

UNDERCOLLATERALIZED EXAMPLE ¹

The example below is intended to provide a simplified illustration of how Permitted Policy Claims will be paid under the Plan and the Payment Guidelines. For present purposes, it is assumed that there is one Policy insuring only one series of Insured Obligations, secured by one pool of mortgage loan collateral, in an undercollateralizing transaction, where the outstanding principal balance of the Insured Obligations is not reduced by realized losses on the mortgage loans (“Undercollateralized Transaction”). The example covers a period of four months and commences in month one, when the first Claim under the Policy is submitted to the Segregated Account in accordance with the Payment Guidelines.

Shown below are the monthly calculations and Payments associated with Permitted Policy Claims under the Payment Guidelines, including Interim Payments (initially at a 25% Interim Payment Percentage), the creation of Deferred Amounts (including Deferred Loss Amounts and Accretion Amounts) and the effect of Recovery Amounts.

Month One - Submission of a Policy Claim

In month one, the Beginning Bond Balance and Beginning Collateral Balance for this transaction are both \$1,000 (A1) and (B1). Principal collections received during the month from payments on the underlying mortgage loans (“Intrinsic Principal”) are \$20 (C1). During the month, the collateral suffers a \$100 realized loss (D1), resulting in a Policy Claim submission of \$100 (“Month One Policy Claim”). The Month One Policy Claim is not Permitted in month one (E1) because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month One Policy Claim.

The payment of Intrinsic Principal reduces the Beginning Bond Balance by \$20, resulting in an Ending Bond Balance of \$980 (H1). Together, the \$20 Intrinsic Principal and the \$100 realized loss reduce the Beginning Collateral Balance by \$120, leaving an Ending Collateral Balance of \$880 (I1).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 Intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				

¹ Capitalized terms and expressions not defined or explained herein have the meanings given to such terms in the Payment Guidelines. Amounts used in this example are representative only, and do not reflect any actual claims and are based on assumptions that may not be applicable to any particular policy. The calculations, and events specified in the example are based on assumptions made for illustrative purposes only and may not reflect what may occur in reality or in the future. The Rehabilitator will make determinations in respect of payments by the Segregated Account in his sole and absolute discretion, in accordance with the Plan and the Payment Guidelines.

Month Two – Interim Payment and Creation of Deferred Amount

In month two, the Beginning Bond Balance is \$980 (A2) and the Beginning Collateral Balance is \$880 (B2). Intrinsic Principal for month two is \$35 (C2). During the month the collateral suffers an \$80 realized loss (D2), resulting in a Policy Claim submission of \$80 (“Month Two Policy Claim”).

The Month Two Policy Claim is not Permitted in month two because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Two Policy Claim.

The Month One Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E2). An Interim Payment of \$25 (F2) is made, an amount equal to 25% of the Month One Policy Claim. In addition, a Deferred Loss Amount of \$75 (L2) is established in respect of the Month One Policy Claim. There are no Accretion Amounts in month two in respect of any Permitted Policy Claim (K2).

The payment of Intrinsic Principal (\$35) and the Interim Payment in respect of the Month One Policy Claim (\$25) together reduce the Beginning Bond Balance for the month by \$60, leaving an Ending Bond Balance of \$920 (H2). Application of the \$35 Intrinsic Principal and the \$80 realized loss reduces the Beginning Collateral Balance for the month by \$115, leaving an Ending Collateral Balance of \$765 (I2).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2

Month Three – Accretion on Deferred Amounts in respect of Month One Policy Claim

In month three, the Beginning Bond Balance is \$920 (A3) and the Beginning Collateral Balance is \$765 (B3). Intrinsic Principal for month three is \$25 (C3). During the month the collateral suffers a \$100 realized loss (D3), resulting in a Policy Claim submission of \$100 (“Month Three Policy Claim”).

The Month Three Policy Claim is not Permitted in month three because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Three Policy Claim.

The Beginning Deferred Amount in month three is \$75 (J3).

The Month Two Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E3). An Interim Payment of \$20 (F3) is made, an amount equal to 25% of the Month Two Policy Claim. In addition, a Deferred Loss Amount of \$60 (L3) is established in respect of the Month Two Policy Claim.

The Accretion Amount in month three is \$0.31 (K3), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$75 (J3).

The Ending Deferred Amount for month three is \$135.31 (M3), which is the sum of: (i) the Beginning Deferred Amount of \$75 (J3) established in respect of the Month One Policy Claim, (ii) the Accretion Amount of \$0.31 (K3) and (iii) the Deferred Loss Amount of \$60 (L3) established in respect of the Month Two Policy Claim.

The payment of month three Intrinsic Principal (\$25) and the Interim Payment in respect of the Month Two Policy Claim (\$20) together reduce the Beginning Bond Balance for the month by \$45, leaving an Ending Bond Balance of \$875 (H3). Application of the \$25 Intrinsic Principal and the \$100 realized loss reduces the Beginning Collateral Balance by \$125, leaving an Ending Collateral Balance of \$640 (I3).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
		A3	B3	C3	D3	E3	F3	G3	H3	I3	J3	K3	L3	M3
3	\$25 intrinsic principal payment; \$100 principal loss claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$0.32 Accretion Amount)	\$ 920	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 875	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2			D2	E3 x 25%		A3 - C3 - F3 - G3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3

Month Four – Effect of Recovery Amounts

In month four, the Beginning Bond Balance is \$875 (A4) and the Beginning Collateral Balance is \$640 (B4). Intrinsic Principal for month four is \$30 (C4). The transaction receives \$60 (G4) as a Recovery Amount in respect of realized losses incurred in prior months. During the month the collateral suffers an \$80 realized loss (D4), resulting in a Policy Claim submission of \$80 (“Month Four Policy Claim”).

The Month Four Policy Claim is not Permitted in month four, because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Four Policy Claim.

In month four, the Beginning Deferred Amount is \$135.31 (J4).

The Month Three Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E4). An Interim Payment of \$25 (F4) is made, an amount equal to 25% of the Month Three Policy Claim. In addition, a Deferred Loss Amount of \$75 (L4) is established in respect of the Month Three Policy Claim.

The Accretion Amount in month four is \$0.56 (K4), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$135.31 (J4).

The Ending Deferred Amount for month four is \$150.87 (M4), which is equal to: (a) the sum of (i) the Beginning Deferred Amount of \$135.31 (J4), (ii) the Accretion Amount of \$0.56 (K4), and (iii) the Deferred Loss Amount of \$75 (L4) established in respect of the Month Three Policy Claim (which sum is \$210.87), reduced by (b) the \$60 Recovery Amount (G4) realized in month four.

The payment of month four Intrinsic Principal (\$30), the Interim Payment in respect of the Month Three Policy Claim (\$25) and the Recovery Amount realized in month four (\$60), together reduce the Beginning Bond Balance by \$115, leaving an Ending Bond Balance of \$760 (H4). Application of the \$30 Intrinsic Principal, and the \$80 realized loss reduces the Beginning Collateral Balance by \$110, leaving an Ending Collateral Balance of \$530 (I4).²

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100		0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
		A3	B3	C3	D3	E3	F3	G3	H3	I3	J3	K3	L3	M3
3	\$25 intrinsic principal payment; \$100 principal loss claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$.32 Accretion Amount)	\$ 920	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 875	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2			D2	E3 x 25%		A3 - C3 - F3 - G3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3
		A4	B4	C4	D4	E4	F4	G4	H4	I4	J4	K4	L4	M4
4	\$30 intrinsic principal payment; \$80 claim amount; 25% month 3 Interim Payment; \$60 Recovery; ending Deferred Amount of \$150.90	\$ 875	\$ 640	\$ 30	\$ 80	\$ 100	\$ 25	\$ 60	\$ 760	\$ 530	\$ 135.31	\$ 0.56	\$ 75	\$150.87
Calculations		H3	I3			D3	E4 x 25%		A4 - C4 - F4 - G4	B4 - C4 - D4	M3	J4 x (4.98%/12)	E4 - F4	J4 + K4 + L4 - G4

² Note that in order to reconcile the Deferred Loss Amount (\$150 in month four (M4 without considering accretion)) to the Undercollateralized amount (\$230 (H4 minus I4)), the Month Four Policy Claim (\$80 (D4)), which will not yet have been determined to be a Permitted Policy Claim under the Payment Guidelines, must be added to the Deferred Loss Amount.