

## REALLOCATION OF DEFERRED LOSS AMOUNT EXAMPLE <sup>1</sup>

Pursuant to the Payment Guidelines, Deferred Loss Amounts are calculated and allocated to Insured Obligations, including multiple classes of Insured Obligations insured under a single Policy. Situations can arise where the Deferred Loss Amount with respect to a single Policy remains unchanged, but due to the priority of payments under the Transaction Documents, the Deferred Loss Amounts allocated to multiple classes of Insured Obligations under such Policy no longer reflect the losses that each such Insured Obligation has incurred. This could result in a situation where Deferred Loss Amounts are overstated for some Insured Obligations and understated for others. To ensure that any Deferred Payments will be applied accurately, the Rehabilitator may, in his sole and absolute discretion, reallocate Deferred Loss Amounts among classes of Insured Obligations insured by a single Policy to the extent necessary to ensure that the Deferred Loss Amounts reflect the actual losses allocated to the Insured Obligations under the Transaction Documents.

Upon reallocation of a Deferred Loss Amount from one Insured Obligation to another, there shall be no further accretion on such reallocated Deferred Loss Amount in respect of the Insured Obligation from which the Deferred Loss Amount was reallocated. However, Accretion Amounts that accrued prior to such transfer shall remain with the Beneficial Holders of the Insured Obligation from which the Deferred Loss Amount was reallocated, and will continue to accrete in accordance with the Payment Guidelines.

The example below is intended to provide a simplified illustration of how Deferred Loss Amounts may be allocated and reallocated among multiple classes of Insured Obligations insured by one Policy under the Plan and the Payment Guidelines in one set of circumstances.

For present purposes, it is assumed that: (i) there is one Policy insuring two classes of Insured Obligations, Class A1 and Class A2, (ii) principal amounts under the Transaction Documents are paid first to the Class A1 bond, the most senior Insured Obligation (until its balance is reduced to zero) and then to the Insured Obligation in next order of priority, the Class A2 bond (until its balance is reduced to zero) (a "Sequential Pay Transaction"), (iii) the Insured Obligations are secured by one pool of mortgage loan collateral, where the outstanding principal balance of the Insured Obligations is not reduced by realized losses on the mortgage loans (an "Undercollateralized Transaction"), (iv) initially, only the Class A1 bond has a Deferred Loss Amount and (v) there are no Deferred Payments made. The example covers a period of two months and commences in month one, when the first reallocation of Deferred Loss Amounts between different classes of Insured Obligations occurs.

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<sup>1</sup> 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.

Shown below are the monthly calculations and reallocation of Deferred Loss Amounts among two classes of Insured Obligations under the Payment Guidelines. The Deferred Loss Amounts are reallocated as a result of the payment in full of the most senior Insured Obligation in a Sequential Pay Transaction in accordance with the terms and conditions of the Transaction Documents.

**Month One - Reallocation of Deferred Loss Amount among Insured Obligations of Sequential Pay Transaction**

In month one, the Beginning Bond Balance for the Class A1 bond is \$90 and for the Class A2 bond is \$120 (A1). The Beginning Collateral Balance for this transaction is \$130 (B1), reflecting prior realized losses of \$80, resulting in the Transaction being undercollateralized by an equal amount. Principal collections received during the month from payments on the underlying mortgage loans ("Intrinsic Principal") are \$60 (E1). During the month, the collateral suffers no additional realized loss (G1), resulting in no Policy Claim for the month. There are no outstanding Permitted Policy Claims and the Rehabilitator has not declared a Deferred Payment, consequently, there are no Interim or Deferred Payments made on account of the Insured Obligations.

Because this is a Sequential Pay Transaction, Intrinsic Principal is paid first to the Class A1 senior bond to reduce the Beginning Bond Balance of the Class A1 bond by \$60, resulting in an Ending Bond Balance for the Class A1 bond of \$30 (I1) and since there is no additional Intrinsic Principal, there is no payment made to the Class A2 bond, leaving its Ending Bond Balance at \$120 (I1). The \$60 Intrinsic Principal reduces the Beginning Collateral Balance of \$130 by \$60, leaving an Ending Collateral Balance of \$70 (J1).

The Beginning Deferred Amount for the Class A1 bond is \$80 and for the Class A2 bond is \$0 (D1).

The Accretion Amount for month one for Class A1 is \$0.33 (K1), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$80 (D1). There is no Accretion Amount for Class A2 as it does not have any outstanding Deferred Amount.

At the beginning of the month, the Class A1 bond was \$80 undercollateralized (C1) and the Class A2 bond had no undercollateralization (C1). After the payment of Intrinsic Principal of \$60 to the Class A1 bond, the Class A1 bond's share of the \$80 undercollateralization is \$30 and the Class A2 bond's share of the \$80 undercollateralization is \$50.

The Deferred Loss Amount on the transaction as a whole has not been reduced by either Deferred Payments or Recovery Amounts, and remains unchanged at \$80. However, the allocation of the Deferred Loss Amount among the two classes of Insured Obligations must be modified due to the reduction in Bond Balance of the Class A1 bonds below the Class A1 bond Deferred Loss Amount. This reduction in Bond Balance of the Class A1 bond results in a shift in the allocation of the undercollateralization of the Transaction to the Class A2 bond, requiring a corresponding shift of the Deferred Loss Amount from the Class A1 bond to the Class A2 bond.

The Deferred Loss Amount allocated to the Class A1 Bond is reduced from \$80 to \$30 (L1), reflecting the receipt by the Class A1 bond of \$60 Intrinsic Principal and the reduction of its undercollateralization. The remaining \$50 of Deferred Loss Amount is allocated to the Class A2 bond (L1).

The Ending Deferred Amount for the Class A1 bond is \$30.33 (L1), which is the sum of: (i) the Beginning Deferred Amount of \$80 (D1), plus (ii) the Accretion Amount of \$0.33 (K1) minus (iii) the Deferred Loss Amount of \$50 reallocated to the Class A2 bond from the Class A1 bond.

The Ending Deferred Amount for the Class A2 bond is \$50 (L1), which is the sum of: (i) the Beginning Deferred Amount of \$0 (D1), plus (ii) the Accretion Amount of \$0 (K1) plus (iii) the Deferred Loss Amount of \$50 reallocated to the Class A2 bond from the Class A1 bond.

UNDERCOLLATERALIZED TRANSACTION (Reallocation of Deferred Amounts Example)												
Description	Beginning Bond Balance	Beginning Collateral Balance	Undercollateralization Allocation	Beginning Deferred Amounts	Intrinsic Principal	Intrinsic Principal Allocation	Collateral Realized Loss	Permitted Policy Claim Amount	Ending Bond Balance	Ending Collateral Balance	Accretion Amounts	Ending Deferred Amounts
	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1
\$60 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$90 Class A1 \$120 Class A2	\$ 130	\$80 Class A1 \$0 Class A2	\$80 Class A1 \$0 Class A2	\$ 60	\$60 Class A1 \$0 Class A2	-	-	\$30 Class A1 \$120 Class A2	\$ 70	\$.33 Class A1 \$0 Class A2	\$30.33 Class A1 \$50 Class A2
Calculations									A1 - E1	B1 - E1	D1 x (4.98%/12)	

**Month Two - Reallocation of Deferred Loss Amount among Insured Obligations of Sequential Pay Transaction**

In month two, the Beginning Bond Balance for Class A1 bond is \$30 and for Class A2 bond is \$120 (A2). The Beginning Collateral Balance for month two is \$70 (B2) and the Transaction is undercollateralized by \$80. Intrinsic Principal received is \$50 (E2). During the month, the collateral suffers no additional realized loss (G2), resulting in no Policy Claim for the month. There are no outstanding Permitted Policy Claims, consequently, there are no Payments made to the Insured Obligations in respect of either Permitted Policy Claims or Deferred Amounts.

Because this is a Sequential Pay Transaction, Intrinsic Principal is paid first to Class A1 senior bond reducing the Beginning Bond Balance of Class A1 bond by \$30, resulting in an Ending Bond Balance for the Class A1 bond of \$0 (I2). The remainder of Intrinsic Principal of \$20 is paid to the Class A2 bond reducing the Beginning Bond Balance of the Class A2 bond by \$20, resulting in an Ending Bond Balance for the Class A2 bond of \$100 (I2). The \$50 Intrinsic Principal reduces the Beginning Collateral Balance of \$70 by \$50, leaving an Ending Collateral Balance of \$20 (J2).

The Beginning Deferred Amount for the Class A1 bond is \$30.33 and for the Class A2 bond is \$50 (D2).

The Accretion Amount for month two for Class A1 bond is \$0.13 (K2), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$30.33 (D2) and the Accretion Amount for Class A2 bond is \$0.21 (K2), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$50 (D2).

At beginning of the month, the Class A1 bond was \$30 undercollateralized (C2) and the Class A2 bond was \$50 undercollateralized (C2). After the payment of Intrinsic Principal, the Class A1 bond is fully paid and the Class A2 bond is undercollateralized by \$80.

After the payment of the \$50 of Intrinsic Principal to the Class A1 bond and Class A2 bond, the undercollateralization of the transaction, as a whole, remains unchanged at \$80, but now resides solely with the Class A2 bond. The Deferred Loss Amount on the transaction as a whole remains unchanged at \$80. However, the Deferred Loss Amounts among the two Classes of Insured Obligations must be reallocated due to the reduction in Bond Balance of the Class A1 bond that has shifted the allocation of the undercollateralization of the Transaction to the Class A2 bond.

The Deferred Loss Amount allocated to the Class A1 Bond is reduced from \$30 to \$0 (L2), reflecting the receipt of the Class A1 bond of \$30 Intrinsic Principal. The Deferred Loss Amount of \$30 that was allocated to the Class A1 bond is reallocated to the Class A2 bond, increasing its Deferred Loss Amount from \$50 to \$80 (L2). The Accretion Amount for the Class A1 bond of \$0.46 remains with the Class A1 bond and is not reallocated (L2).

The Ending Deferred Amount for month two for Class A1 is \$0.46 (L2), which is the sum of: (i) the Beginning Deferred Amount of \$30.33 (D2), plus (ii) the Accretion Amount of \$0.13 (K2) minus (iii) the Deferred Loss Amount of \$30 reallocated to the Class A2 bond from the Class A1 bond.

The Ending Deferred Amount for month two for Class A2 is \$80.21 (L2), which is the sum of: (i) the Beginning Deferred Amount of \$50 (D2), plus (ii) the Accretion Amount of \$0.21 (K2) plus (iii) the Deferred Loss Amount of \$30 reallocated to the Class A2 bond from the Class A1 bond.

UNDERCOLLATERALIZED TRANSACTION (Reallocation of Deferred Amounts Example)												
Description	Beginning Bond Balance	Beginning Collateral Balance	Undercollateralization Allocation	Beginning Deferred Amounts	Intrinsic Principal	Intrinsic Principal Allocation	Collateral Realized Loss	Permitted Policy Claim Amount	Ending Bond Balance	Ending Collateral Balance	Accretion Amounts	Ending Deferred Amounts
	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1
\$60 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$90 Class A1 \$120 Class A2	\$ 130	\$80 Class A1 \$0 Class A2	\$80 Class A1 \$0 Class A2	\$ 60	\$60 Class A1 \$0 Class A2	-	-	\$30 Class A1 \$120 Class A2	\$ 70	\$.33 Class A1 \$0 Class A2	\$30.33 Class A1 \$50 Class A2
Calculations									A1 - E1	B1 - E1	D1 x (4.98%/12)	
	A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2
\$50 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$30 Class A1 \$120 Class A2	\$ 70	\$30 Class A1 \$50 Class A2	\$30.33 Class A1 \$50 Class A2	\$ 50	\$30 Class A1 \$20 Class A2	-	-	\$0 Class A1 \$100 Class A2	\$ 20	\$.13 Class A1 \$.21 Class A2	\$.46 Class A1 \$80.21 Class A2
Calculations	I1	J1		L1					A2 - E2	B2 - E2	D2 x (4.98%/12)	