Diego, California 92128

Attention: Katy Hudson
Telephone: 858-676-2177
Fax: 866-278-5876

From: Calyon New York Branch ("Party A")
1301 Avenue of the Americas
New York, New York 10019
Attention: Treasury Department
Telephone No: (212) 261-7310
Facsimile No.: (212) 459-3167

Re: Transaction Reference No.: 40248

Ladies and Gentlemen:

This Amended and Restated Confirmation amends and restates in its entirety the Confirmation, with the Swap Transaction number 40248, between Party A and Party B, dated as of May 10, 2005. 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 Accredited Home Lenders, Inc. ("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") and the defined terms set forth in the Reference Transaction (as defined below), to the extent used but not defined herein, are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement, dated as of August 23, 2006 (which amends and restates the ISDA Master Agreement dated as of May 10, 2005), as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in this Confirmation or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in the Security Agreement.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	May 10, 2005
Effective Date of Amendment and Restatement:	August 23, 2006

Termination Date:	The earliest to occur of (a) the Termination Date of the Reference Transaction, and (b) an Early Termination Date (as defined in the Agreement referred to in the Reference Transaction) with respect to the Reference Transaction (a "Reference Transaction Early Termination Date"). In connection with a Termination Date hereunder resulting from a Reference Transaction Early Termination Date, each party shall make all payments pursuant to this Agreement through such Termination Date. Without limitation of the foregoing, Party B shall pay any Party B First Floating Amount relating to any amount owed by Party A to the Reference Counterparty in respect of the early termination of the Reference Transaction. For the avoidance of doubt, no additional payment pursuant to Section 6(e) of this Agreement shall be payable by either party in connection with a termination of this Agreement caused by a Reference Transaction Early Termination Date.
Business Day:	As specified in the Reference Transaction.
Business Day Convention:	As specified in the Reference Transaction.
Notional Amount:	$500,000,000.00, subject to adjustment as and when occurring, of the Notional Amount of the Reference Transaction, such that the Notional Amount hereof shall equal the product of (x) the Notional Amount hereof immediately prior to such adjustment and (y) a fraction the numerator of which is the Notional Amount of the Reference Transaction immediately prior to such adjustment and the denominator of which is the Notional Amount of the Reference Transaction after giving effect to such adjustment.
Back Sharing Percentage:	With respect to any date, the percentage expressed as a fraction, the numerator of which is the Notional Amount of this Transaction and the denominator of which is the Aggregate Maximum Notional Amount of the Reference Transaction as of such date. For the avoidance of doubt, the Back Sharing Percentage shall never be greater than one.
Payment Date:	As specified in the Reference Transaction.
Interim Payment Date:	As specified in the Reference Transaction.
Calculation Agent:	Party A

3. Floating Amounts:

A. Party A Floating Amounts

Party A First Floating Rate Amounts:	The product of (x) the Back Sharing Percentage and (y) any and all amounts actually received by Reference Party A under and pursuant to the Reference Transaction (including amounts received from the Reference Counterparty in connection with the early termination of a Reference Transaction).
Party A First Floating Rate Amount Payment Dates:	Each day on which the Reference Party A receives a payment under the Reference Transaction and Party A receives a payment equal to the Party A First Floating Rate Amount under the Intermediate Transaction by 3:00 p.m. New York City time and the immediately succeeding Business Day if such payment is received by Party A after such time.
Party A Second Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the Settlement Amount paid by Party B to Party A in respect of this Transaction, over (y) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by Reference Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.
Party A Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction so long as Party A receives a payment under the Intermediate Transaction equal to the Party A Second Floating Rate Amount. Survival: The provisions regarding the Party A Second Floating Rate Amount and the Party A Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party A Third Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the

excess, if any, of (x) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by the Reference Counterparty to Reference Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction over (y), the Settlement Amount paid by Party A to Party B in respect of this Transaction.

Party A Third Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction so long as Party A receives a payment under the Intermediate Transaction equal to the Party A Third Floating Rate Amount.

Survival: The provisions regarding the Party A Third Floating Rate Amount and the Party A Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

B. Party B Floating Amounts and Fixed Amounts

Party B First Floating Rate Amounts: The product of (x) the Back Sharing Percentage and (y) any and all amounts due from Reference Party A under and pursuant to the Reference Transaction (including amounts owed by Reference Party A to the Reference Counterparty or any successor Counterparty in connection with the occurrence of a Reference Transaction Early Termination Date); provided, however, that prior to the occurrence of an Early Accumulation Event or prior to the occurrence and continuation of any Extended Note Amortization Event, any amount payable by Party B on any Interim Payment Date in respect of any Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A under the Reference Transaction shall be equal to the lesser of (i) the Party A Interim Floating Amount payable by Party A under and pursuant to the Reference Transaction on such Interim Payment Date, and (ii) the positive difference (if any) of (A) the Back Swap Sharing Percentage (B) 10% of the product of (I) the Back Sharing Percentage and (II) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period ending on such Interim

Payment Date and (B) the aggregate amounts paid by Party B in respect of any such Party A Interim Floating Amount during the 89 days immediately preceding such Interim Payment Date; provided, further, that, after the occurrence of an Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, the sum of the Party B First Floating Rate Amounts payable after the occurrence of such Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, shall not exceed the Swap Payment Threshold. "Swap Payment Threshold" means the product of (x) the Back Sharing Percentage and (y) the greater of (i) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period immediately preceding the occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable, and (ii) 10% of the product of (A) the Sharing Percentage and (B) the sum of (x) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer on the date such Early Accumulation Event or Extended Note Amortization Event, as applicable, occurred and (y) any cash and Eligible Investments held by the Reference Counterparty on the date of occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable.

Party B First Floating Rate Amount
Payment Dates: Each Payment Date, Interim Payment Date and any Business Day on which Reference Party A owes any Party A Accrued Interest Payment (as defined in the Reference Transaction) and the Termination Date.

Party B Second Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by Reference Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction; provided that such amounts shall be calculated as though the Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Reference Party A was subject to the limitations set forth in the provisos of the Party B First Floating Rate Amounts

hereunder from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction, over (y) the Settlement Amount paid by Party B to Party A in respect of this Transaction.

Party B Second Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party B Second Floating Rate Amount and the Party B Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party B Third Floating Rate Amounts: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, (x) the Settlement Amount paid by Party A to Party B in respect of this Transaction over (y), the product of (i) the Back Sharing Percentage and (ii) the aggregate amount paid by the Reference Counterparty to Reference Party A to pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.

Party B Third Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party B Third Floating Rate Amount and the Party B Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party B Fourth Floating Rate Amounts: The sum of (A) plus (B) where (A) is equal to the product of (x) 0.08%; (y) the Program Size; and (z) the actual number of days in the relevant Calculation Period, divided by 365 and (B) is equal to the product of: (a) 0.12%; (b) the Average Outstanding Principal Balance; and (c) the actual number of days in the relevant Calculation Period, divided by 365.

"Average Outstanding Principal Balance" means, as of the last day of any Calculation Period, the sum of the

Aggregate Outstanding Principal Balances for each day in such Calculation Period divided by the actual number of days in such Calculation Period.

Party B Fourth Floating Rate Amount Payment Dates: Each Payment Date referred to in the Reference Transaction.

Party B Fifth Floating Rate Amounts: Any reasonable fees, costs, damages, expenses or forbearance of interest or other remuneration incurred or otherwise suffered by Party A (collectively, "Damages") in connection with the Reference Transaction or the Intermediate Transaction (including any assignment or transfer thereof, except for Damages resulting out of an Early Termination of the Reference Transaction or the Intermediate Transaction as a result of an Event of Default where Reference Party A or Party A, respectively, is the sole Defaulting Party or Termination Event pursuant to Part 1(g)(i) of the Reference Transaction where Reference Party A or Party A, respectively, is the sole Affected Party) which are not paid or otherwise reimbursed to Party A; provided that such Damages would not have been incurred by Party A but for the Reference Transaction or the Intermediate Transaction. This shall also include any amount received by Party A pursuant to the Intermediate Transaction which Party A was compelled to return to Intermediate Party B or to the Reference Counterparty or its respective successor (including any liquidator, receiver, bankruptcy trustee, or similar entity).

Party B Fifth Floating Rate Amount Payment Date: No later than the second Business Day after Party A notifies Party B of the Party B Fifth Floating Rate Amounts if such notice is received by Party B (orally or otherwise) on or prior to 1:00 p.m. New York time, and no later than the third Business Day after receipt if such notice is received by Party B after such time.

Survival: The provisions regarding the Party B Fifth Floating Rate Amounts and the Party B Fifth Floating Rate Amount Payment Date shall survive the termination of this Transaction.

4. Other Provisions:

Assignment:	This Transaction shall be assigned concurrently with any assignment or transfer of the Reference Transaction by Reference Party A or the Intermediate Transaction by Party A pursuant to the terms thereof. Party B covenants and agrees that it shall directly bear any and all costs associated with such assignment or transfer of this Transaction; *provided, however*, Party A shall bear its own cost associated with the assignment of this Transaction if Party A is the sole Defaulting Party under the Intermediate Transaction.
Reference Counterparty:	Carmel Mountain Funding Trust
Reference Party A:	Calyon New York Branch
Reference Transaction:	The Transaction between Reference Party A and the Reference Counterparty, dated as of the date hereof (which amends and restates the Transaction between Reference Party A and the Reference Counterparty dated as of May 10, 2005), as further amended from time to time (Ref. No. (40247).
Intermediate Transaction:	The Transaction between Intermediate Party B and Party A, dated as of the date hereof (which amends and restates the Transaction between Intermediate Party B and Party A dated as of May 10, 2005), as further amended from time to time (Ref. No. (40249).
Intermediate Party B:	Lehman Brothers Special Financing Inc.

Payment Instructions:

Payments to 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

Payments to Party B:
US Bank
4180 La Jolla Village Drive, Suite 430
La Jolla, CA 92037
ABA # 122235821
Account Name: Accredited Home Lenders, Inc.
Account #153491827918
Attn: Katy Hudson/CMF

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning an executed copy of this Confirmation to us.

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 first written:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

Exhibit 4.11

EXECUTION COPY

ISDA®

International Swaps and Derivatives Association, Inc.

AMENDED AND RESTATED CREDIT SUPPORT ANNEX

to the Amended and Restated Schedule to the

Master Agreement

dated as of August 23, 2006

between

CALYON NEW YORK BRANCH *("Party A")*

ACCREDITED HOME LENDERS, INC. *("Party B")*

This Amended and Restated Credit Support Annex amends and restates in its entirety the Credit Support Annex, dated as of May 10, 2005 (which Credit Support Annex supplements the Schedule dated as of May 10, 2005, between Party A and Party B, which is being amended and restated on the date hereof). 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.

AMENDED AND RESTATED CREDIT SUPPORT ANNEX
Elections and Variables
dated as of August 23, 2006
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.	[X]	100%
(2)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of not more than one year.	[X]	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.	[X]	98%
(4)	negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than ten years.	[X]	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.	[X]	95%
(6)	Other securities acceptable to the secured party: None, unless otherwise specified in the relevant Confirmation.	[X]	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	[X]
Tax Event	[X]
Tax Event Upon Merger	[X]
Credit Event Upon Merger	[X]
Additional Termination Event(s): as set forth in Part 1 (h)	[X]

(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.

For purposes of Paragraph 5(i)(B), "Reference Market makers" shall not include Party A or any other party that has entered into an interest rate swap agreement with Party B in connection with Carmel Mountain Funding Trust.

(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.

i.(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 aggregate Outstanding Purchase Prices of all Mortgage Loans held by the Issuer 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 Potential Event of Default or Event of Default 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.

(x) This Credit Support Annex is subject to the provisions to that certain Swap Counterparty Side Letter, dated as of August 23, 2006 by and among Bank of America N.A., Barclays Bank PLC, HSBC Bank USA, N.A., Calyon New York Branch, Lehman Brothers Special Financing Inc., and Accredited Home Lenders Inc.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

CALYON NEW YORK BRANCH
(Party A)

By: /s/ IAN CHEUNG
Name: Ian Cheung
Title: Director
Date: August 18, 2006

By: /s/ RICARDO L. GOMES
Name: Ricardo L. Gomes
Title: Vice President
Date: August 18, 2006

ACCREDITED HOME LENDERS, INC.
(Party B)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

Exhibit 4.12

EXECUTION COPY

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of August 23, 2006
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

This Amended and Restated Schedule to the Master Agreement amends and restates in its entirety the Schedule dated as of May 10, 2005, between Party A and Party B.

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) $300,000,000 plus (2) 50% of AHLHC's positive quarterly net income for such quarter from the calendar quarter beginning on October 1, 2006,

(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) Repo Agreement Default. An "Event of Default" (as such term is defined in the Repo Agreement) occurs and is continuing.

(iv) 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, for any Person, Net Worth of such person plus (a) Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% of Subordinated Debt) plus minority interest in Accredited Mortgage Loan REIT Trust as shown on the most recent financial statement of Seller, minus (b) (i) servicing rights, and (ii) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organization expenses, deferred expenses, prepaid expenses, prepaid assets, receivables from shareholders, unconsolidated Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with 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.

"Repo Agreement" means the Fourth Amended and Restated Master Repurchase Agreement Governing Purchases and Sales of Mortgage Loans, dated as of June 23, 2006, between Lehman Brothers Bank, FSB, Accredited Mortgage Loan REIT Trust and Party B, dated as of the date hereof, as amended from time to time.

"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.

(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 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 B	An opinion of counsel to 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 or 30 days after request by Party A.	Yes

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d)
Party B	Notice of Amendment to any Program Document.	Upon execution of such amendment.	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 as amended, extended, supplemented or otherwise modified in writing from time to time, and 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, is a Credit Support Document:

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.

(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) **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.

(k) **Furnishing Specified Information.** Section 4(a)(iii) is hereby amended by inserting "promptly upon the earlier of (i)" in lieu of the word "upon" at the beginning thereof and inserting "or (ii) such party learning that the form or document is required before the word "any" on the first line thereof.

(l) **Consent to Disclosure.** Party B consents to Party A effecting such disclosure as Party A may deem appropriate to enable Party A to transfer Party B's records and information, to process and execute Party B's instructions, or in pursuance of Party B's or Party A's commercial interest, to any of its Affiliates. For the avoidance of doubt, Party B's consent to disclosure includes the right on the party of Party A to allow access to any intended recipient of Party B information to the records of Party A by any means.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

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

ACCREDITED HOME LENDERS, INC.
(Name of Party)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

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 4.13

(Multicurrency – Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

BANK OF AMERICA, N.A. 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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

BANK OF AMERICA, N.A.

By: /s/ ROGER HEINTZELMAN

Name: Roger Heintzelman
Title: Senior Vice President
Date: August 16, 2006

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
Name: Patricia M. Child
Title: Vice President
Date:

SCHEDULE
to the Master Agreement
(Multicurrency - Cross Border)
dated as of August 23, 2006

between

BANK OF AMERICA, N.A.
("Party A"),
a national banking association created or organized
under the laws of the United States of America

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) (as modified by (g) below) 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, either 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.

(iii) **Partial Termination Event**. It shall be an Additional Termination Event if a Partial Termination Event occurs pursuant to Section 11.2 of the Mortgage Loan

Purchase and Servicing Agreement and Party A is a Departing Swap Counterparty. Unless such Partial Termination Event shall have been subsequently waived by Party A pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, the Early Termination Date with respect to this Additional Termination Event shall be deemed to occur automatically on the date on which the Partial Termination Condition has been satisfied, if such date occurs on or prior to the date which is ninety (90) days after the occurrence of the related Partial Termination Event. For purposes of the foregoing 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) Party A is a national banking association created or organized under the laws of the United States of America and the federal taxpayer identification number is 94-1687665.

(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 required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3(d)
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 Revenue Service Form W-9, W-8BEN or W-8ECI, as applicable (or any successor thereto).	(i) Upon execution and delivery of this Agreement, (ii) Before the first Payment Date under this Agreement, (iii) promptly upon reasonable demand by Party A or Party B, as applicable, and (iv) promptly upon learning that any such form previously provided by such Party has become obsolete or incorrect.	N/A
Party A	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes
Party B	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes

Part 4. Miscellaneous.

(a) **Addresses for Notices.** For the purpose of Section 12(a):

Address for notices or communications to Party A:

Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, Illinois 60606
Attention: Swap Operations
Telephone No.: 312-234-2732
Facsimile: 312-234-3603

with a copy to:

Bank of America, N.A.
100 N. Tryon St., NC1-007-13-01
Charlotte, North Carolina 28255
Attention: Capital Markets Documentation
Facsimile No.: 704-386-4113

Address for financial statements and program related documents/reports to Party A:

Bank of America, N.A.
Mail Code: NC1-027-19-01
214 North Tryon Street
Charlotte, North Carolina 28255
Attention: CR Structured Finance

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 a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office, or such other Office as may be agreed to by the parties in connection with a Transaction.

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 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" (Section 5(a)(iii) of the Agreement) shall not constitute an Event 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 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 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 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 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. 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 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."

(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 la(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 la (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 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 Sections 5.02, 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(1).

(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. 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 in accordance with Part 5(u), 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 (x) unless 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) and (y) 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) 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 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) Notwithstanding anything in the Agreement and/or this Confirmation to the contrary, following the occurrence of an Additional Termination Event pursuant to Part 1(g)(iii) of this Agreement, no termination payments shall be payable by Party A except (A) Party A shall make all payments due pursuant to this Confirmation through and including the Early Termination Date; and (B) without duplication of the amounts payable pursuant to the foregoing clause (A), 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 A shall not have any further liability to Party B in respect of the termination of this Agreement.

(vi) **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.

"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.

(v) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.

(w) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by deleting the parenthetical "(except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system)".

The parties executing this Schedule have executed the Agreement and have agreed as to the contents of this Schedule.

BANK OF AMERICA, N.A.

By: /s/ ROGER HEINTZELMAN
Name: Roger Heintzelman
Title: Senior 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

CONFIRMATION

Date: August 23, 2006

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: Bank of America, N.A.
CMS Middle Office
1133 Avenue of the Americas, 40th Floor
New York, New York 10036
Attn: Ronald Jost
Telephone: (646) 216-5311
Fax: (646) 733-4090
Attn: Sudha Parthasarathy
Telephone: (646) 733-4389
Fax: (646) 733-4090

Re: Transaction Reference Number: MVS-06-006a

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Bank of America, N.A. ("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 August 23, 2006, 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:	August 23, 2006
Effective Date:	August 23, 2006
Termination Date:	August 23, 2009, 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 of the 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:	$500,000,000.00. 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 September 25, 2006.
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 (other than a Payment Date) 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 on each Party A Accrued Interest Payment Date with respect to which Delinquent Loans or Defaulted Loans existed during the related Calculation Period, the Party A Accrued Interest Payment shall be multiplied by the Credit Reduction Factor for such Party A Accrued Interest Payment 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 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 and (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 Expected Maturity or 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 or Party A Accrued Interest 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 and the Principal Amount Charge-Offs (to the extent not reinstated) 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 Maturities of interest-bearing Secured Liquidity Notes, the accrued but unpaid Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturities 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, lien position 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

Bank of America, New York
ABA 026009593
Account #6550-619389
F/O Bank of America, Charlotte-Collateral

Party B

Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

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,

BANK OF AMERICA, N.A.

By: /s/ LAURA J. OBBARD
Name: Laura J. Obbard
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;

(xxi) the delinquency status;

(xxii) IO Term;

(xxiii) Loan Purpose;

(xxiv) Documentation Type;

(xxv) ARM Code;

(xxvi) Minimum Rate (If ARM Code doesn't include it); and

(xxvii) Maximum Rate (If ARM Code doesn't include it).

Exhibit A-2

EXHIBIT 4.15

(Multicurrency – Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

HSBC BANK USA, NATIONAL ASSOCIATION 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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ SANDRA NICOTRA
Name: Sandra Nicotra
Title: Vice President
Date:

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
Name: Patricia M. Child
Title: Vice President
Date:

SCHEDULE
to the Master Agreement
(Multicurrency - Cross Border)
dated as of August 23, 2006

between

HSBC BANK USA, NATIONAL ASSOCIATION
("Party A"),
a national banking association created or organized
under the laws of the United States of America

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) (as modified by (g) below) 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, either 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.

(iii) **Partial Termination Event.** It shall be an Additional Termination Event if a Partial Termination Event occurs pursuant to Section 11.2 of the Mortgage Loan

Purchase and Servicing Agreement and Party A is a Departing Swap Counterparty. Unless such Partial Termination Event shall have been subsequently waived by Party A pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, the Early Termination Date with respect to this Additional Termination Event shall be deemed to occur automatically on the date on which the Partial Termination Condition has been satisfied, if such date occurs on or prior to the date which is ninety (90) days after the occurrence of the related Partial Termination Event. For purposes of the foregoing 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) Party A is a national banking association created or organized under the laws of the United States of America and the federal taxpayer identification number is 20-1177241.

(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 required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3(d)
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 Revenue Service Form W-9, W-8BEN or W-8ECI, as applicable (or any successor thereto).	(i) Upon execution and delivery of this Agreement, (ii) Before the first Payment Date under this Agreement, (iii) promptly upon reasonable demand by Party A or Party B, as applicable, and (iv) promptly upon learning that any such form previously provided by such Party has become obsolete or incorrect.	N/A
Party A	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes
Party B	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes

Part 4 Miscellaneous.

(a) **Addresses for Notices.** For the purpose of Section 12(a):

Address for notices or communications to Party A:

Address: HSBC Bank USA, National Association
452 Fifth Avenue
New York, NY 10018
Attention: Legal Department
Fax: 212-525-6509

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 a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office, or such other Office as may be agreed to by the parties in connection with a Transaction.

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 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" (Section 5(a)(iii) of the Agreement) shall not constitute an Event 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 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 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 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 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. 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 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."

(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 la(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 la (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 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 Sections 5.02, 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(1).

(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. 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 in accordance with Part 5(u), 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 (x) unless 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) and (y) 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) 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 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) Notwithstanding anything in the Agreement and/or this Confirmation to the contrary, following the occurrence of an Additional Termination Event pursuant to Part 1(g)(iii) of this Agreement, no termination payments shall be payable by Party A except (A) Party A shall make all payments due pursuant to this Confirmation through and including the Early Termination Date; and (B) without duplication of the amounts payable pursuant to the foregoing clause (A), 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 A shall not have any further liability to Party B in respect of the termination of this Agreement.

(vi) **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.

"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.

(v) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.

(w) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by deleting the parenthetical "(except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system)".

The parties executing this Schedule have executed the Agreement and have agreed as to the contents of this Schedule.

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ SANDRA NICOTRA
Name: Sandra Nicotra
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 4.16

CONFIRMATION

Date: August 23, 2006

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: HSBC Bank USA, National Association
452 Fifth Avenue
New York, NY 10018
Attention: Legal Department
Fax: 212-525-6509

Re: Transaction Reference Number: 162387

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between HSBC Bank USA, National Association ("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 August 23, 2006, 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:	August 23 2006
Effective Date:	August 23, 2006
Termination Date:	August 23, 2009, 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 of the 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:	$500,000,000.00. 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 September 25, 2006.

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 (other than a Payment Date) 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 on each Party A Accrued Interest Payment Date with respect to which Delinquent Loans or Defaulted Loans existed during the related Calculation Period, the Party A Accrued Interest Payment shall be multiplied by the Credit Reduction Factor for such Party A Accrued Interest Payment 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 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 and (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 Expected Maturity or 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 or Party A Accrued Interest 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 and the Principal Amount Charge-Offs (to the extent not reinstated) 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 Maturities of interest-bearing

Secured Liquidity Notes, the accrued but unpaid Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturities 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, lien position 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

HSBC Bank USA NA
ABA : 021-001-088
Swift: MRMDUS33
Account Number: 000049298

Party B

Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

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,

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ ELISABETH LEE-ZHOU
Name: Elisabeth Lee-Zhou
Title: Assistant Vice President ID# 13381

By: /s/ KAITITA SIMMMS
Name: Kaitita Simmms
Title: Assistant Vice President ID# 13815

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;

(xxi) the delinquency status;

(xxii) IO Term;

(xxiii) Loan Purpose;

(xxiv) Documentation Type;

(xxv) ARM Code;

(xxvi) Minimum Rate (If ARM Code doesn't include it); and

(xxvii) Maximum Rate (If ARM Code doesn't include it).

Exhibit A-2

EXHIBIT 4.17

(Multicurrency – Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

BARCLAYS BANK PLC 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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

BARCLAYS BANK PLC

By: /s/ JULIE STERN

Name: Julie Stern
Title: Director
Date: August 23, 2006

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
Name: Patricia M. Child
Title: Vice President
Date:

SCHEDULE
to the Master Agreement
(Multicurrency - Cross Border)
dated as of August 23, 2006

between

BARCLAYS BANK PLC
("Party A"),
a public limited company created or organized
under the laws of the United Kingdom

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) (as modified by (g) below) 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, either 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.

(iii) **Partial Termination Event.** It shall be an Additional Termination Event if a Partial Termination Event occurs pursuant to Section 11.2 of the Mortgage Loan

Purchase and Servicing Agreement and Party A is a Departing Swap Counterparty. Unless such Partial Termination Event shall have been subsequently waived by Party A pursuant to Section 11.2 of the Mortgage Loan Purchase and Servicing Agreement, the Early Termination Date with respect to this Additional Termination Event shall be deemed to occur automatically on the date on which the Partial Termination Condition has been satisfied, if such date occurs on or prior to the date which is ninety (90) days after the occurrence of the related Partial Termination Event. For purposes of the foregoing 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:

Party A is a public limited company created or organized under the laws of United Kingdom and the federal taxpayer identification number is 13-4942190.

(i) 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 required to deliver document	Form, Document or Certificate	Date by which to be Delivered	Covered by Section 3(d)
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 Revenue Service Form W-9, W-8BEN or W-8ECI, as applicable (or any successor thereto).	(i) Upon execution and delivery of this Agreement, (ii) Before the first Payment Date under this Agreement, (iii) promptly upon reasonable demand by Party A or Party B, as applicable, and (iv) promptly upon learning that any such form previously provided by such Party has become obsolete or incorrect.	N/A
Party A	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes
Party B	Certified copies of all corporate or partnership authorizations, as the case may be, and any other documents with respect to the execution, delivery and performance of this Agreement and the related Confirmation	Upon execution of this Agreement	Yes

Part 4. Miscellaneous.

(a) **Addresses for Notices.** For the purpose of Section 12(a):

Address for notices or communications to Party A:

Notices should be sent to the address of the relevant branch set forth in the relevant Confirmation (as may be amended from time to time), provided that in the case of notices or communications relating to Section 5, 6, 7, 11 or 13, such notices shall be sent to:

Address: Barclays Capital
200 Park Avenue
New York, New York 10166

Attention: General Counsel
Telephone No.: (212) 412-4000
Facsimile No.: (212) 412-7519

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 a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office, or such other Office as may be agreed to by the parties in connection with a Transaction.

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 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" (Section 5(a)(iii) of the Agreement) shall not constitute an Event 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 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 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 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 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. 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 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."

(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 la(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 la (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 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.

Status of Parties. The other party is not acting as a fiduciary or an advisor for it in respect 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 Sections 5.02, 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(1).

(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. 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 in accordance with Part 5(u), 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 (x) unless 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) and (y) 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) 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 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) Notwithstanding anything in the Agreement and/or this Confirmation to the contrary, following the occurrence of an Additional Termination Event pursuant to Part 1(g)(iii) of this Agreement, no termination payments shall be payable by Party A except (A) Party A shall make all payments due pursuant to this Confirmation through and including the Early Termination Date; and (B) without duplication of the amounts payable pursuant to the foregoing clause (A), 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 A shall not have any further liability to Party B in respect of the termination of this Agreement.

(vi) **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.

"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.

(v) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.

(w) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by deleting the parenthetical "(except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system)".

The parties executing this Schedule have executed the Agreement and have agreed as to the contents of this Schedule.

BARCLAYS BANK PLC

By: /s/ JULIE STERN
Name: Julie Stern
Title: Director

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 4.18

CONFIRMATION

Date: August 23, 2006

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: Barclays Bank PLC
5 The North Colonnade
Canary Wharf
E14 4 BB
Facsimile: 44(20) 777 36810
Telephone No.: 44(20) 7773 6461

Re: Transaction Reference Number: 1369140B

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Barclays Bank PLC ("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 August 23, 2006, 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:	August 23, 2006
Effective Date:	August 23, 2006
Termination Date:	August 23, 2009 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 of the 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:	$500,000,000.00. 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 September 25, 2006.

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 (other than a Payment Date) 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 on each Party A Accrued Interest Payment Date with respect to which Delinquent Loans or Defaulted Loans existed during the related Calculation Period, the Party A Accrued Interest Payment shall be multiplied by the Credit Reduction Factor for such Party A Accrued Interest Payment Date;

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 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 and (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 Expected Maturity or 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 or Party A Accrued Interest 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 and the Principal Amount Charge-Offs (to the extent not reinstated) 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 Maturities of interest-bearing Secured Liquidity Notes, the accrued but unpaid Interest Component from and including the respective Issuance Dates to but excluding the respective Expected Maturities 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, lien position 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

BARCLAYS BANK PLC NEW YORK
FEED: 026002574
Beneficiary: BARCLAYS SWAPS
Beneficiary Account: 050-01922-8

Party B

Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

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,

BARCLAYS BANK PLC

By: /s/ ADAM CARYSFORTH
Name: Adam Carysforth
Title: Authorized Signatory

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;

(xxi) the delinquency status;

(xxii) IO Term;

(xxiii) Loan Purpose;

(xxiv) Documentation Type;

(xxv) ARM Code;

(xxvi) Minimum Rate (If ARM Code doesn't include it); and

(xxvii) Maximum Rate (If ARM Code doesn't include it).

EXHIBIT 4.19

(Multicurrency – Cross Border)

ISDA®
International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

BARCLAYS BANK PLC and **ACCREDITED HOME LENDERS, INC.**

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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

BARCLAYS BANK PLC

By: /s/ JULIE STERN
Name: Julie Stern
Title: Director
Date: August 23, 2006

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of August 23, 2006
between
BARCLAYS BANK PLC ("Party A"),
a national banking association created or organized under
the laws of the United States of America
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 (i) $300,000,000 and (ii) 50% of AHLHC's positive quarterly net income for such quarter from the calendar quarter beginning on October 1, 2006,

(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) [Reserved]

(iv) 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.

(v) 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, for any Person, Net Worth of such person plus (a) Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% of Subordinated Debt) plus minority interest in Accredited Mortgage Loan REIT Trust as shown on the most recent financial statement of Seller, minus (b) (i) servicing rights, and (ii) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organization expenses, deferred expenses, prepaid expenses, prepaid assets, receivables from shareholders, unconsolidated Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with 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.

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 is a public limited company created or organized under the laws of United Kingdom and the federal taxpayer identification number is 13-4942190.

(ii) Party B represents that it is a corporation duly organized and validly existing under the laws of 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) Party A will deliver a completed IRS Form W-8BEN or W-8ECI, as applicable, upon execution and delivery of this Agreement. Party B will deliver a completed IRS Form W-9 upon execution and delivery of this Agreement.

(c) 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 documents evidencing 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 A and Party B	A copy of the annual report of 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 B	For its most recent fiscal quarter, a copy of the unaudited financial statements of 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 B	Any Credit Support Document (s) specified in Part 4 of this Schedule.	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 B	An opinion of counsel to Party B concerning power, authority, enforceability and related matters in form and substance satisfactory to Party A.	Upon execution of this Agreement.	No
Party A	An opinion of counsel to Party A concerning power, authority, enforceability and related matters in form and substance reasonably satisfactory to Party B.	Upon execution of this Agreement.	No
Party B	All notices, reports, documents, certificates information, statements or instructions required to be delivered by or to the Reference Counterparty 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 or 30 days after request by Party A.	Yes
Party B	Notice of Amendment to any Program Document	Upon execution of such amendment	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: Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, IL 60606

Attention: Swap Operations
Telephone No.: 312-234-2732
Facsimile No.: 312-234-3603

with copy to:

Address: Bank of America, N.A.
100 N. Tryon St., N1-007-13-01
Charlotte, North Carolina 28255

Attention: Capital Markets Documentation
Facsimile No.: 704-386-4113

Address for financial statements and program related documents/reports to Party A:

Address: Bank of America, N.A.
Mail Code: N1-027-19-01
214 North Tryon Street
Charlotte, North Carolina 28255

Attention: CR Structured Finance

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 a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office or such other Office as may be agreed to by the parties in connection with a Transaction.

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 as amended, extended, supplemented or otherwise modified in writing from time to time, and 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, is a Credit Support Document:

In the case of **Party A**:

Not Applicable.

In the case of **Party B**:

Credit Support Annex annexed hereto which supplements, forms part of, and is subject to, this Agreement.

(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) **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) Any amount (the "Early Termination Amount") payable to one party (the Payee) by the other party (the Payer) under Section 6(c), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) or (v) has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "Other Agreement Amount") payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Part 5(b).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.
If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Part 5(b) shall be effective to create a charge or other security interest. This Part 5(b) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right of which any party is entitled.

(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) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by deleting, in its entirety, the parenthetical contained in the first and second lines therein, and replacing it with the following: "(except that a notice or other communication under Section 5 or 6 may not be given by electronic messaging system)". Any notice or other communication under Section 5 or 6 given by facsimile transmission shall also be delivered via overnight mail; provided, however, the effective date of any notice or other communication under Section 5 or 6 given by facsimile transmission shall be effective as of the date of receipt for the facsimile transmission as provided in Section 12(a)(iii).

(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.

(k) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.

(l) **Furnishing Specified Information.** Section 4(a)(iii) is hereby amended by inserting "promptly upon the earlier of (i)" in lieu of the word "upon" at the beginning thereof and inserting "or (ii) such party learning that the form or document is required" before the word "any" on the first line thereof.

(m) **Consent to Disclosure.** Party B consents to Party A effecting such disclosure as Party A may deem appropriate to enable Party A to transfer Party B's records

and information, to process and execute Party B's instructions, or in pursuance of Party B's or Party A's commercial interest, to any of its Affiliates. For the avoidance of doubt, Party B's consent to disclosure includes the right on the part of Party A to allow access to any intended recipient of Party B information to the records of Party A by any means.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

BARCLAYS BANK PLC
(Name of Party)

By: /s/ JULIE STERN
Name: Julie Stern
Title: Director

ACCREDITED HOME LENDERS, INC.
(Name of Party)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

EXHIBIT 4.20

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

Master Agreement

dated as of August 23, 2006

between

BARCLAYS BANK PLC
("Party A")

ACCREDITED HOME LENDERS, INC.
("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 August 23, 2006
between
BARCLAYS BANK PLC
(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**. Shall consist of those assets identified by the ICAD codes listed below, as they are defined in the Collateral Asset Definitions. Percentage shown is the Valuation Percentage applicable to the indicated combination of ICAD and Remaining Maturity.

Remaining Maturity

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
US-CASH	100%	N/A	N/A	N/A
US-TBILL	99.5%	N/A	N/A	N/A
US-TNOTE	99.5%	98%	95%	N/A
US-TBOND	99.5%	98%	95%	95%
US-STRIP	95%	95%	95%	95%
US-TIPS	95%	95%	95%	95%
US-GNMA	99.5%	98%	95%	95%
US-FNMA	99.5%	98%	95%	95%
US-FHLMC	99.5%	98%	95%	95%
US-FHLB	99.5%	98%	95%	95%
US-FHLBNC	99.5%	98%	95%	95%
US-FHLBNCDN	99.5%	98%	95%	95%
US-NCAD	99.5%	98%	95%	95%
US-NCADN	99.5%	98%	95%	95%
US-GNMAMBS	99.5%	98%	95%	95%
US-FNMAMBS	99.5%	98%	95%	95%
US-FHLMCMBS	99.5%	98%	95%	95%
US-ARM	99.5%	98%	95%	95%

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
Agency CMO's and REMICS	90%	90%	90%	90%

"Agency CMOs and REMICS" means US-DERIV, as defined in the Collateral Asset Definitions, published by ISDA in June 2003; provided, however, that such definition shall not include derivative structures such as Targeted Amortization Classes ("TAC's"), Support Classes ("Companions"), Z-Bonds, Very Accurately Defined Maturity ("VADMs"), Floaters, Inverse Floaters, Interest Only, Principal Only, Accrued Classes, and other structures deemed unacceptable by the Secured Party.

(iii) **Other Eligible Support.** There shall be no "Other Eligible Support" for Party B for purposes of this Annex.

(iv) **Thresholds.**

(1) **"Independent Amount"** shall mean with respect to Party B, all Hedges and shall not be subject to Minimum Transfer Amount.

(2) **"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.

(3) **"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.

(4) **"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.

(5) **Rounding.** The Delivery Amount and the Return Amount shall be rounded up and down respectively to the nearest integral multiple of USD 10,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means Party A; provided, however, notwithstanding anything to the contrary set forth in this Annex, the Valuation Agent shall not be required to notify Party B of any of Valuation Agent's calculation of Value, Exposure, Delivery Amount or Return Amount under this Annex unless requested to do so (either verbally or in writing) by Party B in each instance.

(ii) **"Valuation Date"** means any Local Business Day commencing on the first such date following the date hereof.

(iii) **"Valuation Time"** means the close of business on the Local Business Day before the Valuation Date or date of calculation as applicable.

(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	**[X]**
Tax Event	**[X]**
Tax Event Upon Merger	**[X]**
Credit Event Upon Merger	**[X]**
Additional Termination Event(s): as set forth in Part I (h)	**[X]**

(e) **Substitution**.

(i) **"Substitution Date"** means the Local Business Day in New York on which the Secured Party is able to confirm irrevocable receipt of the Substitute Credit Support, provided that (x) such receipt is confirmed before 3:00 p.m. (New York time) on such Local Business Day in New York and (y) the Secured Party has received, before 1:00 p.m. (New York time) on the immediately preceding Local Business Day in New York, the notice of substitution described in Paragraph 4 (d)(i).

(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 I 3(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.

For purposes of Paragraph 5(i)(B), "Reference Market-makers" shall not include Party A or any other party that has entered into an interest rate swap agreement with Party B in connection with Carmel Mountain Funding Trust.

(iii) **Alternative.** Paragraph 5 will apply with the following modification with respect to the calculation of the Delivery Amount only and such modification will not apply with respect to the calculation of the Return Amount. 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, as the Secured Party, is not a Defaulting Party.

Initially, the **Custodian** for Party A is: Not applicable.

(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. 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.**

Demands and Notices. All demands, specifications and notices made by a party to this ANNEX will be made to the following:

Party A: ***Barclays Capital***
200 Park Avenue
New York, New York 10166
Attention: General Counsel
Telephone No.: (212) 412-4000
Facsimile No.: (212) 412-7519

(1) Addresses for Transfers.

Party A: ***Cash/Interest Payments: (USD Only)***
BARCLAYS BANK PLC NEW YORK
FEED: 026002574
Beneficiary: BARCLAYS SWAPS
Beneficiary Account: 050-01922-8

Party B: ***Accredited Home Lenders, Inc.***
Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

(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 aggregate Outstanding Purchase Prices of all Mortgage Loans held by the issuer 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 reasonable discretion in good faith) 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 Potential Event of Default or Termination Event 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.

(x) This Credit Support Annex is subject to the provisions to that certain Swap Counterparty Side Letter, dated as of August 23, 2006, by and among Bank of America N.A., Barclays Bank PLC, HSBC Bank USA, N.A., Calyon New York Branch, Lehman Brothers Special Financing Inc., and Accredited Home Lenders Inc.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

BARCLAYS BANK PLC
(Party A)

By: /s/ JULIE STERN
Name: Julie Stern
Title: Director
Date: August 23, 2006

ACCREDITED HOME LENDERS, INC.
(Party B)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

EXHIBIT 4.21

CONFIRMATION

Dated: August 23, 2006

To: Accredited Home Lenders, Inc. ("Party B")
15090 Avenue of Science
San Diego, California 92128
Attention: Katy Hudson
Telephone: 858-676-2177
Fax: 866-278-5876

From: Barclays Bank PLC ("Party A")
5 The North Colonnade
Canary Wharf
E14 4 BB
Facsimile: 44(20) 777 36810
Telephone No.: 44(20) 7773 6461

Re: Swap Transaction Reference No. 1369131B

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Barclays Bank PLC ("Party A") and Accredited Home Lenders, Inc. ("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") and the defined terms set forth in the Reference Transaction (as defined below), to the extent used but not defined herein, are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the Master Agreement, dated as of the date hereof, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in this Confirmation or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in the Security Agreement.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	August 23, 2006
Effective Date:	August 23, 2006
Termination Date:	The earliest to occur of (a) the Termination Date of the Reference Transaction, and (b) an Early Termination

Date (as defined in the Agreement referred to in the Reference Transaction) with respect to the Reference Transaction (a "Reference Transaction Early Termination Date").

In connection with a Termination Date hereunder resulting from a Reference Transaction Early Termination Date, each party shall make all payments pursuant to this Agreement through such Termination Date. Without limitation of the foregoing, Party B shall pay any Party B First Floating Amount relating to any amount owed by Party A to the Reference Counterparty in respect of the early termination of the Reference Transaction. For the avoidance of doubt, no additional payment pursuant to Section 6(e) of this Agreement shall be payable by either party in connection with a termination of this Agreement caused by a Reference Transaction Early Termination Date.

Business Day: As specified in the Reference Transaction.

Business Day Convention: As specified in the Reference Transaction.

Notional Amount: The Notional Amount of the Reference Transaction, subject to adjustment as and when occurring, of the Notional Amount of the Reference Transaction.

Payment Date: As specified in the Reference Transaction.

Interim Payment Date: As specified in the Reference Transaction.

Calculation Agent: Party A

3. Floating Amounts:

A. Party A Floating Amounts

Party A First Floating Rate Amounts: Any and all amounts actually received by Party A from the Reference Counterparty under and pursuant to the Reference Transaction (including amounts received from the Reference Counterparty in connection with the early termination of the Reference Transaction).

Party A First Floating Rate Amount Payment Dates:	Each day on which Party A receives a payment under the Reference Transaction by 3:00 p.m. New York City time and the immediately succeeding Business Day if such payment is received by Party A after such time.
Party A Second Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the Settlement Amount paid by Party B to Party A in respect of this Transaction, over (y) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.
Party A Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party A Second Floating Rate Amount and the Party A Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party A Third Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction over (y), the Settlement Amount paid by Party A to Party B in respect of this Transaction.
Party A Third Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party A Third Floating Rate Amount and the Party A Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

B. Party B Floating Amounts and Fixed Amounts

Party B First Floating Rate Amounts:

Any and all amounts due from Party A under and pursuant to the Reference Transaction (including amounts owed by Party A to the Reference Counterparty or any successor Counterparty in connection with the occurrence of a Reference Transaction Early Termination Date); provided, however, that prior to the occurrence of an Early Accumulation Event or prior to the occurrence and continuation of any Extended Note Amortization Event, any amount payable by Party B on any Interim Payment Date in respect of any Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A under the Reference Transaction shall be equal to the lesser of (i) the Party A Interim Floating Amount payable by Party A under and pursuant to the Reference Transaction on such Interim Payment Date, and (ii) the positive difference (if any) of (A) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period ending on such Interim Payment Date and (B) the aggregate amounts paid by Party B in respect of any such Party A Interim Floating Amount during the 89 days immediately preceding such Interim Payment Date; provided, further, that, after the occurrence of an Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, the sum of the Party B First Floating Rate Amounts payable after the occurrence of such Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, shall not exceed the Swap Payment Threshold.

"Swap Payment Threshold" means the greater of (i) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period immediately preceding the occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable, and (ii) 10% of the product of (A) the Sharing Percentage and (B) the sum of (x) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer on the date such Early Accumulation Event or Extended Note Amortization Event, as applicable, occurred and (y) any cash and Eligible Investments held by the Reference Counterparty on the date of occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable.

Party B First Floating Rate Amount Payment Dates:	Each Payment Date, Interim Payment Date and any Business Day on which Party A owes any Party A Accrued Interest Payment (as defined in the Reference Transaction) and the Termination Date.
Party B Second Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction; provided that such amounts shall be calculated as though the Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A was subject to the limitations set forth in the provisos of the Party B First Floating Rate Amounts hereunder from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction, over (y) the Settlement Amount paid by Party B to Party A in respect of this Transaction.
Party B Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party B Second Floating Rate Amount and the Party B Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party B Third Floating Rate Amounts:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, (x) the Settlement Amount paid by Party A to Party B in respect of this Transaction over (y), the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.

Party B Third Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party B Third Floating Rate Amount and the Party B Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party B Fourth Floating Rate Amounts:	The sum of (A) plus (B) where (A) is equal to the product of (w) 0.07%; (x) the Program Size; (y) the Sharing Percentage and (z) the actual number of days in the relevant Calculation Period, divided by 365 and (B) is equal to the product of: (a) 0.08%; (b) the Average Outstanding Principal Balance; (c) Sharing Percentage and (d) the actual number of days in the relevant Calculation Period, divided by 365.
Party B Fourth Floating Rate Amount Payment Dates:	Each Payment Date referred to in the Reference Transaction and Termination Date.
Party B Fifth Floating Rate Amounts:	Any reasonable fees, costs, damages, expenses or forbearance of interest or other remuneration incurred or otherwise suffered by Party A (collectively, "Damages") in connection with the Reference Transaction (including (x) any assignment or transfer thereof, except for Damages resulting out of an Early Termination of the Reference Transaction as a result of an Event of Default where Party A, is the sole Defaulting Party or Termination Event pursuant to Part 1(g)(i) of the Reference Transaction where Party A, is the sole Affected Party) which are not paid or otherwise reimbursed to Party A; provided that such Damages would not have been incurred by Party A but for the Reference Transaction. This shall also include any amount received by Party A pursuant to the Transaction which Party A was compelled to return to Party B or to the Reference Counterparty or its successor (including any liquidator, receiver, bankruptcy trustee, or similar entity).

Party B Fifth Floating Rate Amount Payment Date:	No later than the second Business Day after Party A notifies Party B of the Party B Fifth Floating Rate Amounts if such notice is received by Party B (orally or otherwise) on or prior to 1:00 p.m. New York time, and no later than the third Business Day after receipt if such notice is received by Party B after such time. Survival: The provisions regarding the Party B Fifth Floating Rate Amounts and the Party B Fifth Floating Rate Amount Payment Date shall survive the termination of this Transaction.

4. Other Provisions:

Assignment:	This Transaction shall be assigned concurrently with any assignment or transfer of the Reference Transaction by Party A pursuant to the terms thereof. Party B covenants and agrees that it shall directly bear any and all costs associated with such assignment or transfer of this Transaction.
Reference Counterparty:	Carmel Mountain Funding Trust
Reference Transaction:	The Transaction between Party A and the Reference Counterparty, dated as of the date hereof, as amended from time to time (Ref. No. (1369131B)).

Payment Instructions:

Payments to Party A:

BARCLAYS BANK PLC NEW YORK
FEED: 026002574
Beneficiary: BARCLAYS SWAPS
Beneficiary Account: 050-01922-8

Payments to Party B:

US Bank
4180 La Jolla Village Drive, Suite 430
La Jolla, CA 92037
ABA # 122235821
Account Name: Accredited Home Lenders, Inc.
Account #153491827918
Attn: Katy Hudson/CMF

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning an executed copy of this Confirmation to us.

Yours Sincerely,

BARCLAYS BANK PLC

By: /s/ ADAM CARYSFORTH
Name: Adam Carysforth
Title: Authorized Signatory

Confirmed as of the date first written:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

EXHIBIT 4.22

(Multicurrency – Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

HSBC BANK USA, NATIONAL ASSOCIATION and **ACCREDITED HOME LENDERS, INC.**

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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ SANDRA NICOTRA
Name: Sandra Nicotra
Title: Vice President
Date:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of August 23, 2006
between
HSBC BANK USA, NATIONAL ASSOCIATION ("Party A"),
a national banking association created or organized under
the laws of the United States of America
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 (i) $300,000,000 and (ii) 50% of AHLHC's positive quarterly net income for such quarter from the calendar quarter beginning on October 1, 2006,

(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) [Reserved]

(iv) 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.

(v) 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, for any Person, Net Worth of such person plus (a) Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% of Subordinated Debt) plus minority interest in Accredited Mortgage Loan REIT Trust as shown on the most recent financial statement of Seller, minus (b) (i) servicing rights, and (ii) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organization expenses, deferred expenses, prepaid expenses, prepaid assets, receivables from shareholders, unconsolidated Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with 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.

Part 2. TAX REPRESENTATIONS

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 is a national banking association created or organized under the laws of the United States of America and the federal taxpayer identification number is 20-1177241.

(ii) Party B represents that it is a corporation duly organized and validly existing under the laws of 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) Party B will deliver a completed IRS Form W-9 upon execution and delivery of this Agreement.

(c) 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 documents evidencing 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 A and Party B	A copy of the annual report of 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 B	For its most recent fiscal quarter, a copy of the unaudited financial statements of 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 B	Any Credit Support Document(s) specified in Part 4 of this Schedule.	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 B	An opinion of counsel to Party B concerning power, authority, enforceability and related matters in form and substance satisfactory to Party A.	Upon execution of this Agreement.	No
Party A	An opinion of counsel to Party A concerning power, authority, enforceability and related matters in form and substance reasonably satisfactory to Party B.	Upon execution of this Agreement.	No
Party B	All notices, reports, documents, certificates information, statements or instructions required to be delivered by or to the Reference Counterparty 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 or 30 days after request by Party A.	Yes
Party B	Notice of Amendment to any Program Document	Upon execution of such amendment	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:	HSBC Bank USA, National Association 452 Fifth Avenue New York, NY 10018
Attention:	Legal Department
Fax:	212-525-6509

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 a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office or such other Office as may be agreed to by the parties in connection with a Transaction.

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 as amended, extended, supplemented or otherwise modified in writing from time to time, and 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, is a Credit Support Document:

In the case of **Party A**:

Not Applicable.

In the case of **Party B**:

Credit Support Annex annexed hereto which supplements, forms part of, and is subject to, this Agreement.

(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) **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) Any amount (the "Early Termination Amount") payable to one party (the Payee) by the other party (the Payer) under Section 6(c), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) or (v) has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "Other Agreement Amount") payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Part 5(b).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Part 5(b) shall be effective to create a charge or other security interest. This Part 5(b) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right of which any party is entitled.

(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) **Notice by Facsimile Transmission.** Section 12(a) is hereby amended by deleting, in its entirety, the parenthetical contained in the first and second lines therein, and replacing it with the following: "(except that a notice or other communication under Section 5 or 6 may not be given by electronic messaging system)". Any notice or other communication under Section 5 or 6 given by facsimile transmission shall also be delivered via overnight mail; provided, however, the effective date of any notice or other communication under Section 5 or 6 given by facsimile transmission shall be effective as of the date of receipt for the facsimile transmission as provided in Section 12(a)(iii).

(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.

(k) **USA PATRIOT Act Notice.** Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.

(l) **Furnishing Specified Information**. Section 4(a)(iii) is hereby amended by inserting "promptly upon the earlier of (i)" in lieu of the word "upon" at the beginning thereof and inserting "or (ii) such party learning that the form or document is required" before the word "any" on the first line thereof.

(m) **Consent to Disclosure**. Party B consents to Party A effecting such disclosure as Party A may deem appropriate to enable Party A to transfer Party B's records and information, to process and execute Party B's instructions, or in pursuance of Party B's or Party A's commercial interest, to any of its Affiliates. For the avoidance of doubt, Party B's consent to disclosure includes the right on the part of Party A to allow access to any intended recipient of Party B information to the records of Party A by any means.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

HSBC BANK USA, NATIONAL ASSOCIATION
(Name of Party)

By: /s/ SANDRA NICOTRA
Name: Sandra Nicotra
Title: Vice President

ACCREDITED HOME LENDERS, INC.
(Name of Party)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

EXHIBIT 4.23

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

Master Agreement

dated as of August 23, 2006

between

HSBC BANK USA, NATIONAL ASSOCIATION *("Party A")*

ACCREDITED HOME LENDERS, INC. *("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 August 23, 2006
between
HSBC BANK USA, NATIONAL ASSOCIATION
(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**. Shall consist of those assets identified by the ICAD codes listed below, as they are defined in the Collateral Asset Definitions. Percentage shown is the Valuation Percentage applicable to the indicated combination of ICAD and Remaining Maturity.

Remaining Maturity

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
US-CASH	100%	N/A	N/A	N/A
US-TBILL	99.5%	N/A	N/A	N/A
US-TNOTE	99.5%	98%	95%	N/A
US-TBOND	99.5%	98%	95%	95%
US-STRIP	95%	95%	95%	95%
US-TIPS	95%	95%	95%	95%
US-GNMA	99.5%	98%	95%	95%
US-FNMA	99.5%	98%	95%	95%
US-FHLMC	99.5%	98%	95%	95%
US-FHLB	99.5%	98%	95%	95%
US-FHLBNC	99.5%	98%	95%	95%
US-FHLBNCDN	99.5%	98%	95%	95%
US-NCAD	99.5%	98%	95%	95%
US-NCADN	99.5%	98%	95%	95%
US-GNMAMBS	99.5%	98%	95%	95%
US-FNMAMBS	99.5%	98%	95%	95%
US-FHLMCMBS	99.5%	98%	95%	95%
US-ARM	99.5%	98%	95%	95%

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
Agency CMO's and REMICS	90%	90%	90%	90%

"Agency CMOs and REMICS" means US-DERIV, as defined in the Collateral Asset Definitions, published by ISDA in June 2003; provided, however, that such definition shall not include derivative structures such as Targeted Amortization Classes ("TAC's"), Support Classes ("Companions"), Z-Bonds, Very Accurately Defined Maturity ("VADMs"), Floaters, Inverse Floaters, Interest Only, Principal Only, Accrued Classes, and other structures deemed unacceptable by the Secured Party.

(iii) **Other Eligible Support.** There shall be no "Other Eligible Support" for Party B for purposes of this Annex.

(iv) **Thresholds.**

(1) **"Independent Amount"** shall mean with respect to Party B, all Hedges and shall not be subject to Minimum Transfer Amount.

(2) **"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.

(3) **"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.

(4) **"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.

(5) **Rounding.** The Delivery Amount and the Return Amount shall be rounded up and down respectively to the nearest integral multiple of USD 10,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means Party A; provided, however, notwithstanding anything to the contrary set forth in this Annex, the Valuation Agent shall not be required to notify Party B of any of Valuation Agent's calculation of Value, Exposure, Delivery Amount or Return Amount under this Annex unless requested to do so (either verbally or in writing) by Party B in each instance.

(ii) **"Valuation Date"** means any Local Business Day commencing on the first such date following the date hereof.

(iii) **"Valuation Time"** means the close of business on the Local Business Day before the Valuation Date or date of calculation as applicable.

(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 I (h)	☒

(e) **Substitution**.

(i) **"Substitution Date"** means the Local Business Day in New York on which the Secured Party is able to confirm irrevocable receipt of the Substitute Credit Support, provided that (x) such receipt is confirmed before 3:00 p.m. (New York time) on such Local Business Day in New York and (y) the Secured Party has received, before 1:00 p.m. (New York time) on the immediately preceding Local Business Day in New York, the notice of substitution described in Paragraph 4 (d)(i).

(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 I 3(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.

For purposes of Paragraph 5(i)(B), "Reference Market-makers" shall not include Party A or any other party that has entered into an interest rate swap agreement with Party B in connection with Carmel Mountain Funding Trust.

(iii) **Alternative.** Paragraph 5 will apply with the following modification with respect to the calculation of the Delivery Amount only and such modification will not apply with respect to the calculation of the Return Amount. 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, as the Secured Party, is not a Defaulting Party.

Initially, the **Custodian** for Party A is: Not applicable.

(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. 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.**

Demands and Notices. All demands, specifications and notices made by a party to this ANNEX will be made to the following:

Party A: ***HSBC Bank USA, National Association***
452 Fifth Avenue
New York, NY 10018
Attention: Legal Department
Fax: 212-525-6509

(1) Addresses for Transfers.

Party A: ***Cash/Interest Payments: (USD Only)***
HSBC Bank USA NA
ABA : 021-001-088
Swift: MRMDUS33
Account Number: 000049298

Party B: ***Accredited Home Lenders, Inc.***
Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

(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 aggregate Outstanding Purchase Prices of all Mortgage Loans held by the issuer 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 reasonable discretion in good faith) 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 Potential Event of Default or Termination Event 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.

(x) This Credit Support Annex is subject to the provisions to that certain Swap Counterparty Side Letter, dated as of August 23, 2006, by and among Bank of America N.A., Barclays Bank PLC, HSBC Bank USA, N.A., Calyon New York Branch, Lehman Brothers Special Financing Inc., and Accredited Home Lenders Inc.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

HSBC BANK USA, NATIONAL ASSOCIATION
(Party A)

By: /s/ SANDRA NICOTRA
Name: Sandra Nicotra
Title: Vice President
Date:

ACCREDITED HOME LENDERS, INC.
(Party B)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

EXHIBIT 4.24

CONFIRMATION

Dated: August 23, 2006

To: Accredited Home Lenders, Inc. ("Party B")
15090 Avenue of Science
San Diego, California 92128
Attention: Katy Hudson
Telephone: 858-676-2177
Fax: 866-278-5876

From: HSBC Bank USA, National Association ("Party A")
452 Fifth Avenue
New York, NY 10018
Attention: Legal Department
Fax: 212-525-6509

Re: Swap Transaction Reference No. 161367

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between HSBC Bank USA, National Association ("Party A") and Accredited Home Lenders, Inc. ("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") and the defined terms set forth in the Reference Transaction (as defined below), to the extent used but not defined herein, are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the Master Agreement, dated as of the date hereof, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in this Confirmation or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in the Security Agreement.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date: August 23, 2006

Effective Date: August 23, 2006

Termination Date: The earliest to occur of (a) the Termination Date of the Reference Transaction, and (b) an Early Termination

Date (as defined in the Agreement referred to in the Reference Transaction) with respect to the Reference Transaction (a "Reference Transaction Early Termination Date").

In connection with a Termination Date hereunder resulting from a Reference Transaction Early Termination Date, each party shall make all payments pursuant to this Agreement through such Termination Date. Without limitation of the foregoing, Party B shall pay any Party B First Floating Amount relating to any amount owed by Party A to the Reference Counterparty in respect of the early termination of the Reference Transaction. For the avoidance of doubt, no additional payment pursuant to Section 6(e) of this Agreement shall be payable by either party in connection with a termination of this Agreement caused by a Reference Transaction Early Termination Date.

Business Day:	As specified in the Reference Transaction.
Business Day Convention:	As specified in the Reference Transaction.
Notional Amount:	The Notional Amount of the Reference Transaction, subject to adjustment as and when occurring, of the Notional Amount of the Reference Transaction.
Payment Date:	As specified in the Reference Transaction.
Interim Payment Date:	As specified in the Reference Transaction.
Calculation Agent:	Party A

3. Floating Amounts:

A. Party A Floating Amounts

Party A First Floating Rate Amounts:	Any and all amounts actually received by Party A from the Reference Counterparty under and pursuant to the Reference Transaction (including amounts received from the Reference Counterparty in connection with the early termination of the Reference Transaction).

Party A First Floating Rate Amount Payment Dates:	Each day on which Party A receives a payment under the Reference Transaction by 3:00 p.m. New York City time and the immediately succeeding Business Day if such payment is received by Party A after such time.
Party A Second Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the Settlement Amount paid by Party B to Party A in respect of this Transaction, over (y) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.
Party A Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party A Second Floating Rate Amount and the Party A Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party A Third Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction over (y), the Settlement Amount paid by Party A to Party B in respect of this Transaction.
Party A Third Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party A Third Floating Rate Amount and the Party A Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

B. Party B Floating Amounts and Fixed Amounts

Party B First Floating Rate Amounts: Any and all amounts due from Party A under and pursuant to the Reference Transaction (including amounts owed by Party A to the Reference Counterparty or any successor Counterparty in connection with the occurrence of a Reference Transaction Early Termination Date); provided, however, that prior to the occurrence of an Early Accumulation Event or prior to the occurrence and continuation of any Extended Note Amortization Event, any amount payable by Party B on any Interim Payment Date in respect of any Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A under the Reference Transaction shall be equal to the lesser of (i) the Party A Interim Floating Amount payable by Party A under and pursuant to the Reference Transaction on such Interim Payment Date, and (ii) the positive difference (if any) of (A) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period ending on such Interim Payment Date and (B) the aggregate amounts paid by Party B in respect of any such Party A Interim Floating Amount during the 89 days immediately preceding such Interim Payment Date; provided, further, that, after the occurrence of an Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, the sum of the Party B First Floating Rate Amounts payable after the occurrence of such Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, shall not exceed the Swap Payment Threshold.

"Swap Payment Threshold" means the greater of (i) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period immediately preceding the occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable, and (ii) 10% of the product of (A) the Sharing Percentage and (B) the sum of (x) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer on the date such Early Accumulation Event or Extended Note Amortization Event, as applicable, occurred and (y) any cash and Eligible Investments

held by the Reference Counterparty on the date of occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable.

Party B First Floating Rate Amount Payment Dates: Each Payment Date, Interim Payment Date and any Business Day on which Party A owes any Party A Accrued Interest Payment (as defined in the Reference Transaction) and the Termination Date.

Party B Second Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction; provided that such amounts shall be calculated as though the Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A was subject to the limitations set forth in the provisos of the Party B First Floating Rate Amounts hereunder from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction, over (y) the Settlement Amount paid by Party B to Party A in respect of this Transaction.

Party B Second Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party B Second Floating Rate Amount and the Party B Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.

Party B Third Floating Rate Amounts: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, (x) the Settlement Amount paid by Party A to Party B in respect of this Transaction over (y), the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.

Party B Third Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party B Third Floating Rate Amount and the Party B Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party B Fourth Floating Rate Amounts:	The sum of (A) plus (B) where (A) is equal to the product of (w) 0.07%; (x) the Program Size; (y) the Sharing Percentage and (z) the actual number of days in the relevant Calculation Period, divided by 365 and (B) is equal to the product of: (a) 0.08%; (b) the Average Outstanding Principal Balance; (c) Sharing Percentage and (d) the actual number of days in the relevant Calculation Period, divided by 365.
Party B Fourth Floating Rate Amount Payment Dates:	Each Payment Date referred to in the Reference Transaction and Termination Date.
Party B Fifth Floating Rate Amounts:	Any reasonable fees, costs, damages, expenses or forbearance of interest or other remuneration incurred or otherwise suffered by Party A (collectively, "Damages") in connection with the Reference Transaction (including (x) any assignment or transfer thereof, except for Damages resulting out of an Early Termination of the Reference Transaction as a result of an Event of Default where Party A, is the sole Defaulting Party or Termination Event pursuant to Part 1(g)(i) of the Reference Transaction where Party A, is the sole Affected Party) which are not paid or otherwise reimbursed to Party A; provided that such Damages would not have been incurred by Party A but for the Reference Transaction. This shall also include any amount received by Party A pursuant to the Transaction which Party A was compelled to return to Party B or to the Reference Counterparty or its successor (including any liquidator, receiver, bankruptcy trustee, or similar entity).

Party B Fifth Floating Rate Amount Payment Date:	No later than the second Business Day after Party A notifies Party B of the Party B Fifth Floating Rate Amounts if such notice is received by Party B (orally or otherwise) on or prior to 1:00 p.m. New York time, and no later than the third Business Day after receipt if such notice is received by Party B after such time. Survival: The provisions regarding the Party B Fifth Floating Rate Amounts and the Party B Fifth Floating Rate Amount Payment Date shall survive the termination of this Transaction.

4. Other Provisions:

Assignment:	This Transaction shall be assigned concurrently with any assignment or transfer of the Reference Transaction by Party A pursuant to the terms thereof. Party B covenants and agrees that it shall directly bear any and all costs associated with such assignment or transfer of this Transaction.
Reference Counterparty:	Carmel Mountain Funding Trust
Reference Transaction:	The Transaction between Party A and the Reference Counterparty, dated as of the date hereof, as amended from time to time (Ref. No. (161367)).

Payment Instructions:

Payments to Party A:

HSBC Bank USA NA
ABA : 021-001-088
Swift: MRMDUS33
Account Number: 000049298

Payments to Party B:

US Bank
4180 La Jolla Village Drive, Suite 430
La Jolla, CA 92037
ABA # 122235821
Account Name: Accredited Home Lenders, Inc.
Account #153491827918
Attn: Katy Hudson/CMF

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning an executed copy of this Confirmation to us.

Yours Sincerely,

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ ELISABETH LEE-ZHOU
Name: Elisabeth Lee-Zhou
Title: Assistant Vice President
ID # 13381

By: /s/ KAITITA SIMMONS
Name: Kaitita Simmons
Title: Assistant Vice President
ID # 13815

Confirmed as of the date first written:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

EXHIBIT 4.25

(Multicurrency – Cross Border)

ISDA®

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of August 23, 2006

BANK OF AMERICA, N.A. and **ACCREDITED HOME LENDERS, INC.**

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 purpose 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 and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(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); of

(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 the 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 be entered into as soon as practicable and may be 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 all

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(c)(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 meaning 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.

BANK OF AMERICA, N.A.

By: /s/ ROGER HEINTZELMAN
Name: Roger Heintzelman
Title: Senior Vice President
Date: August 16, 2006

ACCREDITED HOME LENDERS, INC

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

(Multicurrency-Cross Border)

SCHEDULE
to the
Master Agreement
dated as of August 23, 2006
between
BANK OF AMERICA, N.A. ("Party A"),
a national banking association created or organized under
the laws of the United States of America
and
ACCREDITED HOME LENDERS, INC. ("Party B"),
a corporation organized under the laws of
Delaware

TERMINATION PROVISIONS

In this Agreement:

"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.

"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).**

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.

The "Credit Event Upon Merger**" provisions of Section 5(b)(iv) will not apply to Party A and will apply to Party B.**

The "Automatic Early Termination**" provision of Section 6(a) will not apply to Party A and will not apply to Party B.**

Payments on Early Termination**. For the purpose of Section 6(e) of this Agreement, Loss and the Second Method will apply.**

"Termination Currency**" means United States Dollars ("USD").**

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:**

Financial Covenants. AHLHC shall fail to maintain:

at any time, a minimum Adjusted Tangible Net Worth of at least the sum of (i) $300,000,000 and (ii) 50% of AHLHC's positive quarterly net income for such quarter from the calendar quarter beginning on October 1, 2006,

as of the last business day of each fiscal quarter, an Interest Coverage Ratio of at least 1.10:1.0,

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,

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

at any time, a ratio of Recourse Debt to Tangible Net Worth Ratio that is less than or equal to 17.0:1.0.

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.

[Reserved]

Change of Control. A Designated Event (as defined below) occurs with respect to Party B. A "Designated Event" means that:

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;

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

Party B shall cease to be a wholly-owned subsidiary of AHLHC.

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, for any Person, Net Worth of such person plus (a) Subordinated Debt (provided that Subordinated Debt shall not be taken into account to the extent that it would cause Adjusted Tangible Net Worth to be comprised of greater than 25% of Subordinated Debt) plus minority interest in Accredited Mortgage Loan REIT Trust as shown on the most recent financial statement of Seller, minus (b) (i) servicing rights, and (ii) all intangible assets, including goodwill, patents, tradenames, trademarks, copyrights, franchises, any organization expenses, deferred expenses, prepaid expenses, prepaid assets, receivables from shareholders, unconsolidated Affiliates or employees, and any other asset as shown as an intangible asset on the balance sheet of such Person on a consolidated basis as determined at a particular date in accordance with 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.

TAX REPRESENTATIONS

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.

Payee Tax Representations**. For the purpose of Section 3(f) of this Agreement:**

Party A is a national banking association created or organized under the laws of the United States of America and the federal taxpayer identification number is 94-1687665.

Party B represents that it is a corporation duly organized and validly existing under the laws of the State of California and its federal taxpayer identification number is 33-0426859.

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:

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.

Party B will deliver a completed IRS Form W-9 upon execution and delivery of this Agreement.

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 documents evidencing 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 A and Party B	A copy of the annual report of 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 B	For its most recent fiscal quarter, a copy of the unaudited financial statements of 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 B	Any Credit Support Document(s) specified in Part 4 of this Schedule.	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 B	An opinion of counsel to Party B concerning power, authority, enforceability and related matters in form and substance satisfactory to Party A.	Upon execution of this Agreement.	No
Party A	An opinion of counsel to Party A concerning power, authority, enforceability and related matters in form and substance reasonably satisfactory to Party B.	Upon execution of this Agreement.	No
Party B	All notices, reports, documents, certificates information, statements or instructions required to be delivered by or to the Reference Counterparty 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 or 30 days after request by Party A.	Yes
Party B	Notice of Amendment to any Program Document	Upon execution of such amendment	Yes

MISCELLANEOUS

Addresses for Notices**. For the purpose of Section 12(a) of this Agreement:**

Address for notices or communications to **Party A**:

Address: Bank of America, N.A.
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, IL 60606

Attention: Swap Operations
Telephone No.: 312-234-2732
Facsimile No.: 312-234-3603

with a copy to:

Address: Bank of America, N.A.
100 N. Tryon St., N1-007-13-01
Charlotte, North Carolina 28255

Attention: Capital Markets Documentation
Facsimile No.: 704-386-4113

Address for financial statements and program related documents/reports to **Party A:**

Address: Bank of America, N.A.
Mail Code: N1-027-19-01
214 North Tryon Street
Charlotte, North Carolina 28255

Attention: CR Structured Finance

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.

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.

Offices**. The provisions of Section 10(a) will apply to this Agreement.**

Multibranch Party**. For the purpose of Section 10(c) of this Agreement:**

Party A is a Multibranch Party and may act through its Charlotte, North Carolina, Chicago, Illinois, San Francisco, California, New York, New York, Boston, Massachusetts or London, England Office or such other Office as may be agreed to by the parties in connection with a Transaction.

Party B is not a Multibranch Party.

Calculation Agent**. The Calculation Agent is Party A.**

Credit Support Document**. Details of any Credit Support Document: Each as amended, extended, supplemented or otherwise modified in writing from time to time, and 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, is a Credit Support Document:**

In the case of **Party A**:

Not Applicable.

In the case of **Party B**:

Credit Support Annex annexed hereto which supplements, forms part of, and is subject to, this Agreement.

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.

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).

Netting of Payments**. Subparagraph (ii) of Section 2(c) of this Agreement will apply to any Transactions.**

"Affiliate**" will have the meaning specified in Section 14 of this Agreement.**

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.**

OTHER PROVISIONS

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."

Set-off**. Section 6 of this Agreement is hereby amended by adding the following new subsection 6(f):**

(f) Any amount (the "Early Termination Amount") payable to one party (the Payee) by the other party (the Payer) under Section 6(c), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) or (v) has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "Other Agreement Amount") payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this Part 5(b).

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this Part 5(b) shall be effective to create a charge or other security interest. This Part 5(b) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right of which any party is entitled.

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.**

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."**

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.**

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."**

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).**

Notice by Facsimile Transmission**. Section 12(a) is hereby amended by deleting, in its entirety, the parenthetical contained in the first and second lines therein, and replacing it with the following: "(except that a notice or other communication under Section 5 or 6 may not be given by electronic messaging system)". Any notice or other communication under Section 5 or 6 given by facsimile transmission shall also be delivered via overnight mail; provided, however, the effective date of any notice or other communication under Section 5 or 6 given by facsimile transmission shall be effective as of the date of receipt for the facsimile transmission as provided in Section 12(a)(iii).**

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.**

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.**

USA PATRIOT Act Notice**. Party A hereby notifies Party B that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies Party B, which information includes the name and address of Party B and other information that will allow Party A to identify Party B in accordance with the Act.**

Furnishing Specified Information. **Section 4(a)(iii) is hereby amended by inserting "promptly upon the earlier of (i)" in lieu of the word "upon" at the beginning thereof and inserting "or (ii) such party learning that the form or document is required" before the word "any" on the first line thereof.**

Consent to Disclosure. **Party B consents to Party A effecting such disclosure as Party A may deem appropriate to enable Party A to transfer Party B's records**

and information, to process and execute Party B's instructions, or in pursuance of Party B's or Party A's commercial interest, to any of its Affiliates. For the avoidance of doubt, Party B's consent to disclosure includes the right on the part of Party A to allow access to any intended recipient of Party B information to the records of Party A by any means.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

BANK OF AMERICA, N.A.	**ACCREDITED HOME LENDERS, INC.**
(Name of Party)	*(Name of Party)*
By: /s/ ROGER HEINTZELMAN	By: /s/ CHARLES O. RYAN
Name: Roger Heintzelman	Name: Charles O. Ryan
Title: Senior Vice President	Title: Securitization Coordinator

EXHIBIT 4.26

ISDA®

International Swaps and Derivatives Association, Inc.

CREDIT SUPPORT ANNEX

to the Schedule to the

Master Agreement

dated as of August 23, 2006

between

BANK OF AMERICA, N.A. *("Party A")* **ACCREDITED HOME LENDERS, INC.** *("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 August 23, 2006
between
BANK OF AMERICA, N.A.
(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**. Shall consist of those assets identified by the ICAD codes listed below, as they are defined in the Collateral Asset Definitions. Percentage shown is the Valuation Percentage applicable to the indicated combination of ICAD and Remaining Maturity.

Remaining Maturity

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
US-CASH	100%	N/A	N/A	N/A
US-TBILL	99.5%	N/A	N/A	N/A
US-TNOTE	99.5%	98%	95%	N/A
US-TBOND	99.5%	98%	95%	95%
US-STRIP	95%	95%	95%	95%
US-TIPS	95%	95%	95%	95%
US-GNMA	99.5%	98%	95%	95%
US-FNMA	99.5%	98%	95%	95%
US-FHLMC	99.5%	98%	95%	95%
US-FHLB	99.5%	98%	95%	95%
US-FHLBNC	99.5%	98%	95%	95%
US-FHLBNCDN	99.5%	98%	95%	95%
US-NCAD	99.5%	98%	95%	95%
US-NCADN	99.5%	98%	95%	95%
US-GNMAMBS	99.5%	98%	95%	95%
US-FNMAMBS	99.5%	98%	95%	95%
US-FHLMCMBS	99.5%	98%	95%	95%
US-ARM	99.5%	98%	95%	95%

ICAD Code	One (1) year or under	More than one (1) year up to and including five (5) years	More than five (5) years up to and including ten (10) years	More than ten (10) years
Agency CMO's and REMICS	90%	90%	90%	90%

"Agency CMOs and REMICS" means US-DERIV, as defined in the Collateral Asset Definitions, published by ISDA in June 2003; provided, however, that such definition shall not include derivative structures such as Targeted Amortization Classes ("TAC's"), Support Classes ("Companions"), Z-Bonds, Very Accurately Defined Maturity ("VADMs"), Floaters, Inverse Floaters, Interest Only, Principal Only, Accrued Classes, and other structures deemed unacceptable by the Secured Party.

(iii) **Other Eligible Support.** There shall be no "Other Eligible Support" for Party B for purposes of this Annex.

(iv) **Thresholds.**

(1) **"Independent Amount"** shall mean with respect to Party B, all Hedges and shall not be subject to Minimum Transfer Amount.

(2) **"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.

(3) **"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.

(4) **"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.

(5) **Rounding.** The Delivery Amount and the Return Amount shall be rounded up and down respectively to the nearest integral multiple of USD 10,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means Party A; provided, however, notwithstanding anything to the contrary set forth in this Annex, the Valuation Agent shall not be required to notify Party B of any of Valuation Agent's calculation of Value, Exposure, Delivery Amount or Return Amount under this Annex unless requested to do so (either verbally or in writing) by Party B in each instance.

(ii) **"Valuation Date"** means any Local Business Day commencing on the first such date following the date hereof.

(iii) **"Valuation Time"** means the close of business on the Local Business Day before the Valuation Date or date of calculation as applicable.

(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	[X]
Tax Event	[X]
Tax Event Upon Merger	[X]
Credit Event Upon Merger	[X]
Additional Termination Event(s): as set forth in Part I (h)	[X]

(e) **Substitution**.

(i) **"Substitution Date"** means the Local Business Day in New York on which the Secured Party is able to confirm irrevocable receipt of the Substitute Credit Support, provided that (x) such receipt is confirmed before 3:00 p.m. (New York time) on such Local Business Day in New York and (y) the Secured Party has received, before 1:00 p.m. (New York time) on the immediately preceding Local Business Day in New York, the notice of substitution described in Paragraph 4 (d)(i).

(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 I 3(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.

For purposes of Paragraph 5(i)(B), "Reference Market-makers" shall not include Party A or any other party that has entered into an interest rate swap agreement with Party B in connection with Carmel Mountain Funding Trust.

(iii) **Alternative.** Paragraph 5 will apply with the following modification with respect to the calculation of the Delivery Amount only and such modification will not apply with respect to the calculation of the Return Amount. 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, as the Secured Party, is not a Defaulting Party.

Initially, the **Custodian** for Party A is: Not applicable.

(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. 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.**

Demands and Notices. All demands, specifications and notices made by a party to this ANNEX will be made to the following:

Party A: ***Bank of America, N.A.***
Sears Tower
233 South Wacker Drive, Suite 2800
Chicago, Illinois 60606-6306
Telephone No. (312) 234-3030
Facsimile: (312) 234-2731

(1) Addresses for Transfers.

Party A: ***Cash/Interest Payments: (USD Only)***
Bank of America, New York
ABA 026009593
Account #6550-619389
F/O Bank of America, Charlotte-Collateral

Eligible Collateral (other than cash):
BK AMERICA NC/INV
ABA # 053 000 196

Party B: ***Accredited Home Lenders, Inc.***
Deutsche Bank Trust Company Americas
ABA 021001033
Acct: 01419647
Name: TSS
Ref: Accredited Coll Account
Attn: Lisa Karlsen

(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 aggregate Outstanding Purchase Prices of all Mortgage Loans held by the issuer 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 reasonable discretion in good faith) 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 Potential Event of Default or Termination Event 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.

(x) This Credit Support Annex is subject to the provisions to that certain Swap Counterparty Side Letter, dated as of August 23, 2006, by and among Bank of America N.A., Barclays Bank PLC, HSBC Bank USA, N.A., Calyon New York Branch, Lehman Brothers Special Financing Inc., and Accredited Home Lenders Inc.

The parties executing this Credit Support Annex have executed the Master Agreement and have agreed as to the contents of this Credit Support Annex.

BANK OF AMERICA, N.A.
(Party A)

By: /s/ ROGER HEINTZELMAN
Name: Roger Heintzelman
Title: Senior Vice President
Date: August 16, 2006

ACCREDITED HOME LENDERS, INC.
(Party B)

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator
Date:

EXHIBIT 4.27

CONFIRMATION

Dated: August 23, 2006

To: Accredited Home Lenders, Inc. ("Party B")
15090 Avenue of Science
San Diego, California 92128
Attention: Katy Hudson
Telephone: 858-676-2177
Fax: 866-278-5876

From: Bank of America, N.A.
CMS Middle Office
1133 Avenue of the Americas, 40th Floor
New York, New York 10036
Attn: Ronald Jost
Telephone: (646) 216-5311
Fax: (646) 733-4090
Attn: Sudha Parthasarathy
Telephone: (646) 733-4389
Fax: (646) 733-4090

Re: Swap Transaction Reference No. MVS-06-006b

Ladies and Gentlemen:

The purpose of this letter agreement is to set forth the terms and conditions of the Swap Transaction entered into between Bank of America, N.A. ("Party A") and Accredited Home Lenders, Inc. ("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") and the defined terms set forth in the Reference Transaction (as defined below), to the extent used but not defined herein, are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the Master Agreement, dated as of the date hereof, as amended and supplemented from time to time (the "Agreement"), between you and us. All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below. Unless otherwise defined in this Confirmation or in the Definitions, capitalized terms used herein have the meanings ascribed to such terms in the Security Agreement.

2. The terms of the Transaction to which this Confirmation relates are as follows:

Trade Date:	August 23, 2006
Effective Date:	August 23, 2006
Termination Date:	The earliest to occur of (a) the Termination Date of the Reference Transaction, and (b) an Early Termination Date (as defined in the Agreement referred to in the Reference Transaction) with respect to the Reference Transaction (a "Reference Transaction Early Termination Date"). In connection with a Termination Date hereunder resulting from a Reference Transaction Early Termination Date, each party shall make all payments pursuant to this Agreement through such Termination Date. Without limitation of the foregoing, Party B shall pay any Party B First Floating Amount relating to any amount owed by Party A to the Reference Counterparty in respect of the early termination of the Reference Transaction. For the avoidance of doubt, no additional payment pursuant to Section 6(e) of this Agreement shall be payable by either party in connection with a termination of this Agreement caused by a Reference Transaction Early Termination Date.
Business Day:	As specified in the Reference Transaction.
Business Day Convention:	As specified in the Reference Transaction.
Notional Amount:	The Notional Amount of the Reference Transaction, subject to adjustment as and when occurring, of the Notional Amount of the Reference Transaction.
Payment Date:	As specified in the Reference Transaction.
Interim Payment Date:	As specified in the Reference Transaction.
Calculation Agent:	Party A

3. Floating Amounts:

A. Party A Floating Amounts

Party A First Floating Rate Amounts:	Any and all amounts actually received by Party A from the Reference Counterparty under and pursuant to the Reference Transaction (including amounts received from the Reference Counterparty in connection with the early termination of the Reference Transaction).
Party A First Floating Rate Amount Payment Dates:	Each day on which Party A receives a payment under the Reference Transaction by 3:00 p.m. New York City time and the immediately succeeding Business Day if such payment is received by Party A after such time.
Party A Second Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the Settlement Amount paid by Party B to Party A in respect of this Transaction, over (y) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.
Party A Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party A Second Floating Rate Amount and the Party A Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party A Third Floating Rate Amount:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction over (y), the Settlement Amount paid by Party A to Party B in respect of this Transaction.

Party A Third Floating Rate Amount Payment Date: One Business Day after the Termination Date of the Reference Transaction.

Survival: The provisions regarding the Party A Third Floating Rate Amount and the Party A Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.

B. Party B Floating Amounts and Fixed Amounts

Party B First Floating Rate Amounts: Any and all amounts due from Party A under and pursuant to the Reference Transaction (including amounts owed by Party A to the Reference Counterparty or any successor Counterparty in connection with the occurrence of a Reference Transaction Early Termination Date); provided, however, that prior to the occurrence of an Early Accumulation Event or prior to the occurrence and continuation of any Extended Note Amortization Event, any amount payable by Party B on any Interim Payment Date in respect of any Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A under the Reference Transaction shall be equal to the lesser of (i) the Party A Interim Floating Amount payable by Party A under and pursuant to the Reference Transaction on such Interim Payment Date, and (ii) the positive difference (if any) of (A) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period ending on such Interim Payment Date and (B) the aggregate amounts paid by Party B in respect of any such Party A Interim Floating Amount during the 89 days immediately preceding such Interim Payment Date; provided, further, that, after the occurrence of an Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, the sum of the Party B First Floating Rate Amounts payable after the occurrence of such Early Accumulation Event or after the occurrence and during the continuation of any Extended Note Amortization Event, shall not exceed the Swap Payment Threshold.

"Swap Payment Threshold" means the greater of (i) 10% of the product of (A) the Sharing Percentage and (B) the average daily aggregate Outstanding Purchase Prices of Mortgage Loans owned by the Issuer over the 90-day period immediately preceding the occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable, and (ii) 10% of the product of (A) the Sharing Percentage and (B) the sum of (x) the aggregate Outstanding Purchase Price of the Mortgage Loans owned by the Issuer on the date such Early Accumulation Event or Extended Note Amortization Event, as applicable, occurred and (y) any cash and Eligible Investments held by the Reference Counterparty on the date of occurrence of such Early Accumulation Event or Extended Note Amortization Event, as applicable.

Party B First Floating Rate Amount Payment Dates: Each Payment Date, Interim Payment Date and any Business Day on which Party A owes any Party A Accrued Interest Payment (as defined in the Reference Transaction) and the Termination Date.

Party B Second Floating Rate Amount: In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, of (x) the aggregate amount paid by Party A to the Reference Counterparty pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction; provided that such amounts shall be calculated as though the Party A Interim Floating Amount (as defined in the Reference Transaction) payable by Party A was subject to the limitations set forth in the provisos of the Party B First Floating Rate Amounts hereunder from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction, over (y) the Settlement Amount paid by Party B to Party A in respect of this Transaction.

Party B Second Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party B Second Floating Rate Amount and the Party B Second Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party B Third Floating Rate Amounts:	In the event that this Transaction is terminated prior to the Termination Date of the Reference Transaction, the excess, if any, (x) the Settlement Amount paid by Party A to Party B in respect of this Transaction over (y), the aggregate amount paid by the Reference Counterparty to Party A pursuant to the Reference Transaction from and including the Early Termination Date of this Transaction to the Termination Date of the Reference Transaction.
Party B Third Floating Rate Amount Payment Date:	One Business Day after the Termination Date of the Reference Transaction. Survival: The provisions regarding the Party B Third Floating Rate Amount and the Party B Third Floating Rate Amount Payment Date shall survive the termination of this Transaction.
Party B Fourth Floating Rate Amounts:	The sum of (A) plus (B) where (A) is equal to the product of (w) 0.07%; (x) the Program Size; (y) the Sharing Percentage and (z) the actual number of days in the relevant Calculation Period, divided by 365 and (B) is equal to the product of: (a) 0.08%; (b) the Average Outstanding Principal Balance; (c) Sharing Percentage and (d) the actual number of days in the relevant Calculation Period, divided by 365.
Party B Fourth Floating Rate Amount Payment Dates:	Each Payment Date referred to in the Reference Transaction and Termination Date.
Party B Fifth Floating Rate Amounts:	Any reasonable fees, costs, damages, expenses or forbearance of interest or other remuneration incurred or otherwise suffered by Party A (collectively, "Damages") in connection with the Reference Transaction (including (x) any assignment or transfer

thereof, except for Damages resulting out of an Early Termination of the Reference Transaction as a result of an Event of Default where Party A, is the sole Defaulting Party or Termination Event pursuant to Part 1(g)(i) of the Reference Transaction where Party A, is the sole Affected Party) which are not paid or otherwise reimbursed to Party A; provided that such Damages would not have been incurred by Party A but for the Reference Transaction. This shall also include any amount received by Party A pursuant to the Transaction which Party A was compelled to return to Party B or to the Reference Counterparty or its successor (including any liquidator, receiver, bankruptcy trustee, or similar entity).

Party B Fifth Floating Rate Amount Payment Date: No later than the second Business Day after Party A notifies Party B of the Party B Fifth Floating Rate Amounts if such notice is received by Party B (orally or otherwise) on or prior to 1:00 p.m. New York time, and no later than the third Business Day after receipt if such notice is received by Party B after such time.

Survival: The provisions regarding the Party B Fifth Floating Rate Amounts and the Party B Fifth Floating Rate Amount Payment Date shall survive the termination of this Transaction.

4. Other Provisions:

Assignment: This Transaction shall be assigned concurrently with any assignment or transfer of the Reference Transaction by Party A pursuant to the terms thereof. Party B covenants and agrees that it shall directly bear any and all costs associated with such assignment or transfer of this Transaction.

Reference Counterparty: Carmel Mountain Funding Trust

Reference Transaction: The Transaction between Party A and the Reference Counterparty, dated as of the date hereof, as amended from time to time (Ref. No. (MVS-06-006b)).

Payment Instructions:

Payments to Party A:

Bank of America, New York
ABA 026009593
Account #6550-619389
F/O Bank of America, Charlotte-Collateral

Payments to Party B:

US Bank
4180 La Jolla Village Drive, Suite 430
La Jolla, CA 92037
ABA # 122235821
Account Name: Accredited Home Lenders, Inc.
Account #153491827918
Attn: Katy Hudson/CMF

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by returning an executed copy of this Confirmation to us.

Yours Sincerely,

BANK OF AMERICA, N.A.

By: /s/ LAURA J. OBBARD
Name: Laura J. Obbard
Title: Vice President

Confirmed as of the date first written:

ACCREDITED HOME LENDERS, INC.

By: /s/ CHARLES O. RYAN
Name: Charles O. Ryan
Title: Securitization Coordinator

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Rule 13a-14a/15d-14(a)

I, James A. Konrath, certify that:

1. I have reviewed this Form 10-Q 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 13(a)-15(f) and 15(d)-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, including its consolidated subsidiaries, 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 controls over financial reporting, or caused such internal controls 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 the registrant's Board of Directors (or persons performing the equivalent function):

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.

Dated: November 9, 2006

By: /s/ JAMES A. KONRATH

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

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to Rule 13a-14a/15d-14(a)

I, Stuart D. Marvin, certify that:

1. I have reviewed this Form 10-Q 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 13(a)-15(f) and 15(d)-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, including its consolidated subsidiaries, 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 controls over financial reporting, or caused such internal controls 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 the registrant's Board of Directors (or persons performing the equivalent function):

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.

Dated: November 9, 2006

By: /s/ STUART D. MARVIN

Stuart D. Marvin
Executive Vice President and Secretary

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350

I, James A. Konrath, Chief Executive Officer of Accredited Home Lenders Holding Co. (the "Registrant"), do hereby certify in accordance with Rule 13a-14(b)/15d-14(b) and Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) 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.

Dated: November 9, 2006

By: /s/ JAMES A. KONRATH

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

EXHIBIT 32.2

Certification of Principal Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350

I, Stuart D. Marvin, Principal Financial Officer of Accredited Home Lenders Holding Co. (the "Registrant"), do hereby certify in accordance with Rule 13a-14(b)/15d-14(b) and Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) 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.

Dated: November 9, 2006

By: /s/ STUART D. MARVIN
Stuart D. Marvin
Executive Vice President and Secretary