

## OFFERING CIRCULAR

Document Approved

## RMAC 2002-NS2 PLC

(Incorporated in England and Wales with limited liability under Registered Number 04447860)

Date: 23 July 2002

Signed: 1 Nicholas  
2 Peter G

**£527,900,000 MORTGAGE BACKED FLOATING RATE NOTES DUE 2034**  
unconditionally and irrevocably guaranteed in relation to Class A Interest and Class A Principal of the  
A Notes by Ambac Assurance UK Limited

## Ambac

Notes	Initial		Maturity Date	Issue Price to Investors
	Principal Amount	Interest Rate		
A1 Notes	£140,000,000	Note LIBOR + 0.13%	September 2034	100%
A2 Notes	£332,500,000	Note LIBOR + 0.25%	September 2034	100%
A3 Notes with A3 Detachable Coupons	£52,500,000	Note LIBOR + 0.28%	September 2034	100% plus premium
C Notes	£2,900,000	Note LIBOR + 3.50%	September 2034	100%

The £527,900,000 Mortgage Backed Floating Rate Notes due 2034 of RMAC 2002-NS2 Plc (the "Issuer") will comprise £140,000,000 A1 Notes (the "A1 Notes"), £332,500,000 A2 Notes (the "A2 Notes"), £52,500,000 A3 Notes (the "A3 Notes") and, together with the A1 Notes and the A2 Notes, the "A Notes" and the holders thereof the "A Noteholders") and £2,900,000 C Notes (the "C Notes" and the holders thereof the "C Noteholders" and, together with the A Notes, the "Notes", and the holders thereof the "Noteholders").

The A Notes will be unconditionally guaranteed as to Class A Interest (including, for the avoidance of doubt, the A3 Detachable Coupons) and Class A Principal pursuant to a financial guarantee insurance policy and the endorsement thereto (the "Ambac Policy") to be issued by Ambac Assurance UK Limited ("Ambac") as set out in "Form of Ambac Policy" below.

Interest on the Notes is payable in Sterling in arrear on 12 September 2002 and thereafter quarterly in arrear on the 12th day in December, March, June and September in each year, unless such day is not a Business Day, in which case interest shall be payable on the following Business Day (each such date a "Payment Date"). Interest on the A1 Notes shall accrue at an annual rate of the London Interbank Offered Rate ("LIBOR") for three months (or in respect of the first Interest Period, at an annual rate obtained by linear interpolation of LIBOR for one month sterling deposits and LIBOR for two month sterling deposits) ("Note LIBOR") plus 0.13% per annum. Interest on the A2 Notes shall accrue at an annual rate of Note LIBOR plus 0.25% per annum. Interest on the A3 Notes shall accrue at an annual rate of Note LIBOR plus 0.28% per annum (the "Ordinary A3 Coupon"). In addition, interest shall accrue at a rate of 10.5% per annum until the Payment Date falling in March 2005 (the "A3 Detachable Coupon") on the A3 Notes under the A3 Detachable Coupons from 25 July 2002 (the "Issue Date"). Interest on the C Notes shall accrue at an annual rate of Note LIBOR plus 3.50% per annum.

The period from (and including) a Payment Date (or the Issue Date) to (but excluding) the next (or first) Payment Date is an "Interest Period". The rate of interest payable from time to time (the "Rate of Interest") in respect of each class of the Notes will be determined on each Payment Date, or, in the case of the first Interest Period, the Issue Date (each an "Interest Determination Date").

All references herein to "Notes" and "Noteholders" are references to the specified Notes and (where applicable) Coupon or Coupons attached, or originally attached, to such Notes and the holders thereof unless otherwise specified. For the avoidance of doubt, all A3 Detachable Coupons (which do not form a separate class) will, if Coupon Stripping (as defined below) takes place, continue to benefit from, and be subject to, the same security and priority of payments as was the case prior to their separation notwithstanding that any interest entitlement has been separated from the principal entitlement in respect of the relevant Note.

Prior to redemption on the final Payment Date falling in September 2034 (the "Final Payment Date"), the Notes will be subject to mandatory and/or optional redemption in certain circumstances. The Issuer may not purchase any Notes. See "Terms and Conditions of the Notes - Condition 5".

As a condition to the issue of the A Notes, the A Notes are to be rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by Standard & Poor's Rating Agencies, a division of McGraw Hill Inc. group of companies ("S&P" and, together with Moody's, the "Rating Agencies"). The rating is based solely on the financial strength and claims paying ability of Ambac. The issue of the C Notes is not conditional upon a rating and the Issuer has not requested any rating of the C Notes. In the event that Coupon Stripping (see below) takes place in respect of the A3 Detachable Coupons (as defined in the Conditions), the A3 Detachable Coupons are expected on issue to be assigned a rating of Aaa by Moody's and AAA by S&P. The risk characteristics of the A3 Detachable Coupons differ from those of the Notes as set out under "Risk Factors" below.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by either one or both of the Rating Agencies.

Application has been made to the Financial Services Authority in its capacity as the competent authority for listing in the United Kingdom (the "UK Listing Authority") for the Notes to be admitted to the Official List of the UK Listing Authority (the "Official List"). Application has been made to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. No application will be made for the A3 Detachable Coupons to be separately admitted. A copy of this document, which comprises approved listing particulars with regard to the Issuer and the Notes, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 83 of the Financial Services and Markets Act 2000 (the "FSM Act").

BEAR, STEARNS INTERNATIONAL LIMITED

RFSC INTERNATIONAL LIMITED

BARCLAYS CAPITAL

DEUTSCHE BANK 

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The date of this Offering Circular is 23 July 2002

The A3 Notes (and the A3 Detachable Coupons attached thereto) will initially be represented by a temporary global note (the "Temporary Global A3 Note") incorporating a temporary global A3 Detachable Coupon (the "Temporary Global A3 Detachable Coupon") which will be capable of being subsequently separated from the remainder of the Temporary Global A3 Note and which will by its terms constitute a bearer instrument if so separated. The A1 Notes, the A2 Notes, the A3 Notes and the C Notes will initially be represented by a temporary global note (each a "Temporary Global Note") in bearer form without coupons or talons (save in the case of the A3 Notes which will have attached at issue A3 Detachable Coupons) which is expected to be deposited with JPMorgan Chase Bank, London branch, as common depository (the "Common Depository") for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about the Issue Date.

Each Temporary Global Note and, if separated prior to the Exchange Date (as defined below), the Temporary Global Detachable A3 Coupon will be exchangeable not earlier than 40 days after the Issue Date (the "Exchange Date") upon certification of non-U.S. beneficial ownership for interests in a permanent global note for each class of Notes (each, a "Permanent Global Note", and, together with the Temporary Global Notes, the "Global Notes") and a permanent global A3 Detachable Coupon (the "Permanent Global A3 Detachable Coupon") in bearer form without coupons or talons (save in the case of the A3 Notes which will have attached at issue A3 Detachable Coupons) which will also be deposited with the Common Depository. Except in the limited circumstances described under "*Description of the Notes – Issuance of Definitive Notes*", the Notes and the A3 Detachable Coupon will not be available in definitive form.

It is contemplated, as set out in "*Description of Notes – Coupon Stripping*" below, that the A3 Detachable Coupons may be separated from the A3 Notes while each is in temporary global form by crediting to the Euroclear or Clearstream, Luxembourg account (as the case may be) of the purchaser or purchasers of the A3 Detachable Coupons a notional amount equal to the principal amount of the A3 Notes from which the A3 Detachable Coupons were separated ("Coupon Stripping").

None of the Issuer, Bear, Stearns International Limited ("Bear Stearns"), the Common Depository, Euroclear and Clearstream, Luxembourg accepts any responsibility or liability, howsoever arising, for the invalidity of any Coupon Stripping due to failure by any holder of an A3 Detachable Coupon to complete certification of non-U.S. beneficial ownership.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE BENEFIT OR ACCOUNT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. THE NOTES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS.

This Offering Circular is submitted to investors for use solely in connection with the consideration of the purchase of the Notes, or other transactions exempt from registration under the Securities Act.

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity (other than, in respect of Class A Principal and Class A Interest on the A Notes, Ambac). In particular, the Notes will not be obligations of, and will not be guaranteed by, GMAC-RFC Limited ("GMAC-RFC"), Bear Stearns (the "Lead Manager"), Deutsche Bank AG, London, Barclays Bank PLC, acting through its investment banking division ("Barclays Capital"), RFSC International Limited and Bank Brussels Lambert S.A. (together with the Lead Manager the "Managers"), SFM Corporate Services Limited (the "Corporate Services Provider" and the "Share Trustee"), Bear Stearns Bank plc (the "Cap Provider"), The Bear Stearns Companies Inc. (the "Cap Guarantor"), Barclays Bank PLC (in its capacity as account bank, the "Account Bank", in its capacity as liquidity facility provider, the "Liquidity Facility Provider" and in its capacity as GIC provider, the "GIC Provider") or JPMorgan Chase Bank (in such capacity, the "Trustee").

The risk characteristics of the C Notes and the A3 Detachable Coupons differ from those of the A Notes generally, as set out under "*Risk Factors – Risks Related to the Notes*".

Particular attention is drawn to the section in this Offering Circular entitled "*Risk Factors*".

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Ambac accepts responsibility for the information contained in "*Description of Ambac*", "*Form of Ambac Policy*", "*Relationship between Ambac Assurance UK Limited and Ambac Assurance Corporation*", "*Ambac Assurance Corporation*",

"Ambac Assurance UK Limited – Financial Statements" and paragraphs 2, 7, 10, 11 and 13 of the section "General Information" below (together the "Ambac Information"). To the best of the knowledge and belief of Ambac (having taken all reasonable care to ensure that such is the case) the Ambac Information is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Ambac as to the accuracy or completeness of any information contained in this Offering Circular (other than the Ambac Information) or any other information supplied in connection with the Notes or their distribution. Other than in respect of the Ambac Information, Ambac has not separately verified the information contained herein and no representation, warranty or undertaking, express or implied, is made and no liability accepted by Ambac as to the accuracy or completeness of such information. Each person receiving this Offering Circular acknowledges that such person has not relied on Ambac or any of its affiliates in connection with its investigation of the information contained herein (other than the Ambac Information).

This Offering Circular does not constitute, and is not intended to be, an offer of, or an invitation by or on behalf of, the Issuer or the Managers to subscribe for or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "Purchase and Sale" and "Notice to Investors". This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this Offering Circular in any jurisdiction where such action is required.

Each initial and subsequent purchaser of the Notes will be deemed by its acceptance of such Notes to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer thereof as set forth therein and described in this Offering Circular and, in connection therewith, may be required to provide confirmation of its compliance with such resale and other transfer restrictions in certain cases. See "Notice to Investors".

The Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Offering Circular. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

No person has been authorised to give any information or to make any representation concerning the issue of the Notes other than those contained in this Offering Circular. Nevertheless, if any such information is given by any broker, seller or any other person, it must not be relied upon as having been authorised by the Issuer, Ambac or the Managers. Neither the delivery of this Offering Circular nor any offer, sale or solicitation made in connection herewith shall, in any circumstances, imply that the information contained herein is correct at any time subsequent to the date of this Offering Circular.

In this Offering Circular, unless otherwise noted, all references to specified percentages of the Mortgage Loans are references to those Mortgage Loans as a percentage of the aggregate principal balances of the Initial Mortgage Pool.

Any reference in this document to listing particulars means this document excluding all information incorporated by reference. The Issuer has confirmed that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSM Act or the listing rules of the UK Listing Authority. The Issuer believes that none of the information incorporated therein by reference conflicts in any material respect with the information included in the listing particulars.

Payments of interest and principal in respect of the Notes will be subject to any applicable withholding taxes without the Issuer being obliged to pay additional amounts therefor. References in this Offering Circular to "£", "Pounds" or "Sterling" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References in this Offering Circular to "€", "euro" or "Euro" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.

In connection with the issue of the Notes, Bear Stearns or any person acting for it may, on the same terms and conditions contained herein, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However there may be no obligation on Bear Stearns or any agent of Bear Stearns to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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## SUMMARY INFORMATION

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The information set out below is a summary of the principal features of the issue of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Offering Circular.

### The Issuer

The Issuer's authorised share capital consists of 50,000 ordinary shares of £1 each. The issued share capital consists of 50,000 ordinary shares allotted with £12,502 paid up. All of the Issuer's issued share capital is held by RMAC Holdings Limited ("Holdings"). All of Holdings' issued share capital is held on trust by SFM Corporate Services Limited (the "Share Trustee") for the benefit of charitable institutions, in respect of capital and income, and for the benefit of the Noteholders, in respect of the voting rights.

### Ambac

Ambac is a company incorporated in England and Wales which is authorised to issue, *inter alia*, financial guarantees, and is licensed to offer insurance services in the United Kingdom. At the date of this Offering Circular, Ambac's claims paying ability is rated triple A by the Rating Agencies. Ambac will guarantee the payment of Class A Interest (including for the avoidance of doubt the A3 Detachable Coupons) and Class A Principal on the A Notes.

### Ambac Policy

On or about the Issue Date, Ambac will issue the Ambac Policy in favour of the Trustee (for itself and on behalf of the A Noteholders). The Ambac Policy is an unconditional and irrevocable financial guarantee insurance policy in respect of the following amounts payable under the A Notes:

- (i) interest payable in accordance with Condition 4 (including for the avoidance of doubt the A3 Detachable Coupons);
- (ii) principal payable on the Final Payment Date in accordance with Condition 5(a);
- (iii) principal payable representing Excess Loss Amounts (as defined under "*Credit Structure – Pre-Enforcement Priority of Payments*" below) (if any) on each Payment Date pursuant to Condition 5(b); and
- (iv) principal payable representing Dissolution Amounts (as defined in "*Form of Ambac Policy*" below) (amounts described in (ii) and (iii) above and this paragraph (iv) being "Class A Principal", and together with the amounts described under (i) above, the "Insured Amounts").

To the extent that amounts are available to be drawn under the Liquidity Facility to make payments of interest on the A Notes then the Issuer is obliged to first draw under the Liquidity Facility. The C Notes will not have the benefit of the Ambac Policy.

The Ambac Policy will not guarantee any amounts becoming payable for any other reason, including the early redemption of the A Notes pursuant to Conditions 5(e) or 5(f) or accelerated payment pursuant to Condition 9 (other than in respect of Dissolution Amounts). In these circumstances, Ambac's obligations will continue to be to pay the Insured Amounts as they fall Due for Payment (as defined in "*Form of Ambac Policy*" below) on each Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Policy. However, if it does so, it may do so in whole or in part in accordance with Condition 5(h).

In relation to the Ambac Policy, on the Issue Date the Issuer will enter into an insurance and indemnity agreement with Ambac (the "Insurance and Indemnity Agreement") and will be obliged, *inter alia*, to reimburse Ambac in respect of the payments made by Ambac under the Ambac Policy and will be obliged to pay certain fees and expenses of Ambac in respect of the provision of the Ambac Policy. The Issuer will on the Issue Date provide a letter (the "Premium Letter") in which it will agree to pay to Ambac an initial fee payable on the Issue Date and a further fee payable on each Payment Date calculated by reference to the principal amount outstanding of the A Notes immediately preceding that Payment Date together with an agreed amount as a reimbursement of amounts payable to third parties under a Limited Reimbursement Agreement (as defined in "*Credit Structure – Ambac Policy*" below).

### The Mortgage Pool

#### *Sale of Mortgage Pool*

The Issuer has been established:

- (a) to acquire on the Issue Date a pool (the "Completion Mortgage Pool") of residential mortgage loans together with the related security for their repayment, including the relevant mortgages and standard securities (the "Related Security") (each such mortgage loan, a "Mortgage Loan", and each such mortgage and standard security, a "Mortgage");

- (b) to acquire a further pool of residential mortgage loans (the "Pre-Funded Mortgage Pool" and each such Mortgage Loan, a "Pre-Funded Mortgage Loan") together with their Related Security on the Payment Date falling in September 2002 or, at the option of GMAC-RFC, on any Business Day after the Issue Date, but prior to the Payment Date falling in September 2002 (the day so chosen being the "Eligible Date");
- (c) to make further advances in respect of these Mortgage Loans ("Further Advances"); and
- (d) to acquire Substitute Mortgage Loans.

For the avoidance of doubt, reference herein to Mortgage Loans shall, where the context so requires, include the Substitute Mortgage Loans and the Pre-Funded Mortgage Loans.

Each Mortgage is a mortgage or standard security of a residential property in England, Wales, Scotland or Northern Ireland (a "Property").

The mortgage pool owned by the Issuer from time to time (the "Mortgage Pool") will comprise:

- (a) the Completion Mortgage Pool purchased by the Issuer on the Issue Date pursuant to the mortgage sale agreement to be entered into on the Issue Date between the Issuer, GMAC-RFC and the Trustee (the "Mortgage Sale Agreement");
- (b) the Pre-Funded Mortgage Pool purchased by the Issuer on the Eligible Date pursuant to the Mortgage Sale Agreement;
- (c) each Substitute Mortgage acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement; and
- (d) any Further Advances made by the Issuer (see "*Administration of the Mortgage Pool – Further Advances and Substitution*"),

other than Mortgage Loans in each case which have been repaid in full or in respect of which enforcement procedures have been completed and Mortgage Loans which have been repurchased by GMAC-RFC pursuant to the Mortgage Sale Agreement (see "*Sale of the Mortgage Pool – Warranties and Repurchase*").

The Completion Mortgage Pool will be selected from a larger pool (the "Initial Mortgage Pool"). As at 30 June 2002 (the "Cut-Off Date"), the Initial Mortgage Pool has the characteristics described under "*The Mortgage Pool – Introduction*".

#### ***Pre-Funded Mortgage Loans***

The Issuer will agree to purchase the Pre-Funded Mortgage Loans on the Eligible Date from GMAC-RFC. The Pre-Funded Mortgage Loans purchased by the Issuer will be required to comply with the same lending criteria as apply to the Mortgage Loans comprising the Completion Mortgage Pool (including verification of receipt of the first Monthly Payment (as defined under "*Sale of the Mortgage Pool*").

The principal amount of the A Notes on the Issue Date will exceed the principal balance of the Completion Mortgage Pool by an amount equal to approximately £100,000,000 (the "Pre-Funded Mortgage Loans Amount") and the purchase price of the Pre-Funded Mortgage Pool will be met from the Pre-Funded Mortgage Loans Amount. The purchase of the Pre-Funded Mortgage Pool will be subject to the satisfaction of the following conditions:

- (a) on the Issue Date, the Pre-Funded Mortgage Loans Amount must be less than or equal to 19.05% of the aggregate principal amount of the Notes;
- (b) on the Eligible Date, each Pre-Funded Mortgage Loan complies with the representations and warranties specified in the Mortgage Sale Agreement;
- (c) the Rating Agencies confirm that the then current ratings (assuming that there is no Ambac Policy in force and effect) (the "Underlying Rating") of the A Notes then outstanding will not be withdrawn or downgraded as a result of the purchase of the Pre-Funded Mortgage Pool; and
- (d) Ambac confirms that in its reasonable opinion the characteristics of the Pre-Funded Mortgages are not materially different from those of the Mortgages purchased by the Issuer on the Issue Date.

#### ***Pre-Funded Mortgage Loans Ledger***

On the Issue Date, an amount equal to approximately £100,224,326.03 (which will consist of the Pre-Funded Mortgage Loans Amount and the Pre-Funded Mortgage Loans Interest Shortfall (as defined under "*Credit Structure – Use of Proceeds of the C Notes*")) will be deposited in the Issuer Transaction Account and recorded in a ledger maintained by the Administrator (the "Pre-Funded Mortgage Loans Ledger"). The Pre-Funded Mortgage Loans Amount is intended to be used to acquire the Pre-Funded Mortgage Loans on the Eligible Date. After the purchase of the Pre-Funded Mortgage Loans, an amount equal to the difference between the Pre-Funded Mortgage Loans Amount and the purchase price for the

Pre-Funded Mortgage Loans (the "Principal Rebate") will be distributed to the holders of the A Notes as a mandatory redemption in part. See "*Sale of the Mortgage Pool – Pre-Funded Mortgage Loans*". Although no assurance can be given, it is intended that the purchase of the Pre-Funded Mortgage Loans on the Eligible Date will require the application of substantially all of the Pre-Funded Mortgage Loans Amount and it is not intended that there will be significant amounts of principal being prepaid to Noteholders. However, it is unlikely that the Pre-Funded Mortgage Loans Amount will equal exactly the purchase price for the Pre-Funded Mortgage Loans. The Pre-Funded Mortgage Loans Interest Shortfall is intended to be used to make up the difference in the amount of interest received by the Issuer on the Pre-Funded Mortgage Loans Amount during the period from the Issue Date until the Eligible Date.

## Mortgage Administration and Servicing

### *Mortgage Administration*

GMAC-RFC (in such capacity, the "Administrator") will be appointed under the terms of an administration agreement dated on or about the Issue Date between the Issuer, the Administrator and the Trustee (the "Administration Agreement"), to administer the Mortgage Loans and the Related Security and manage all cash transactions and maintain cash management ledgers on behalf of, and as agent for, the Issuer and the Trustee.

Pursuant to the terms of the Administration Agreement, the Administrator is obliged to report on a regular basis to the Trustee and the Issuer regarding the status and the performance of the Mortgage Pool, the administration of the Mortgage Loans and other matters relating to its administrative functions as described in "*Administration of the Mortgage Pool*".

The Administrator will not be liable for any payments of principal or interest on the Notes.

### The Trustee

The Trustee will be appointed pursuant to a trust deed (the "Trust Deed") to be entered into on or prior to the Issue Date between the Issuer, Ambac and the Trustee to represent the interests of the Noteholders. The Trustee will hold for the benefit of, *inter alios*, Ambac and the Noteholders the security granted by the Issuer under the *Deed of Charge*. See "*– Security for the Notes*" below.

### The Notes

The £140,000,000 A1 Mortgage Backed Floating Rate Notes due 2034, the £332,500,000 A2 Mortgage Backed Floating Rate Notes due 2034, the £52,500,000 A3 Mortgage Backed Floating Rate Notes due 2034 and the £2,900,000 C Mortgage Backed Floating Rate Notes due 2034 will be constituted by the Trust Deed and will share (subject to the priority described below) in the same security.

The A Notes will be secured by the same security that will secure the C Notes although, upon enforcement, the A Notes will rank in priority to the C Notes in point of security. The A Notes will rank *pari passu* without preference or priority amongst themselves for all purposes (other than with respect to differing rates of interest being applicable to the A1 Notes, the A2 Notes and the A3 Notes and to distributions of principal on the A1 Notes, the A2 Notes and the A3 Notes prior to enforcement of security), but will rank in priority to the C Notes as to payment of interest and, to the extent described in "*Terms and Conditions of the Notes – Condition 2*", as to payment of principal. The holders of A Notes will be referred to as "A Noteholders". The holders of C Notes will be referred to as "C Noteholders".

### Interest

Payments of interest on the Notes shall be made on 12 September 2002 and thereafter quarterly in arrear in Sterling on each Payment Date in respect of the Interest Period ending on that Payment Date.

Interest on the A1 Notes shall accrue at an annual rate of Note LIBOR plus 0.13% per annum. Interest on the A2 Notes shall accrue at an annual rate of Note LIBOR plus 0.25% per annum. Interest on the A3 Notes shall accrue at an annual rate of Note LIBOR plus 0.28% per annum. In addition, interest shall accrue at a rate of 10.5% per annum until the Payment Date falling in March 2005 on the A3 Notes under the A3 Detachable Coupon from the Issue Date. Interest on the C Notes shall accrue at an annual rate of Note LIBOR plus 3.50% per annum.

Where interest on the C Notes is not paid in accordance with the above paragraphs it will be deferred until such later Payment Date on which it can be paid in accordance with the Pre-Enforcement Priority of Payments and any amount of interest so deferred will itself accrue interest, but any such deferral will cease on the Final Payment Date, when all accrued interest will become due and payable. See "*Terms and Conditions of the Notes – Condition 4(f)*".

### The A3 Detachable Coupons

Following the initial issuance of the Notes, it is contemplated that Coupon Stripping may be completed such that A3 Detachable Coupons are separated from the A3 Notes. Following Coupon Stripping, holders of the A3 Notes (excluding, for such purposes, the A3 Detachable Coupons) will only receive amounts payable with respect to the Ordinary A3 Coupons and principal payments on the A3 Notes as described herein. Amounts payable with respect to the A3 Detachable Coupons

will be payable separately to the holders thereof (the "A3 Detachable Couponholders"). Prior to enforcement of the Security (as defined under "*Security for the Notes*" below), the A3 Detachable Coupons will mature on the earlier of the date on which the A3 Notes are redeemed in full and the Payment Date in March 2005. Except as specified below, the A3 Detachable Coupons will, following separation from the A3 Notes, continue to benefit from the security for the Notes until their maturity. The A3 Detachable Coupons will continue to be deposited with Euroclear and Clearstream, Luxembourg and will be initially represented by the Temporary Global A3 Detachable Coupon attached to the Temporary A3 Global Note and (in the manner described in the "*Description of the Notes*" and "*Terms and Conditions of the Notes*") will (to the extent Coupon Stripping occurs) be exchanged for the Permanent Global A3 Detachable Coupon (both as defined in "*Description of the Notes*" below). No application will be made to the UK Listing Authority for the A3 Detachable Coupons to be separately admitted to the Official List or to be separately admitted to trading on the London Stock Exchange.

Any costs, expenses or liabilities whatsoever in respect of the invalidity of any Coupon Stripping arising from the failure of the holder of an A3 Detachable Coupon to complete certification will be solely those of that person. The Issuer, Bear Stearns, the Common Depositary, Euroclear and Clearstream, Luxembourg do not accept any responsibility or liability howsoever arising from the invalidity of any Coupon Stripping due to failure by any holder of an A3 Detachable Coupon to complete certification of non-U.S. beneficial ownership.

The A3 Detachable Coupons constitute, until their maturity, part of the interest payable on the A3 Notes and, accordingly, in the event of an early redemption of the A3 Notes or an enforcement of the A3 Notes pursuant to Condition 10 prior to their maturity, no termination payment or other redemption amount (other than amounts of interest payable in accordance with Condition 4) will be payable in respect of the A3 Detachable Coupons and, following the payment of any amounts outstanding pursuant to Condition 4 or the extinguishment of such amounts, the A3 Detachable Coupons will no longer constitute a claim against the Issuer (see further "*Description of the Notes*" and "*Terms and Conditions of the Notes*" below).

#### **The Note Controlling Party**

The Deed of Charge will govern the respective rights of the Trustee (in its capacity as trustee under the Trust Deed and as trustee under the Deed of Charge), the Noteholders, the Administrator, the Account Bank, Ambac, the GIC Provider, the Liquidity Facility Provider and GMAC-RFC and will provide that, *inter alia*, the Trustee will act in relation to the Security (as defined in "*Terms and Conditions of the Notes*") and exercise certain of its powers thereunder solely in accordance with the instructions of Ambac (if Ambac is then the Note Controlling Party).

The "Note Controlling Party" will be Ambac unless and until such time as (i) an Ambac Event of Default (as defined in "*Terms and Conditions of the Notes*") has occurred and is continuing and/or (ii) Ambac has no further obligations, actual or contingent, under the Ambac Policy and no amounts are then owing to Ambac under the Insurance and Indemnity Agreement, in which case it will be the Trustee.

#### **Inter Creditor Rights/Conflicts of Interest**

In respect of the interests of Noteholders, the Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) but requiring the Trustee in any such case to have regard only to the interests of:

- (a) the A Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and those of the C Noteholders;
- (b) following redemption in full of the A Notes, the interests of the C Noteholders.

The Trustee is not entitled to agree to any amendments and/or waivers or exercise any discretion under or in respect of the Charged Obligation Documents (as defined in "*Terms and Conditions of the Notes – Condition 2(g)*") or the Conditions without the prior written consent of Ambac, if Ambac is the Note Controlling Party.

The Trust Deed contains provisions limiting the powers of the C Noteholders to request or direct the Trustee to take any action or to pass any Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the A Noteholders.

Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the A Noteholders (which, for such purposes, shall, for the avoidance of doubt, exclude the A3 Detachable Couponholders), the exercise of which will be binding on the C Noteholders, irrespective of the effect thereof on each of their interests. The A3 Detachable Couponholders will not have voting rights.

#### **Withholding Tax**

Payments of interest and principal with respect to the Notes will be subject to any applicable withholding taxes and the Issuer will not be obliged to pay additional amounts in relation thereto.



## Redemption and Post Enforcement Call Option

### *Optional Redemption of Notes*

The Notes are subject to redemption (in whole, but not in part and without the prior approval of the Noteholders or the A3 Detachable Couponholders) at the election of the Issuer (subject to the conditions set out in Condition 5) at their Principal Amount Outstanding in each of the following circumstances:

- (a) if on any Payment Date, the Issuer is obliged to make any withholding or deduction on account of tax from payments in respect of the A Notes or in the event of certain tax changes affecting the A Notes or the Mortgage Loans comprising the Mortgage Pool at any time (see "*Terms and Conditions of the Notes – Condition 5(f)*"); and
- (b) at the option of the Administrator, on any Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the A Notes is less than 10% of the initial aggregate Principal Amount Outstanding of the A Notes (see "*Terms and Conditions of the Notes – Condition 5(e)*").

The term "Optional Redemption" refers to redemption of the Notes under any of the foregoing circumstances or procedures. Amounts payable on any Optional Redemption will not be guaranteed by Ambac.

### *Mandatory Redemption in Part*

Prior to enforcement, the A Notes will be subject to mandatory redemption in part on each Payment Date in accordance with Condition 5(b) of the "*Terms and Conditions of the Notes*" and the C Notes will be subject to mandatory redemption in part on each Payment Date in accordance with Condition 5(c) of the "*Terms and Conditions of the Notes*". Such mandatory redemption in part will be primarily caused by scheduled principal payments by the borrowers under the Mortgage Loans (the "Borrowers") and principal prepayments (whether voluntarily by the Borrowers, as a result of foreclosure upon the related Property or otherwise) as well as Excess Spread up to a certain aggregate amount (as described in "*Credit Structure – Overcollateralisation*"). Only such part of these redemption amounts which represent Excess Loss Amounts (as defined under "*Credit Structure – Pre-Enforcement Priority of Payments*") will be guaranteed by Ambac. Furthermore, on the Payment Date in September 2002, the A1 Notes may be subject to a mandatory redemption in part to the extent that any amounts remain credited to the Pre-Funded Mortgage Loans Ledger after payment of the Pre-Funded Mortgage Loans Purchase Price.

### *Final Redemption*

Unless previously redeemed, each Note will be redeemed on the Final Payment Date in an amount equal to its then Principal Amount Outstanding together with accrued and unpaid interest on the Final Payment Date in accordance with Condition 5(a) in the "*Terms and Conditions of the Notes*". Any amounts payable to the holders of the A Notes on the Final Payment Date will be guaranteed by Ambac.

### *Post Enforcement Call Option*

The Trustee will, on the Issue Date without the prior approval of the Noteholders, grant to Holdings an option (the "Post Enforcement Call Option") to acquire all (but not part only) of the C Notes (plus accrued interest thereon) for a consideration of one penny per C Note outstanding following any enforcement of the Security for the Notes after the date on which the Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the C Notes and after the application of any such proceeds to the C Notes to pay any further amounts due in respect of the C Notes. The Noteholders are bound by the terms of this Post Enforcement Call Option granted to Holdings pursuant to the terms and conditions of the Trust Deed and by the conditions in the "*Terms and Conditions of the Notes – Condition 5(k)*" and the Trustee is irrevocably authorised to enter into the Post Enforcement Call Option with Holdings. If the Post Enforcement Call Option is exercised, the C Notes will be redeemed and the Issuer's obligations with respect thereto will be extinguished. See "*Terms and Conditions of the Notes – Condition 5(k)*".

### *Ratings*

As a condition to the issue of the A Notes, the A Notes are to be rated Aaa by Moody's and AAA by S&P. The rating is based solely on the financial strength and claims paying ability of Ambac. The issue of the C Notes is not conditional upon a rating and the Issuer has not requested any rating of the C Notes. In the event that Coupon Stripping takes place in respect of the A3 Detachable Coupons, the A3 Detachable Coupons are expected to be rated Aaa by Moody's and AAA by S&P.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by either one or both of the Rating Agencies.

### *Security for the Notes*

The security for the Notes will be created pursuant to, and on the terms of a deed of charge and assignment to be entered into between, *inter alios*, the Issuer and the Trustee and dated as of the Issue Date (the "Deed of Charge"), as amended or supplemented from time to time, in favour of the Trustee on trust for, *inter alia*, the Noteholders and Ambac.

The Notes will be secured by first ranking fixed security interests over all the Issuer's interests, rights and entitlements under and in respect of:

- (a) the Mortgage Loans and all monies derived therefrom and all other security for their repayment (including the relevant Mortgages);
- (b) the Mortgage Sale Agreement;
- (c) the Administration Agreement;
- (d) the Insurance and Indemnity Agreement;
- (e) the bank agreement entered into in relation to the GMAC-RFC Accounts, the Expenses Account and the Issuer Transaction Account (the "Bank Agreement");
- (f) the paying agency agreement to be entered into on or prior to the Issue Date between the Issuer, the Trustee, JPMorgan Chase Bank as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as paying agent), and as agent bank (the "Agent Bank", which expression shall include its successors as agent bank), J.P. Morgan Bank Luxembourg S.A. and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents") and the Trustee (the "Paying Agency Agreement");
- (g) the liquidity facility agreement to be entered into on or prior to the Issue Date between the Liquidity Facility Provider, the Issuer and the Trustee (the "Liquidity Facility Agreement");
- (h) the Guaranteed Investment Contract;
- (i) the Interest Rate Cap Agreement and the Cap Guarantee (each as defined in "*Credit Structure – Interest Rate Cap Agreement*");
- (j) an account (the "GIC Account") in the name of the Issuer which is held at Barclays Bank PLC or such other banking institution with a rating of at least P-1 from Moody's and A-1+ from S&P;
- (k) the Declaration of Trust;
- (l) the corporate services agreement (the "Corporate Services Agreement") to be entered into on or prior to the Issue Date between, *inter alios*, SFM Corporate Services Limited (the "Corporate Services Provider"), the Share Trustee and the Issuer pursuant to which the Corporate Services Provider will agree to provide certain corporate services to the Issuer and Holdings;
- (m) the Scottish Trust Property and any Additional Scottish Trust Property (as defined in the Mortgage Sale Agreement);
- (n) the Issuer Transaction Account;
- (o) the Issuer's interest in the insurance contracts entered into by Borrowers;
- (p) all other contracts, agreements, deeds and documents entered into by the Issuer from time to time;
- (q) to the extent not already charged, any real property belonging to the Issuer;
- (r) the goodwill of the Issuer;
- (s) the uncalled capital (if any) of the Issuer; and
- (t) the benefit of all licences, consents and authorisations held by the Issuer in connection with its business or property.

The Notes will also be secured by a floating charge (ranking after the fixed security referred to above) over the whole of the undertaking, property and assets and rights of the Issuer which are not, at any time, covered by the fixed security described above but extending over all of the Issuer's Scottish and Northern Irish assets, including those covered by fixed security. The fixed and floating charges are together the "Security", and such assets of the Issuer subject to the Security are together the "Charged Assets". As a matter of English law, certain of the charges which are expressed as fixed charges may only take effect as floating charges.

The Charged Assets will also secure amounts payable by the Issuer to any receiver, the Trustee, the Administrator, the Account Bank, Ambac, the Liquidity Facility Provider, the GIC Provider, GMAC-RFC and the agents appointed under the Paying Agency Agreement, pursuant to the Trust Deed, the Administration Agreement, the Bank Agreement, the Premium Letter and Insurance and Indemnity Agreement, the Liquidity Facility Agreement, the Guaranteed Investment Contract, the Mortgage Sale Agreement, the Paying Agency Agreement and the Deed of Charge (and any supplements thereto) according to their respective interests (the "Secured Creditors").

The Deed of Charge will contain provisions regulating the priority of application of the Charged Assets (and proceeds thereof) among the persons entitled thereto after the service of an Enforcement Notice by the Trustee. Such priorities are described in "*Terms and Conditions of the Notes – Condition 2*".

Certain of the charges described above, while expressed to be fixed charges, may take effect as floating charges.

#### **Deferred Consideration**

##### ***Ordinary Deferred Consideration***

On each Payment Date, the Issuer shall pay to GMAC-RFC or its assignees by way of deferred consideration under the Mortgage Sale Agreement such amount as is available for such purpose in accordance with the Pre-Enforcement Priority of Payments provisions. Any such payment to GMAC-RFC or its assignees shall be equal to the residual amount following payment of or provision for all higher ranking items (the "Ordinary Deferred Consideration") as described in "*Credit Structure*".

##### ***Prepayment Deferred Consideration***

The Issuer shall pay to GMAC-RFC or its assignees by way of deferred consideration under the Mortgage Sale Agreement such amount (as and when received by the Issuer) representing amounts recovered as early redemption fees upon early settlement or upon enforcement of a Mortgage Loan (the "Prepayment Deferred Consideration").

##### ***Following Enforcement***

Following service of an Enforcement Notice, all entitlement of GMAC-RFC to any Prepayment Deferred Consideration shall be suspended until such time as the Notes have been repaid in full.

##### ***Liquidity Facility***

A liquidity facility (the "Liquidity Facility") (as more particularly described under "*Credit Structure*") will be available to the Issuer to make good certain shortfalls of funds available to the Issuer to meet its obligations as described under "*Credit Structure*".

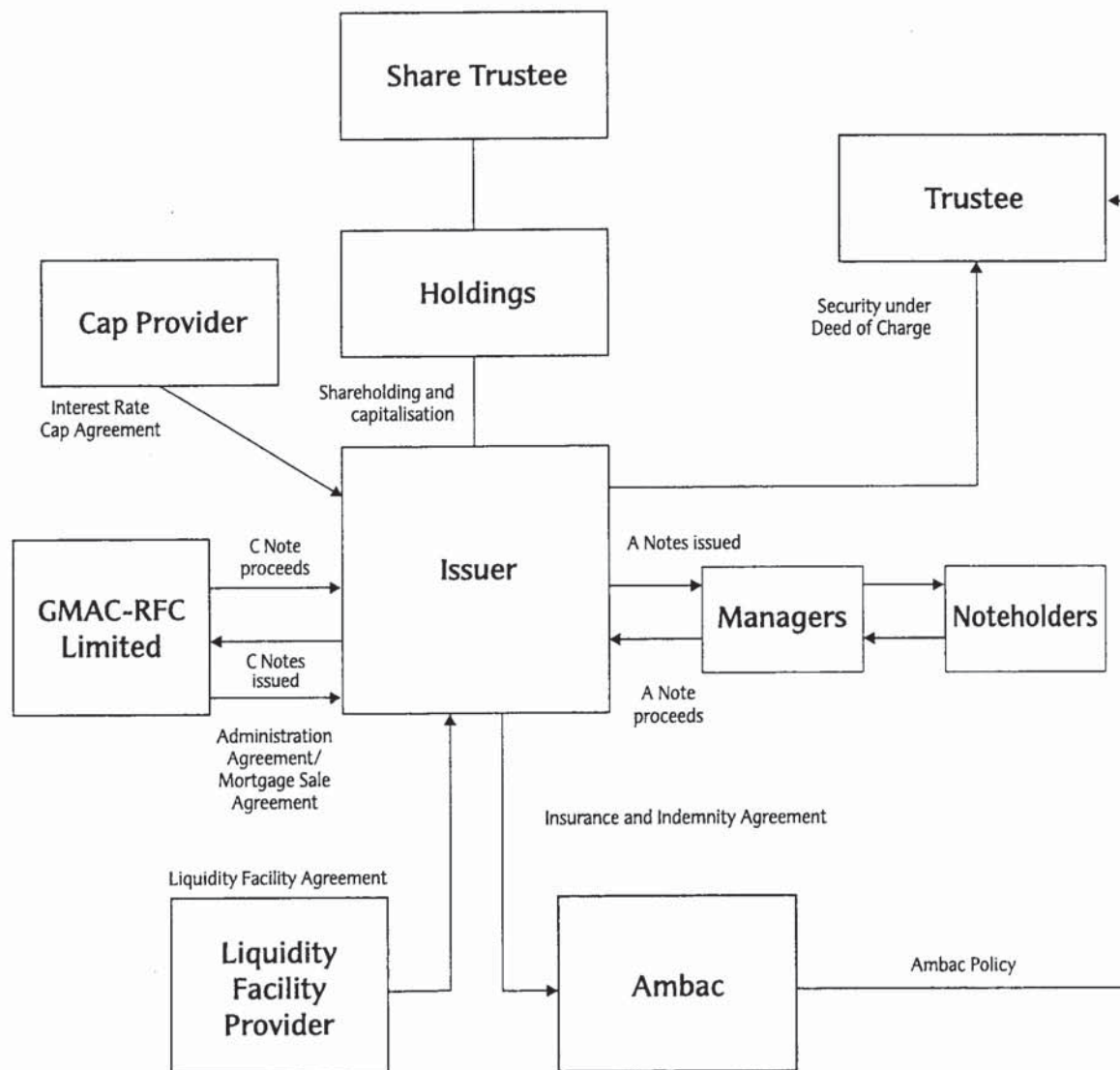
#### **Bank Accounts**

The Borrowers under the Mortgage Loans will make all payments into one of two accounts in the name of GMAC-RFC (the two accounts are referred to as the "GMAC-RFC Accounts"). Amounts which represent receipts in respect of the Mortgage Loans and are received by direct debit will be swept on a daily basis into another account in the name of GMAC-RFC (the "Collection Account"). Amounts which represent receipts in respect of the Mortgage Loans and are received other than by direct debit will be transferred into the Collection Account on the business day following the day on which they were received. Amounts standing to the credit of the Collection Account which represent receipts in respect of the Mortgage Loans will be transferred daily from the Collection Account to an account (the "Issuer Transaction Account") in the name of the Issuer which is held at Barclays Bank PLC or such other banking institution with a rating acceptable to the Rating Agencies.

Pursuant to the terms of a guaranteed investment contract (the "Guaranteed Investment Contract"), amounts standing to the credit of the Issuer Transaction Account (including amounts standing to the credit of the Pre-Funded Mortgage Loans Ledger) will be transferred from such account to the GIC Account.

## STRUCTURE DIAGRAM

This structure diagram is an indicative summary of the principal features of the Notes at issuance. This structure diagram must be read in conjunction with, and is qualified in its entirety by, the detailed information presented elsewhere in this Offering Circular.



## RISK FACTORS

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*The following is a summary of certain aspects of the issue of the Notes about which prospective investors should be aware, but it is not intended to be exhaustive. Prospective investors should carefully consider the risk factors set out in this summary, in addition to the other information contained in this Offering Circular, in evaluating whether to purchase the Notes.*

### Risks Related to the Notes

#### *Non-Recourse Obligations*

The Notes represent obligations of the Issuer and do not constitute obligations or responsibilities of, or guarantees by, any other person (including GMAC-RFC, the Trustee, the Account Bank, the Administrator, the Managers, the Liquidity Facility Provider, the GIC Provider or any affiliates of any of the foregoing) other than, in respect of Class A Interest (including, for the avoidance of doubt, the A3 Detachable Coupons) and Class A Principal on the A Notes, Ambac. Apart from sums available to Noteholders under the Ambac Policy, the Issuer will rely solely on monies received or recovered on the Mortgage Loans (whether by way of monthly payments, enforcement, disposal of the Mortgage Loans or otherwise) to enable it to make payments in respect of the Notes.

Upon enforcement of the Security for the Notes, the Trustee will have recourse only to the Charged Assets and to Ambac in respect of Class A Interest (including, for the avoidance of doubt, the A3 Detachable Coupons) and Class A Principal. Other than as provided in the Mortgage Sale Agreement, the Issuer and the Trustee will have no recourse to GMAC-RFC or any other entity save in respect of Ambac's obligations under the Ambac Policy (see "*Risks Related to the Mortgage Loans – Limitation of GMAC-RFC's Liability*" below).

#### *Yield and Prepayment Considerations*

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including full and partial prepayments, sale proceeds arising on enforcement of a Mortgage Loan, repurchases by GMAC-RFC due to breaches of warranties under the Mortgage Sale Agreement or requests by Borrowers to convert their current Mortgage Loan to one of a different type) on the Mortgage Loans, the extent of purchases of Pre-Funded Mortgage Loans and the price paid by the Noteholders. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgage Loans. The yield to maturity of the A3 Detachable Coupons will be particularly sensitive to the rate of prepayment on the Mortgage Loans. See "*Risks Relating to A3 Detachable Coupons*".

The rate of prepayment of the Mortgage Loans cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. No assurance can be given as to the level of prepayment that the Mortgage Pool will experience. See "*Weighted Average Lives of the A Notes*".

Principal prepayments in full may result in connection with refinancings, sales of Properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from building insurance policies. In addition, repurchases or purchases of Mortgage Loans will have the same effect as a prepayment in full of such Mortgage Loans. The extent of purchases of Pre-Funded Mortgage Loans may also have an impact. The rate of prepayment will also be affected by the application of Excess Spread towards the prepayment of the A Notes. See "*Credit Structure – Credit Support for the Notes Provided by Excess Spread*".

#### *Subordination of the C Notes*

To the extent set forth in "*Terms and Conditions of the Notes – Condition 2*", the C Notes are subordinate in right of payment to the A Notes. See also "*Credit Structure – The C Notes*".

If, upon default by Borrowers and after exercise by the Administrator of all available remedies in respect of the applicable Mortgage Loans, the Issuer does not receive the full amount due from such Borrowers, holders of the C Notes may receive by way of principal repayment an amount less than the face amount of the C Notes and the Issuer may be unable to pay in full interest due on the C Notes. Payments of principal and interest on the C Notes are dependent on the level and application of Excess Spread as set out in "*Credit Structure – Credit Support for the Notes Provided by Excess Spread*".

#### *Pre-Funded Mortgage Loans*

If the purchase price for the Pre-Funded Mortgage Pool is less than 100% of the Pre-Funded Mortgage Loans Amount or if the amount required to be applied in accordance with the Pre-Enforcement Priority of Payments is less than the sum of the Pre-Funded Mortgage Loans Interest Shortfall and the interest earned on the Pre-Funded Mortgage Loans Amount, a prepayment of principal to holders of the A1 Notes will result. In addition, prior to the purchase of the Pre-Funded Mortgage Pool, each Pre-Funded Mortgage Loan must comply with certain conditions, including, among others, that the Pre-Funded Mortgage Loans, as at the Eligible Date, must conform to the representations and warranties specified in the Mortgage Sale Agreement. Upon inclusion of the Pre-Funded Mortgage Loans in the Mortgage Pool, the aggregate

characteristics of the Mortgage Loans will likely vary from those of the Initial Mortgage Pool and the Completion Mortgage Pool. There can be no certainty that the Pre-Funded Mortgage Pool will have a similar proportion of Repayment Mortgage Loans, Interest Only Mortgage Loans and Part and Part Mortgage Loans, owner occupied properties and non-owner occupied properties or similar geographic concentration characteristics as the Initial Mortgage Pool.

#### **Risks Relating to A3 Detachable Coupons**

##### ***A3 Detachable Coupons***

It is contemplated that, following the initial issuance of the Notes, the A3 Detachable Coupons may be separated from the A3 Notes. The A3 Detachable Coupons will represent only the interest entitlement of the A3 Notes which is specified for the A3 Detachable Coupons and A3 Detachable Couponholders will have no claim in respect of principal amounts payable under the A3 Notes. Accordingly, the interest entitlement of the A3 Detachable Couponholders will be contingent upon the A3 Notes remaining outstanding. The A3 Notes will be redeemed as set out above under "*Summary Information – Redemption and Post Enforcement Call Option*" by reference to Actual Redemption Funds (as defined in Condition 5) which will be made up, *inter alia*, from principal receipts and Available Revenue Funds (as defined in Condition 2) in an amount equal to all the amounts credited to the Principal Deficiency Ledger on the relevant Payment Date. A high rate of repayments, prepayments and receipt of principal receipts in respect of the Mortgage Loans or the failure to apply all of the Pre-Funded Mortgage Loans Amount towards the purchase of Pre-Funded Mortgage Loans is likely to cause the A3 Notes to be redeemed quickly and will therefore reduce the value of the A3 Detachable Coupons and negatively impact their yield to maturity. A3 Detachable Couponholders should note that the Ambac Policy does not cover any losses that may be suffered by holders of A3 Detachable Coupons as a result of a high rate of repayments, prepayments and receipt of principal receipts in respect of the Mortgage Loans or the failure to apply all of the Pre-Funded Mortgage Loans Amount towards the purchase of Pre-Funded Mortgage Loans.

As stated, the yield to maturity of the A3 Detachable Coupons will be particularly sensitive to both the timing of receipt and the overall rate of principal prepayments on the Mortgage Loans, which may fluctuate significantly over time. Investors should make their own investment decisions based on their determinations as to anticipated rates of prepayment under a variety of scenarios. Investors in the A3 Detachable Coupons should fully consider the risk that a rapid rate of prepayments could result in the failure of such investors to recover fully their investments. The rating assigned to the A3 Detachable Coupons only addresses the likelihood of receipt by the A3 Detachable Couponholders of all interest payments to which such A3 Detachable Couponholders are entitled. The ratings do not address the likelihood or rate of prepayments nor the possibility that A3 Detachable Couponholders may suffer a lower than expected yield.

To the extent that A3 Detachable Coupons are separated from the A3 Notes, the A3 Detachable Couponholders will have no voting rights under the Trust Deed or the Conditions.

##### ***Risks Related to the C Notes***

The C Notes are generally more speculative investments than the A Notes. The C Notes do not benefit from the Ambac Policy. Investors should be aware of the special risks associated with an investment in such securities.

Following the Issue Date, Available Revenue Funds on each Payment Date are only available to pay amounts payable in respect of the C Notes to the extent that there are still funds available after paying or providing for items (i) to (xiii) in the Pre-Enforcement Priority of Payments (see "*Credit Structure – Pre-Enforcement Priority of Payments*"). Any interest due on the C Notes not paid on the relevant Payment Date will be deferred until such time as there are sufficient Available Revenue Funds for such purposes, as described in Condition 4(f) of the "*Terms and Conditions of the Notes*". Holders of the C Notes will not be entitled to receive any payment of interest before the Final Payment Date unless and until all amounts then due to the holders of the A Notes and all other amounts ranking ahead of such interest payments in the Pre-Enforcement Priority of Payments have been paid in full. See "*Credit Structure*".

##### **Limited Liquidity**

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. To date, no underwriter has indicated that they intend to establish a secondary market in the Notes.

#### **Risks Related to the Mortgage Loans**

##### ***General***

The A Noteholders will have the benefit of the Ambac Policy in respect of Class A Interest and Class A Principal. For so long as Ambac continues to meet its obligations under the Ambac Policy, the A Noteholders will not be affected by the risks related to the Mortgage Loans described in this section. The C Noteholders and, in the absence of payment under the Ambac Policy, the A Noteholders will directly bear the risks associated with the Mortgage Loans.

### ***Lending Criteria***

The Mortgage Pool will include Mortgage Loans to Borrowers who (a) may previously have been subject to one or more County Court Judgments or the Scottish or Northern Irish equivalent ("CCJs"), Individual Voluntary Arrangements ("IVAs") or Bankruptcy Orders ("BOs"); (b) are self-employed; and/or (c) are otherwise considered by bank and building society lenders to be non-standard borrowers. Mortgage Loans made to non-standard borrowers are generally likely to experience higher rates of delinquency, write-offs, enforcement and bankruptcy than have historically been experienced by mortgage loans made to standard borrowers and therefore carry a higher degree of risk. The lending criteria are more fully described in "*The Mortgage Pool – Lending Criteria*".

### ***Limitation of GMAC-RFC's Liability***

Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgage Loans and their related Mortgages and each will rely instead on the warranties given by GMAC-RFC in the Mortgage Sale Agreement (the "Warranties"). The sole remedy provided for in the Mortgage Sale Agreement (subject to the relevant cure period as set out in the Mortgage Sale Agreement and save as described below) of each of the Issuer and the Trustee in respect of a breach of warranty which could have a material adverse effect on the relevant Mortgage Loan and related Mortgage (other than where such breach was disclosed at the point of sale to the Issuer), shall be the requirement that GMAC-RFC repurchase, or substitute a Substitute Mortgage Loan in replacement for, any Mortgage Loan which is the subject of any breach, provided that this shall not limit any other remedies available to the Issuer and/or Trustee if GMAC-RFC fails to repurchase a Mortgage Loan, or substitute a Substitute Mortgage Loan when obliged to do so. There can be no assurance that GMAC-RFC will have the financial resources to honour such obligations under the Mortgage Sale Agreement. Such obligations are not guaranteed by nor will they be the responsibility of any person other than GMAC-RFC and neither the Issuer nor the Trustee will have recourse to any other person in the event that GMAC-RFC, for whatever reason, fails to meet such obligations. See "*Sale of the Mortgage Pool – Warranties and Repurchase*".

### ***Collectability of Loans***

The collectability of the Mortgage Loans is subject to credit, liquidity and interest rate risks and will generally vary in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers and other similar factors. Other factors such as loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgage Loans.

In addition, the ability of the Issuer to dispose of a Property at a price sufficient to repay the amounts outstanding under the relevant Mortgage Loan will depend upon a number of factors including the availability of buyers for the Property and property values in general at the time.

### ***Risks of Losses Associated with Declining Property Values***

The Security for the Notes consists of the Charged Assets. This Security may be affected by, among other things, a decline in the value of the Properties. No assurance can be given that values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgage Loans. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the Related Security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the C Noteholders if such security is required to be enforced. The A Noteholders have the benefit of the Ambac Policy in respect of Class A Principal.

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally. The geographic distribution of the Mortgage Loans is not concentrated in any one region. However, the South East of England, Outer Metropolitan London and Greater London represent approximately 24.76%, 14.56% and 14.30%, respectively, of the total balance of Mortgage Loans. Such concentrations may present risk considerations in addition to those generally present for similar mortgage backed securities without such concentrations. See "*Characteristics of the Initial Mortgage Pool*".

Investors should be aware that, other than the valuation of Properties undertaken as at origination (as more fully described in "*The Mortgage Pool – Valuation*"), no revaluation of any Property has been undertaken by GMAC-RFC, the Issuer, the Administrator, the Trustee or any other person in respect of the transactions described in this document.

### ***Risk of Losses Associated with Interest Only Mortgage Loans***

Approximately 37.19% of the Mortgage Loans constitute Interest Only Mortgage Loans (see "*Characteristics of the Initial Mortgage Pool*"). Interest Only Mortgage Loans are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage Loan, the Borrower will be required to make a bullet payment that will represent the entirety of the principal

amount outstanding. The ability of such a Borrower to repay an Interest Only Mortgage Loan at maturity frequently depends on such Borrower's ability to refinance the Property or to obtain funds from another source such as pension policies, personal equity plans or endowment policies. GMAC-RFC has not required that such policies be established with respect to any Interest Only Mortgage Loans nor has it required that the benefit of any such policies be assigned to them. The only security that exists will therefore be the Mortgage covering the Property. The ability of a Borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the Borrower's equity in the Property, the financial condition of the Borrower, tax laws and general economic conditions at that time.

#### *Risk of Losses Associated with Non-Owner Occupied Properties*

268 of the Properties representing approximately 4.98% of the Mortgage Loans are not owner occupied. These Properties are generally rented to tenants by the relevant Borrowers. It is possible that the rate of delinquencies, enforcement and losses on Mortgage Loans secured by non-owner occupied properties could be higher than for Mortgage Loans secured by the primary residence of the Borrower and it could be difficult to gain possession of the Properties on enforcement of the relevant Mortgages. See "*Characteristics of the Initial Mortgage Pool*".

#### *Realisation of Charged Assets and Liquidity Risk*

The ability of the Issuer to redeem all the Notes in full and to pay all amounts due to the Noteholders, including after the occurrence of an Event of Default, may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes. However, the A Noteholders have the benefit of the Ambac Policy in respect of Class A Principal. There is not at present an active and liquid secondary market for loans with characteristics similar to the Mortgage Loans in the United Kingdom. It may not, therefore, be possible for the Issuer or, as the case may be, the Trustee or a receiver to sell the Mortgage Loans on appropriate terms should such a course of action be required.

#### *Administration of the Mortgage Loans and Reliance on Third Parties*

If the appointment of the Administrator is terminated under the Administration Agreement, it would be necessary for the Trustee to appoint a substitute administrator. Such substitute administrator would be required to assume responsibility for the provision of the administration services in accordance with the terms of the Administration Agreement. The ability of a substitute administrator to fully perform the required services would depend on the information, software and records available at the time of the relevant appointment.

The Issuer is party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Liquidity Facility Provider has agreed to provide the Issuer with the Liquidity Facility, the Cap Provider has agreed to provide the Issuer with the Interest Rate Cap Agreement, the GIC Provider has agreed to provide the Issuer with the Guaranteed Investment Contract and the Trustee, the Paying Agents and the Agent Bank have all agreed to provide services with respect to the Notes. If any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, investors may be adversely affected.

#### *Buildings Insurance*

As a condition to its Mortgage Loans, GMAC-RFC requires that each Property is insured with an acceptable insurance company for its full re-instatement value as stated in the valuation report. If a Borrower insures the Property under GMAC-RFC's block buildings insurance policy (the "Block Buildings Policy"), GMAC-RFC has the option to use any insurance proceeds to reinstate the Property or to use it to reduce or repay the relevant Mortgage Loan. However, if the Property is insured other than under a Block Buildings Policy, GMAC-RFC may only receive notice of the loss or damage to the Property and may not have the ability to influence how any money received under the claim is spent.

#### *Title of the Issuer*

Legal title to the Mortgage Loans and their related Mortgages will only be transferred to the Issuer in the limited circumstances described under "*Title to the Mortgage Pool*". Prior to the Issuer obtaining legal title to the Mortgages, a bona fide purchaser from GMAC-RFC for value of any of such Mortgage Loans without notice of any of the interests of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way is likely to be limited to circumstances arising from a breach by GMAC-RFC of its contractual obligations or fraud, gross negligence or mistake on the part of GMAC-RFC or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against GMAC-RFC. Such rights may include the rights of set-off which arise in relation to transactions or deposits made between certain Borrowers and GMAC-RFC and the right of the relevant Borrowers to redeem their Mortgages by repaying the relevant Mortgage Loan directly to GMAC-RFC. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans.

For so long as neither the Issuer nor the Trustee have obtained legal title, GMAC-RFC will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgage Loans and their related Mortgages.



In order for legal title to be transferred, transfers and assignments would have to be registered or recorded at H.M. Land Registry, the Registers of Scotland or the Northern Ireland Registries and notice would have to be given to Borrowers of the transfer. In GMAC-RFC's experience, it is not uncommon for borrowers in the non-standard market who are notified of a change of ownership of their mortgage to cease to make monthly payments. There is no legal justification for borrowers withholding payments because of a change in ownership of their mortgages. However, there can be no assurance that the giving of notice to Borrowers of the transfer to the Issuer would not have an adverse effect on cashflows and, accordingly, on the Issuer's ability to make payments in respect of the Notes.

#### ***Regulatory Considerations***

A general description of the regulatory environment affecting the UK residential mortgage market is set out herein under "*Regulation of the UK Residential Mortgage Market*".

#### ***Office of Fair Trading***

The Office of Fair Trading (the "OFT") is responsible for the issue of licences under the Consumer Credit Act 1974 (the "Consumer Credit Act") and the related Consumer Credit Regulations promulgated thereunder. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom.

In February 2000, the OFT issued a guidance note (the "Guidance Note") on what the OFT considers to be "fair" or "unfair" within the Unfair Terms in Consumer Contracts Regulations 1999 (see further below) for interest variation terms. The Guidance Note provides for a term linking an interest rate to an external rate outside the lender's control. It provides that, generally, the OFT and Consumers' Association will not regard such term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference, and the time limits within which changes will be made. All of the Mortgage Loans are made on terms that provide for the mortgage rate to be at a fixed margin above LIBOR (in some cases after the expiry of a period during which the mortgage rate is fixed and during which the Guidance Note will therefore not apply), and that explain when and how the tracking will take effect.

The Financial Services and Markets Act 2000 (the "FSM Act") applies to any "regulated activity". H.M. Treasury has made the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, specifying that entering into a "regulated mortgage contract" and (in certain circumstances) administering a regulated mortgage contract are regulated activities. On 12 December 2001, HM Treasury announced that the Financial Services Authority (the "FSA") will regulate mortgage advice and that regulation by the FSA of mortgage lending and mortgage administration is postponed. The target date for implementation of all such regulation is the second quarter of 2004. The main effects will be that each entity carrying on a regulated activity will be required to hold authorisation and permission from the FSA to carry on that activity. If requirements as to authorisation, permission and advertising are not complied with, a Mortgage Loan will be unenforceable against a borrower except with the approval of a court.

No assurance can be given that the OFT, the FSA or any other regulatory authority will not in the future take action or that future adverse regulatory developments will not arise with regard to the mortgage market in the UK generally, GMAC-RFC's particular sector in that market or specifically in relation to GMAC-RFC. Any such action or developments may have a material adverse effect on the Issuer and/or the Administrator and their respective businesses and operations. In particular, the cost of compliance with any such regulation, action or requirement may adversely affect the ability of the Issuer to meet its financial obligations under the Documents.

#### ***Unfair Terms in Consumer Contracts Regulations 1994 and 1999***

The Unfair Terms in Consumer Contracts Regulations 1999 (the "Regulations"), which together with the Unfair Terms in Consumer Contracts Regulations 1994 apply to agreements made on or after 1 July 1995 and affect all or almost all of the Mortgage Loans, provide that (a) a consumer may challenge a term in an agreement on the basis that it is "unfair" within the Regulations and therefore not binding on the consumer and (b) the Director General of Fair Trading and any "qualifying body" may seek to injunct (or in Scotland, interdict) a business against relying on unfair terms.

This will not generally affect "core terms" which set out the main subject-matter of the contract (for example, the Borrower's obligation to repay the principal) but may affect terms deemed to be ancillary terms, which may well include the ability to choose a substitute for LIBOR where LIBOR cannot be determined under the Mortgage Loan and other terms the application of which are in the lender's discretion, or the ability to impose a charge upon redemption by reference to the Mortgage Early Redemption Charges. See "*Administration of the Mortgage Pool – Redemption*".

For example, if a term imposing a charge upon redemption by reference to the Mortgage Early Redemption Charges is unfair, the Borrower will not be liable to pay the charge or, to the extent that he has paid it, will be able, as against GMAC-RFC or any assignee such as the Issuer, to claim restitution of the amount or to set off the amount of such claim against the amount owing by the Borrower under the relevant Mortgage Loan or any other Mortgage Loan that the Borrower has

taken. Any such non-recovery, claim or set-off may adversely affect the ability of the Issuer to make payments to Noteholders.

#### ***Non-Status Lending Guidelines for Lenders and Brokers***

The OFT issued Non-Status Lending Guidelines for Lenders and Brokers (the "Guidelines") on 18 July 1997 (revised in November 1997). The Guidelines apply to all mortgage loans made to non-standard borrowers, defined for the purposes of the Guidelines as borrowers with a low or impaired credit rating. The Guidelines are therefore applicable to all of the Mortgage Loans. The Guidelines are not primary or subordinate legislation. As such, they set out certain "principles" to be applied in the context of the non-standard residential mortgage market.

The Guidelines place certain constraints on lenders in the non-standard residential mortgage market in respect of matters such as advertisement of mortgage products, selling methods employed by lenders and their brokers, underwriting, dual interest rates and early redemption payments. See "*Regulation of the UK Residential Mortgage Market*".

#### ***Mortgage Loans Regulated by the Consumer Credit Act***

Mortgage loans are regulated by the Consumer Credit Act where the "amount of credit" as defined in the Consumer Credit Act does not exceed the financial limit, which is £25,000 for mortgage loans made on or after 1 May 1998 or £15,000 for mortgage loans made before that date.

Some of the Mortgage Loans (a) are partly regulated by the Consumer Credit Act (and may give rise to liability under Section 75 of the Consumer Credit Act) in that they also finance the supply of insurance under arrangements with the supplier or (b) might be wholly or partly regulated by the Consumer Credit Act because of technical rules on determining whether the financial limit is exceeded or (c) might be treated as wholly or partly regulated by the Consumer Credit Act because of technical rules on agreements varied bilaterally.

A Mortgage Loan that is wholly or partly regulated by the Consumer Credit Act or is to be treated as such has to comply with requirements under the Consumer Credit Act as to content, layout and execution of the Mortgage Loan. If it does not comply, then to the extent that it is regulated or to be treated as such: (a) the Mortgage Loan is totally unenforceable if the form to be signed by the Borrower is not signed by the Borrower or omits or mis-states a "prescribed term" or (b) in other cases, the Mortgage Loan is unenforceable without a court order and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the Borrower and any culpability by the lender.

Although no assurance can be given, assuming (a) that there is no financing for charges that are outside the "total charge for credit" as defined in the Consumer Credit Act; (b) that technical rules on determining whether the financial limit is exceeded have been properly applied; and (c) that no Mortgage Loan has been varied bilaterally, it is unlikely that any of the Mortgage Loans would be totally unenforceable on the basis of non-compliance with requirements under the Consumer Credit Act as to content and layout, save for financing for insurance in certain circumstances, and otherwise save in exceptional circumstances.

A court order is necessary, however, to enforce a Mortgage securing a Mortgage Loan to the extent that it is regulated or to be treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend a Mortgage Loan or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under the Mortgage Sale Agreement, GMAC-RFC will be obliged to repurchase any Mortgage Loan that is wholly or partly regulated or to be treated as such under the Consumer Credit Act if a court finds that such Mortgage Loan was not originated in compliance with the Consumer Credit Act and in respect of which the court has no jurisdiction or refuses to make an enforcement order.

#### ***Proposed EU Savings Tax Directive***

On 13 December 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments.

The proposed directive is not yet final, and may be subject to further amendment. Consequently it is not possible to predict what effect, if any, the adoption of the proposed directive would have on the Notes or on the payments of principal or interest on the Notes.

#### ***European Monetary Union***

Prior to the maturity of the Notes, the United Kingdom may become a participating member state in the European Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro

by the United Kingdom may have the following consequences: (i) all amounts payable in respect of the Notes may become payable in euro; (ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes, or changes in the way those rates are calculated, quoted and published or displayed; and (iii) the Issuer may choose to redenominate the Notes into euro and take additional measures in respect of the Notes.

The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Mortgage Loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

#### *Change of Law*

The structure of the issue of the Notes is based on English law in effect as at the date of this document. No assurance can be given as to the impact of any possible judicial decision or changes to English law, the interpretation thereof or administrative practice after the date of this document.

#### *Potential Change of Law – Company Voluntary Arrangement*

The Insolvency Act 2000 introduced significant changes to the UK insolvency regime, some of which have not yet been brought into effect. Amongst those not yet brought into effect are provisions allowing "small" companies to obtain protection from their creditors for a period of 28 days as part of the company voluntary arrangement procedure with the option for the company and its creditors to extend the protection period for a further two months.

During this period, no insolvency procedures may be commenced in relation to the company, any security created by the company over its property cannot be enforced and no other legal process can be taken in relation to the company except with the consent of the Court.

A company may continue to make payments in respect of its debts in existence before the beginning of the moratorium only if there are reasonable grounds for believing such payments will benefit the company and the payment is approved by either the moratorium committee of the creditors of the company or, if none, by a nominee of the company appointed under the provisions of the Insolvency Act 2000.

For the purposes of the Insolvency Act 2000, a "small company" is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £2.8 million; (ii) its balance sheet total is not more than £1.4 million; and (iii) the number of its employees is not more than 50.

For as long as the turnover of the Issuer is greater than £2.8 million and its balance sheet total is greater than £1.4 million, the Issuer will not be regarded as a "small" company under the law as it is currently intended to come into effect. The Secretary of State for Trade and Industry may by regulation in the future modify the eligibility requirements for the applicability of the Insolvency Act 2000, including altering the definition of "small" company so that the Issuer comes within such definition.

The Secretary of State is expected to propose draft regulations excluding the applicability of the "small company" provisions of the Insolvency Act 2000 to companies entering into certain types of capital markets transactions and companies with liabilities in excess of a stated threshold. These draft regulations are not yet settled, may or may not be enacted and may or may not exempt the Issuer from these provisions.

#### *Potential Change of Law – Administrative Receivership*

The Government announced its intention in a White Paper issued in July 2001 to reform the existing UK insolvency regime. On 26 March 2002 the Enterprise Bill was introduced to Parliament. It is currently expected that the Enterprise Bill will receive royal assent by November of this year and will be implemented over the course of 2003 although it is not certain that this timetable will be met, or that the Enterprise Bill will become law.

The Enterprise Bill proposes certain changes to existing UK insolvency laws including prohibiting the appointment of administrative receivers by secured creditors. The holder of a qualifying floating charge over a company's property would have the right (if it chose) to appoint an administrator of the company instead. However, by way of exception, the Enterprise Bill preserves the right of the holder of a floating charge (or a combination of a floating charge and one or more other forms of security) over the whole or substantially the whole of a company's property to appoint an administrative receiver, where the charge was created before a date to be appointed by the Secretary of State by statutory instrument (the "Grandfathering Exception"). Based on a press release made on 9 November 2001 by the Secretary of State, the appointment date is expected to be a date on or after that on which the relevant provisions in the Enterprise Bill come into force.

The Enterprise Bill also preserves the right of the holder of a qualifying floating charge to appoint an administrative receiver in relation to certain capital market arrangements where a party incurs or is expected to incur a debt of at least £50 million

under the arrangement and the arrangement involves the issue of a capital market investment (the "Capital Market Exception"). The transactions contemplated by the Issuer in this Offering Circular should fall within this exception.

Were the appointment date for the purposes of the Grandfathering Exception to be a date before the Deed of Charge was entered into or the Enterprise Bill to be enacted in a form where the Capital Market Exception did not apply, then the Trustee might not be able to enforce the Deed of Charge by appointing an administrative receiver with respect to the Issuer. If an administrator or other insolvency official (other than an administrative receiver or a receiver) were appointed in relation to the Issuer, such administrator or other insolvency official might not have regard solely to the interests of the secured creditors and may have regard to other unsecured creditors of the Issuer (if any). The Issuer as a special purpose company has, however, agreed not to incur any indebtedness except to the secured creditors or as otherwise permitted by the agreements described in this Offering Circular.

It is not possible to determine whether such proposed changes to the UK insolvency regime will be enacted in the form described above, or if enacted in a different form whether they would have a detrimental effect on the transactions described in this Offering Circular and the interests of Noteholders.

## CREDIT STRUCTURE

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### General

The following is a summary of the structure and credit arrangements underlying the Notes. Such summary should be read in conjunction with information appearing elsewhere in this Offering Circular.

The Notes will not be obligations of GMAC-RFC, the Trustee, the Account Bank, the Cap Provider, the GIC Provider, the Cap Guarantor, the Liquidity Facility Provider, the Corporate Services Provider, the Share Trustee, the Managers or any other party other than the Issuer and will not be guaranteed by any such party (other than, in respect of Class A Interest and Class A Principal, Ambac). Neither GMAC-RFC, the Trustee, the Account Bank, the GIC Provider, the Cap Provider, the Cap Guarantor, the Liquidity Facility Provider, the Managers nor anyone other than the Issuer and, in respect of Class A Interest and Class A Principal, Ambac will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

### Credit Support for the Notes Provided By Excess Spread

The interest rates payable by Borrowers in respect of the Mortgage Loans may vary. It is anticipated that, on the Issue Date, the revenue generated by applying the weighted average of the interest rates applicable to the Mortgage Loans will exceed items (i) through (vi) of the Pre-Enforcement Priority of Payments by an amount, calculated as a percentage, which, on the Issue Date, will be approximately 0.21%. The actual amount of the excess (the "Excess Spread") will vary during the life of the Notes. Among the key factors determining such variations will be the level of delinquencies and defaults experienced, the level of prepayments and the weighted average of the interest rates from time to time.

On any Payment Date, available Excess Spread will be used to cover, *inter alia*, any Principal Deficiencies, to pay amounts due to Ambac pursuant to the Insurance and Indemnity Agreement, to repay principal of the A Notes until the Target Overcollateralisation Amount has been reached, and to make interest and principal payments in respect of C Notes. In each case, application of Excess Spread for these purposes is subject to higher ranking items in accordance with Pre-Enforcement Priority of Payments being satisfied in full.

The application of Excess Spread to:

- (i) cover any Principal Deficiency pursuant to item (vii) of the Pre-Enforcement Priority of Payments;
- (ii) repay A Note Principal to provide Overcollateralisation pursuant to item (ix) of the Pre-Enforcement Priority of Payments; and
- (iii) reimburse Ambac for drawings under the Ambac Policy in respect of Excess Loss Amounts pursuant to item (viii) of the Pre-Enforcement Priority of Payments

will be subject to the Excess Spread Credit Support Cap (as defined below). Once an aggregate amount equal to the Excess Spread Credit Support Cap has been so applied, Excess Spread will no longer be available for application under items (vii), (viii) (in respect of Excess Loss Amounts only) and (ix) of the Pre-Enforcement Priority of Payments. Any further Principal Deficiency which arises after the Excess Spread Credit Support Cap has been reached which results in a debit balance on the Overcollateralisation Ledger as at the next Payment Date will then be covered under the Ambac Policy and not by Excess Spread.

"Excess Spread Credit Support Cap" means the maximum aggregate amount of £33,075,000 available to be applied (i) to cover Principal Deficiency pursuant to item (vii) of the Pre-Enforcement Priority of Payments; to (ii) repay Class A Principal to provide overcollateralisation pursuant to item (ix) of the Pre-Enforcement Priority of Payments; and (iii) to reimburse Ambac for drawings under the Ambac Policy in respect of Excess Loss Amounts pursuant to item (viii) of the Pre-Enforcement Priority of Payments.

After making the payments, applications or provisions referred to in the Pre-Enforcement Priority of Payments on each Payment Date, it is not intended that any surplus will be accumulated in the Issuer.

### Liquidity Facility

The Issuer will be entitled on any Payment Date to make drawings up to the Liquidity Maximum Amount under the Liquidity Facility (any such drawing to be initially credited to the Issuer Transaction Account and recorded in a ledger maintained by the Administrator established for such purposes (the "Liquidity Ledger")) to the extent that there are insufficient amounts available for distribution standing to the credit of the Revenue Ledger to meet items (i) to (vi) of the Pre-Enforcement Priority of Payments on that Payment Date. Drawings credited to the Liquidity Ledger on any Payment Date will be transferred to the Revenue Ledger on that Payment Date for application in accordance with items (i) to (vi) of the Pre-Enforcement Priority of Payments. Likewise, any amounts due to be paid to the Liquidity Provider in accordance with the Pre-Enforcement Priority of Payments will be transferred from the Revenue Ledger to the Liquidity Ledger and the

balance adjusted accordingly on the Business Day before the relevant Payment Date and thereafter (but only prior to the Liquidity Drawdown Date as defined below) will be utilised in repaying amounts outstanding under the Liquidity Facility.

If, at any time, the credit rating of the Liquidity Facility Provider falls below P-1 by Moody's and A-1+ by S&P or the Liquidity Facility Provider has its short term rating withdrawn, or the Liquidity Facility is not renewed and in each case the Liquidity Facility is not replaced by an alternative Liquidity Facility such that the Underlying Rating of the A Notes is not adversely affected, the Issuer will forthwith draw down the entirety of the undrawn portion of the Liquidity Facility and credit such amount to the Liquidity Ledger. The date upon which such amount is drawn down is the "Liquidity Drawdown Date".

Amounts paid to the Liquidity Provider in accordance with item (iv) of the Pre-Enforcement Priority of Payments will be capable of being redrawn under the Liquidity Facility (together, as the case may be, with other undrawn amounts under the Liquidity Facility prior to the Liquidity Drawdown Date) or from the Liquidity Ledger (on or after the Liquidity Drawdown Date) on any Payment Date to the extent set out above in this section.

"Liquidity Drawn Amount" means, on any Determination Date: (a) at any time prior to any Liquidity Drawdown Date, the amount then drawn under the Liquidity Facility and not repaid together with all accrued interest up to (but excluding) the related Payment Date pursuant to the Liquidity Facility Agreement; and (b) at any time on or after the Liquidity Drawdown Date, the difference between the Liquidity Maximum Amount and the Available Commitment under the Liquidity Facility as at the last day of the month immediately preceding such Determination Date. "Available Commitment" means the commitment under the Liquidity Facility less the outstanding advances, taking into account any repayment made on that date.

"Liquidity Maximum Amount" means £15,750,000 being the amount of the original Liquidity Facility.

#### **Overcollateralisation**

To provide limited coverage for Principal Deficiencies, the Issuer will, subject to the Excess Spread Credit Support Cap, apply Available Revenue Funds on each Payment Date (to the extent available after making payments in respect of items (i) to (viii) of the Pre-Enforcement Priority of Payments) to repay principal of the A Notes until an amount equal to 0.5% of the principal amount of the A Notes as at the Issue Date has been so applied (the "Target Overcollateralisation Amount"). As a result, the principal balance outstanding under the Mortgage Loans will exceed the Principal Amount Outstanding under the A Notes by 0.5% of the initial Principal Amount Outstanding of the A Notes on the day the Target Overcollateralisation Amount has been reached ("Overcollateralisation"). Each time any amounts are so applied towards the reduction of the principal amount outstanding of the A Notes, the Issuer will credit an equal amount to a ledger created in its books for that purpose (the "Overcollateralisation Ledger"). Each time a Principal Deficiency (as defined below) arises, the Issuer will debit an amount equal to such Principal Deficiency to the Overcollateralisation Ledger. The Overcollateralisation Ledger will be credited in respect of every payment made under item (vii) of the Pre-Enforcement Priority of Payments so that the level of Overcollateralisation will be maintained to the extent that Excess Spread is available for that purpose. However, Overcollateralisation will not be so maintained after the Excess Spread Credit Support Cap has been reached. If further Principal Deficiencies are incurred in any Determination Period which result in a debit balance on the Overcollateralisation Ledger at the next Payment Date, a drawing will be made under the Ambac Policy. An amount equal to such drawing will be credited to the Overcollateralisation Ledger. The Target Overcollateralisation Amount may be reduced provided that certain performance triggers set out in the Insurance and Indemnity Agreement are met.

#### **Ambac Policy**

Under the Ambac Policy, Ambac will guarantee all payments due to the holders of the A Notes in respect of Class A Interest and Class A Principal.

On or prior to the Issue Date an affiliate of Ambac will enter into a limited reimbursement agreement with one or more third parties (the "Limited Reimbursement Agreement") whereby some amounts payable under the Ambac Policy will be paid at the direction of Ambac or its affiliate directly to the Trustee (or, to the extent such amounts have already been paid under the Ambac Policy, reimbursed to Ambac) by a third party. Neither the Trustee nor the Issuer is a party to the Limited Reimbursement Agreement and neither has any rights thereunder. If those amounts are not paid to the Trustee or Ambac under the Limited Reimbursement Agreement by a third party, or a third party fails in respect of any other obligations it has under the Limited Reimbursement Agreement, Ambac will nevertheless remain obliged to make all payments required to be made under the Ambac Policy. If the Trustee receives funds from the third party under the Limited Reimbursement Agreement which are available for payment to Noteholders, such receipt will operate as a discharge of Ambac's obligations to make payment under the Ambac Policy in a corresponding amount.

See section entitled "*Form of Ambac Policy*" for a more detailed description of the extent of Ambac's obligations.

#### **GMAC-RFC Accounts, Collection Account and Expenses Account**

The Borrowers under the Mortgage Loans will make all payments (including any amounts calculated by reference to the Mortgage Early Redemption Charges) into one of the GMAC-RFC Accounts. Amounts received by direct debit will be transferred to the Collection Account on a daily basis. Amounts received other than by direct debit will be, to the extent they represent receipts in respect of the Mortgage Loans, transferred to the Collection Account on the following business day. Amounts standing to the credit of the Collection Account will be swept on a daily basis into the Issuer Transaction Account. GMAC-RFC will declare a trust over the Expenses Account, the Collection Account and the GMAC-RFC Accounts in favour of the Issuer, the Trustee and itself (the "Declaration of Trust"). The "Expenses Account" is an account in the name of GMAC-RFC from which amounts are debited to make Permitted Withdrawals in the manner described in "*– Permitted Withdrawals from the Issuer Transaction Account*" below.

#### **GIC Account**

Pursuant to the terms of the Guaranteed Investment Contract, amounts standing to the credit of the Issuer Transaction Account will be transferred from such account to the GIC Account. The GIC Provider will contract to pay a specific rate of interest on funds on deposit in the GIC Account. The short term, unsecured, unguaranteed and unsubordinated debt obligations of Barclays Bank PLC are currently rated P-1 by Moody's and A-1+ by S&P.

#### **Use of Ledgers**

The Issuer will be required to record or cause to be recorded all amounts received from Borrowers in respect of the Mortgage Loans or otherwise paid or recovered in respect of the Mortgage Loans (other than principal amounts received representing monthly repayments of principal, redemption proceeds and amounts recovered on enforcement, sale or repurchase in each case representing principal (the "Principal Funds") and other than amounts calculated by reference to the Mortgage Early Redemption Charges) in a ledger for that purpose (the "Revenue Ledger"). The Issuer will be required to record Principal Funds in a ledger for that purpose (the "Principal Ledger").

The amounts standing to the credit, at any time, of the Further Advances Ledger, the Liquidity Ledger, the Pre-Funded Mortgage Loans Ledger, the Principal Ledger and the Revenue Ledger (collectively, the "Ledgers") will, in the aggregate, represent all sums standing to the credit of the Collection Account, the GMAC-RFC Accounts (to the extent they represent receipts in respect of Mortgage Loans within the Mortgage Pool), the GIC Account and the Issuer Transaction Account other than amounts calculated by reference to the Mortgage Early Redemption Charges. The Ledgers will be used to monitor the receipt and subsequent utilisation of cash available to the Issuer from time to time and will be credited and debited in the manner described in "*– Pre-Enforcement Priority of Payments*" below.

#### **Income Deficiencies**

On each day which falls five Business Days prior to a Payment Date (a "Determination Date"), the Administrator will determine whether the credit balance of the Revenue Ledger (the "Initial Available Revenue") as at the last Business Day of the month immediately preceding such Determination Date is sufficient to pay or provide for payment of items (i) to (vi) inclusive under the Pre-Enforcement Priority of Payments. To the extent that such credit balance is insufficient (the amount of any deficit being an "Income Deficiency"), the Issuer shall pay or provide for such Income Deficiency first but only to the extent permitted as set out under "*– Liquidity Facility*" above) by applying amounts standing to the credit of the Liquidity Ledger. To the extent the application of such amounts is insufficient to cover payments due under item (vi) of the Pre-Enforcement Priority of Payments, the Trustee will make a demand under the Ambac Policy to cover such shortfall.

#### **Principal Deficiency Ledger**

A principal deficiency ledger (the "Principal Deficiency Ledger") will be established in order to record any principal deficiency (the "Principal Deficiency"). A Principal Deficiency will be recorded on the Principal Deficiency Ledger in respect of any amount of principal which remains outstanding under any Mortgage Loan after completion by the Administrator of the arrears and default procedures (as more particularly described in the section "*Administration of the Mortgage Pool – Arrears and Default Procedures*"). Amounts allocated to the Principal Deficiency Ledger shall be reduced to the extent of Available Revenue Funds available therefor on any Payment Date in accordance with the Pre-Enforcement Priority of Payments, or by amounts paid under the Ambac Policy in respect of Excess Loss Amounts.

#### Use of Proceeds of the C Notes

The proceeds of the issue of the C Notes will be used to fund (a) the costs and expenses arising in respect of the Notes which are issued on the Issue Date and (b) the Pre-Funded Mortgage Loans Interest Shortfall which will be credited to the Pre-Funded Mortgage Loans Ledger. The "Pre-Funded Mortgage Loans Interest Shortfall" is calculated as follows:

$$\frac{(A-B) \times C \times D}{365}$$

- A = Weighted average Rate of Interest for the A Notes for the first Interest Period.
- B = the rate of interest payable by the GIC Provider during the first Interest Period pursuant to the Guaranteed Investment Contract.
- C = the Pre-Funded Mortgage Loans Amount.
- D = the number of days from and including the Issue Date to but excluding the Payment Date falling in September 2002.

#### The C Notes

C Noteholders will not be entitled to receive any payment of interest, unless and until all amounts then due to, *inter alios*, the A Noteholders and (after Coupon Stripping) the A3 Detachable Couponholders and Ambac have been paid in full, in accordance with the Pre-Enforcement Priority of Payments.

If on any Determination Date there are insufficient Available Revenue Funds to make payment in full of amounts of interest due and payable on the C Notes then, to that extent, interest on such Notes shall be deferred until the next Payment Date on which there are sufficient Available Revenue Funds, as more fully described in Condition 4(f) of the "Terms and Conditions of the Notes".

Each class of Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the A Notes will rank in priority to the C Notes in point of security. See also "Risk Factors – Risks Related to the Notes – Subordination of the C Notes, – Risks Related to the C Notes, – Risks Related to the Mortgage Loans".

#### Interest Rate Matching

All but 563 of the Mortgage Loans are currently LIBOR-linked mortgages, which means that the interest payable thereunder is calculated as a specified margin in excess of LIBOR for three-month Sterling deposits from time to time. The remaining Mortgage Loans are fixed rate mortgage loans all of which will convert to LIBOR-linked rates at the expiry of the relevant fixed-rate period which expires no later than April 2004. As described below, following such conversion, LIBOR on these Mortgage Loans will be re-set on a quarterly basis.

LIBOR on LIBOR-linked Mortgage Loans is set on the 12th day in September, December, March and June or, where that day is not a Business Day, the next Business Day (each such date a "Re-Set Date"). LIBOR as established on such Re-Set Date shall be effective two Business Days thereafter until the day preceding two Business Days after the next Re-Set Date.

#### Interest Rate Cap Agreement

To hedge against a possible rise in LIBOR to a rate in excess of 10%, the Issuer will enter into an interest rate cap agreement with the Cap Provider ("Interest Rate Cap Agreement") from the Issue Date for a period of four years. Under the Interest Rate Cap Agreement, the difference between (a) the amount produced by applying LIBOR for the relevant Interest Period to the notional amount of £77,500,000 (the "Notional Amount") and (b) the amount produced by applying 10% to the Notional Amount for the same period, will be paid (if such figure is positive) by the Cap Provider to the Issuer on the next following Payment Date. The obligations of the Cap Provider will be guaranteed by the Cap Guarantor pursuant to a guarantee agreement with the Issuer (the "Cap Guarantee").

#### Permitted Withdrawals from the Issuer Transaction Account

On any date (including any Payment Date), the Administrator shall be permitted to make the following withdrawals and corresponding payments from amounts on deposit in the Issuer Transaction Account to make the following payments, either (i) directly or (ii) in respect of items (a) to (c) inclusive, (g), (i) and (j) below, indirectly by transferring sufficient funds from the Issuer Transaction Account to the Expenses Account and making those payments from such account:

- (a) to make Further Advances to Borrowers;
- (b) to pay when due (but subject to any right to refuse or withhold payment or offset that has arisen by reason of the Borrower's breach of the terms of the Mortgage Loan concerned) any amount payable by the Issuer to a Borrower under the terms of the Mortgage Loan to which that Borrower is a party or by operation of law;
- (c) if any amount has been received from a Borrower for the express purpose of payment being made by the Issuer to a third party for the provision of a service (including giving insurance cover) to either that Borrower or the Issuer to



pay such amount when due to such third party or, in the case of the payment of an insurance premium, where such third party and GMAC-RFC have agreed that payment of commission to GMAC-RFC should be made by deduction from such insurance premium, to pay such amount less such commission when due to such third party and to pay such commission to GMAC-RFC;

- (d) to pay to any person (including GMAC-RFC and the Administrator) any amounts due arising from any overpayment by any person to the Issuer in respect of the Mortgage Loans or arising from any reimbursement by any person of any such overpayment;
- (e) to pay to the Inland Revenue any amount due;
- (f) other than on a Payment Date, to pay when due and payable any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Trust Deed and not provided for payment elsewhere in items (a) to (e) above or (g) to (l) below and to pay any premia in respect of any insurance policy relating to any Mortgage Loan;
- (g) to make payments to the Administrator pursuant to the Administration Agreement;
- (h) to refund any amounts due arising from the rejection of any direct debit payments in respect of a Mortgage Loan;
- (i) to refund any other overpayments made by a Borrower and all other amounts not relating to the Mortgage Loans owned by the Issuer or in respect of which the Issuer has no entitlement pursuant to the Mortgage Sale Agreement, or amounts credited to the Issuer Transaction Account in error;
- (j) to make payments of any Prepayment Deferred Consideration;
- (k) to refund to GMAC-RFC any amounts which represent amounts received from Borrowers and which are amounts owed by such Borrowers in respect of any period prior to the Issue Date as and when identified by the Administrator and if a Borrower fails to pay the full amount that it owes, the Administrator shall be obliged to refund to GMAC-RFC only such portion of the amount received which relates to any period prior to the Issue Date;
- (l) to make payment to GMAC-RFC of the Pre-Funded Mortgage Loans Purchase Price on the Eligible Date;
- (m) to make payment to the holders of the C Notes towards redemption of the C Notes of the amount standing to the credit of the Pre-Funded Mortgage Loans Ledger which is not required to be paid to the holders of the A Notes; and
- (n) to make payments into the GIC Account pursuant to the terms of the Guaranteed Investment Contract.

Each of the above payments shall be referred to as "Permitted Withdrawals". To the extent that any of the above Permitted Withdrawals are made by the Administrator from and including the last Business Day of the month preceding such Determination Date to and including a Payment Date (or in the case of a payment described in (g) above but excluding such Payment Date), any such withdrawals in respect of items (b) through (e), inclusive, and (f) through (n), inclusive, shall be made prior to the Pre-Enforcement Priority of Payments and, therefore, shall not be included in Available Revenue Funds for such Payment Date.

#### **Pre-Enforcement Priority of Payments**

Prior to enforcement of the Security, the Issuer is required to apply monies available for distribution as at the last Business Day of the month preceding each Payment Date (the "Available Revenue Funds" which, for the avoidance of doubt, excludes any principal receipts) in or towards the satisfaction of the payments or provision in the following order of priority (the "Pre-Enforcement Priority of Payments") (in each case only to the extent that the payments or provisions of a higher priority have been made in full):

- (i) first, to pay when due the remuneration payable to the Trustee (plus Value Added Tax, if any) and any costs, charges, liabilities and expenses incurred by it under the provisions of or in connection with the Trust Deed or the Deed of Charge or either or both of them together with interest as provided in the Trust Deed or the Deed of Charge or either or both of them;
- (ii) second, to pay when due amounts, including audit fees and company secretarial expenses (plus Value Added Tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Payment Date and to provide for the Issuer's liability or possible liability for corporation tax;
- (iii) third, to pay *pro rata*:
  - (A) the administration fee payable to the Administrator (plus Value Added Tax, if any), such fee being an amount equal to one quarter of 0.15% per annum of the average total principal balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date

or if the appointment of the Administrator is terminated and a substitute administrator, which is not an affiliate of GMAC-RFC, is appointed, the figure 0.15% above shall be replaced with a figure agreed with such substitute administrator in accordance with the procedures set out in the Administration Agreement and subject always to the consent of the Trustee acting on the direction of Ambac (if Ambac is then the Note Controlling Party); and

- (B) amounts due to the Principal Paying Agent, the Paying Agent and Agent Bank under the Paying Agency Agreement, Barclays Bank PLC under the Bank Agreement and the Guaranteed Investment Contract and the Corporate Services Provider under the Corporate Services Agreement;
- (iv) fourth, to pay commitment fees due to the Liquidity Facility Provider and amounts (if any) credited to the Liquidity Ledger up to the Liquidity Drawn Amount plus interest thereon in accordance with the Liquidity Facility Agreement;
- (v) fifth, to pay or provide *pro rata* (A) the amounts then due to Ambac in respect of premium under the Premium Letter, plus any previous unpaid premia with interest thereon provided that no Ambac Event of Default as described in paragraph (i) of Condition 10 has occurred and is continuing and (B) the fee then payable to the third party under the Limited Reimbursement Agreement at the direction of Ambac pursuant to the Premium Letter, plus any previously unpaid amounts with interest thereon;
- (vi) sixth, to pay *pro rata* amounts payable in respect of the A Notes other than in respect of principal on the A Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the A Noteholders and the A3 Detachable Couponholders);
- (vii) seventh, subject to the Excess Spread Credit Support Cap, an amount equal to the debit balance on the Principal Deficiency Ledger to be applied as Actual Redemption Funds in accordance with Condition 5 of the "*Terms and Conditions of the Notes*";
- (viii) eighth, provided that no Ambac Event of Default has occurred which is continuing, to pay Ambac, amounts due under the Insurance and Indemnity Agreement, other than (A) (once the Excess Spread Credit Support Cap has been reached) for drawings made in respect of Excess Loss Amounts and (B) amounts which are required to be paid to Ambac or the Trustee by a third party pursuant to the Limited Reimbursement Agreement;
- (ix) ninth, subject to the Excess Spread Credit Support Cap, to apply amounts as Actual Redemption Funds until an amount equal to the Target Overcollateralisation Amount has been so applied;
- (x) tenth, to pay Ambac any other amounts due under the Insurance and Indemnity Agreement and such amounts which would have been payable to Ambac pursuant to item (viii) above but for an Ambac Event of Default having occurred;
- (xi) eleventh, to retain in the Issuer Transaction Account, an amount (the "Issuer's Profit") equal to 0.01% of the product of the time weighted average Mortgage Rate of the Mortgage Loans during the preceding Determination Period and the aggregate principal balance outstanding of the Mortgage Loans (the "Issuer's Turnover") at the beginning of the preceding Determination Period, so that in each year 0.01% of the Issuer's Turnover for that year comprises the Issuer's Profit;
- (xii) twelfth, to pay amounts payable in respect of the C Notes other than in respect of principal on the C Notes;
- (xiii) thirteenth, to apply an amount not greater than the C Note Redemption Amount to repay principal in respect of the C Notes;
- (xiv) fourteenth, to pay to GMAC-RFC or its assignees Ordinary Deferred Consideration; and
- (xv) fifteenth, to pay any remaining amount to the Issuer or other persons entitled thereto.

The Administrator is responsible, pursuant to the Administration Agreement, for determining the amount of the Actual Redemption Funds as at any Determination Date and each determination so made shall (in the absence of negligence, wilful default, bad faith or manifest error) be final and binding on the Issuer, Ambac, the Trustee and all Noteholders and no liability to the Noteholders shall attach to the Issuer, Ambac, the Trustee or (in such absence as aforesaid) the Administrator in connection therewith.

On each Determination Date, the aggregate of (a) the amount of Further Advances which the Issuer is committed to advancing (but has not yet advanced) as at the relevant Determination Date and (b) the amount, advised to the Issuer by the Administrator, which the Issuer anticipates it will require for future (but uncommitted) Further Advances, such amount (in respect of this item (b) only) not to be greater than £500,000 (such aggregate amount, the "Committed Further Advances") will be transferred from the Principal Ledger to a ledger for that purpose (the "Further Advances Ledger"). Available Capital Funds may be applied or set aside by the Issuer on any day for the making of Further Advances after any amounts then standing to the credit of the Further Advances Ledger have been exhausted.

The amount of "Actual Redemption Funds" as at any Determination Date is an amount calculated as the aggregate of:

- (a) the amount standing to the credit of the Principal Ledger and the amount (if any) standing to the credit of the Further Advances Ledger (before the transfer of the Committed Further Advances calculated on that Determination Date from the Principal Ledger) in each case as at the last Business Day of the month immediately preceding such Determination Date;
- (b) the amount (if any) calculated on the Determination Date to be the amount by which the debit balance on the Principal Deficiency Ledger is expected to be reduced by the application of Available Revenue Funds on the immediately succeeding Payment Date;
- (c) the amount (if any) of Available Revenue Funds calculated on the Determination Date to be the amount which is expected to be applied as Actual Redemption Funds pursuant to item (ix) of the Pre-Enforcement Priority of Payments on the immediately succeeding Payment Date;
- (d) the amount (the "Excess Loss Amount") (if any) calculated on the Determination Date to be (after application of Available Revenue Funds as described in paragraphs (b) and (c) above) the amount standing to the debit of the Overcollateralisation Ledger; and
- (e) on any Determination Date after the Eligible Date, the amount of any of the Principal Rebate standing to the credit of the Pre-Funded Mortgage Loans Ledger,

LESS the Committed Further Advances calculated on such Determination Date.

For the purpose of the foregoing,

"Available Capital Funds" means, on any day during an Interest Period (including on a Determination Date) an amount represented by the amount standing to the credit of the Principal Ledger at the close of business on the preceding day, less, in the period between the last Business Day of the month immediately preceding a Determination Date and the application of such Actual Redemption Funds, (a) any commitments to purchase Substitute Mortgage Loans on the immediately succeeding Payment Date and (b) the amount of such Actual Redemption Funds calculated on the relevant Determination Date. The amount of Actual Redemption Funds will be applied to redeem Notes in the order provided in Condition 5(b) of the "*Terms and Conditions of the Notes*".

The "C Note Redemption Amount" as at any Determination Date will be the lower of (i) the principal amount outstanding of the C Notes as at that Determination Date and (ii) the principal amount outstanding of the C Notes minus the aggregate of the amount applied as Actual Redemption Funds pursuant to item (ix) of the Pre-Enforcement Priority of Payments, plus the aggregate amount of Principal Deficiencies.

## THE ISSUER

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### Introduction

The Issuer was originally incorporated and registered in England and Wales with registered number 04447860 under the Companies Act 1985 as a company with limited liability on 27 May 2002. The Issuer's issued share capital of £50,000 (of which £12,502 is paid up) is held by Holdings.

### Directors

The directors of the Issuer and their respective business addresses and principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
Colin Walter Bradley	Eastern Gate Brants Bridge Bracknell Berkshire RG12 9BZ	Director, RMAC 2002 – NS1 Plc Director, RMAC 2001 – NSP2 Plc Director of securitisation issuance companies Director, GMAC – RFC Limited
SFM Directors Limited	Blackwell House Guildhall Yard London EC2V 5AE	Director of special purpose vehicles
SFM Directors (No. 2) Limited	Blackwell House Guildhall Yard London EC2V 5AE	Director of special purpose vehicles

The Company Secretary of the Issuer is Karen Edmonds.

The registered office and the head office of the Issuer is at Eastern Gate, Brants Bridge, Bracknell, Berkshire RG12 9BZ.

The Issuer has no subsidiaries.

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited are Jonathan E. Keighley and James G.S Macdonald.

The Issuer is wholly owned by its UK holding company Holdings which is wholly owned by the Share Trustee subject to a trust for the benefit of charitable institutions, in respect of capital and income, and for the benefit of the Noteholders, in respect of the voting rights relating to the shares of Holdings.

In accordance with the Corporate Services Agreement, GMAC-RFC and the Corporate Services Provider will each provide directors and other corporate services to the Issuer. The Issuer will pay the Corporate Services Provider and GMAC-RFC an annual fee.

### Activities

The Issuer has been established specifically to acquire the Mortgage Pool. Its activities will be restricted by the terms and conditions of the Notes and the Documents and will be limited to the issue of the Notes, the ownership of the Mortgage Loans and their Related Security and other assets referred to herein, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. These activities will include (a) the collection of all payments of (principal and interest) due from Borrowers on Mortgage Loans; (b) the operation of arrears procedures; (c) the enforcement of Mortgage Loans and their Related Security against Borrowers in default; (d) the determination of the making of Further Advances; and (e) the purchasing of Substitute Mortgage Loans and Pre-Funded Mortgage Loans. Substantially all of the above activities will be delegated to the Administrator on an agency basis under the Administration Agreement. The Issuer (with the consent of the Trustee) or the Trustee may revoke the agency (and, simultaneously, the rights) of the Administrator in certain circumstances, following an Event of Default in relation to the Notes. Following such an event, the Issuer (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint substitute administrators.

## USE OF PROCEEDS

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The net proceeds of the issue of the A Notes (including the A3 Detachable Coupons) are expected to amount to approximately £537,111,750 and will be applied in the purchase by the Issuer of the Completion Mortgage Pool from GMAC-RFC on the Issue Date. The net proceeds of the issue of the C Notes are expected to amount to £2,900,000. The start up costs (other than underwriting and selling commissions payable in respect of the A Notes but including the fee payable to the Cap Provider under the Interest Rate Cap Agreement) relating to the issue of the Notes are estimated not to exceed £1,494,423.97, and will be met, on the Issue Date, by the Issuer from the net proceeds of the issue of the C Notes. To the extent that, on the Issue Date, the net proceeds of the A Notes exceed the purchase price for the Completion Mortgage Pool, all of that excess will be credited to the Pre-Funded Mortgage Loans Ledger on the Issue Date to be used to acquire the Pre-Funded Mortgage Loans on the Eligible Date.

## CAPITALISATION STATEMENT

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The following table shows the unaudited capitalisation of the Issuer as at the date hereof, adjusted for the issue of the Notes:

	£
<b>Share Capital</b>	
<i>Authorised</i>	
50,000 Ordinary Shares of £1 each	50,000
<i>Issued</i>	
50,000 Ordinary Shares of £1 each, 2 of which are fully paid and the remaining 49,998 paid up to 25%	<u>12,502</u>
	<u>12,502</u>
<b>Borrowings</b>	
The Notes	<u>527,900,000</u>
	<u>527,900,000</u>

As at the date hereof, save as disclosed above, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

The current financial period of the Issuer will end on 31 December 2002.

## ACCOUNTANTS' REPORT

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The following is the text of a report received by the Board of Directors of the Issuer from PricewaterhouseCoopers, Chartered Accountants, the auditors to the Issuer:

### The Directors

RMAC 2002-NS2 Plc  
Eastern Gate  
Brants Bridge  
Bracknell  
Berkshire RG12 9BZ

### The Directors

Bear, Stearns International Limited  
One Canada Square  
London E14 5AD

23 July 2002

### RMAC 2002-NS2 Plc (the "Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular of the Company dated 23 July 2002, relating to the issue of £527,900,000 Mortgage Backed Floating Rate Notes due 2034 (the "Offering Circular").

The Company was originally incorporated as a public limited company on 27 May 2002. The Company has not yet commenced to trade, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

### Basis of Preparation

The financial information set out below is based on the financial records of the Company to which no adjustment was considered necessary.

### Responsibility

The financial records are the responsibility of the Directors of the Company.

The Directors of the Company are responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial records, to form an opinion on the financial information and to report our opinion to you.

### Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial records underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Company and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

### Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular dated 23 July 2002, a true and fair view of the state of affairs of the Company as at the date stated.

Financial Information  
Balance Sheet of the Company  
as at 23 July 2002

	Note	£
<b>Current Assets</b>		
Cash at bank		12,502
Total Current Assets		<u>12,502</u>
<b>Capital and Reserves</b>		
Called up Share Capital	[2]	12,502
Equity Shareholders' Fund		<u>12,502</u>

**Notes to the Financial Information**

**1. Accounting Convention**

The balance sheet has been prepared in accordance with the historical cost convention.

**2. Called up Share Capital**

Authorised – 50,000 ordinary shares of £1 each

Allotted, issued and fully paid – 2 ordinary shares of £1

Partly paid – 49,998 ordinary shares partly paid to 25 pence each.

**3. Ultimate Parent Undertakings**

The UK holding company and the ultimate holding company is RMAC Holdings Limited.

The first accounting period of RMAC Holdings Limited ended on 31 December 2001.

**4. Reporting Financial Performance**

The Company has not traded since incorporation. As a result, no profit and loss account, no statement of total recognised gains and losses or reconciliation of movements in shareholders' funds are provided. Any expenses incurred by the Company are borne by a group company.

Yours faithfully,

PricewaterhouseCoopers



## GMAC-RFC

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GMAC-RFC is a private limited company and was incorporated in England and Wales under the Companies Act 1985 on 6 January 1998. GMAC-RFC was formed by GMAC Residential Funding Corporation, an indirectly wholly owned subsidiary of General Motors Acceptance Corporation, a wholly owned subsidiary of General Motors Corporation. GMAC-RFC's primary business is to provide mortgage services in the UK through intermediaries and other financial institutions. GMAC-RFC originates mortgage loans to borrowers in England, Wales, Northern Ireland and Scotland.

The registered office of GMAC-RFC is at Eastern Gate, Brants Bridge, Bracknell, Berkshire RG12 9BZ.

## THE LIQUIDITY FACILITY PROVIDER AND GIC PROVIDER

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Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3V 9EX. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985 Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the "Group") are a United Kingdom based financial services group engaged primarily in the banking, investment banking and asset management businesses. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is one of the leading providers of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch Ratings Ltd ("Fitch") and the long term obligations of Barclays Bank PLC are rated Aa2 by Moody's and AA by S&P.

As at 31 December 2001, the Group had total assets of £356,649 million, total net loans and advances of £228,382 million, total deposits of £231,195 million and shareholders' funds of £16,380 million (including non-equity reserves of £1,872 million). The audited profit before taxation of the Group in respect of the year ended 31 December 2001 was £3,606 million after charging net provisions for bad and doubtful debts of £1,149 million. As at 31 December 2000, the Group had total assets of £316,190 million, total net loans and advances of £198,536 million, total deposits of £208,724 million and shareholders' funds of £14,679 million (including non-equity reserves of £1,492 million).

The information contained herein with respect to Barclays Bank PLC relates to and has been obtained from it. Delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of Barclays Bank PLC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

## THE CAP PROVIDER

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Bear Stearns Bank plc ("BSB") was incorporated in Dublin, Ireland as a limited liability company under the laws of the Republic of Ireland on 27 November 1995 with registered number 241404. BSB was re-registered as a public limited company on 15 October 1996. BSB is based in Dublin, Ireland and is a wholly-owned subsidiary of Bear Stearns Ireland Limited which itself is wholly-owned by The Bear Stearns Companies Inc.

BSB's activities centre principally around the trading and sales of derivative products. In connection therewith BSB also engages in wholesale deposit taking. Additional products, such as repurchase transactions (repos), securities lending, clearance and funds management, will be added over time as business conditions warrant. BSB contracts with certain Bear Stearns affiliates to sell BSB's products to their customers, based upon BSB's pre-established approval levels. These levels will include, *inter alia*, the types of products sold, types of clients as well as the credit limits for individual clients and market risk levels. A full range of products will be progressively offered including fixed income, equity, and currency derivative products and, for the most part, the customer transactions will be effected through privately negotiated transactions in the over-the-counter (OTC) markets.

The authorised share capital of Bear Stearns Bank plc is €38,092 divided into 30,000 ordinary shares of €1.26974 each and US\$50,000,000 divided into 50,000,000 ordinary shares of US\$1 each. 30,000 ordinary shares of €1.26974 are issued and fully paid in cash at par, and 952,000 ordinary shares of US\$1 are issued and fully paid.

## THE CAP GUARANTOR

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The Bear Stearns Companies Inc. ("TBSCI") was incorporated under the laws of the State of Delaware on 21 August 1985. TBSCI is a holding company that through its subsidiaries, principally Bear, Stearns & Co. Inc., Bear, Stearns Securities Corp., Bear, Stearns International Limited and BSB is a leading investment banking, securities trading and brokerage firm serving corporations, governments, institutional and individual investors worldwide. TBSCI succeeded on 29 October 1985 to the business of Bear, Stearns & Co., a New York limited partnership.

The long term obligations of TBSCI are rated A2 by Moody's, A by S&P and A+ by Fitch.

## THIRD PARTY INFORMATION

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The information contained in this Offering Circular with respect to GMAC-RFC, the Account Bank, the Liquidity Facility Provider, the GIC Provider, the Cap Provider, the Cap Guarantor, Ambac and the Administrator relates to and has been obtained from each of them. The delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of the Account Bank, the Liquidity Facility Provider, GMAC-RFC, the GIC Provider, the Cap Provider, the Cap Guarantor, Ambac or the Administrator since the date stated in respect of the relevant information in this Offering Circular, or that the information contained or referred to in this Offering Circular is correct as of any time subsequent to its date. None of the Noteholders will have any right to proceed directly against GMAC-RFC, the Account Bank, the Liquidity Facility Provider, the GIC Provider, the Cap Provider, the Cap Guarantor and the Administrator in respect of their respective obligations under any of the agreements to which they are party.

## DESCRIPTION OF AMBAC

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### General

Ambac is a direct wholly-owned subsidiary of Ambac Assurance Corporation ("Ambac Assurance"), a monoline insurance company incorporated under the laws of the State of Wisconsin, U.S.A. Ambac was incorporated with limited liability in England and Wales on 11 September 1996 pursuant to the Companies Act 1985 with registered number 3248674 under another name and changed its name to Ambac Assurance UK Limited on 8 February 1999. Ambac became authorised to transact a credit, suretyship and financial loss insurance business in the United Kingdom on 4 February 1997. Ambac is also licensed to offer insurance services into twelve other European countries, including Ireland on a freedom of service basis. Ambac's registered office is located at Hasilwood House, 60 Bishopsgate, London EC2N 4BE, England. Ambac has no subsidiaries.

### Ratings

Ambac has obtained an AAA rating from S&P, an Aaa rating from Moody's and an AAA rating from Fitch.

### Information

Copies of the annual regulatory return filed by Ambac with the Insurance Directorate of the Financial Services Authority ("IDFSA") and the annual financial statements filed with the Register of Companies in England are available upon request to Ambac at its registered office. Copies of the statutory quarterly and annual statements filed by Ambac Assurance in the United States are available upon request to Ambac Assurance at its principal place of business, One State Street Plaza, New York, NY 10004, U.S.A.

### Recent Developments

Since 31 December 2001, the date as at which its latest audited accounts were prepared, Ambac has continued to conduct its insurance business in the United Kingdom and the other European countries in which it is licensed to offer insurance services. There has been no material adverse change in its financial or trading position since 31 December 2001.

### Directors and Officers

The following sets forth a list of the directors of Ambac by name and principal activities:

#### Directors and Officers

The following sets forth a list of the directors of Ambac by name and principal activities:

<i>Name</i>	<i>Function</i>	<i>Principal Activities</i>
Robert John Genader	Executive	President and Chief Operating Officer, Ambac Assurance Corporation and Ambac Financial Group, Inc
John Wyatt Uhlein III	Executive	Managing Director, Ambac Assurance Corporation
Martin Roberts	Non-Executive	Independent Consultant
David William Wallis	Executive	Managing Director, Ambac Assurance Corporation
David Ronald Larwood	Executive	Independent Consultant (Part-time)

The business address of Messrs. Genader and Uhlein is One State Street Plaza, New York, NY 10004 U.S.A.. The business address of Mr. Roberts is 1 Westbury Close, Highcliffe, Christchurch, Dorset BH23 4PE, England. The business address of Messrs Wallis and Larwood is Hasilwood House, 60 Bishopsgate, London EC2N 4BE, England.

The following sets forth a list of the principal executive officers of Ambac:

<i>Name</i>	<i>Office Held</i>
John Wyatt Uhlein III	Chairman, Managing Director and Senior Credit Officer
Robert John Genader	President and Chief Operating Officer, Ambac Assurance Corporation and Ambac Financial Group, Inc.
David Ronald Larwood	Manager, Financial Controller, Treasurer and Secretary
David Williams Wallis	Managing Director, Ambac Assurance Corporation
Nicola Jane Ryan	General Counsel

### Insurance Regulation

Ambac is subject to regulation by the IDFSA in the conduct of its insurance business in the United Kingdom. Under United Kingdom regulations, Ambac is subject to certain limits and requirements, including the maintenance of a minimum margin of solvency and the establishment of loss and unearned premium reserves. Other IDFSA requirements include regulation of transactions with connected persons and investments made by Ambac.

### Financial Information

The audited accounts of Ambac for the year ended 31 December 2001 are annexed hereto.

### Capitalisation

The following table sets forth the audited capitalisation and indebtedness of Ambac prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers as at 31 December 2001.

	<i>As at 31 December 2001 (£)</i>
Short-Term Debt <sup>(1)</sup>	<u>0</u>
Long-Term Debt <sup>(2)</sup>	<u>0</u>
Total Issued and Paid up Share Capital <sup>(2)</sup>	11,000,000
Profit and loss account	<u>2,264,000</u>
Total Shareholders' Equity	<u><u>13,264,000</u></u>

### Notes:

- (1) On 31 December 2001 Ambac did not have any loan capital outstanding or created but unissued, term loans or any other borrowings or indebtedness in the nature of a borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations or guarantees or contingent liabilities.
- (2) The issued and paid up share capital of Ambac comprises 11,000,000 ordinary shares of £1 each. The authorised share capital of Ambac is £20 million.

There has been no material change in the authorised and issued share capital, capitalisation, indebtedness, contingent liabilities or guarantees of Ambac since 31 December 2001.

### Auditors

Ambac's auditors are KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB.

## RELATIONSHIP BETWEEN AMBAC ASSURANCE UK LIMITED AND AMBAC ASSURANCE CORPORATION

### **General**

Ambac is a direct wholly-owned subsidiary of Ambac Assurance. Ambac does not have any subsidiaries.

### **Net Worth Maintenance Agreement**

Ambac has entered into a net worth maintenance agreement dated as of 1 January 1997 with Ambac Assurance (the "*Net Worth Maintenance Agreement*") governed by the laws of the State of Wisconsin. Pursuant to the Net Worth Maintenance Agreement, Ambac Assurance is required to cause Ambac to maintain free assets of £10,500,000 or such greater amount as may be required by IDFSA provided that no contribution can be required to be made which would have the effect of reducing Ambac Assurance's financial strength ratings from S&P, Moody's or Fitch.

### **Reinsurance Agreement**

The obligations of Ambac under the Ambac Policy will be reinsured with Ambac Assurance pursuant to a reinsurance agreement dated as of 1 January 1997 (the "*Reinsurance Agreement*") which is governed by the laws of the State of New York.

Pursuant to the Reinsurance Agreement, a substantial portion of all liabilities on financial guarantee insurance policies issued by Ambac are reinsured by Ambac Assurance. Such reinsurance is utilised as a risk management device and to comply with certain statutory and rating agency requirements; it does not alter or limit the obligations of Ambac under any financial guarantee insurance policy.

In addition, the Reinsurance Agreement also contains "stop loss" provisions that require Ambac Assurance to make payments to Ambac if Ambac's losses exceed a certain amount. Under these provisions Ambac Assurance will reimburse Ambac for the amount by which annual net losses incurred by Ambac (paid losses plus any interest in loss reserves, net of reinsurance) exceed £500,000.

Noteholders should note that the Net Worth Maintenance Agreement and the Reinsurance Agreement (together, the "*Ambac Assurance Agreements*") are entered into for the benefit of Ambac and are not, and should not be regarded as, guarantees by Ambac Assurance of the payment of any indebtedness, liability or obligations of the Issuer or Ambac including the A Notes or the Ambac Policy.

Information in this Offering Circular concerning Ambac Assurance is provided for background purposes only in view of the importance to Ambac of the Ambac Assurance Agreements. It does not imply that Ambac Assurance Agreements are guarantees for the benefit of Noteholders. Payment of principal and interest on the A Notes will be guaranteed by Ambac pursuant to the Ambac Policy and will not be additionally guaranteed by Ambac Assurance.

Noteholders should note that Ambac's ability to perform its obligations under the Ambac Policy and to maintain its current rating substantially depends on the ability of Ambac Assurance to perform its obligations under the Ambac Assurance Agreements.

## AMBAC ASSURANCE CORPORATION

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### General

Ambac Assurance, which serves the global capital markets, is primarily engaged in guaranteeing public finance and structured finance obligations and is the successor of the oldest U.S. municipal bond insurance company, which wrote the first U.S. municipal bond insurance policy in 1971. Ambac Assurance was incorporated in the State of Wisconsin, U.S.A. with limited liability on 25 February 1970. Ambac Assurance maintains its principal executive offices at One State Street Plaza, New York, New York 10004, U.S.A. Ambac Assurance is a wholly-owned subsidiary of Ambac Financial Group, Inc., a holding company that provides financial guarantee insurance and financial services to both public and private clients through its subsidiaries.

Financial guarantee insurance policies written by Ambac Assurance in both the primary and secondary markets generally guarantee payment when due of the principal and interest on the guaranteed obligation. In the case of a default on the insured obligation, payments under the insurance policy may not be accelerated by the policyholder without Ambac Assurance's consent. Ambac Assurance primarily insures newly issued obligations and seeks to maintain a diversified insurance portfolio which spreads its risk across a number of criteria, including issue size, type of bond, geographic area and issuer. As of 31 March 2002, Ambac Assurance's net par outstanding and financial guarantee in force (after giving effect for reinsurance) was \$324.1 billion and \$484.1 billion, respectively.

### Insurance Written

Ambac Assurance guaranteed \$16.8 billion in par value of bonds during the three months ended 31 March 2002, a 1% decrease from \$17.0 billion in par during the comparable prior year period. Par value written for the first quarter of 2002 was comprised of \$6.8 billion from Public Finance bond obligations, \$7.3 billion from Structured Finance obligations and \$2.7 billion from international obligations, compared to \$5.7 billion, \$7.4 billion and \$3.9 billion, respectively, in the first quarter of 2001.

### Rating Agencies

Moody's, S&P, Fitch and Rating and Investment Information Inc. periodically review the business and financial condition of Ambac Assurance and other companies providing financial guarantees. These rating agencies reviews focus on the guarantor's underwriting policies and procedures and the quality of the obligations guaranteed. The rating agencies frequently perform assessments of the credits insured by Ambac Assurance to confirm that Ambac Assurance continues to meet the capital allocation criteria considered necessary by the particular rating agency to maintain Ambac Assurance's triple-A ratings. A rating by any one of these entities, however, is not a "market rating" or a recommendation to buy, hold or sell any security. Ambac Assurance's ability to attract new business or to compete with other triple-A rated financial guarantors, and its results of operations and financial condition, would be materially adversely affected by any reduction in its financial strength ratings.

### Reinsurance

U.S. state insurance laws and regulations (as well as the rating agencies) impose minimum capital requirements on financial guarantee insurance companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. Such companies can use reinsurance to diversify risk, increase underwriting capacity, reduce additional capital needs, stabilise shareholder returns and strengthen financial ratios. See "Insurance Regulatory Matters" below.

As a primary financial guarantor, Ambac Assurance is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations under the various reinsurance agreements with Ambac Assurance. To minimise its exposure to significant losses from reinsurer insolvencies, Ambac Assurance evaluates the financial condition of its reinsurers, prepares annual written reviews of such reinsurers and monitors for concentrations of credit risk. Ambac Assurance's current primary reinsurers are Ace Guaranty Re, American Re, AXA Re Finance, Enhance Reinsurance Company, Yasudi Kasai Financial Guarantee, Ram Reinsurance Limited and MBIA.

Ambac Assurance has entered into municipal bond and structured and international finance facultative reinsurance agreements. These agreements allow Ambac Assurance to reduce its large risks, to manage its portfolio of insurance by bond type and geographic distribution, and to provide additional capacity for frequent municipal issuers. Under these agreements, portions of Ambac Assurance's interests and liabilities are ceded on an issue-by-issue basis. A ceding commission is withheld to defray Ambac Assurance's underwriting expenses.

As of 31 March 2002, Ambac Assurance had retained 88% of its gross insurance in force of \$552.7 billion and had ceded approximately 12% to its treaty and facultative reinsurers.

### **Insurance Regulatory Matters**

Ambac Assurance is licensed to do business as an insurance company in all 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico and the territory of Guam. It is subject to the insurance laws and regulations of the State of Wisconsin, its state of incorporation, and the insurance laws and regulations of other states in which it is licensed to transact business. These laws and regulations, as well as the level of supervisory authority that may be exercised by the various state insurance departments, vary by jurisdiction, but generally require financial guarantors to maintain minimum standards of business conduct and solvency, meet certain financial tests, file certain reports with regulatory authorities, including information concerning their capital structure, ownership and financial condition, and require prior approval of certain changes in control of domestic financial guarantors and their direct and indirect parents and the payment of certain dividends and distributions. In addition, these laws and regulations require approval of certain intercorporate transfers of assets and certain transactions between financial guarantors and their direct and indirect parents and affiliates, and generally require that all such transactions have terms no less favourable than terms that would result from transactions between parties negotiating at arm's length. Ambac Assurance is required to file quarterly and annual statutory financial statements in each jurisdiction in which it is licensed, and is subject to single and aggregate risk limits and other statutory restrictions concerning the types and quality of investments and the filing and use of policy forms and premium rates. Additionally, Ambac Assurance's accounts and operations are subject to periodic examination by the Wisconsin Insurance Commissioner and other state insurance regulatory authorities.

Ambac believes that it is in material compliance with all applicable insurance laws and regulations.

### **Investments and Investment Policy**

As of 31 March 2002, Ambac Assurance's investment portfolio had an aggregate fair value of \$5.3 billion and an aggregate amortised cost of \$5.2 billion. The investment policy established by the Board of Directors for Ambac Assurance's investments is designed to achieve diversification of its portfolio and only permits investment in investment grade fixed income securities, consistent with its goal to achieve the highest after-tax, long term return. This policy takes into consideration Ambac Assurance's desire for both current income and long-term capital growth. Ambac Assurance is subject to limits on types and quality of investments imposed by the insurance laws and regulations of the States of Wisconsin and New York. In compliance with these laws, Ambac Assurance's Board of Directors approves each specific investment transaction of Ambac Assurance.

### **Capitalisation**

The following table sets forth Ambac Assurance's consolidated capitalisation as of 31 December 2000, 31 December 2001 and 31 March 2002 (unaudited) respectively, on the basis of accounting principles generally accepted in the United States of America.

Ambac Assurance Corporation  
Capitalisation  
(US Dollars in Millions)

	<i>31 December</i>	<i>31 December</i>	<i>31 March</i>
	<i>2000</i>	<i>2001</i>	<i>2002</i>
			<i>(unaudited)</i>
Unearned premiums	1,556	1,790	1,817
Other liabilities	581	888	835
	<u>2,137</u>	<u>2,678</u>	<u>2,652</u>
Stockholders' equity			
Preferred stock, par value \$1,000,000 per share Authorised shares – 285,000; issued and outstanding-none	0	0	0
Common stock, par value \$2.50 per share; authorised shares – 40,000,000; issued and outstanding shares – 32,800,000	82	82	82
Additional paid-in capital	760	928	928
Accumulated other comprehensive (loss) income	82	81	53
Retained earnings	2,002	2,386	2,488
Total stockholders' equity	<u>2,926</u>	<u>3,477</u>	<u>3,551</u>
Total liabilities and stockholders' equity	<u>5,063</u>	<u>6,155</u>	<u>6,203</u>

There has been no material change in the capitalisation of Ambac Assurance and its subsidiaries from 31 March 2002 to the date of this Offering Circular.



## FORM OF AMBAC POLICY

Ambac Assurance UK Limited  
Hasilwood House  
60 Bishopsgate  
London EC2N 4BE  
Telephone: 020 7786 4300  
Registered No.: 3248674  
Registered in England

### Financial Guarantee Insurance Policy

Policy Number: UK00058

Insured Obligations: RMAC 2002-NS2 Plc

£140,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2034 ("A1 Notes"), £332,500,000 Class A2 Mortgage Backed Floating Rate Notes due 2034 ("A2 Notes") and £52,500,000 Class A3 Mortgage Backed Floating Rate Notes due 2034 ("A3 Notes" and, together with the A1 Notes and A2 Notes, the "A Notes")

Beneficiary: JPMorgan Chase Bank or any successor trustee appointed pursuant to the Trust Deed, as trustee for the Holders of the Insured Obligations.

Ambac Assurance UK Limited ("Ambac") in consideration of the payment of the Premium and subject to the terms of this Policy (including the Endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the Trustee for the benefit of the Holders of the Insured Obligations an amount equal to that portion of the Insured Amounts which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Ambac will make any such payments which are due under this Policy to the Trustee from its own funds by the later of (a) the second Business Day following receipt by Ambac of a Notice of Claim specifying that Nonpayment will occur or that Nonpayment has occurred on the applicable Scheduled Payment Date or (b) the applicable Scheduled Payment Date, or if that is not a Business Day, on the next succeeding Business Day. Payments due under this Policy will be satisfied by payment in full by Ambac to the account specified in the relevant Notice of Claim. Payment in full to such account shall discharge the obligations of Ambac under this Policy to the extent of such payment, whether or not such payment is properly applied by or on behalf of the Trustee or any Paying Agent. Once payment by Ambac of an amount in respect of an Insured Amount has been made in the manner referred to above, Ambac shall have no further obligation under this Policy in respect of such Insured Amounts.

Such payments shall be made only upon presentation of an instrument of assignment in form and substance satisfactory to Ambac, transferring to Ambac all rights in respect of the relevant Insured Amounts to receive the principal of and interest in respect of such Insured Amounts, free of any adverse claim. Ambac agrees that the Trust Deed constitutes for all purposes required by the preceding sentence such an instrument of assignment in form and substance satisfactory to it for the purposes of this Policy and acknowledges that the Trust Deed has been presented to it by the Trustee as required by this Policy. Ambac shall be fully subrogated to all the Holder's rights to payment of the Insured Amounts to the extent of any payments made by Ambac pursuant to this Policy.

In the event the Trustee has notice that any payment of Insured Amounts which have become Due for Payment and which have been made to the Trustee or to a Holder by or on behalf of the Issuer has been declared (in whole or in part) a preference and recovered from the Trustee or such Holder pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction, the Trustee or such Holder (as applicable) will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available from any source.

All payments by Ambac under this Policy shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision or taxing authority therein or thereof unless such withholding or deduction is required by law. If any withholding or deduction is so required, Ambac shall pay such amounts ("Additional Amounts") for the account of each Holder in respect of which a withholding or deduction has been made as may be necessary in order that the net amounts receivable by the relevant Holder after such withholding or deduction shall equal the Insured Amounts which would have been receivable by such Holder from the Issuer in respect of the Insured Obligations in the absence of

such withholding or deduction, provided, however, that no such Additional Amounts shall be payable in respect of any Insured Obligation which Ambac has reasonably determined will result from any payment of Insured Amounts:

- (a) to or in respect of any Holder which is liable or subject to such withholding or deduction by reason of its having some connection with the United Kingdom other than the mere holding of the Insured Obligations;
- (b) to or in respect of any Holder which would not be subject to such withholding or deduction if it had made a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (c) if such Insured Obligation was presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Amounts if it had presented the Insured Obligations for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is required to be made by reason of the fact that the relevant Insured Amount would have been subject to withholding or deduction pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

This Policy is not cancellable by Ambac for any reason, including the failure of Ambac to receive payment of any Premium due in respect of this Policy. The Premium is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Insured Obligation, other than at the sole option of Ambac as specified below, nor against any risk other than Nonpayment, including failure of the Trustee or any Paying Agent to make any payment due to Holders of Insured Amounts. There shall be no accelerated payment of any Insured Amount due under this Policy unless such accelerated payment is made at the sole option of Ambac, communicated in writing to the Trustee.

To the fullest extent permitted by applicable law, Ambac hereby waives and agrees not to assert any and all rights (whether by counterclaim, recission, set-off or otherwise), equities and defences (including, without limitation, in respect of fraud or fraudulent misrepresentation, fraud or fraudulent misrepresentation on the part of any agent for the Trustee but excluding fraud or fraudulent misrepresentation by the Trustee itself, or misrepresentation, breach of warranty, or non-disclosure of information by any person), to the extent such rights, equities and defences may be available to Ambac to avoid, rescind or repudiate, cancel or terminate this Policy or to wholly or partly avoid payment of its obligations under this Policy in accordance with the express provisions hereof but without prejudice to any subsequent recourse Ambac may have to or against any person.

The obligations of Ambac under this Policy shall not be affected by any redenomination of the Insured Obligations into euro.

No person, other than the Trustee, shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Policy.

This Policy (including the Endorsement attached hereto) constitutes the entire agreement between Ambac and the Trustee, Ambac's obligations to make payments to the Trustee in respect of the Insured Amounts and, save for the provision of a Notice of Claim as provided for above, nothing in this Policy constitutes a warranty or condition precedent to this Policy.

Any capitalised terms not defined herein shall have the meaning given to such terms in the Master Definitions Schedule dated on or about 25 July 2002 between, *inter alios*, the Issuer, the Trustee and Ambac or in the Endorsement hereto. This Policy shall be governed by and construed in accordance with the laws of England.

In witness whereof, Ambac has caused this Policy to be duly executed on its behalf by a duly authorised officer of Ambac.

Authorised Officer

Effective Date: 25 July 2002

## Financial Guarantee Insurance Policy Endorsement

Effective Date of Endorsement: 25 July 2002.

Attachment to and forming a part of the Policy No. UK00058 issued to the Trustee in respect of:

**RMAC 2002-NS2 Plc**

£140,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2034 ("A1 Notes"), £332,500,000 Class A2 Mortgage Backed Floating Rate Notes due 2034 ("A2 Notes") and £52,500,000 Class A3 Mortgage Backed Floating Rate Notes due 2034 ("A3 Notes" and, together with the A1 Notes and the A2 Notes, the "A Notes").

For all purposes of this Policy, the following terms shall have the following meanings:

"Affiliate" means in relation to any person, a Person that has direct or indirect control or owns directly or indirectly more than 50% of the share capital or similar rights of ownership or control of another Person.

"Business Day" means any day (other than a Saturday or Sunday) on which banks are open for business in London.

"Class A Interest" means interest in respect of the A Notes payable in accordance with Condition 4.

"Class A Principal" means in respect of the A Notes, (i) the final redemption amount payable in accordance with Condition 5(a), (ii) the redemption amounts payable in accordance with Conditions 5(b)(i) and 5(b)(ii) representing Excess Loss Amounts and (iii) amounts representing Dissolution Amounts.

"Conditions" means the terms and conditions of the A Notes as set out in the Fourth Schedule of the Trust Deed.

"Dissolution Amounts" means, upon the occurrence of a Dissolution Event the aggregate of the A Note Principal Amount Outstanding on the first Business Day following a Dissolution Event less (i) the funds standing to the credit of the Issuer Transaction Account that are available to make payments on the first Business Day following a Dissolution Event at item(v)(B) of Condition 2(i) (Post-Enforcement Priority of Payments) and (ii) any amounts received by the Trustee in immediately available, freely transferable cleared funds for the benefit of any Holder of A Notes from any third party upon the occurrence of a Dissolution Event under the Limited Reimbursement Agreement and identified to the Trustee as available for payment of Dissolution Amounts.

"Dissolution Event" means, the disposal of all the Mortgage Loans by or on behalf of the Trustee, acting on the instructions of Ambac if it is then the Note Controlling Party or otherwise with the consent of Ambac in accordance with Condition 2(i) following enforcement of the Security.

"Due for Payment" means, in relation to any Insured Amount, that the Scheduled Payment Date for such amount has been reached. For the avoidance of doubt, Due for Payment does not refer to any date other than those set out in the definition of Scheduled Payment Date.

"Holder" means (i) if and to the extent the Insured Obligations are represented by definitive notes held outside of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg" and, together with Euroclear and any additional or alternative clearing systems nominated by the Issuer and/or the Trustee and approved by Ambac, the "Clearing Systems" and each, a "Clearing System"), the bearers thereof and (ii) if and to the extent the Insured Obligations are represented by a temporary or permanent global note or definitive notes held in a Clearing System, the persons for the first time being shown in the records of the relevant Clearing System (except for a Clearing System in its capacity as an accountholder of another clearing system) as being holders of Insured Obligations (each an "Accountholder") in which regard any certificate or other document issued by the relevant Clearing System as to the principal amount of the Insured Obligations standing to the account of any Accountholder shall be conclusive and binding for all purposes hereof.

"Holding Company" means any Person of which the first mentioned Person is a Subsidiary.

"Insolvency Law" means any applicable United Kingdom bankruptcy or insolvency law, including the Insolvency Act 1986, the Insolvency Rules 1986, the Insolvency Regulations 1994 or any legislation passed in substitution or replacement therefor or amendment thereof.

"Insured Amounts" means, with respect to any Scheduled Payment Date, the sum of (i) Class A Interest payable on such Scheduled Payment Date and (ii) Class A Principal payable on such Scheduled Payment Date, less any amounts received by the Trustee in immediately available, freely transferable cleared funds for the benefit of any Holder of A Notes from any third party upon such Scheduled Payment Date under the Limited Reimbursement Agreement and identified to the Trustee as available for payment of Class A Interest or Class A Principal.

"Insured Obligations" means the A Notes and shall include, where the context so requires, the coupons relating to such A Notes but shall exclude any A Notes which have been purchased by the Issuer, or any other member of the Issuer Group (the "Issuer Holders") during any period in which any Issuer Holders, or any person acting on behalf of any Issuer Holders, is the Holder of such A Notes, but not thereafter.

"Issuer" means RMAC 2002-NS2 Plc.

"Issuer Group" means any Person that is either an Affiliate, Holding Company or Subsidiary of the Issuer.

"Nonpayment" means, as of any Scheduled Payment Date, the failure of the Issuer to have paid any Insured Amounts which are due on such Scheduled Payment Date.

"Note Controlling Party" means Ambac unless and until such time as (i) an Ambac Event of Default (as defined in the Conditions) has occurred and is continuing and/or (ii) Ambac has no further obligations, actual or contingent, under the Ambac Policy and no amounts are then owing to Ambac under the Insurance and Indemnity Agreement, in which case it will be the Trustee.

"Notice of Claim" means a Notice of Claim and Certificate in the form attached hereto, duly executed by the Trustee.

"Paying Agent" has the meaning given to that term in the Trust Deed.

"Person" means any person, firm, company or body corporate, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the foregoing.

"Premium" means the premium payable for issue of this Policy, as specified in a letter of even date between Ambac and the Issuer.

"Receipt" means actual delivery to Ambac at the address specified above prior to 12.00 noon, London time, on a Business Day. Delivery either on a day that is not a Business Day or after 12.00 noon, London time, shall be deemed to be Receipt on the next succeeding Business Day.

"Relevant Date" means whichever is the later of (a) the date on which any Insured Amount becomes Due for Payment and (b) if the full amount payable has not been paid by Ambac on or prior to such date, the date on which the full amount payable has been paid by Ambac.

"Scheduled Payment Date" means each Payment Date on which any Class A Interest or any Class A Principal is due and payable or in respect of Dissolution Amounts, the first Business Day immediately following the Dissolution Event.

"Subsidiary" means in relation to any Person:

- (i) a Person controlled, directly or indirectly, by the first mentioned Person;
- (ii) a Person where more than half its issued share capital (or equivalent right of ownership) of which is beneficially owned directly or indirectly the first mentioned Person; or
- (iii) a Person that is a Subsidiary of another subsidiary of the first mentioned Person, and for these definitions a Person shall be treated as being controlled by the other if that other Person is able to direct its affairs and/or to control the composition of its board of directors or equivalent body.

"Trust Deed" means the trust deed dated on or about 25 July 2002 between the Issuer, Ambac and the Trustee.

"Trustee" means JPMorgan Chase Bank, or any successor trustee appointed pursuant to the terms of the Trust Deed.

This Endorsement to this Policy shall be governed by and construed in accordance with the laws of England.

In witness whereof, Ambac has caused this Endorsement to this Policy to be duly executed on its behalf by a duly authorised officer of Ambac.

Authorised Officer

Effective Date: 25 July 2002

## Notice of Claim and Certificate

Ambac Assurance UK Limited  
Hasilwood House  
60 Bishopsgate  
London EC2N 4BE  
Telephone: 020 7786 4300  
Registered No.: 324 8674  
Registered in England

Attention: General Counsel

The undersigned, a duly authorised officer of the Trustee, hereby certifies to Ambac Assurance UK Limited ("Ambac"), with reference to Financial Guarantee Insurance Policy No UK00058 (and Endorsement thereto dated on or about 25 July 2002 (the "Policy")) issued by Ambac in respect of RMAC 2002-NS2 Plc £140,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2034 ("A1 Notes"), £332,500,000 Class A2 Mortgage Backed Floating Rate Notes due 2034 ("A2 Notes") and £52,500,000 Class A3 Mortgage Backed Floating Rate Notes due 2034 ("A3 Notes" and, together with the A1 Notes and the A2 Notes, the "A Notes"), that:

- (i) The Trustee is the trustee under the Trust Deed for the Holders.
- (ii) The Trustee has calculated that the deficiency in respect of the Insured Amounts which [are/were] Due for Payment on [insert Payment Date] [will be/were] £[insert applicable amount] (the "Shortfall"). Of such Shortfall, £[insert applicable amount on the A1 Notes] is Class A Interest on the A1 Notes; £[insert applicable amount] is Class A Principal on the A1 Notes; £[insert applicable amount on the A2 Notes] is Class A Interest on the A2 Notes; £[insert applicable amount] is Class A Principal on the A2 Notes; £[insert applicable amount on the A3 Notes] is Class A Interest on the A3 Notes of which £[insert applicable amount] is for the A3 Detachable Coupons; £[insert applicable amount] is Class A Principal on the A3 Notes.
- (iii) The Trustee is making a claim under the Policy for the Shortfall to be applied to the payment of Insured Amounts which are Due for Payment.
- (iv) The Trustee agrees that, following payment of funds by Ambac, it shall use reasonable endeavours to procure (a) that such amounts are applied directly to the payment of Insured Amounts which are Due for Payment; (b) that such funds are not applied for any other purpose; and (c) the maintenance of an accurate record of such payments in respect of each Insured Obligation and the corresponding claim on the Policy and the proceeds thereof.

Payment should be made by Ambac in Pounds Sterling by credit to an account of the [Trustee/Principal Paying Agent] at [insert account details] with [insert bank details].

Unless the context otherwise requires, capitalised terms used in this Notice of Claim and Certificate and not defined herein shall have the meanings provided in the Policy.

This Notice of Claim and Certificate may be revoked by written notice by the Trustee to Ambac at any time prior to the date specified above on which Insured Amounts are Due for Payment to the extent that moneys are actually received in respect of the Insured Obligations prior to such date from a source other than Ambac.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Notice of Claim and Certificate as of the [insert date] day of [insert date].

[TRUSTEE]

By:

Title:

## MORTGAGE POOL

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### Introduction

The Mortgage Pool will comprise:

- (a) the Completion Mortgage Pool;
- (b) any Further Advances;
- (c) any Substitute Mortgage Loans acquired by the Issuer in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement; and
- (d) the Pre-Funded Mortgage Pool,

other than, in any such case, Mortgage Loans which have been repaid and discharged or in respect of which funds representing the principal outstanding have otherwise been received in full, or which have been repurchased by GMAC-RFC pursuant to the Mortgage Sale Agreement or in respect of which Enforcement Procedures have been completed.

The Completion Mortgage Pool will comprise the Mortgage Loans selected by GMAC-RFC from the Initial Mortgage Pool. As of the Cut-Off Date, the Initial Mortgage Pool had the characteristics shown below. See "*Characteristics of the Initial Mortgage Pool*".

Aggregate Balance	£453,839,450
Number of Mortgage Loans	5,498
Average Mortgage Loan Balance	£82,546
Weighted Average Original Loan to Value Ratio	72.82%
Weighted Average Margin over LIBOR	2.98% per annum
Weighted Average Remaining Term	264 months
Largest Mortgage Loan Balance	£581,370
Percentage of Total Portfolio in Arrears	1.80%

All of the Mortgage Loans in the Initial Mortgage Pool have been originated in accordance with the Lending Criteria.

Prior to the Issue Date, in forming the Completion Mortgage Pool, GMAC-RFC will exclude from the Initial Mortgage Pool all Mortgage Loans which do not comply with the Lending Criteria (as described below), or with the warranties to be given in respect of the Mortgage Loans in the Mortgage Sale Agreement. Accordingly, the aggregate balance of the Completion Mortgage Pool may be less than the aggregate balance of the Initial Mortgage Pool.

### Characteristics of the Mortgage Loans

#### *Repayment Terms*

The Mortgage Loans will have different repayment methods as follows:

"Repayment Mortgage Loan": monthly instalments covering both interest and principal are payable so that by the stated maturity date for that Mortgage Loan the full amount of principal advanced to the Borrower (in addition to the interest) has been repaid.

"Interest Only Mortgage Loan": a Mortgage Loan in respect of which the Borrower is obliged to pay interest only during the term of that Mortgage Loan with the entire principal amount being payable only upon the relevant maturity date. As the principal amount associated with an Interest Only Mortgage Loan is repayable only upon the maturity of the Mortgage Loan, a life insurance or endowment policy or other repayment vehicle is recommended. However, GMAC-RFC does not require the Borrower to provide evidence as to the existence of any such policies, and such policies are not charged by way of collateral security.

"Part and Part Mortgage Loan": a Mortgage Loan which by its terms allows the Borrower to effect (at its option) a separation of the repayable amounts into two portions, one in respect of which it will only pay interest until the date of the Mortgage Loan's maturity (the "interest-only portion") and the other in respect of which the Borrower will make payments incorporating both interest and principal components (the "repayment portion"). As the principal amount associated with the interest-only portion of a Part and Part Mortgage Loan is only repayable upon the maturity of the Mortgage Loan, a life insurance or endowment policy or other repayment vehicle is recommended. However, as with Interest Only Mortgage Loans, GMAC-RFC does not require evidence as to the existence of any such policies, and such policies are not charged by way of collateral security.

Of the Mortgage Loans in the Initial Mortgage Pool, approximately 58.44% are Repayment Mortgage Loans, approximately 37.19% are Interest Only Mortgage Loans and approximately 4.37% are Part and Part Mortgage Loans.

#### ***Interest Rate Setting***

4,935 of the Mortgage Loans comprised in the Initial Mortgage Pool are LIBOR-linked mortgage loans under which interest accrues at a rate (the "Mortgage Rate") equal to LIBOR plus a fixed margin expressed as a fixed percentage over LIBOR. LIBOR is determined on the 12th day in September, December, March and June by the Administrator on behalf of the Issuer. The margin for the Mortgage Loans will differ, depending upon the characteristics of each Borrower and Mortgage Loan, such as the loan to value ratio (the "LTV"), the Borrower's credit history and the amount of the Mortgage Loan. Once the margin over LIBOR is determined for any Mortgage Loan, such margin is fixed (in relation to LIBOR) for the term of that Mortgage Loan subject to conditions relating to conversion of the Mortgage Loans. In respect of a certain number of these Mortgage Loans, representing approximately 88.25% by loan count and 86.81% by balance of the Mortgage Loans in the Initial Mortgage Pool, the Mortgage Rate has been discounted by 1% to 1.5% until one of 3 dates between 1 October 2002 and 1 March 2003.

Approximately 10.24% by loan count and 11.07% by balance of the Mortgage Loans in the Initial Mortgage Pool are fixed rate mortgage loans that will convert to LIBOR-linked rates at the expiry of the relevant fixed-rate period on one of 4 dates between 1 October 2002 and 1 April 2004.

#### ***Mortgage Payment Dates***

All Borrowers are obliged to make payments of interest and, if applicable, principal as required by the conditions of the Mortgage Loans (the "Mortgage Conditions"). Each of the Mortgage Loans in the Initial Mortgage Pool has one of the same three payment dates, which are the 1st, 15th and 31st of each month (the "Mortgage Payment Dates"). All payments by direct debit are made on one of these three specific days. Payments by methods other than direct debit are received throughout the month prior to the relevant Mortgage Payment Date. See "*Administration of the Mortgage Pool – Collection of Payments*".

#### ***Origination Procedures and Monitoring of Brokers***

GMAC-RFC sources its mortgage business primarily through a network of licensed mortgage finance brokers that have been approved by GMAC-RFC (the "Introducers") for the submission of loan applications and the introduction of potential borrowers to GMAC-RFC and its mortgage and related financial products. GMAC-RFC has approximately 80 such Introducers operating throughout the United Kingdom, and many of these Introducers have their own network of mortgage finance brokers attracting business on their behalf.

GMAC-RFC requires professional and business standards to be met as a precondition to becoming one of its Introducers. Before becoming a GMAC-RFC Introducer, a broker must, among other things, confirm that: (a) it is registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000) the Mortgage Code Compliance Board; (b) it is (before 1 March 2000) registered under the Data Protection Act 1984 or (on and after 1 March 2000) notified under the Data Protection Act 1998; (c) it will comply with the OFT Guidelines for non-standard lending; and (d) it holds, and will maintain, a Consumer Credit Licence.

GMAC-RFC operates a correspondent lending programme. Under the programme, the participating brokers (the "CL Originators") originate loans in their own name but on terms which mirror GMAC-RFC's standard terms mortgage documentation. The CL Originators apply GMAC-RFC's Lending Criteria (as defined below). For each Mortgage Loan written under the programme GMAC-RFC receives a certificate of the title from a firm of solicitors representing both the CL Originator and GMAC-RFC confirming the title and compliance with GMAC-RFC's guidelines and instructions. GMAC-RFC then funds the Mortgage Loan and the title deeds are forwarded to it directly from the solicitors involved. Under the terms of mortgage transfer agreements with each CL Originator, each Mortgage Loan originated under the programme is immediately transferred or assigned to GMAC-RFC (subject to registration or (in Scotland) recording in respect of the legal title only) together with all rights the CL Originator has against third parties such as solicitors and valuers in connection with the Mortgage Loan and its origination. GMAC-RFC registers the transfer within the priority period afforded by the relevant legislation. The programme accounts for approximately 16.92% of the Mortgage Pool.

#### ***Right-to-buy scheme***

Approximately 9.31% of the Mortgage Loans in the Initial Mortgage Pool by value and 15.53% by number were extended to the relevant Borrowers in connection with the purchase by those Borrowers of properties from the Local Authority under the "right-to-buy" scheme governed by the Housing Act 1985 (the "RTB Loans"). Properties sold under this scheme are sold by the Local Authority at a discount to market value calculated in accordance with the Housing Act 1985. A purchaser under this scheme must repay the whole of the discount if he sells the property within one year of acquiring it from the Local Authority, two-thirds if he does so within two years, and one-third if within three years. The Local Authority obtains a statutory charge over the property in respect of the contingent liability of the purchaser under the scheme to repay the

discount. This statutory charge ranks senior to other charges including that of any mortgage lenders, unless (i) the mortgage lender is an approved lending institution for the purposes of the Housing Act 1985 and has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or (ii) the relevant Local Authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender.

GMAC-RFC is an approved lending institution under the Housing Act 1985. There is a concern that any funds advanced by an approved lending institution which are in excess of the purchase price payable by the purchaser would be considered not to be for the purpose of enabling him to exercise the right to buy and therefore would not benefit from the subordination of the statutory charge. GMAC-RFC will, in the Mortgage Sale Agreement, warrant that all Mortgage Loans originated by it were made to the person exercising the right-to-buy wholly for the purpose of enabling the recipient thereof to purchase the relevant Property (save where insurance cover has been obtained as described in the next paragraph).

In addition, GMAC-RFC has obtained insurance cover from London and European Title Insurance Services Limited of Blagrove House, 176 Blagrove Street, Reading RG1 1RW, which under the terms of the policy insures GMAC-RFC against the risk of losses arising from any funds advanced in excess of the purchase price not benefiting from the subordination of the statutory charge. The benefit of the relevant policy will be transferred to the Issuer under the terms of the Mortgage Sale Agreement.

None of the CL Originators are approved lending institutions under the Housing Act 1985. Approximately 3.81% of the Mortgage Loans in the Initial Mortgage Pool by value and 6.35% by number were RTB Loans originated by the CL Originators. No deeds of postponement were issued by the relevant Local Authority in respect of these Mortgage Loans. The Mortgage Loans are therefore subordinated to the statutory charge in favour of the relevant Local Authority for the first three years from the date of origination. To mitigate the risk of losses arising as a result of such temporary subordination, GMAC-RFC has obtained insurance cover from London and European Title Insurance Services Limited in respect of such risk and GMAC-RFC will covenant in the Mortgage Sale Agreement to maintain similar insurance at the Issuer's expense in its capacity as Administrator. The benefit of the relevant policy will be transferred to the Issuer under the terms of the Mortgage Sale Agreement.

#### **Lending Criteria**

Credit applications are sent to the underwriting department in the first instance to determine whether a potential Borrower meets the general underwriting guidelines of GMAC-RFC (the "Lending Criteria") pursuant to which the Mortgage Loans have been originated.

GMAC-RFC has warranted to the Issuer and the Trustee in the Mortgage Sale Agreement (a) that the nature and amount of each Mortgage Loan, the circumstances of the relevant Borrower and the nature of the relevant Property satisfied the relevant lending criteria or the permitted exceptions to the criteria and (b) that, immediately prior to the execution of the Mortgage Sale Agreement and subject to the completion of any pending registrations, legal and beneficial title of all the Mortgage Loans in the Initial Mortgage Pool was vested absolutely in GMAC-RFC.

#### **General**

The Mortgage Loans were underwritten generally in accordance with the Lending Criteria. They would generally be acceptable to residential mortgage lenders lending to borrowers who have an impaired credit history or do not satisfy the standard requirements of building societies or high street banks.

In order to obtain a Mortgage Loan, each prospective Borrower must complete an application which includes information with respect to the applicant's income, current employment details, bank account information (if applicable), current mortgage information (if applicable) and certain other personal information. A consumer credit search is made in all cases which will give details of any CCJs, BOs and IVAs and which will indicate persons who are listed on the voters' roll as being the residents of the Property.

#### **Discretion to Lend Outside Lending Criteria**

Subject to approval in accordance with internal procedures, GMAC-RFC may have determined on a loan-by-loan basis that, based upon compensating factors, a prospective Borrower who did not strictly qualify under its Lending Criteria warranted an underwriting exception. Compensating factors may include, but are not limited to, a low LTV, stable employment and time in residence at the applicant's current residence.

#### **Mortgage Loan Term**

Each Mortgage Loan in the Initial Mortgage Pool has an original term of between 5 and 30 years.



#### ***Age of Borrower***

Borrowers must be at least 18 years of age prior to the completion of the Mortgage Loan. Furthermore, the term of Mortgage Loans usually must end before the primary applicant reaches the age of 75 years old (subject to approved exceptions).

#### ***Maximum Number of Borrowers***

No more than four Borrowers may be parties to a Mortgage Loan.

#### ***Employment Details***

The policies of GMAC-RFC in regard to the verification of the details of a Borrower's income distinguish between two different categories of Borrower, employed and self-employed.

The income of employed Borrowers can be substantiated by:

- (a) a formal reference from the applying Borrower's employer;
- (b) a P60 and 3 months' supporting payslips; or
- (c) self-certification by the Borrower (only under certain conditions and for Mortgage Loans up to certain maximum amounts).

For the purpose of calculating a Borrower's gross income not only is base salary considered but also additional compensation such as a certain percentage of guaranteed overtime, bonuses and commissions, confirmed pension income, regular investment and rental income, employer subsidies and maintenance payments.

The income of self-employed Borrowers can be confirmed either by:

- (a) a signed certificate of income or a minimum of one (or where the LTV exceeds 85%, two) year's accounts in each case prepared and signed by an accountant with acceptable qualifications. For Mortgage Loans up to £100,000 preparation and signature by a bookkeeper is sufficient; or
- (b) self-certification by the Borrower (only under certain conditions and for Mortgage Loans up to certain maximum amounts and income multiples).

#### ***Property Types***

GMAC-RFC requires that each Mortgage Loan is secured by a first legal charge (an "English Mortgage") over a freehold or long leasehold residential property in England or Wales, a first ranking standard security (a "Scottish Mortgage") over a heritable or long leasehold residential property located in Scotland or a first legal mortgage (a "Northern Irish Mortgage") over a freehold, fee farm grant or long leasehold residential property in Northern Ireland (but see "*Right-to-buy scheme*" above in respect of RTB Loans originated by the CL Originators). The expiry of a leasehold property that serves as security for a Mortgage Loan must post-date the maturity of the Mortgage Loan by at least 30 years.

Generally, only properties intended for use exclusively or at least primarily as a principal place of residence will be acceptable. Properties under 10 years old are generally required to have the benefit of a NHBC guarantee, a Zurich Municipal warranty or an architect's certificate.

Certain property types will not be considered for the purposes of providing security for a Mortgage Loan. Examples of properties that would not be deemed acceptable as security include: (a) freehold flats and freehold maisonettes in England and Wales; (b) properties with agricultural restrictions; (c) properties not wholly owned by the Borrower, where equity is retained by a builder/developer, housing association or other third party; (d) properties of 100% timber construction; (e) flats over commercial premises (subject to certain exceptions); and (f) flats in blocks of more than ten floors (subject to the valuer's comments on marketability).

#### ***Mortgage Loan Amount***

GMAC-RFC will not originate, and will not allow a CL Originator to originate, a Mortgage Loan that will be £25,000 or less at the time of completion. A Mortgage Loan, including Further Advances, will usually not exceed £1,300,000 or, in respect of Mortgage Loans originated after 1 January 2002, £750,000.

#### ***Maximum LTV***

The LTV is calculated by dividing the gross principal amount (net of any fees) committed at completion of the Mortgage Loan by the lower of the valuation of the Property as established by the valuer selected from the approved panel of surveyors (see "*Valuation*" below) or, in the case of a Mortgage Loan made for financing the purchase of a Property, the disclosed purchase price (except in exceptional cases, i.e. where the purchase price reflects a discount). The current policy of GMAC-RFC is not to originate, or allow a CL Originator to originate, Mortgage Loans with an LTV higher than 95% although a higher LTV may be permitted in certain circumstances.

### *Income Multiples*

Unless an exception is approved, a Mortgage Loan will not exceed either (a) the income of the primary Borrower multiplied by 3.50 and added to the income of any secondary Borrower or (b) the Borrowers' joint income multiplied by 3.0.

### *Affordability Test*

GMAC-RFC sometimes incorporates into its underwriting procedures an affordability test, which attempts to estimate the ability of a Borrower to make payments under a Mortgage Loan. The affordability test serves merely as an underwriting tool and, as such, is a contributing factor in an underwriter's decision of whether to accept or reject an application for a Mortgage Loan.

### *Changes to Lending Criteria*

GMAC-RFC may vary the Lending Criteria from time to time. Such revisions may include extending mortgage loans to borrowers who are recently self-employed, independent contractors and temporary employees. Further Advances and Substitute Mortgage Loans may only be included in the Mortgage Pool if they were originated in accordance with the Lending Criteria (varied as specified herein) and the conditions contained in "*Administration of the Mortgage Pool – Further Advances and Substitution*" have been satisfied, and may include other types of Mortgage Loans if the Rating Agencies have confirmed that the then current ratings of the A Notes would not be adversely affected thereby.

### *Credit History*

In addition to employer and valuer references, GMAC-RFC may, depending upon the particular circumstances, require Borrowers to furnish other references, e.g. from previous lenders and landlords. GMAC-RFC may also review a Borrower's bank or building society statements but only does so in limited circumstances. In addition, GMAC-RFC generally requires that an approved credit search covering the preceding three years be undertaken for all Borrowers.

Where a CCJ relating to a Borrower has been revealed by the credit reference search or instalment arrears have been revealed by lenders' or landlords' references or a Borrower has been subject to a BO or its Scottish equivalent or an IVA, explanations are generally obtained.

GMAC-RFC generally considers the accumulated aggregate value of the CCJs lodged against a Borrower in the preceding three-year period in its consideration of that Borrower's Mortgage Loan application and/or in its setting of the rate to be charged on the Mortgage Loan. See "*Interest Rate Setting*" above. Where satisfaction of a CCJ is a requirement of the Mortgage Loan, a certificate of satisfaction must have been provided.

Borrowers who were extended a Mortgage Loan despite being previously subject to a BO are generally required to provide a certificate of discharge. Borrowers who are subject to an IVA are generally required to provide a confirmation of satisfactory conduct of the IVA where appropriate.

Repossessions in the preceding three years of previously mortgaged property will also be considered as relevant to a Borrower's application for a Mortgage Loan. The Borrower is required to submit information relating to any outstanding debt and/or ongoing debt recovery in relation to the repossession for the review of the GMAC-RFC. Borrowers who have been subject to such repossessions will have an additional percentage margin attached to the applicable Mortgage Rate.

### **Valuation**

For the Mortgage Loans, Properties are required to be valued by a qualified surveyor chosen from a panel of GMAC-RFC approved valuation firms. For all Mortgage Loans up to £250,000, the valuer will be instructed by GMAC-RFC or the Introducer, but for Mortgage Loans in excess of £250,000, the valuer usually must be instructed by GMAC-RFC itself (unless the Mortgage Loan is originated by a CL Originator).

Drive-by valuations are required for a proportion of remortgages, higher loan amounts and higher LTV ratios. If the original and audit valuations deviate to a substantial degree, the audit figure can be used where it is lower than the original valuation figure or a second valuer can be instructed.

### **Retentions**

In cases where the property valuer determines that there is a need for additional remedial (or, in respect of new construction, completion) work to be performed on a Property, GMAC-RFC will retain, in full or in part, the monies to be extended to the Borrower under the Mortgage Loan until such time as the work deemed to be necessary is successfully completed. Accordingly, the completion of the work serves as a condition for the release of the retained funds under the Mortgage Loan.

The retention will be released when the required work is completed to a satisfactory standard and has been reinspected. Often a time for completion of the required work is specified in the offer conditions for the Mortgage Loan. In the event that a time for completion is not so specified, the work is to be completed in a timely fashion which GMAC-RFC generally considers to be no longer than 6 months.

As at the Cut-Off Date, approximately £233,538 in retention monies relating to the Mortgage Loans in the Initial Mortgage Pool were being held by GMAC-RFC awaiting the completion of required works on the Properties.

#### **Borrower Maintenance Covenants**

In relation to each of the Mortgage Loans in the Initial Mortgage Pool, the relevant Borrower has covenanted to keep the Property in good repair and condition, to comply with all covenants and statutory requirements in respect of the Property and to pay in a timely fashion all taxes and other amounts required to be paid in connection with the Property. Each of the Borrowers has also agreed to allow GMAC-RFC to carry out an inspection of the condition of the relevant Property at any reasonable time.

#### **Buildings Insurance**

It is a condition of each Mortgage Loan that each Property is insured for its full re-instatement value as stated in the valuation report with an acceptable insurance company and at the Borrower's cost (subject to certain exceptions in the case of leasehold properties). GMAC-RFC requires each Borrower to produce evidence of current buildings insurance prior to the completion of each Mortgage Loan. The alternatives available to Borrowers are (a) the Property may be insured under GMAC-RFC's Block Buildings Policy, which is currently with Royal & Sun Alliance Plc., a company which provides building insurance whose address is St. Marks Court, Chartway, Horsham, West Sussex; (b) the Borrower may take out a separate insurance policy, subject to the approval of GMAC-RFC (or the relevant CL Originator); or (c) with respect to leasehold properties, the Property may be insured by the relevant landlord with the approval of GMAC-RFC or the relevant CL Originator; or (d) the Property may be insured under the block building policy of a CL Originator. In all of these cases, the interest of GMAC-RFC is noted on the relevant policy from the date of completion of the Mortgage Loan.

If a Borrower insures the Property under a Block Buildings Policy, GMAC-RFC has the option to use any monies received under a claim to make good the loss or damage in respect of which the monies were received or to use them to reduce or repay the relevant Mortgage Loan. However, if the Property is insured other than under a Block Buildings Policy, GMAC-RFC will only receive notice of the loss or damage to the Property and will not have the ability to direct how any money received under the claim is spent.

#### **Further Advances**

Further Advances are governed by the Lending Criteria and, together with the initial advances, must not exceed the maximum loan amount permitted by the Lending Criteria. Generally, the Borrower must not be in arrears in relation to the existing Mortgage Loan, and should not have been in arrears for any significant period of time. This policy is, however, subject to some exceptions, taken on a case-by-case basis.

#### **Express Completion Service**

In January 1999, GMAC-RFC began offering its Express Completion Service, which enables a Borrower to remortgage a Property under an expedited procedure that can allow completion within five days from the offer by GMAC-RFC to extend the remortgage loan. The process differs from traditional conveyancing practice in that there is no in-depth investigation of title. Instead, First Title Insurance plc ("First Title"), a company which provides title insurance whose address is Walkden House, 3-10 Melton Street, London NW1 2EB, provides a homeloan protection policy on a Property for the sole benefit of GMAC-RFC. Among other things, this policy provides protection (a) that there is good and marketable title; (b) that the Property was built, and (if relevant) modified or extended since, in compliance with all necessary planning and building regulation approvals; (c) that there is nothing in the Local Authority records to the detriment of the owner of the Property; and (d) against costs or legal expenses necessary to defend the title. After an agent of First Title checks ownership of the property, First Title provides a certificate of insurance to GMAC-RFC. The agent then arranges execution of the relevant documents, requests the funds from GMAC-RFC and, upon receipt, disburses such funds under GMAC-RFC's instructions and completes the transaction.

There are 878 Mortgage Loans in the Initial Mortgage Pool which have been originated pursuant to the Express Completion Service, representing an aggregate principal loan balance of approximately 15.55% of the Initial Mortgage Pool balance. The benefit of the First Title policy is assigned by GMAC-RFC to the Issuer pursuant to the Mortgage Sale Agreement.

#### **Other Title Insurance**

Occasionally, no local search is carried out by the solicitors involved in the mortgaging of a Property. Where a local search is not concluded, GMAC-RFC (jointly with the CL Originator in respect of CL Mortgages) enters into a local search indemnity insurance policy with Liberty Legal Indemnities, Fifth Floor, One Minster Court, London EC3R 7AA.

In addition, GMAC-RFC sometimes requires its solicitors to obtain a title insurance policy for a particular Property if a title issue has been identified in relation to that Property. For example, a Property may only have good leasehold title or may have been subject to a suspected transfer at an undervalue in the past. GMAC-RFC checks each policy to ensure that the limit on cover is at least 100% of the valuation of the Property and that all policies are assignable.

The benefit of the Liberty Legal Indemnities policy is assigned by GMAC-RFC to the Issuer pursuant to the Mortgage Sale Agreement. In addition, the Mortgage Sale Agreement will contain a general assignment of any other title policy linked to an individual Property.

#### Solicitors

The Borrower will instruct a firm of solicitors to act on its behalf as well as on behalf of GMAC-RFC on the origination of the Mortgage Loan. The nominated firm must meet certain minimum requirements. For instance, the solicitors firm acting on behalf of GMAC-RFC must have a minimum of two registered partners and may not be licensed conveyancers. If the nominated firm of solicitors does not meet the minimum requirements, GMAC-RFC has reserved the right to instruct other solicitors to act on its behalf at the expense of the Borrower.

#### Mortgages on Let Properties

As of December 1998, GMAC-RFC began offering a new type of mortgage loan exclusively for investment properties (the "Investment Mortgage Loan"). Under an Investment Mortgage Loan, a Borrower can include a single or a number of different Properties held for the purposes of investment (each an "Investment Property"). Prohibited from occupying an Investment Property itself, the Borrower must let an Investment Property within three months of completion on a short-term basis to residential tenants who have demonstrated themselves to be of acceptable character and able to meet their obligations to pay rent. No sub-letting by the tenants is permitted.

Investment Mortgage Loans are extended only with the Investment Properties as collateral. GMAC-RFC takes no additional security for the purposes of the Investment Mortgage Loans.

The lending criteria for Investment Mortgage Loans also differ from the criteria applied to other Mortgage Loans in certain respects, including the following:

1. As Investment Mortgage Loans are seen as self-financing, there is no requirement for the Borrower to achieve certain income multiples, although there is a minimum employment period of three months (or six months' self-employment).
2. For similar reasons, GMAC-RFC may sometimes extend an Investment Mortgage Loan to a Borrower for a term that will pass that particular Borrower's 75th birthday (see "*Age of Borrower*" above). The minimum age for a Borrower is 25 for this product.
3. The maximum LTV for an Investment Mortgage Loan is 80%.
4. As the primary assessment on the Borrower's ability to pay is based on expected rental income, this is assessed as part of the valuation (see "*Valuation*" above).

Only 268 of the Mortgage Loans in the Initial Mortgage Pool (representing an aggregate principal loan balance of approximately £22,578,983) are Investment Mortgage Loans. These Mortgage Loans represent approximately 4.98% of the Initial Mortgage Pool.

The general policy of GMAC-RFC in relation to its Mortgage Loans is to restrict the ability of the Borrower to let the relevant Property. However, in addition to the Investment Mortgage Loans, exceptions have been granted in relation to certain of the other Mortgage Loans in the Initial Mortgage Pool to allow the Borrowers to let their Properties.

## CHARACTERISTICS OF THE INITIAL MORTGAGE POOL

The Initial Mortgage Pool has the aggregate characteristics indicated in Tables 1-13. (Columns of percentages may not add up to 100% due to rounding).

Table 1  
Distribution of Mortgage Loans by Original Loan to Value Ratios

<i>Original LTV</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
0.001% – 25.000%	35	0.64	1,629,620	0.36
25.001% – 50.000%	467	8.49	31,275,142	6.89
50.001% – 55.000%	195	3.55	14,737,207	3.25
55.001% – 60.000%	337	6.13	26,854,510	5.92
60.001% – 65.000%	478	8.69	35,891,413	7.91
65.001% – 70.000%	462	8.40	35,583,869	7.84
70.001% – 75.000%	1,225	22.28	103,988,477	22.91
75.001% – 80.000%	816	14.84	71,952,864	15.85
80.001% – 85.000%	1,134	20.63	103,806,788	22.87
85.001% – 90.000%	266	4.84	21,463,444	4.73
90.001% – 95.000%	83	1.51	6,656,116	1.47
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

Weighted Average LTV:	72.82%
Minimum LTV:	9.11%
Maximum LTV:	95.00%

**Table 2**  
Distribution of Mortgage Loans by Current Principal Balance

<i>Current Principal Balance (£)</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
0 – 20,000.00	1	0.02	5,925	0.00
20,000.01 – 30,000.00	311	5.66	8,387,975	1.85
30,000.01 – 40,000.00	570	10.37	19,711,026	4.34
40,000.01 – 50,000.00	575	10.46	25,725,118	5.67
50,000.01 – 60,000.00	597	10.86	32,752,665	7.22
60,000.01 – 70,000.00	655	11.91	42,327,780	9.33
70,000.01 – 80,000.00	596	10.84	44,343,773	9.77
80,000.01 – 90,000.00	461	8.38	38,965,832	8.59
90,000.01 – 100,000.00	354	6.44	33,521,316	7.39
100,000.01 – 110,000.00	294	5.35	30,643,457	6.75
110,000.01 – 120,000.00	207	3.77	23,773,957	5.24
120,000.01 – 130,000.00	169	3.07	20,987,281	4.62
130,000.01 – 140,000.00	133	2.42	17,866,648	3.94
140,000.01 – 150,000.00	99	1.80	14,263,911	3.14
150,000.01 – 175,000.00	183	3.33	29,319,658	6.46
175,000.01 – 200,000.00	97	1.76	18,042,541	3.98
200,000.01 – 225,000.00	67	1.22	14,179,378	3.12
225,000.01 – 250,000.00	34	0.62	8,025,486	1.77
250,000.01 – 350,000.00	67	1.22	19,004,456	4.19
350,000.01 – 500,000.00	24	0.44	9,908,754	2.18
500,000.01 – 1,000,000.00	4	0.07	2,082,513	0.46
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

Average: £82,546  
Minimum: £5,925  
Maximum: £581,370

**Table 3**  
Distribution of Mortgage Loans with CCJs by Original LTV

<i>Original LTV Ratios</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>No. 0 CCJs</i>	<i>% 0 CCJs</i>	<i>No. 1 CCJs</i>	<i>% 1 CCJs</i>	<i>No. &gt;1 CCJs</i>	<i>% &gt;1 CCJs</i>
0.01% – 50.00%	502	9.13	437	7.95	28	0.51	37	0.67
50.01% – 55.00%	195	3.55	164	2.98	9	0.16	22	0.40
55.01% – 60.00%	337	6.13	279	5.07	28	0.51	30	0.55
60.01% – 65.00%	478	8.69	411	7.48	27	0.49	40	0.73
65.01% – 70.00%	462	8.40	332	6.04	55	1.00	75	1.36
70.01% – 75.00%	1,225	22.28	810	14.73	213	3.87	202	3.67
75.01% – 80.00%	816	14.84	575	10.46	111	2.02	130	2.36
80.01% – 85.00%	1,134	20.63	795	14.46	165	3.00	174	3.16
85.01% – 90.00%	266	4.84	221	4.02	23	0.42	22	0.40
90.01% – 95.00%	83	1.51	73	1.33	6	0.11	4	0.07
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>4,097</b>	<b>74.52</b>	<b>665</b>	<b>12.10</b>	<b>736</b>	<b>13.39</b>

Note: all percentages are presented as a percentage of the total number of Mortgage Loans in the Initial Mortgage Pool

**Table 4**  
Distribution of Mortgage Loans by CCJs by Margin over LIBOR

<i>Margin over LIBOR</i>	<i>No. of</i>	<i>% of</i>					<i>No. &gt;1</i>	<i>% &gt;1</i>
	<i>Mortgage</i>	<i>Mortgage</i>	<i>No. 0 CCJs</i>	<i>% 0 CCJs</i>	<i>No. 1 CCJs</i>	<i>% 1 CCJs</i>	<i>CCJs</i>	<i>CCJs</i>
	<i>Loans %</i>	<i>Loans</i>						
0.01% – 2.00%	796	14.48	763	13.88	23	0.42	10	0.18
2.01% – 2.50%	1,453	26.43	1,181	21.48	154	2.80	118	2.15
2.51% – 3.00%	1,311	23.85	1,030	18.73	135	2.46	146	2.66
3.01% – 3.50%	1,000	18.19	668	12.15	157	2.86	175	3.18
3.51% – 4.00%	527	9.59	269	4.89	111	2.02	147	2.67
4.01% – 4.50%	270	4.91	153	2.78	46	0.84	71	1.29
4.51% – 5.00%	101	1.84	30	0.55	25	0.45	46	0.84
5.01% – 5.50%	28	0.51	2	0.04	10	0.18	16	0.29
5.51% – 6.00%	11	0.20	1	0.02	4	0.07	6	0.11
Greater than 6.00%	1	0.02	0	0.00	0	0.00	1	0.02
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>4,097</b>	<b>74.52</b>	<b>665</b>	<b>12.10</b>	<b>736</b>	<b>13.39</b>

Weighted Average: 2.98%  
 Minimum: 1.75%  
 Maximum: 6.25%

Note: All percentages are presented as a percentage of the total number of Mortgage Loans in the Initial Mortgage Pool.

**Table 5**  
Distribution of Mortgage Loans by Loan Purpose

<i>Loan Purpose</i>	<i>No. of</i>	<i>% of</i>	<i>Current</i>	<i>% of Current</i>
	<i>Mortgage</i>	<i>Mortgage</i>	<i>Principal</i>	<i>Principal</i>
	<i>Loans</i>	<i>Loans</i>	<i>Balance (£)</i>	<i>Balance</i>
Purchase	2,368	43.07	182,084,439	40.12
Remortgage	3,130	56.93	271,755,012	59.88
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

**Table 6**  
Distribution of Mortgage Loans by Tenure by Original LTV

<i>Original LTV</i>	<i>No. of</i>	<i>% of</i>	<i>No. of</i>	<i>% of</i>	<i>No. of</i>	<i>% of</i>	<i>No. of</i>	<i>% of</i>
	<i>Mortgage</i>	<i>Mortgage</i>	<i>Freehold</i>	<i>Freehold</i>	<i>Leasehold</i>	<i>Leasehold</i>	<i>Feuhold</i>	<i>Feuhold</i>
	<i>Loans</i>	<i>Loans</i>						
0.01% – 25.00%	35	0.64	31	0.56	3	0.05	1	0.02
25.01% – 50.00%	467	8.49	390	7.09	71	1.29	6	0.11
50.01% – 55.00%	195	3.55	174	3.16	21	0.38	0	0.00
55.01% – 60.00%	337	6.13	298	5.42	38	0.69	1	0.02
60.01% – 65.00%	478	8.69	421	7.66	52	0.95	5	0.09
65.01% – 70.00%	462	8.40	405	7.37	42	0.76	15	0.27
70.01% – 75.00%	1,225	22.28	1,057	19.23	142	2.58	26	0.47
75.01% – 80.00%	816	14.84	681	12.39	114	2.07	21	0.38
80.01% – 85.00%	1,134	20.63	1,002	18.22	99	1.80	33	0.60
85.01% – 90.00%	266	4.84	212	3.86	41	0.75	13	0.24
90.01% – 95.00%	83	1.51	64	1.16	13	0.24	6	0.11
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>4,735</b>	<b>86.12</b>	<b>636</b>	<b>11.57</b>	<b>127</b>	<b>2.31</b>

Note: All percentages are presented as a percentage of the total number of Mortgage Loans in the Initial Mortgage Pool.

Table 7  
Distribution of Mortgage Loans by Property Type

<i>Property Type</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
Bungalow Detached	129	2.35	12,440,764	2.74
Bungalow Semi-detached	69	1.26	4,974,164	1.10
Bungalow Terraced	12	0.22	545,087	0.12
Flat	463	8.42	41,169,509	9.07
House Detached	807	14.68	100,570,107	22.16
House End-Terrace	664	12.08	46,034,793	10.14
House Mid-Terrace	1,465	26.65	104,565,483	23.04
House Semi-detached	1,852	33.68	140,155,934	30.88
Maisonette	37	0.67	3,383,609	0.75
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

Table 8  
Distribution of Mortgage Loans by Region

<i>Region</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
East Anglia	207	3.77	16,739,069	3.69
East Midlands	375	6.82	23,700,727	5.22
Greater London	509	9.26	64,906,497	14.30
North	144	2.62	7,599,005	1.67
North West	489	8.89	30,925,723	6.81
Northern Ireland	53	0.96	3,754,783	0.83
Outer Metropolitan	562	10.22	66,067,020	14.56
Scotland	127	2.31	7,161,954	1.58
South East	1,204	21.90	112,389,141	24.76
South West	599	10.89	45,699,823	10.07
Wales	268	4.87	15,547,291	3.43
West Midlands	643	11.70	40,071,590	8.83
Yorkshire/Humberside	318	5.78	19,276,827	4.25
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>



**Table 9**  
**Distribution of Mortgage Loans by Time to Maturity**

<i>Months to Maturity</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
51 – 72	19	0.35	1,682,467	0.37
73 – 96	23	0.42	1,489,957	0.33
97 – 120	152	2.76	11,801,310	2.60
121 – 144	85	1.55	5,679,008	1.25
145 – 168	117	2.13	9,237,668	2.04
169 – 192	451	8.20	34,039,225	7.50
193 – 216	226	4.11	18,625,011	4.10
217 – 240	817	14.86	68,265,661	15.04
241 – 264	237	4.31	19,925,505	4.39
265 – 288	242	4.40	20,699,192	4.56
289 – 312	3,048	55.44	254,218,153	56.01
313 – 336	7	0.13	860,192	0.19
337 – 360	74	1.35	7,316,102	1.61
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

Weighted Average (months):	264
Minimum (months):	57
Maximum (months):	360

**Table 10**  
**Distribution of Mortgage Loans by Repayment Method**

<i>Repayment Method</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
Interest only	1,513	27.52	168,766,133	37.19
Part and Part Repayment	232	4.22	19,830,387	4.37
	3,753	68.26	265,242,930	58.44
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

**Table 11**  
**Distribution of Mortgage Loans Currently in Arrears**

<i>Days Past Due</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
Current	5,421	98.60	445,651,870	98.20
30 – 59 days	65	1.18	7,344,819	1.62
60 – 89 days	9	0.16	629,216	0.14
90 + days	3	0.05	213,545	0.05
<b>Total</b>	<b>5,498</b>	<b>100.00</b>	<b>453,839,450</b>	<b>100.00</b>

Table 12  
Distribution of Mortgage Loans by Status/Self-Certified

<i>Status/Self-Certified</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
Self-Certified	3,074	55.91	283,778,096	62.53
Status	2,424	44.09	170,061,354	37.47
Total	5,498	100.00	453,839,450	100.00

Table 13  
Distribution of Mortgage Loans by Rate Type

<i>Rate Type</i>	<i>No. of Mortgage Loans</i>	<i>% of Mortgage Loans</i>	<i>Current Principal Balance (£)</i>	<i>% of Current Principal Balance</i>
Discount of 1% until 1 October 2002	36	0.65	3,014,241	0.66
Discount of 1.25% until 1 January 2003	2,078	37.80	161,874,858	35.67
Discount of 1.25% until 1 March 2003	2,737	49.78	229,051,089	50.47
Discount of 1.5% until 1 October 2002	1	0.02	56,737	0.01
Total Discounted Loans	4,852	88.25	393,996,926	86.81
Fixed 5.75% until 1 January 2004	100	1.82	7,309,659	1.61
Fixed 5.75% until 1 April 2004	4	0.07	356,319	0.08
Fixed 5.85% until 1 April 2004	22	0.40	1,723,405	0.38
Fixed 5.95% until 1 January 2004	177	3.22	17,821,164	3.93
Fixed 5.95% until 1 April 2004	6	0.11	455,704	0.10
Fixed 5.99% until 1 April 2004	24	0.44	1,868,601	0.41
Fixed 6.05% until 1 April 2004	63	1.15	6,499,667	1.43
Fixed 6.19% until 1 April 2004	55	1.00	5,179,736	1.14
Fixed 6.29% until 1 January 2003	20	0.36	1,033,547	0.23
Fixed 6.45% until 1 January 2004	27	0.49	2,749,357	0.61
Fixed 6.45% until 1 April 2004	1	0.02	80,512	0.02
Fixed 6.55% until 1 April 2004	8	0.15	800,450	0.18
Fixed 6.69% until 1 April 2004	6	0.11	542,734	0.12
Fixed 6.74% until 1 October 2002	4	0.07	325,898	0.07
Fixed 6.74% until 1 January 2003	20	0.36	1,024,239	0.23
Fixed 7.10% until 1 October 2002	9	0.16	1,091,085	0.24
Fixed 7.15% until 1 January 2003	11	0.20	735,515	0.16
Fixed 7.54% until 1 January 2003	2	0.04	205,809	0.05
Fixed 7.89% until 1 October 2002	4	0.07	426,682	0.09
Total Fixed Loans	563	10.24	50,230,083	11.07
Variable Rate (LIBOR)	83	1.51	9,612,441	2.12
Total	5,498	100.00	453,839,450	100.00

## TITLE TO THE MORTGAGE POOL

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The Mortgage Loans and the Mortgages will be sold by GMAC-RFC to the Issuer. The sale of the English and Northern Irish Mortgage Loans will take effect in equity only, and the sale of the Scottish Mortgage Loans will take effect by means of a trust (save as mentioned below). The Issuer will grant a first fixed equitable charge (or, in the case of Scottish Mortgage Loans, a first fixed charge over its beneficial interest therein) in favour of the Trustee over its interest in the Mortgage Loans and the Mortgages.

The Administrator is required under the terms of the Administration Agreement to ensure the safe custody of title deeds. The Administrator will have custody of title deeds in respect of the Mortgage Loans and the Mortgages as agent of the Issuer.

GMAC-RFC has legal and beneficial title to all the Mortgages in the Initial Mortgage Pool.

Save in respect of the Mortgages originated by the CL Originators (legal and beneficial title to which was transferred or, in the case of Scottish Mortgages, assigned to GMAC-RFC immediately upon origination), legal title to the Mortgages securing the Mortgage Loans originated by GMAC-RFC has, since origination, remained, and will remain, with GMAC-RFC. The holding by GMAC-RFC of legal title to Mortgages only recently transferred to or originated by GMAC-RFC will be subject to completion of registration or recording (as applicable) at H.M. Land Registry, the Land Register of Scotland or the Register of Sasines (the Land Register of Scotland and the Register of Sasines are collectively referred to as the "Registers of Scotland") or the Land Registry of Northern Ireland and the Registry of Deeds of Northern Ireland (the "Northern Ireland Registries") as appropriate.

Neither the Issuer nor the Trustee will require legal title to be transferred, conveyed or assigned to the Issuer or apply to H.M. Land Registry, the Central Land Charges Registry, the Registers of Scotland or the Northern Ireland Registries to register or record their interest in such Mortgages except in the limited circumstances referred to below.

Save as mentioned below, notice of the assignment to the Issuer and the equitable charge in favour of the Trustee will not be given to the Borrowers.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer (with the consent of the Trustee) and the Trustee will each be entitled to require legal title to be transferred, conveyed or assigned to the Issuer and to effect such registrations, recordings and give such notices as it considers necessary to protect and perfect the interests respectively of the Issuer (as purchaser) and the Trustee (as chargee) in the Mortgage Loans and the Mortgages, *inter alia*, where (a) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (b) an Enforcement Notice (as defined in the Deed of Charge) has been given, (c) the Trustee acting on the instructions of Ambac (if Ambac is then the Note Controlling Party) considers that the Security (as defined in the Deed of Charge) or any part thereof is in jeopardy (including the possible insolvency of GMAC-RFC) or (d) any action is taken for the winding-up, dissolution, administration or reorganisation of GMAC-RFC. These rights are supported by irrevocable powers of attorney given, *inter alios*, by the Issuer and GMAC-RFC.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages and not registering or recording their respective interest in H.M. Land Registry, the Central Land Charges Registry, the Registers of Scotland or the Northern Ireland Registries (where applicable) a bona fide purchaser from GMAC-RFC for value of any of such Mortgages without notice of any of the interests of the Issuer or the Trustee (and certain similar third parties) might obtain a good title free of any such interest. Further, the rights of the Issuer and the Trustee may be or become subject to equities (for example, rights of set-off as between the relevant Borrowers or insurance companies and GMAC-RFC). However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by GMAC-RFC of its contractual obligations or fraud, negligence or mistake on the part of GMAC-RFC or the Issuer or their respective personnel or agents.

Furthermore, for so long as neither the Issuer nor the Trustee have obtained legal title, they must join GMAC-RFC as a party to any legal proceedings which they may wish to take against any Borrower or in relation to the enforcement of any Mortgage.

## SALE OF THE MORTGAGE POOL

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On the Issue Date, the Issuer will purchase the Completion Mortgage Pool. Each Mortgage Loan in the Completion Mortgage Pool will be a Mortgage Loan in respect of which the relevant Borrower has made at least one scheduled payment of interest and/or principal (each a "Monthly Payment") and such Monthly Payment has been verified by the second Business Day prior to the Issue Date. On the Eligible Date, the Issuer will purchase the Pre-Funded Mortgage Loans from GMAC-RFC to the extent that such Pre-Funded Mortgage Loans comply with the terms of the Mortgage Sale Agreement on the Eligible Date (including for the avoidance of doubt, the warranties set out in "*Warranties and Repurchase*" below). In addition, further Mortgage Loans may from time to time be included in the Mortgage Pool. These further Mortgage Loans, which will be Further Advances or Substitute Mortgage Loans, will be originated under the same underwriting standards as the Completion Mortgage Pool or may include other types of Mortgage Loans if the Rating Agencies have confirmed that the Underlying Rating of the A Notes would not be adversely affected thereby.

### Consideration

The consideration payable by the Issuer to GMAC-RFC for the Completion Mortgage Pool is an amount equal to the aggregate Balances (as defined below) of the Mortgage Loans comprised in the Completion Mortgage Pool as at the Cut-Off Date (30 June 2002) plus a premium. Interest accruing and all other sums received by GMAC-RFC on the Mortgage Loans up to but not including the Cut-Off Date will be for the account of GMAC-RFC and interest accruing and all other sums received by GMAC-RFC on or after the Cut-Off Date will be for the account of the Issuer. On the Eligible Date, the Issuer shall purchase the Pre-Funded Mortgage Loans from GMAC-RFC for an amount equal to the aggregate Balance of the Pre-Funded Mortgage Loans (the "Pre-Funded Mortgage Loans Purchase Price") as at the last day of the month immediately preceding the Eligible Date (the "Pre-Funded Completion Date"). Interest accruing on the Pre-Funded Mortgage Loans up to but not including the Pre-Funded Completion Date will be for the account of GMAC-RFC and interest accruing on the Pre-Funded Mortgage Loans on or after the Pre-Funded Completion Date will be for the account of the Issuer.

The Issuer will also pay Ordinary Deferred Consideration and Prepayment Deferred Consideration as described in the "*Summary – Deferred Consideration*".

### Pre-Funded Mortgage Loans

The Pre-Funded Mortgage Loans purchased by the Issuer will be required to comply with the same lending criteria as apply to the Mortgage Loans comprising the Completion Mortgage Pool (including verification of receipt of the first Monthly Payment). The purchase of the Pre-Funded Mortgage Pool will be subject to the satisfaction of the following conditions:

- (a) on the Issue Date, the Pre-Funded Mortgage Loans Amount must be less than or equal to 19.05% of the aggregate principal balance of the Notes;
- (b) each Pre-Funded Mortgage Loan complies with the representations and warranties specified in the Mortgage Sale Agreement;
- (c) the Rating Agencies confirm that the Underlying Rating of the A Notes then outstanding will not be withdrawn or downgraded as a result of the purchase of the Pre-Funded Mortgage Pool; and
- (d) Ambac confirms that in its reasonable opinion the characteristics of the Pre-Funded Mortgages are not materially different from those of the Mortgages purchased by the Issuer on the Issue Date.

The Pre-Funded Mortgage Loans Amount together with the following amounts will be deposited in the Issuer Transaction Account and credited to the Pre-Funded Mortgage Loans Ledger:

- (a) part of the proceeds of the issue of the C Notes, in an amount equal to the Pre-Funded Mortgage Loans Interest Shortfall which will be credited on the Issue Date;
- (b) interest earned on the sum of the Pre-Funded Mortgage Loans Amount and the Pre-Funded Mortgage Loans Interest Shortfall at the rate of interest payable pursuant to the Guaranteed Investment Contract for the period from the Issue Date up to (but excluding) the second business day prior to the Eligible Date (the "Eligible Advance Date"), which will be credited on the Eligible Advance Date; and
- (c) to the extent that after the Eligible Date there are funds standing to the credit of the Pre-Funded Mortgage Loans Ledger, interest earned on such amount at the rate of interest payable pursuant to the Guaranteed Investment Contract for the period from the Eligible Date up to (but excluding) the Payment Date falling in September 2002.

The Issuer, or the Administrator on its behalf, may on the Eligible Date, utilise the Pre-Funded Mortgage Loans Amount towards payment of the Pre-Funded Mortgage Loans Purchase Price. To the extent that there are funds standing to the credit of the Pre-Funded Mortgage Loans Ledger after the payment of the Pre-Funded Mortgage Loans Purchase Price, these funds shall be applied on the Payment Date falling in September 2002 as follows:

- (a) an amount equal to the Principal Rebate will be remitted to the holders of the A Notes as part of the mandatory repayment of the A Notes on such date in accordance with Condition 5(b);
- (b) an amount equal to the interest on the Pre-Funded Mortgage Loans Amount (calculated at the weighted average of the Rate of Interest (as defined in Condition 4(c)) for the A Notes for the period from the Issue Date to the Eligible Date) will be distributed in accordance with the Pre-Enforcement Priority of Payments; and
- (c) any remaining amounts standing to the credit of the Pre-Funded Mortgage Loans Ledger will be remitted to the C Noteholders as part of the mandatory repayment of the C Notes on such date in accordance with Condition 5(c).

#### Warranties and Repurchase

The Mortgage Sale Agreement contains warranties given by GMAC-RFC in relation to the Completion Mortgage Pool and the Pre-Funded Mortgage Pool. No searches, enquiries or independent investigations have been or will be made by the Issuer or the Trustee, each of whom is relying upon the warranties in the Mortgage Sale Agreement and the results of an audit of the Initial Mortgage Pool.

If there is an unremedied or unremediable breach of any of these warranties which could have a material adverse effect on the Mortgage Loan and related Mortgage then GMAC-RFC is required to repurchase the relevant Mortgage Loan and its related Mortgage for a consideration in cash equal to the Balance of the relevant Mortgage Loan and all other amounts due and unpaid under such Mortgage Loan plus accrued and unpaid (but not capitalised) interest less interest not then accrued but paid in advance to the Issuer (which the Issuer shall be entitled to retain) (the "Repurchase Price"). Performance of the obligation to repurchase a Mortgage Loan and its related Mortgage will be in satisfaction of all GMAC-RFC's liabilities in respect of the warranties relating to that Mortgage Loan and related Mortgage.

"Balance" means, in relation to any Mortgage Loan and on any date, the original principal amount advanced to the Borrower plus any other disbursement, legal expenses, fee, charge or premium capitalised and added to the amounts secured by the relevant Mortgage in accordance with the conditions of the Mortgage Loan on or prior to such date (including, for the avoidance of doubt, capitalised interest) plus, in relation to a Mortgage Loan and the Mortgage relating thereto, any advance of further monies to the Borrower thereof on the security of the relevant Mortgage after the date of completion of such Mortgage Loan (including advances of any retention) less any repayments of such amounts.

The warranties referred to will include, *inter alia*, statements to the following effect:

- (a) each Mortgage Loan and its related Mortgage constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms (excluding terms deemed to be ancillary terms, which may well include the ability to choose a substitute for LIBOR where LIBOR cannot be determined under the Mortgage Loan Agreement and other terms the application of which are in the lender's discretion, or the ability to require an additional payment upon redemption calculated with reference to the Mortgage Early Redemption Charges and subject to considerations relating to the Consumer Credit Act) and each related Mortgage secures the repayment of all advances, interest, costs and expenses payable by the relevant Borrower to GMAC-RFC in priority to any other charges registered against the relevant Property;
- (b) subject to completion of any registration or recording which may be pending at H.M. Land Registry, the Registers of Scotland or the Northern Ireland Registries and any statutory charge arising under the Housing Act 1985 in respect of which GMAC-RFC has obtained appropriate insurance cover, each Mortgage constitutes a first ranking legal mortgage or first ranking standard security over the relevant Property;
- (c) no lien or right of set-off or counterclaim has been created or has arisen between GMAC-RFC and any Borrower which would entitle such Borrower to reduce the amount of any payment otherwise due under the relevant Mortgage Loan save in relation to the Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and save in relation to Section 75 of the Consumer Credit Act;
- (d) save for where the Mortgage Loan is covered by a valid title insurance policy, prior to making a Mortgage Loan to a Borrower, GMAC-RFC or a CL Originator instructed, or required to be instructed on its behalf, solicitors to carry out in relation to the relevant Property all investigations, searches and other actions that would have been undertaken when advancing money in an amount equal to such advance to an individual to be secured on a property of the kind generally permitted under the Lending Criteria and a report on title was received by or on behalf of GMAC-RFC or a CL Originator from such solicitors which, either initially or after further investigation, revealed no material matter which would cause GMAC-RFC or the relevant CL Originator to decline the Mortgage Loan having regard to the Lending Criteria;
- (e) prior to making a Mortgage Loan, the relevant Property was valued by an independent valuer from the panel of valuers from time to time appointed by GMAC-RFC;

- (f) prior to making a Mortgage Loan, the nature and amount of such Mortgage Loan and the circumstances of the relevant Borrower and the nature of the relevant Property satisfied the Lending Criteria in all material respects;
- (g) each Mortgage Loan and its related Mortgage has been made on the terms of GMAC-RFC's mortgage documentation (so far as applicable) or the documentation of the CL Originators, which has not been varied in any material respect;
- (h) GMAC-RFC or a CL Originator took all reasonable steps to ensure that each Property was at the date of completion of the relevant Mortgage Loan: (i) insured under a buildings policy arranged by the Borrower with the approval of GMAC-RFC or the relevant CL Originator; (ii) insured under a Block Buildings Policy or (iii) with respect to leasehold properties, insured by the relevant landlord with the approval of GMAC-RFC or the relevant CL Originator, in all cases against risks usually covered by a comprehensive buildings insurance policy and with the interest of GMAC-RFC noted thereon with effect from the origination of the relevant Mortgage Loan (or, in the case of certain CL Mortgage Loans, with effect following the transfer of the Mortgage Loan to GMAC-RFC);
- (i) no Mortgage Loan was acquired by GMAC-RFC subject to any discount and no Mortgage Loan has been written down by GMAC-RFC in its accounts;
- (j) no Mortgage Loan has a final maturity beyond the date falling two years prior to the final maturity of the Notes;
- (k) the interest payable under all the Mortgage Loans is determined by reference to a margin over LIBOR subject only to certain Mortgage Loans having fixed interest rates until one of 4 dates between 1 October 2002 and 1 April 2004;
- (l) the Borrower under every Mortgage Loan will have made at least one payment;
- (m) in the case of a Mortgage Loan secured on a leasehold property, the related leasehold interest expires not less than 30 years after the maturity of the relevant Mortgage Loan; and
- (n) to the best of GMAC-RFC's knowledge and belief, having made all reasonable enquiries, the insurance policy covering against loss of priority under the right to buy loans has been complied with.

## ADMINISTRATION OF THE MORTGAGE POOL

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### **Mortgage Administration**

#### ***The Administrator***

The Administrator will be appointed under the terms of the Administration Agreement dated on or about the Issue Date between, *inter alios*, the Issuer and the Trustee to administer the Mortgage Loans and the Related Security (as defined in the "Terms and Conditions of the Notes – Condition 2") and to manage all cash transactions and maintain cash management ledgers on behalf of, and as agent for, the Issuer and the Trustee.

Pursuant to the terms of the Administration Agreement, the Administrator is obliged to report on a regular basis to the Trustee and the Issuer on the status and the performance of the Mortgage Pool, the administration of the Mortgage Loans and other matters relating to its administrative functions as described herein.

The appointment of GMAC-RFC as Administrator may be terminated by the Issuer (with the consent of the Trustee, acting on the instructions of Ambac (if Ambac is then the Note Controlling Party) and Ambac (if Ambac is then the Note Controlling Party)) or by the Trustee (acting on the instructions of Ambac, if then the Note Controlling Party) on the occurrence of certain events of default, including non-performance of its obligations under the Administration Agreement or if insolvency or similar events occur in relation to GMAC-RFC.

In the event that the Administrator ceases to be 100% owned by GMAC-RFC, the Trustee shall be required to procure that the Administrator appoints a back-up administrator pursuant to the terms of the Administration Agreement and subject to the approval of the Rating Agencies, the Trustee, acting on the instructions of Ambac (if Ambac is the Note Controlling Party) and Ambac (if Ambac is then the Note Controlling Party).

The Administrator may administer mortgage loans other than the Mortgage Loans.

### **Collection of Payments**

The Administrator is responsible for collecting payments made by Borrowers in respect of the Mortgage Loans which will be made by the relevant Borrower into one of the GMAC-RFC Accounts. The amounts standing to the credit of the GMAC-RFC Accounts will be transferred on a daily basis into the Issuer Transaction Account to the extent they represent receipts in respect of Mortgage Loans within the Mortgage Pool. Approximately 96.95% of the payments from the Borrowers are made by direct debit and the remaining 3.05% are made by cheques, paying-in books and standing orders. Although Borrowers have the option of choosing from the various methods of payments, GMAC-RFC recommends that the Borrower make payments by direct debit. Borrowers who choose to make payments by direct debit complete a direct debit form and the instructions are sent to the relevant Borrower's bank. Three days prior to the relevant Mortgage Payment Date, the Administrator sends a file to the Bankers Automated Clearing System ("BACS") of all direct debit payments. Currently, one of the GMAC-RFC Accounts is credited on the first, the fifteenth and the last day of each month for Mortgage Loans. Payments by methods other than direct debit are received throughout the month. The Administrator will receive on-line and written confirmation from BACS on the direct debits. This information is reconciled with records on GMAC-RFC's main computer system indicating the amount to be collected. The Administrator will receive information on the rejection of direct debits with a description of the rejection. To the extent possible the Administrator will resubmit the direct debits two weeks after the first submission of the direct debit and a fixed fee will be debited to the Borrower's Mortgage Loan. All amounts received from Borrowers in the GMAC-RFC Accounts and credited to the Collection Account will be transferred daily from the Collection Account to the Issuer Transaction Account.

All amounts credited to the GMAC-RFC Accounts, the Collection Account and the Expenses Account are held on trust, express or implied, by the Administrator for relevant beneficiaries including the Issuer. The trusts in favour of the Issuer are in respect of all amounts credited to the GMAC-RFC Accounts and the Collection Account which represent receipts in respect of the Mortgage Loans within the Mortgage Pool.

The GMAC-RFC Accounts, the Collection Account and the Expenses Account are held with Barclays Bank PLC.

The GMAC-RFC Accounts, the Collection Account and the Issuer Transaction Account will be operated by the Administrator in accordance with the Bank Agreement, and the GIC Account will be operated by the Administrator in accordance with the Guaranteed Investment Contract, until the Account Bank receives notice that an Enforcement Notice has been served. The Account Bank will operate the GMAC-RFC Accounts, the Issuer Transaction Account and the GIC Account in accordance with the instructions of the Administrator.

### **Arrears and Default Procedures**

The Administrator will endeavour to collect payments due under the Mortgage Loans in accordance with the arrears procedures guidelines, but having regard to the circumstances of the relevant Borrower in each case. When a direct debit has been rejected after the second resubmission or a payment has not been received during the month for other methods

of payments, the Administrator will follow the arrears procedures guidelines to collect the payment due under the Mortgage Loan. The procedures include telephone calls to the Borrower to assess the circumstances of the Borrower in arrears in order to find a solution to any financial difficulties, letters requesting payment and visits by a field counsellor to the premises of the Borrower. When the Borrower has missed the second payment, the procedures will usually include taking legal action for possession of the relevant Property and the subsequent sale of that Property. The time involved (assuming the institution of legal proceedings) from the point when a second payment is missed by the Borrower to the Administrator taking possession of the Property may be approximately ten to twelve months; however, there can be significant variations in the time taken to sell repossessed Properties. A court has discretion (the scope of which may be narrower in Scotland) as to whether, on application by a lender, it will order the borrower to vacate the property pursuant to a possession order after a default. A lender will usually apply for such an order so that it can sell the property with vacant possession. Broadly, the net proceeds of sale of the Property after payment of the costs and expenses of the sale would be applied against the sums owing from the Borrower to the extent necessary to discharge the Mortgage Loan. The Administrator will attempt to recover any shortfall from the Borrower to the extent that in its reasonable judgment it is cost-effective to do so. The Administrator will be forced to take such action in a minority of cases and, in such cases, the Administration Agreement provides for expenses to be paid to the Administrator in the event of recovery.

Until very recently, on court applications being made by the lender for the relevant enforcement remedies (once a default by the Borrower had been established by one of the methods detailed in the preceding paragraph, the Scottish courts were bound (except in very limited circumstances) to grant the enforcement remedies sought. This position has been altered by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3 December 2001. The principal effect of this Act is to confer on the court a discretion, on the application of the Borrower (or the Borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

#### *Delegation by the Administrator*

The Administrator is permitted in specified circumstances, or with the prior written consent of the Issuer, Ambac (if Ambac is the then Note Controlling Party) and the Trustee (acting on the instructions of Ambac, if Ambac is the then Note Controlling Party), to sub-contract or delegate its obligations under the Administration Agreement subject to the proposed arrangement not adversely affecting the Underlying Rating of the A Notes assigned by the Rating Agencies.

#### *Administration Fees*

The Administration Agreement makes provision for payments to be made to the Administrator. On each Payment Date, the Issuer will pay to the Administrator an administration fee (the "Administration Fee") (plus Value Added Tax, if any), such fee being an amount equal to one quarter of 0.15% per annum of the average total principal Balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date.

If the appointment of the Administrator is terminated and a substitute administrator which is not an affiliate of GMAC-RFC is appointed, the figure of 0.15% per annum referred to in the paragraph above will be replaced with a figure agreed with such substitute administrator in accordance with the procedures set out in the Administration Agreement, subject always to the consent of the Trustee acting at the direction of Ambac (if Ambac is the then Note Controlling Party).

The Administrator will be entitled to receive from the Issuer for its own account any commissions from insurers out of premiums paid by Borrowers to the Issuer as a result of the Administrator having placed building insurance in relation to the Mortgage Loans with such insurers.

The Administration Fee, certain costs and expenses of the Administrator or any substitute administrator and the aforesaid commissions are to be paid as provided in the Pre-Enforcement Priority of Payments. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Mortgage Loans and the Notes.

#### *Redemption*

A Borrower may repay all or any part of the relevant Mortgage Loan at any time before the end of the mortgage term (a "Mortgage Early Redemption Amount"), subject to the Borrower paying any applicable early redemption charge calculated on the basis provided under the Mortgage Loan (the "Mortgage Early Redemption Charge"). Interest is calculated on the reduced balance starting with the next following interest period.

The Mortgage Early Redemption Charges for a majority of the Mortgage Loans are calculated as a percentage of the Mortgage Early Redemption Amount. For the remainder of the Mortgage Loans, the Borrower pays a Mortgage Early Redemption Charge calculated as between two and six months gross interest on the Mortgage Early Redemption Amount depending on whether the Mortgage Loan is redeemed in the first, second or third year of its term.



Early repayment will generally occur in two circumstances: (a) a Borrower may voluntarily prepay all or part of the Mortgage Loan or (b) a Borrower may default (or another event of acceleration may occur) and Enforcement Procedures, including the sale of the Property, may take place.

If a Borrower defaults and Enforcement Procedures are initiated, the proceeds arising from such Enforcement Procedures, including the sale proceeds of the relevant Property may be insufficient to repay the entirety of the amounts owed by the Borrower under the Mortgage Loan.

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgage Loans and is authorised by the Trustee and the Issuer to release the relevant Mortgage Loan documents to the person or persons entitled thereto upon redemption. The Administrator may charge a fixed fee for the procedures in connection with the redemption.

#### *Further Advances and Substitution*

The Issuer may make Further Advances to Borrowers after each Mortgage Loan has completed or thereafter subject to the following:

- (a) the relevant Borrower should not be in material breach of any of the conditions of the relevant Borrower's existing mortgage and during the three-month period prior to the making of any Further Advance, the relevant Borrower is not in arrears of any payment;
- (b) in making the Further Advance, the Lending Criteria are met (subject to permitted exceptions to such criteria as described in "*The Mortgage Pool – Lending Criteria – Discretion to Lend Outside Lending Criteria*");
- (c) the provisions of the Consumer Credit Act and the Regulations promulgated thereunder have been complied with to the extent that they apply to any such Further Advance;
- (d) prior to making the Further Advance no second mortgage, charge or standard security has been created over the relevant Property unless such second mortgage or charge has been expressly postponed by deed to the Mortgage securing such Further Advance or unless the loan secured by such second charge is to be, and is, redeemed out of the proceeds of the Further Advance simultaneously with the making of the Further Advance;
- (e) no Enforcement Notice has been given by the Trustee which remains in effect;
- (f) the amount of the Further Advance (together with all other Further Advances made with respect to other Mortgage Loans and the aggregate balances of Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously made and the aggregate balances of Substitute Mortgage Loans previously purchased does not exceed 10% of the aggregate Balances of the Mortgage Loans on the Issue Date, save the figure of 10% referred to above may be increased from time to time upon the Rating Agencies agreeing that such increase will not adversely affect the Underlying Rating by the Rating Agencies of the A Notes;
- (g) GMAC-RFC is not in breach of any obligation on its part to repurchase any Mortgage Loan in accordance with the Mortgage Sale Agreement;
- (h) the amount of the Further Advance (together with all other Further Advances made with respect to other Mortgage Loans on that day) does not exceed an amount equal to the aggregate of the Available Capital Funds at such time and the amount standing to the credit of the Further Advances Ledger at such time;
- (i) the effect of the Further Advance would not be to extend the final maturity date of the Mortgage Loan to beyond the date falling two years prior to the final maturity of the Notes;
- (j) the Issuer has no reason to believe that the making of the relevant Further Advance will adversely affect the Underlying Rating of the A Notes; and
- (k) all conditions set out in the Administration Agreement relating to Further Advances have been satisfied.

All Further Advances made by GMAC-RFC on behalf of the Issuer will be covered by the existing Mortgage and will not create a second charge. This notwithstanding, GMAC-RFC may make an advance to a Borrower secured by a second or more junior charge on a Property or related security provided that such Further Advance is made as a separate loan that will not be included in the Mortgage Pool and GMAC-RFC's security for such advance ranks in priority of payment after the priority of the relevant Mortgage Loan in the Mortgage Pool.

At any time that GMAC-RFC is entitled or obliged to repurchase a Mortgage Loan, GMAC-RFC will be entitled to sell to the Issuer a Mortgage Loan (a "Substitute Mortgage Loan") subject to the following conditions:

- (a) the Substitute Mortgage Loan will not, unless confirmed by the Rating Agencies as not affecting the Underlying Rating of the A Notes, be a different type of Mortgage Loan to those Mortgage Loans in the Completion Mortgage Pool or the Pre-Funded Mortgage Pool;

- (b) all conditions set out in the Mortgage Sale Agreement and the Administration Agreement relating to the sale and purchase of Substitute Mortgage Loans will be satisfied;
- (c) if the Substitute Mortgage Loan is secured by a Scottish Mortgage, the Issuer and Trustee will obtain a legal opinion from Scottish counsel in respect of such Substitute Mortgage Loan confirming that the documents are legal, valid and binding in relation to such Substitute Mortgage Loan under Scots law;
- (d) if the Substitute Mortgage Loan is secured by a Northern Irish Mortgage, the Issuer and the Trustee will obtain a legal opinion from Northern Irish counsel in respect of such Substitute Mortgage Loan confirming that the documents are legal, valid and binding in relation to such Substitute Mortgage Loan under Northern Irish law;
- (e) no Enforcement Notice has been given by the Trustee which remains in effect;
- (f) GMAC-RFC is not in breach of any obligation on its part to repurchase any Mortgage Loan in accordance with the Mortgage Sale Agreement; and
- (g) the balance of the Substitute Mortgage Loan to be sold (together with the amount of all Further Advances made and the aggregate balances of the other Substitute Mortgage Loans acquired by the Issuer on that day) when added to the amount of any Further Advances previously made and the aggregate balances of Substitute Mortgage Loans previously purchased does not exceed 10% of the aggregate Balances of the Mortgage Loans on the Issue Date, save that the figure of 10% referred to above may be increased from time to time upon the Rating Agencies agreeing that such increase will not adversely affect the Underlying Rating by the Rating Agencies of the A Notes.

***Conversion of Mortgage Loans***

A Mortgage Loan may not be converted into any other type of mortgage product.

***Information and Reporting***

The Administrator is, under the Administration Agreement, responsible for keeping and maintaining records, on a Mortgage Loan-by-Mortgage Loan basis, and shall prepare quarterly management accounts in respect of the Issuer for the Issuer and the Trustee, to be delivered to the Issuer, the Trustee and to the Rating Agencies, if requested within thirty days of the end of each three-month period. The Administrator shall also, prior to the end of each month following each Payment Date, deliver to the Issuer, the Rating Agencies and the Trustee the form of a quarterly report prescribed by the Administration Agreement.

In addition, the Administrator shall give notice to the Rating Agencies and the Trustee of (i) the Notes being repaid in full; (ii) any repurchase of any Mortgage Loan by GMAC-RFC pursuant to the Mortgage Sale Agreement; (iii) the occurrence of any Event of Default under the Notes; and (iv) the occurrence of an Ambac Event of Default upon becoming aware of such an occurrence.

## REGULATION OF THE UK RESIDENTIAL MORTGAGE MARKET

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### Introduction

The UK residential mortgage market currently is not specifically regulated by statute although certain aspects of consumer lending (whether secured or unsecured) are regulated by the Consumer Credit Act and additional consumer protection is also provided under the Unfair Terms in Consumer Contracts Regulations 1994 and 1999. The following summary of certain regulatory considerations does not discuss all aspects of applicable legislation and other authorities which may be important to prospective investors.

### The Mortgage Code

Self-regulation within the market is under the Mortgage Code (the "CML Code") issued by the Council of Mortgage Lenders (the "CML") and to which several mortgage lenders subscribe. GMAC-RFC is an associate member of the CML and subscribes to the CML Code. There is no legal requirement for a lender in the UK residential mortgage market to be a member of the CML. Membership of the CML and compliance with the CML Code are therefore voluntary.

The CML Code sets out minimum standards of good mortgage lending practice for lender-subscribers in respect of all aspects of their mortgage lending business, from initial marketing of mortgage products to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998, lender-subscribers to the CML Code may not accept mortgage business introduced by intermediaries who are not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000) the Mortgage Code Compliance Board.

### Voluntary Code of Conduct on Pre-contractual Information for Home Loans

In March 2001, the European Commission published a Recommendation to member states urging their members to subscribe to the code issued by the European Mortgage Federation. On 26 July 2001, the CML decided to subscribe to the code collectively on behalf of its members. Lenders will have until 30 September 2002 to implement the code, an important element of which is provision to consumers of a "European Standardised Information Sheet" ("ESIS") similar to the pre-application illustration proposed by the FSA. Following postponement of regulation by the FSA of the UK mortgage market, UK lenders generally will not be in a position to provide consumers with an ESIS by 30 September 2002. The CML continues to discuss this with the European Commission and the European Mortgage Federation. Whilst compliance with the code is voluntary, if the code is not effective, the European Commission is likely to see further pressure from consumer bodies to issue a Directive on mortgages.

### Non-Status Lending Guidelines for Lenders and Brokers

GMAC-RFC follows the Guidelines which were issued by the Office of Fair Trading on 18 July 1997 and revised in November 1997.

The Guidelines regulate the activities of lenders in relation to their activities in the non-status lending market in areas such as advertising and marketing, loan documentation and contract terms, the relationship between lenders and brokers, selling methods, underwriting, dual interest rates and early redemption payments.

The actions of any broker or other intermediary involved in marketing the lender's products can jeopardise the lender's fitness to hold a consumer credit licence, and the Guidelines make clear that lenders must take all reasonable steps to ensure that such brokers and other intermediaries comply with the Guidelines and all relevant statutory requirements. This is so even if the lender has no formal or informal control or influence over the broker.

The Guidelines, like the CML Code, provide that lenders must carry on responsible lending, with all underwriting decisions being subject to a proper assessment of the borrower's ability to repay, taking into account all relevant circumstances, such as the purpose of the loan, the borrower's income, outgoings, employment and previous credit history. Lenders must take all reasonable steps to verify the accuracy of information provided by borrowers on or in support of the loan application and all underwriting staff must be properly trained and supervised.

Charges payable on any early redemption (in whole or in part) are also restricted under the Guidelines. Essentially, partial repayments must be permitted and any early repayment charges must do no more than cover the costs reasonably incurred by the lender in processing the payments. Certain lenders had previously used the Rule of 78 to set the charges due from borrowers on early redemption, but the Guidelines state that this is unfair and oppressive and that lenders must discontinue its use at the earliest opportunity for loans not regulated by the Consumer Credit Act. GMAC-RFC has never used the Rule of 78 to set such charges.

### The Financial Services and Markets Act 2000

In January 2000, HM Treasury announced that the FSA will regulate mortgage business. HM Treasury has made the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "Order"), specifying that entering into a

"regulated mortgage contract" and (in certain circumstances) administering a regulated mortgage are regulated activities. On 12 December 2001, HM Treasury announced that the FSA will regulate mortgage advice and that regulation by the FSA of mortgage lending and mortgage administration is postponed. The Order is being amended, to specify that advising and arranging on a regulated mortgage contract are regulated activities, and to postpone the commencement date of relevant provisions from 1 September 2002 to the actual date of all such implementation, known as "N3".

The target date for the implementation of all such regulation is the second quarter of 2004. It is likely that GMAC-RFC's mortgage lending business, its correspondent lenders' mortgage lending business, its brokers' mortgage advice business and the Administrator's mortgage administration business would constitute regulated activities.

The main effects will be that each entity carrying on a regulated activity will be required to hold authorisation and permission from the FSA to carry on that activity. If requirements as to authorisation, permission or advertising are not complied with, a Mortgage Loan will be unenforceable against a borrower except with the approval of a court.

It is likely that the Issuer's business and the Trustee's business would not constitute a regulated activity, if the Issuer and Trustee arranged for mortgage administration to be carried out by an administrator having the required permission. If such arrangement terminates, however, the Issuer and Trustee will have a period of no more than a month in which to arrange for mortgage administration to be carried out by any replacement administrator having the required permission.

## WEIGHTED AVERAGE LIVES OF THE A NOTES

Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security (assuming no losses). The weighted average lives of the A Notes will be influenced by, among other things, the actual rate of redemption of the Mortgage Loans and the application of Excess Spread towards redemption of the Notes pursuant to the Pre-Enforcement Priority of Payments.

The model used in this Offering Circular for the Mortgage Loans represents an assumed constant per annum rate of prepayment ("CPR") each month relative to the then outstanding principal balance of a pool of mortgages. CPR does not purport to be either an historical description of the prepayment experience of any pool of mortgages loans or a prediction of the expected rate of prepayment of any mortgage loans, including the Mortgages to be included in the Initial Mortgage Pool.

The following tables were prepared based on the characteristics of the Mortgage Loans included in the Mortgage Pool and the following additional assumptions (the "Modelling Assumptions"):

- (a) there are no arrears (other than those specified herein) or enforcements;
- (b) no Mortgage Loan is sold by the Issuer;
- (c) no Principal Deficiency arises;
- (d) no Mortgage Loan is repurchased by GMAC-RFC;
- (e) no Substitute Mortgage Loans are purchased;
- (f) no Further Advances are made;
- (g) the portfolio mix of loan characteristics remain the same throughout the life of the Notes;
- (h) following the expiry of the fixed rate/discount period (if applicable), the interest rate on each Mortgage Loan is equal to LIBOR plus a margin;
- (i) the Notes are issued on 25 July 2002 and all payments on the Notes are received on the 12th day of the month;
- (j) LIBOR is equal to 4.18%;
- (k) in the case of tables stating "with optional redemption" the Notes are redeemed at their Principal Amount Outstanding on the Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the A Notes is less than 10% of the Initial Principal Amount Outstanding of the A Notes;
- (l) interest on the A Notes is always calculated on the basis of actual days elapsed in a 365 year (without adjustment);
- (m) the Mortgage Pool consists of 6 Mortgage Loans acquired on the Issue Date, each having the characteristics defined below:

<i>Collateral Line</i>	<i>Current Principal Balance (£)</i>	<i>Mortgage Rate (%)</i>	<i>Fully Indexed Margin (%)</i>	<i>Remaining Term to Maturity (months)</i>	<i>Next Interest Reset (months)</i>	<i>Interest Only Period (months)</i>	<i>Discount (%)</i>	<i>Remaining Term to Full Floating Rate</i>
1. . . . .	186,205,086.21	6.056	3.1242	256	3	255	1.2485	7
2. . . . .	269,569,275.80	5.897	2.9653	269	3	0	1.2479	7
3. . . . .	25,843,660.80	6.150	2.6088	258	18	257	0	0
4. . . . .	32,262,336.42	6.050	2.4893	280	18	0	0	0
5. . . . .	6,119,093.83	7.898	3.7176	250	3	249	0	0
6. . . . .	5,000,546.95	7.240	3.0600	274	3	0	0	0

Structuring the actual characteristics and performance of the Mortgage Loans are likely to differ from the assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgage Loans will prepay at a constant rate until maturity, that all of the Mortgage Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgage Loans. Moreover, the diverse remaining terms to maturity of the Mortgage Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity of the Mortgage Loans is as assumed. Any difference between such assumptions and the actual characteristics and performance of the Mortgage Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and

cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

The weighted average lives shown below were determined by (i) multiplying the net reduction, if any, of the Principal Amount Outstanding of each class of Notes by the number of years from the date of issuance of the Notes to the related Payment Date, (ii) adding the results and (iii) dividing the sum by the aggregate of the net reductions of the Principal Amount Outstanding described in (i) above.

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the A1 Notes, the A2 Notes and the A3 Notes. These average lives have been calculated on a 30/360 basis.

**Percentage of the Original Principal Amount Outstanding of the A1 Notes at the Specified CPRs  
(Without Optional Redemption)**

	0%	15%	20%	25%	30%	35%	40%
July 25, 2002 . . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2002. . . . .	98.4	88.4	84.8	80.9	76.9	72.5	67.9
September 12, 2003. . . . .	92.9	29.0	8.1	0.0	0.0	0.0	0.0
September 12, 2004. . . . .	88.4	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2005. . . . .	83.7	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2006. . . . .	78.5	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2007. . . . .	73.1	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2008. . . . .	67.2	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2009. . . . .	60.8	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2010. . . . .	54.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2011. . . . .	46.7	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2012. . . . .	38.9	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2013. . . . .	30.5	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2014. . . . .	21.5	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2015. . . . .	11.8	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2016. . . . .	1.4	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2017. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2018. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2019. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2020. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2021. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2022. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average Life (years)	8.24	0.90	0.70	0.57	0.48	0.41	0.36
Payment Window (start) . . . . .	09/02	09/02	09/02	09/02	09/02	09/02	09/02
Payment Window (end) . . . . .	12/16	06/04	12/03	09/03	06/03	06/03	03/03

**(With Optional Redemption)**

Weighted Average Life (years)	8.24	0.90	0.70	0.57	0.48	0.41	0.36
Payment Window (start) . . . . .	09/02	09/02	09/02	09/02	09/02	09/02	09/02
Payment Window (end) . . . . .	12/16	06/04	12/03	09/03	06/03	06/03	03/03

**Percentage of the Original Principal Amount Outstanding of the A2 Notes at the Specified CPRs  
(Without Optional Redemption)**

	0%	15%	20%	25%	30%	35%	40%
July 25, 2002 . . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2002 . . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2003 . . . . .	100.0	100.0	100.0	94.7	86.1	77.7	69.5
September 12, 2004 . . . . .	100.0	91.6	78.3	65.9	54.4	43.9	34.5
September 12, 2005 . . . . .	100.0	74.2	58.3	44.5	32.5	22.2	13.8
September 12, 2006 . . . . .	100.0	59.5	42.5	28.6	17.3	8.3	1.2
September 12, 2007 . . . . .	100.0	47.0	29.9	16.7	6.8	0.0	0.0
September 12, 2008 . . . . .	100.0	36.6	20.0	8.0	0.0	0.0	0.0
September 12, 2009 . . . . .	100.0	27.8	12.2	1.5	0.0	0.0	0.0
September 12, 2010 . . . . .	100.0	20.4	5.9	0.0	0.0	0.0	0.0
September 12, 2011 . . . . .	100.0	14.1	1.0	0.0	0.0	0.0	0.0
September 12, 2012 . . . . .	100.0	8.9	0.0	0.0	0.0	0.0	0.0
September 12, 2013 . . . . .	100.0	4.5	0.0	0.0	0.0	0.0	0.0
September 12, 2014 . . . . .	100.0	0.8	0.0	0.0	0.0	0.0	0.0
September 12, 2015 . . . . .	100.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2016 . . . . .	100.0	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2017 . . . . .	95.9	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2018 . . . . .	90.9	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2019 . . . . .	85.5	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2020 . . . . .	79.6	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2021 . . . . .	73.4	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2022 . . . . .	66.7	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2023 . . . . .	57.7	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2024 . . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average Life (years)	20.04	5.62	4.23	3.35	2.74	2.30	1.97
Payment Window (start) . . . . .	12/16	06/04	12/03	09/03	06/03	06/03	03/03
Payment Window (end) . . . . .	12/23	12/14	12/11	03/10	09/08	09/07	12/06

**(With Optional Redemption)**

Weighted Average Life (years)	20.04	5.62	4.23	3.35	2.74	2.30	1.97
Payment Window (start) . . . . .	12/16	06/04	12/03	09/03	06/03	06/03	03/03
Payment Window (end) . . . . .	12/23	12/14	12/11	03/10	09/08	09/07	12/06

**Percentage of the Original Principal Amount Outstanding of the A3 Notes at the Specified CPRs  
(Without Optional Redemption)**

	0%	15%	20%	25%	30%	35%	40%
July 25, 2002 . . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2002. . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2003. . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2004. . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2005. . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2006. . . . .	100.0	100.0	100.0	100.0	100.0	100.0	100.0
September 12, 2007. . . . .	100.0	100.0	100.0	100.0	100.0	95.8	61.6
September 12, 2008. . . . .	100.0	100.0	100.0	100.0	96.7	59.4	34.3
September 12, 2009. . . . .	100.0	100.0	100.0	100.0	64.9	36.1	18.2
September 12, 2010. . . . .	100.0	100.0	100.0	79.2	42.9	21.2	8.6
September 12, 2011. . . . .	100.0	100.0	100.0	56.8	27.8	11.6	3.0
September 12, 2012. . . . .	100.0	100.0	82.1	40.2	17.4	5.6	0.0
September 12, 2013. . . . .	100.0	100.0	62.8	28.0	10.3	1.7	0.0
September 12, 2014. . . . .	100.0	100.0	47.7	19.0	5.4	0.0	0.0
September 12, 2015. . . . .	100.0	85.6	35.8	12.4	2.0	0.0	0.0
September 12, 2016. . . . .	100.0	69.2	26.4	7.6	0.0	0.0	0.0
September 12, 2017. . . . .	100.0	55.6	19.1	4.1	0.0	0.0	0.0
September 12, 2018. . . . .	100.0	44.2	13.5	1.5	0.0	0.0	0.0
September 12, 2019. . . . .	100.0	34.7	9.0	0.0	0.0	0.0	0.0
September 12, 2020. . . . .	100.0	26.8	5.6	0.0	0.0	0.0	0.0
September 12, 2021. . . . .	100.0	20.3	2.9	0.0	0.0	0.0	0.0
September 12, 2022. . . . .	100.0	14.9	0.9	0.0	0.0	0.0	0.0
September 12, 2023. . . . .	100.0	10.1	0.0	0.0	0.0	0.0	0.0
September 12, 2024. . . . .	12.7	0.0	0.0	0.0	0.0	0.0	0.0
September 12, 2025. . . . .	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Weighted Average Life (years)	21.82	16.34	12.82	10.25	8.41	7.05	6.00
Payment Window (start) . . . . .	12/23	12/14	12/11	03/10	09/08	09/07	12/06
Payment Window (end) . . . . .	12/24	12/23	06/23	09/19	09/16	06/14	09/12

**(With Optional Redemption)**

Weighted Average Life (years)	21.63	12.63	9.63	7.86	6.37	5.37	4.62
Payment Window (start) . . . . .	12/23	12/14	12/11	03/10	09/08	09/07	12/06
Payment Window (end) . . . . .	03/24	03/15	03/12	06/10	12/08	12/07	03/07



## SENSITIVITY OF THE A3 DETACHABLE COUPONS TO PREPAYMENTS

The yield to an investor in the A3 Detachable Coupons will be highly sensitive to both the timing of receipt of prepayments and the overall rate of principal prepayment on the Mortgage Loans, which rate may fluctuate significantly from time to time. Their yield would also be negatively affected by any failure to apply all of the Pre-Funded Mortgage Loan Amount towards the purchase of Pre-Funded Mortgage Loans. An investor in the A3 Detachable Coupons should fully consider the associated risks, including the risk that a rapid rate of principal prepayments could result in the failure of an investor in the A3 Detachable Coupons fully to recover its initial investment.

The table below indicates the sensitivity of yield of the A3 Detachable Coupons with respect to the A3 Notes to various assumptions based upon, amongst other things, the Modelling Assumptions set forth under "*Weighted Average Lives of the A Notes*".

Price	Yield Sensitivity of the A3 Detachable Coupons						
	CPR						
	0%	15%	20%	25%	30%	35%	40%
25.8 .....	4.91	4.91	4.91	4.91	4.91	4.91	4.91
25.7 .....	5.19	5.19	5.19	5.19	5.19	5.19	5.19
25.6 .....	5.48	5.48	5.48	5.48	5.48	5.48	5.48
25.5 .....	5.76	5.76	5.76	5.76	5.76	5.76	5.76
25.4 .....	6.05	6.05	6.05	6.05	6.05	6.05	6.05
25.3 .....	6.34	6.34	6.34	6.34	6.34	6.34	6.34
25.2 .....	6.63	6.63	6.63	6.63	6.63	6.63	6.63
25.1 .....	6.93	6.93	6.93	6.93	6.93	6.93	6.93
25.0 .....	7.22	7.22	7.22	7.22	7.22	7.22	7.22

## DESCRIPTION OF THE NOTES

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All capitalised terms not defined in "*Description of Notes*" shall be as defined in "*Terms and Conditions*".

### Temporary Global Notes

The A3 Notes (and the A3 Detachable Coupons attached thereto) will initially be represented by a temporary global note (the "Temporary Global A3 Note") incorporating a temporary global A3 Detachable Coupon (the "Temporary Global A3 Detachable Coupon") which will be capable of being subsequently separated from the remainder of the Temporary Global A3 Note and which will by its terms constitute a bearer instrument if so separated.

If Coupon Stripping (as defined below) occurs the Temporary Global A3 Detachable Coupon shall have a notional amount until its maturity equal to the Principal Amount Outstanding, from time to time, of the A3 Note ("Coupon Value").

The A1 Notes, the A2 Notes, the A3 Notes and the C Notes will initially be represented by Temporary Global Notes of the relevant class in bearer form. The Temporary Global Notes will be deposited on behalf of the subscribers of the Notes with the Common Depository, on the Issue Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of the Notes with the principal amount of the Notes for which it has subscribed and paid.

### Permanent Global Notes

Interests in each class of Temporary Global Notes and, if separated prior to the Exchange Date (as defined below), the Temporary Global A3 Detachable Coupon will be exchangeable not earlier than 40 days after the Issue Date (the "Exchange Date"), provided certification of non-U.S. beneficial ownership by the relevant Noteholders has been received, for interests in Permanent Global Notes or a permanent global A3 Detachable Coupon (the "Permanent Global A3 Detachable Coupon" and together with the Temporary Global A3 Detachable Coupon, the "Global Coupon") in bearer form. The Permanent Global Note in respect of the A3 Notes (the "Permanent Global A3 Note" and, together with the Temporary Global A3 Note, the "Global A3 Note") will incorporate the Permanent Global A3 Detachable Coupon which may, to the extent that A3 Detachable Coupons have been separated from the A3 Notes, be subsequently separated from the remainder of the Permanent Global A3 Note and which will by its terms constitute a bearer instrument if so separated. On the exchange of each Temporary Global Note or the Temporary Global A3 Detachable Coupon, as the case may be, for the relevant Permanent Global Note or Permanent Global A3 Detachable Coupon, such Permanent Global Note or Permanent Global A3 Detachable Coupon will remain deposited with the Common Depository.

### Coupon Stripping

Subject as provided below, the Global Coupon (as defined below) (but not part thereof) may be detached from the relevant Global Note at any time by Euroclear and Clearstream, Luxembourg crediting the Coupon Value to the Euroclear or Clearstream, Luxembourg account (as the case may be) of the purchaser or purchasers of the Global Coupon ("Coupon Stripping"). Any Coupon Stripping shall be recorded by Euroclear or Clearstream, Luxembourg on the relevant Global Note. Notification of such Coupon Stripping will be given to the London Stock Exchange and the UK Listing Authority upon such Coupon Stripping taking place.

Although following Coupon Stripping there is no prohibition on the same person holding both A3 Detachable Coupons and A3 Notes, there is no facility for re-attaching the A3 Detachable Coupons to the A3 Notes.

Any costs, expenses or liabilities howsoever arising in respect of the invalidity of any Coupon Stripping caused by the failure of the holder of an A3 Detachable Coupon to complete a certification shall be solely those of the holder of such A3 Detachable Coupon. Neither the Issuer, Bear Stearns, Euroclear nor Clearstream, Luxembourg accept any responsibility or liability howsoever for the invalidity of any Coupon Stripping.

### Accountholders

For so long as the Notes are represented by Global Notes or (in respect of the A3 Detachable Coupons after Coupon Stripping has occurred) a Global Coupon, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes, or a particular Coupon Value of A3 Detachable Coupons (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes or Coupon Value of A3 Detachable Coupons standing to the account of any person shall be conclusive and binding for all purposes), will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Notes or Coupon Value of A3 Detachable Coupons (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders), other than for the purposes of payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note or (in respect of the A3 Detachable Coupons after Coupon Stripping has occurred) Global Coupon in accordance with and subject to the terms of the Trust Deed, and the expressions

"Noteholders" shall be construed accordingly. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note or (in respect of the A3 Detachable Coupons after Coupon Stripping has occurred) Global Coupon and will be entitled to receive any payment so made in respect of that Global Note and (in respect of the A3 Detachable Coupons after Coupon Stripping has occurred) Global Coupon in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate.

#### **Payments on Global Notes**

On or after the Exchange Date, no payment will be made on a Temporary Global Note or Temporary Global A3 Detachable Coupon, as the case may be, unless exchange for an interest in the relevant Permanent Global Note or Permanent Global A3 Detachable Coupon, as the case may be, is improperly withheld or refused. Principal and interest on a Global Note or Global Coupon will be payable against presentation (in the case of principal and interest (other than in respect of the A3 Detachable Coupon) on a Global Note and, in the case of final redemption, surrender) of that Global Note and (in the case of interest on a Global Coupon) that Global Coupon at the specified office of any Paying Agent provided certification of non-U. S. beneficial ownership by the holders of the Global Notes and the Global Coupon has been received by Euroclear or Clearstream, Luxembourg, as the case may be. A record of each payment made on a Global Note or Global Coupon distinguishing any payment of principal and/or payment of interest will be endorsed on the schedule to that Global Note or Global Coupon by the Principal Paying Agent (or the Principal Paying Agent shall procure that such endorsement be made), and such record shall be prima facie evidence that the payment in question has been made.

Upon redemption in full of the Global A3 Note, the Global Coupon shall become void.

#### **Notices**

For so long as all of the Notes are represented by Global Notes or Global Coupon and such Global Notes or Global Coupon are held on behalf of Euroclear and/or Clearstream, Luxembourg notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 15 provided that, so long as the Notes are admitted to the Official List of the UK Listing Authority or are admitted to trading on the London Stock Exchange, the competent authority so agrees. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

#### **Redemption**

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the Common Depository and, upon final payment and surrender of such Global Note to the Principal Paying Agent, the Principal Paying Agent shall cancel such Global Note. The redemption price payable in connection with the redemption of Noteholder interests in a Global Note will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the relevant Noteholder interests relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such other basis as Euroclear or Clearstream, Luxembourg deems fair and appropriate). Upon any redemption in part, the Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

Upon redemption in full of the Global A3 Note, the Global Coupon shall become void. Upon payment in full of the accrued interest due on the Global Coupon and surrender of such Global Coupon to the Principal Paying Agent, the Principal Paying Agent shall cancel such Global Coupon.

#### **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto.

#### **Transfers**

Title to the Global Notes and Global Coupons will pass by delivery. No Permanent Global Note or Permanent Global A3 Detachable Coupon will be exchangeable for Notes in definitive form (the "Definitive Notes"), except in the limited circumstances described in "*Issuance of Definitive Notes*" below.

For so long as the Notes are represented by a Global Note or (in respect of the A3 Detachable Coupons after Coupon Stripping has occurred) a Global Coupon, such Notes and A3 Detachable Coupons will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate. In the event of Coupon Stripping, the A3 Detachable Couponholders will be entitled to receive any payment in respect of that A3 Detachable Coupon in accordance with those rules and procedures.

#### Issuance of Definitive Notes

The Issuer will issue Notes (including A3 Detachable Coupons if Coupon Stripping has occurred) in definitive bearer form ("Definitive Notes" and "Definitive A3 Detachable Coupons" respectively) in the limited circumstances described below. Each Definitive Note will be issued with interest coupons (the "Coupons") attached on issue in exchange for the whole outstanding interest in the Permanent Global Note (including, prior to Coupon Stripping, the Definitive A3 Detachable Coupons) or the Permanent Global A3 Detachable Coupon (to the extent detached) within 30 days of the occurrence of (a) both Euroclear and Clearstream, Luxembourg being closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announcing an intention permanently to cease business and does so cease to do business and no alternative clearing system satisfactory to the Trustee is available or (b) an Enforcement Notice being given by the Trustee to the Issuer, or (c) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) (or in the interpretation, application or administration of the same) of any applicable jurisdiction (including payments being made net of tax), which would not be suffered were the relevant Notes or A3 Detachable Coupons in definitive form and a certificate to such effect signed by two directors of the Issuer is delivered to the Trustee.

#### Tax Legend

The Notes, whether in global or definitive form, will bear the following legend: "*Any United States Person (as defined in the Internal Revenue code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Section 165(j) and 1287(a) of the Internal Revenue Code*". The sections referred to in the legend provide that a United States Person will not, with certain exceptions, be permitted to deduct any loss and will not be eligible for favourable capital gains treatment with respect to any gain realised on a sale, exchange or redemption of any Note.

## TERMS AND CONDITIONS OF THE NOTES

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*The following is the text of the terms and conditions of the Notes which will be endorsed or attached on each Global Note and Global Coupon (to the extent detached) and each Definitive Note and Definitive A3 Detachable Coupon (to the extent detached) (if applicable) and (subject to the provisions thereof) will apply to each such Note.*

The Notes of RMAC 2002-NS2 Plc (the "Issuer") are constituted by a trust deed (the "Trust Deed") expected to be dated 25 July 2002 (the "Issue Date") between the Issuer, JPMorgan Chase Bank (the "Trustee", which expression includes the trustee or trustees for the time being of the Trust Deed) as trustee for the Noteholders and Ambac Assurance UK Limited ("Ambac"). The Notes will have the benefit of (to the extent applicable) a paying agency agreement (the "Paying Agency Agreement") dated on or about the Issue Date, as amended or supplemented from time to time between the Issuer, the Trustee, JPMorgan Chase Bank as principal paying agent (the "Principal Paying Agent" and as agent bank (the "Agent Bank")), J.P. Morgan Bank Luxembourg S.A. and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents").

In these Conditions, all references to "Agent Bank" and "Paying Agent" shall mean any agent bank or paying agents appointed from time to time in accordance with the Paying Agency Agreement and shall include any successors thereto or to the Principal Paying Agent appointed from time to time in accordance with the Paying Agency Agreement and any reference to an "Agent" or "Agents" shall mean any or all (as applicable) of the above persons.

In these Conditions, capitalised words and expressions shall, unless otherwise defined below, have the same meanings as those given in the master definitions schedule (the "Master Definitions Schedule") dated the Issue Date between, *inter alios*, the Issuer, the Trustee, Ambac and the Principal Paying Agent.

These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed (which includes the form of the Notes and the interest coupons) and the Ambac Policy, the Paying Agency Agreement and a deed of charge dated on or about the Issue Date between, *inter alios*, the Issuer and the Trustee (the "Deed of Charge"). Copies of the Trust Deed, the Paying Agency Agreement, the Deed of Charge, the Ambac Policy and the Master Definitions Schedule are available for inspection during usual business hours at the principal office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified office of the Principal Paying Agent. The Noteholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, the provisions of the Trust Deed, the Paying Agency Agreement, the Ambac Policy and the Deed of Charge.

If Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Note would be as set out below. While the Notes remain in global form, the same terms and conditions govern such Notes, except to the extent that they are appropriate only to Notes in definitive form. As used herein, references to Notes shall include, where the context so requires, references to interest coupons or receipts.

### Condition 1: Form, Denomination and Title

#### Notes

The Notes will be constituted pursuant to the Trust Deed. The A3 Notes will initially be represented by a temporary global note (the "Temporary Global A3 Note") incorporating a temporary global A3 Detachable Coupon (the "Temporary Global A3 Detachable Coupon") which will be capable of being subsequently separated from the remainder of the Temporary Global A3 Note and which will by its terms constitute a bearer instrument if so separated. In the event that the A3 Detachable Coupon is at any time detached from an A3 Note ("Coupon Stripping"), the A3 Detachable Coupon shall have a notional amount until its maturity equal to the Principal Amount Outstanding, from time to time, of the A3 Note ("Coupon Value").

The A1 Notes, the A2 Notes, the A3 Notes and the C Notes will initially be represented by temporary global notes (the "Temporary Global A1 Note", the "Temporary Global A2 Note", the "Temporary Global A3 Note" and the "Temporary Global C Note", and collectively the "Temporary Global Notes"). The Temporary Global Notes will be deposited on behalf of the subscribers of the Notes with JPMorgan Chase Bank, London branch, as common depository ("Common Depository") of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on the Issue Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of the Notes with the principal amount of the Notes for which it has subscribed and paid (except in the case of subscribers for the A3 Detachable Coupons where the notional amount credited will be the relevant Coupon Value).

Interests in each Temporary Global A1 Note, Temporary Global A2 Note, Temporary Global A3 Note and Temporary Global C Note and, if separated prior to the Exchange Date, the Temporary Global A3 Detachable Coupon will be exchangeable not earlier than 40 days after the Issue Date (the "Exchange Date"), provided certification of non-U.S. beneficial ownership by the relevant Noteholders or A3 Detachable Couponholders, as the case may be, has been received, for interests in a permanent global note (the "Permanent Global A1 Note", the "Permanent Global A2 Note", the "Permanent Global

A3 Note" and the "Permanent Global C Note", and collectively the "Permanent Global Notes" and together with the Temporary Global Notes, the "Global Notes") or permanent global A3 Detachable Coupon (the "Permanent Global A3 Detachable Coupon" and, together with the Temporary Global A3 Detachable Coupon, the "Global Coupon"). The Permanent Global Note in respect of the A3 Notes (the "Permanent Global A3 Note" and, together with the Temporary Global A3 Note, the "Global A3 Note") will incorporate the Permanent Global A3 Detachable Coupon which may be subsequently separated from the remainder of the Permanent Global A3 Note and which will by its terms constitute a bearer instrument if so separated. On such exchange of each Temporary Global Note or Temporary Global A3 Detachable Coupon, as the case may be, for the relevant Permanent Global Note or Permanent Global A3 Detachable Coupon, such Permanent Global Note or Permanent Global A3 Detachable Coupon will remain deposited with the Common Depository.

Once detached from a Global A3 Note, the A3 Detachable Coupon will be subject to the same restrictions on transferability as the related A3 Global Note. Although following Coupon Stripping there is no prohibition on the same person holding both A3 Detachable Coupons and A3 Notes, there is no facility for re-attaching the A3 Detachable Coupons to the A3 Notes.

## The Global Notes

### *Title to and Transfers of Global Notes and Definitive Notes*

Each Global Note shall be issued in bearer form without coupons or talons attached except that the Global A3 Notes will be issued with the Global Coupons attached. Title to the Global Notes of each class and (in respect of the A3 Detachable Coupons) Global Coupons will pass by delivery. Transfers and exchanges of beneficial interests in Global Notes of the same class or Global Coupons will be effected subject to and in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, as appropriate.

For so long as the Notes are represented by Global Notes or a Global Coupon respectively, the Issuer and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes, or a particular Coupon Value of A3 Detachable Coupons (each an "Accountholder") as the holder of such principal amount of Notes or Coupon Value of A3 Detachable Coupons (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders), other than for the purposes of payment of principal and interest on such Global Notes, or (in respect of the A3 Detachable Coupons) Global Coupons the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note or (in respect of the A3 Detachable Coupons) Global Coupons in accordance with and subject to the terms of the Trust Deed.

Each Note (including A3 Detachable Coupons to the extent detached) in definitive form ("Definitive Notes" and "Definitive A3 Detachable Coupons" respectively) shall be issued in bearer form, serially numbered, in minimum denominations of £100,000 with (except in the case of the Definitive A3 Detachable Coupon) interest coupons (the "Coupons") attached on issue (including Definitive A3 Detachable Coupons). Title to the Definitive Notes of each class and the Definitive A3 Detachable Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Definitive Note and the holder of any Coupons (including Definitive A3 Detachable Coupons) as the absolute owner for all purposes (whether or not the Definitive Notes or the Coupons shall be overdue and notwithstanding any notice of ownership or writing on the Definitive Note or Coupon or any notice of previous loss or theft of the Definitive Note or Coupon).

## Condition 2: Status, Security, Ambac Policy and Administration

### Status and relationship between classes of Notes

- (a) The A Notes of each class constitute direct, secured (as more particularly described in the Deed of Charge) and unconditional obligations of the Issuer and rank *pari passu* without preference or priority amongst A Notes of the same class (for the avoidance of doubt, the A1 Notes, the A2 Notes and the A3 Notes are deemed to be of one class and will rank *pari passu* without preference or priority amongst themselves).
- (b) In accordance with the provisions of this Condition 2, but subject always to the provisions of Condition 5(b), the Trust Deed and the Deed of Charge, payments of principal and interest on the C Notes are subordinated to, *inter alia*, the payments of principal and interest on the A Notes (including for the avoidance of doubt, the A3 Detachable Coupons).
- (c) The Notes are all constituted by the Trust Deed and are secured by the same security, but the A Notes will rank in priority to the C Notes in the event of the security created by the Deed of Charge being enforced. As regards interests of Noteholders, the Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders (including, for the avoidance of doubt, the A3 Detachable Couponholders) as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of:

- (i) the A Noteholders (including for the avoidance of doubt, the A3 Detachable Couponholders) if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and those of the C Noteholders;
  - (ii) the A Noteholders (excluding the A3 Detachable Couponholders) if, in the Trustee's opinion, there is a conflict between the interests of the A Noteholders and the A3 Detachable Couponholders, or
  - (iii) following redemption in full of the A Notes (including, for the avoidance of doubt, the A3 Detachable Coupons) the interests of the C Noteholders.
- (d) The Trust Deed contains provisions limiting the powers of the C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass any Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the A Noteholders, the exercise of which will be binding on the C Noteholders, irrespective of the effect thereof on their interests.
- (e) For so long as Ambac is the Note Controlling Party, the Trustee will act on the instruction of Ambac in relation to the granting or withholding of consent or approving or rejecting amendments, waiver or variation, or exercise of any rights in respect of matters relating to the Charged Obligation Documents or these Conditions.

#### Ambac Policy

- (f) The A Notes have the benefit of the Ambac Policy which has been issued pursuant to the Insurance and Indemnity Agreement under which Ambac has unconditionally and irrevocably agreed to pay to the Trustee, or to the Trustee's order for the benefit of holders of the A Notes, subject to the next paragraph, all sums due and payable but unpaid by the Issuer in respect of Class A Interest or Class A Principal and the A Notes, all as more particularly described in the Ambac Policy.

Ambac does not guarantee any amounts payable by the Issuer upon an early redemption of the A Notes pursuant to Conditions 5(e) or (f) or accelerated repayment pursuant to Condition 9 (other than in respect of Dissolution Amounts) nor any amount payable upon mandatory redemption of the Notes pursuant to Condition 5(b) (other than Excess Loss Amounts). Upon any such early redemption, if not paid, Ambac's obligations will continue to be to pay the Insured Amounts (as defined in the Ambac Policy) as they fall Due for Payment (as defined in the Ambac Policy) on each Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Policy. However, if it does so, it may do so in whole or in part and the amount payable will be applied (having previously paid *pari passu* all amounts of interest then due and payable in respect of the A1 Notes, the A2 Notes and the A3 Notes in accordance with Condition 4) firstly to pay the outstanding principal amount of the A1 Notes, secondly to pay the outstanding principal amount of the A2 Notes and thirdly to pay the outstanding principal amount of the A3 Notes (any amounts due in excess of such outstanding principal amounts and any accrued interest thereon will not be guaranteed by Ambac under the Ambac Policy).

The Ambac Policy provided by Ambac in respect of the A Notes constitutes a direct, unsecured obligation of Ambac which will rank at least *pari passu* with all other unsecured obligations of Ambac.

#### Security

- (g) As security for the payment of all monies payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any receiver appointed under the Deed of Charge) and in respect of certain amounts payable to, *inter alios*, the Administrator in respect of amounts payable to it under the Administration Agreement, GMAC-RFC under the Mortgage Sale Agreement, Ambac under the Ambac Policy and Insurance and Indemnity Agreement, JPMorgan Chase Bank as the Principal Paying Agent under the Paying Agency Agreement, Barclays Bank PLC as the Liquidity Facility Provider under the Liquidity Facility Agreement, the Account Bank under the Bank Agreement and the GIC Provider under the Guaranteed Investment Contract respectively and J.P. Morgan Bank Luxembourg S.A. as a Paying Agent and JPMorgan Chase Bank as the Agent Bank under the Paying Agency Agreement (the "Secured Creditors"), the Issuer will enter into the Deed of Charge, creating the following security in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:
- (i) first fixed charges in favour of the Trustee over the Issuer's interests in the Mortgage Loans, the Mortgages and certain other collateral security relating to the Mortgage Loans (such collateral security, together with the Mortgages, the "Related Security");
  - (ii) an equitable assignment in favour of the Trustee of the Issuer's interests in the insurance contracts to the extent that they relate to the Mortgage Loans;
  - (iii) an assignment in favour of the Trustee of the benefit of the Administration Agreement, the Corporate Services Agreement, the Mortgage Sale Agreement, the Guaranteed Investment Contract, the Insurance and Indemnity

Agreement, the Bank Agreement, the Liquidity Facility Agreement, the Interest Rate Cap Agreement, the Cap Guarantee, the Declaration of Trust and the Paying Agency Agreement (the "Charged Obligation Documents");

- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer's interest in the Issuer Transaction Account, the GIC Account, any other bank account in which the Issuer has an interest; and
- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer (and extending to all of the Issuer's Scottish assets and Northern Irish assets, including those charged by the fixed security) (the fixed and floating charges collectively, the "Security").

#### Pre-Enforcement Priority of Payments

- (h) Prior to enforcement of the Security, the Issuer is required to apply monies available for distribution as at the last Business Day of the month preceding each Payment Date (the "Available Revenue Funds" which, for the avoidance of doubt, excludes any principal receipts) in or towards the satisfaction of the payments or provision in the following order of priority (the "Pre-Enforcement Priority of Payments") (in each case only to the extent that the payments or provisions of a higher priority have been made in full):
  - (i) first, to pay when due the remuneration payable to the Trustee (plus Value Added Tax, if any) and any costs, charges, liabilities and expenses incurred by it under the provisions of or in connection with the Trust Deed or the Deed of Charge or either or both of them together with interest as provided in the Trust Deed or the Deed of Charge or either or both of them;
  - (ii) second, to pay when due amounts, including audit fees and company secretarial expenses (plus Value Added Tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Payment Date and to provide for the Issuer's liability or possible liability for corporation tax;
  - (iii) third, to pay *pro rata*:
    - (A) the administration fee payable to the Administrator (plus Value Added Tax, if any), such fee being an amount equal to one quarter of 0.15% per annum of the average total principal balance of the Mortgage Loans outstanding on the first day of each of the three months immediately prior to the relevant Determination Date or if the appointment of the Administrator is terminated and a substitute administrator, which is not an affiliate of GMAC-RFC is appointed, the figure 0.15% above shall be replaced with a figure agreed with such substitute administrator in accordance with the procedures set out in the Administration Agreement subject always to the consent of the Trustee acting on the direction of Ambac (if Ambac is then the Note Controlling Party); and
    - (B) amounts due to the Principal Paying Agent, the Paying Agent and Agent Bank under the Paying Agency Agreement, Barclays Bank PLC under the Bank Agreement and the Guaranteed Investment Contract and the Corporate Services Provider under the Corporate Services Agreement;
  - (iv) fourth, to pay commitment fees due to the Liquidity Facility Provider and amounts (if any) credited to the Liquidity Ledger up to the Liquidity Drawn Amount plus interest thereon in accordance with the Liquidity Facility Agreement;
  - (v) fifth, to pay or provide *pro rata* (A) the amounts then due to Ambac in respect of premium under the Premium Letter, plus any previous unpaid premia with interest thereon provided that no Ambac Event of Default as described in paragraph (i) of Condition 10 has occurred and is continuing and (B) the fee then payable to the third party under the Limited Reimbursement Agreement at the direction of Ambac pursuant to the Premium Letter, plus any previously unpaid amounts with interest thereon;
  - (vi) sixth, to pay *pro rata* amounts payable in respect of the A Notes other than in respect of principal on the A Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the A Noteholders and the A3 Detachable Couponholders);
  - (vii) seventh, subject to the Excess Spread Credit Support Cap, an amount equal to the debit balance on the Principal Deficiency Ledger to be applied as Actual Redemption Funds in accordance with Condition 5;
  - (viii) eighth, provided that no Ambac Event of Default has occurred which is continuing, to pay Ambac, amounts due under the Insurance and Indemnity Agreement, other than (A) (once the Excess Spread Credit Support Cap has been reached) for drawings made in respect of Excess Loss Amounts and (B) amounts which are



required to be paid to Ambac or the Trustee by a third party pursuant to the Limited Reimbursement Agreement;

- (ix) ninth, subject to the Excess Spread Credit Support Cap, to apply amounts as Actual Redemption Funds until an amount equal to the Target Overcollateralisation Amount has been so applied;
- (x) tenth, to pay Ambac any other amounts due under the Insurance and Indemnity Agreement and such amounts which would have been payable to Ambac pursuant to item (viii) above but for an Ambac Event of Default having occurred;
- (xi) eleventh, to retain in the Issuer Transaction Account, an amount (the "Issuer's Profit") equal to 0.01% of the product of the time weighted average Mortgage Rate of the Mortgage Loans during the preceding Determination Period and the aggregate principal balance outstanding of the Mortgage Loans (the "Issuer's Turnover") at the beginning of the preceding Determination Period, so that in each year 0.01% of the Issuer's Turnover for that year comprises the Issuer's Profit;
- (xii) twelfth, to pay amounts payable in respect of the C Notes other than in respect of principal on the C Notes;
- (xiii) thirteenth, to apply an amount not greater than the C Note Redemption Amount to repay principal in respect of the C Notes;
- (xiv) fourteenth, to pay GMAC-RFC or its assignees Ordinary Deferred Consideration; and
- (xv) fifteenth, to pay any remaining amount to the Issuer or other persons entitled thereto.

"C Note Redemption Amount" as at any Determination Date shall be the lower of (i) the principal amount outstanding of the C Notes as at that Determination Date and (ii) the principal amount outstanding of the C Notes minus the aggregate of the amount applied as Actual Redemption Funds pursuant to item (ix) of the Pre-Enforcement Priority of Payments, plus the aggregate amount of Principal Deficiencies.

"Excess Spread Credit Support Cap" means the maximum aggregate amount of £33,075,000 available to be applied (i) to cover Principal Deficiency pursuant to item (vii) of the Pre-Enforcement Priority of Payments; (ii) to repay A Note Principal to provide Overcollateralisation pursuant to item (ix) of the Pre-Enforcement Priority of Payments; and (iii) to reimburse Ambac for drawings under the Ambac Policy in respect of Excess Loss Amounts pursuant to item (viii) of the Pre-Enforcement Priority of Payments.

#### Post-Enforcement Priority of Payments

- (i) After the Trustee has given notice to the Issuer pursuant to Condition 9(a) declaring the Notes to be due and repayable, the Trustee shall apply all funds received by or on behalf of the Issuer to make payments in the following order of priority pursuant to, in accordance with and as set out in the Deed of Charge:
  - (i) first, to pay, *pro rata*, any remuneration then due to any liquidator or receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by such liquidator or receiver together with interest thereon and to pay the fees, costs, expenses and liabilities due to the Trustee (plus Value Added Tax, if any);
  - (ii) second, to pay, *pro rata*, the fees, costs, interest, expenses and liabilities due to the Administrator under the Administration Agreement, the Principal Paying Agent and the Paying Agent under the Paying Agency Agreement, the Agent Bank, Barclays Bank PLC under the Bank Agreement and the Guaranteed Investment Contract and the Corporate Services Provider and the Share Trustee under the Corporate Services Agreement;
  - (iii) third, to pay any amount due to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement;
  - (iv) fourth, to pay or provide *pro rata* (A) the amounts then due to Ambac in respect of premium under the Premium Letter, plus any previous unpaid premia with interest thereon provided that no Ambac Event of Default as described in paragraph (i) of Condition 10 has occurred and is continuing and (B) the amounts then due to the counterparty under the Limited Reimbursement Agreement referred to in the Premium Letter, plus any previously unpaid amounts with interest thereon;
  - (v) fifth, to pay *pro rata*:
    - (A) all amounts of interest then due and payable in respect of the A Notes *pro rata* according to the respective interest entitlements of the A Noteholders and the A3 Detachable Couponholders in accordance with Condition 4; and
    - (B) all amounts of principal due thereon until redemption in full of the A Notes;

- (vi) sixth, to pay:
  - (A) if an Ambac Event of Default has occurred, the amounts to Ambac that would otherwise have been payable under item (iv) above but were not so paid; and
  - (B) any other amounts due under the Insurance and Indemnity Agreement other than (A) (once the Excess Spread Credit Support Cap has been reached) for drawings made in respect of Excess Loss Amounts or (B) amounts which are required to be paid to Ambac or the Trustee by a third party pursuant to the Limited Reimbursement Agreement;
- (vii) seventh, to pay *pro rata*:
  - (A) all amounts of interest then due and payable in respect of the C Notes in accordance with Condition 4; and
  - (B) all amounts of principal due thereon until redemption in full of the C Notes;
- (viii) eighth, to pay in or towards satisfaction of all amounts of Ordinary Deferred Consideration; and
- (ix) ninth, to pay any remaining amounts to the Issuer and to any other persons entitled thereto.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Condition 9(a)). If the Security has become enforceable, the Trustee will not be entitled to dispose of the assets comprised in the Security or any part unless either (A) it is directed to do so by Ambac, provided Ambac is then the Note Controlling Party or (B) if Ambac is not then the Note Controlling Party either (x) Ambac consents to such disposal or (y) the Trustee is satisfied sufficient amounts would be realised to allow discharge in full of all amounts owing in respect of the A Notes including, for the avoidance of doubt, the A3 Detachable Coupons and any amounts owing to Ambac under the Insurance and Indemnity Agreement or if the reason for Ambac no longer being the Note Controlling Party is the occurrence of an Ambac Event of Default described in paragraph (i) of Condition 10, the Trustee is of the opinion, reached after considering the advice of an investment bank or other financial adviser selected by the Trustee that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing in respect of the A Notes (including, for the avoidance of doubt, the A3 Detachable Coupons) and to Ambac under the Insurance and Indemnity Agreement.

If the Trustee, in exercising its discretion or upon instructions of the Noteholders and without the consent of Ambac, disposes of all or part of the assets comprised in the Security and the proceeds are not sufficient to discharge in full all amounts owing in respect of the A Notes (including, for the avoidance of doubt, the A3 Detachable Coupons) and any amounts owing to Ambac under the Insurance and Indemnity Agreement, such principal shortfall shall not constitute Dissolution Amounts and unless Ambac elects otherwise, Ambac will not make payments under the Ambac Policy in respect of such shortfall. This shall be without prejudice to any obligations on the Issuer and Ambac to continue to pay Class A Interest and Class A Principal, including without limitation amounts due under Condition 5(a).

#### Control of Trustee

- (j) The Notes are subject to the Deed of Charge pursuant to which the claims and exercise of rights by the Secured Creditors against the Issuer are regulated.
- (k) Subject to the terms of the Deed of Charge, the Note Controlling Party (if Ambac) has the exclusive right, power and authority to direct, or to refrain from directing, the Trustee in the exercise of its rights to accelerate the Notes in accordance with Condition 9(a) following the occurrence of an Event of Default and in the exercise of certain other of its rights in respect of the Notes and the other Charged Obligation Documents and the Issuer, all as more particularly described in the Trust Deed and the Deed of Charge.

"Note Controlling Party" means Ambac unless and until such time as (A) an Ambac Event of Default has occurred and is continuing and/or (B) Ambac has no further obligations, actual or contingent under the Ambac Policy and no amounts are then owing to Ambac under the Insurance and Indemnity Agreement, in which case the Trustee is the Note Controlling Party.

#### Condition 3: Covenants

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, the Paying Agency Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Corporate Services Agreement, the Guaranteed Investment Contract, the Liquidity Facility Agreement, the Declaration of Trust, the Post Enforcement Call Option, the Bank Agreement, the Ambac Policy, the Insurance and Indemnity Agreement, the Interest Rate Cap Agreement and the Cap Guarantee (collectively, the "Documents"), the Issuer shall not, so long as any Note remains outstanding (as defined in the Trust Deed) *inter alia*:

- (a) **Negative Pledge**  
create or permit to subsist any mortgage, standard security, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking;
- (b) **Restrictions on Activities**
  - (i) engage in any activity which is not reasonably incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in;
  - (ii) open any account whatsoever with any bank or other financial institution, save where such account is immediately charged in favour of the Trustee so as to form part of the Security described in Condition 2;
  - (iii) have any subsidiaries or employees or premises; or
  - (iv) act as a director of any company;
- (c) **Borrowings**  
incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of any obligation of any person;
- (d) **Merger**  
consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (e) **Disposal of Assets**  
transfer, sell, lend, part with or otherwise dispose of or deal with, or grant any option over any present or future right to acquire, any of its assets or undertaking or any interest, estate, right, title or benefit therein;
- (f) **Tax Grouping**  
become a member of a group of companies for the purposes of Value Added Tax;
- (g) **Other**  
permit any of the Documents, the insurance contracts relating to the Mortgage Loans owned by the Issuer or the priority of the security interest created thereby to be amended, invalidated, rendered ineffective, terminated or discharged, or consent to any variation thereof, or exercise of any powers of consent or waiver in relation thereto pursuant to the terms of the Trust Deed and these Conditions, or permit any party to any of the Documents or insurance contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage save as envisaged in the Documents.

In giving any consent to the foregoing, the Trustee may, subject to the consent of Ambac (if Ambac is then the Note Controlling Party), require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient in the interests of the Noteholders.

#### Condition 4: Interest

- (a) **Period of Accrual**  
Each Note of each class bears interest from (and including) the Issue Date. Each Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Condition (after as well as before any judgment) up to (but excluding) the date on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Condition 15) that it has received all sums due in respect of such Note (except to the extent that there is any subsequent default in payment). Any interest shortfall shall accrue interest during each Interest Period during which it remains outstanding in accordance with Condition 4(f). Whenever it is necessary to compute an amount of interest in respect of any Note for any period (including an Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.
- (b) **Payment Dates and Interest Periods**  
Subject to Condition 6, interest on the Notes is payable in Sterling in arrear on 12 September 2002 and thereafter quarterly in arrear on the 12th day in December, March, June and September in each year, unless such day is not a Business Day, in which case interest shall be payable on the following day which is a Business Day (each such date, a

"Payment Date"). "Business Day" (other than for the purposes of Condition 6) means a day (other than Saturday or Sunday) on which banks are open for business in London, Luxembourg and New York. The period from (and including) a Payment Date (or the Issue Date) to (but excluding) the next (or first) Payment Date is called an "Interest Period" in these Conditions.

(c) **Rate of Interest**

Subject to Condition 7, the rate of interest payable from time to time (the "Rate of Interest") and the Interest Amount (as defined below) in respect of the Notes will be determined on the basis of the provisions set out below.

For the purposes of determining the London Interbank Offered Rate ("LIBOR") for three month (or in respect to the first Interest Period, an annual rate obtained by linear interpolation of LIBOR for one month sterling deposits and LIBOR for two month sterling deposits) ("Note LIBOR"),

- (i) on each Payment Date or, in the case of the first Interest Period, the Issue Date (each an "Interest Determination Date"), the Agent Bank will determine the offered quotation to leading banks in the London interbank market for Sterling deposits in the London interbank market for a period of three months (or in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month sterling deposits respectively) by reference to the display designated as the British Bankers Association's Interest Settlement Rate as quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or (A) such other page as may replace Telerate Screen No. 3750 on that service for the purpose of displaying such information or (B) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/ Telerate Monitor) as at or about 11.00 am (London time) on that date (the "Screen Rate"). Note LIBOR for such Interest Period shall be the Screen Rate.

If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (i) below) to provide the Agent Bank with its offered quotation as at or about 11.00 am (London time) on that date to leading banks for Sterling deposits for a period of three months (or in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month sterling deposits respectively). Note LIBOR for such Interest Period shall, subject as provided below, be the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of the Reference Banks;

- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two of the Reference Banks provide such quotations, Note LIBOR for the relevant Interest Period shall be determined (in accordance with (c)(i) above) on the basis of the quotations of the two quoting Reference Banks;
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then Note LIBOR for the relevant Interest Period shall be the Reserve Interest Rate. The "Reserve Interest Rate" shall be either (aa) the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the Sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11.00 am (London time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic means, the average of the Sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date to leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (bb) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Note LIBOR in effect for the interest Period ending on the relevant Interest Determination Date;
- (iv) the Rate of Interest for any Interest Period will be equal to the Relevant Margin (as defined below) above the Note LIBOR (as determined in the manner provided above) plus, in the case of the A3 Notes only, 10.5% per annum until maturity of the A3 Detachable Coupons on the Payment Date in March 2005.

For the purposes of these Conditions, the "Relevant Margin" for the A1 Notes shall be 0.13% per annum; for the A2 Notes 0.25% per annum; for the A3 Notes 0.28% per annum (in each case, the "Ordinary A3 Coupon"); and for the C Notes 3.50% per annum.

- (v) For the avoidance of doubt, no further payment of interest needs to be made by the Issuer on the A3 Detachable Coupons after the Payment Date in March 2005 and the Issuer shall cancel the A3 Detachable Coupons upon payment of all amounts due and payable in respect of the A3 Detachable Coupons on the Payment Date in March 2005.

**(d) Determination of Rates of Interest and Calculation of Interest Amounts**

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Administrator, the Trustee, the London Stock Exchange plc (the "London Stock Exchange") and the Principal Paying Agent of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of each Note and (ii) the Sterling amount equal to the Rate of Interest in respect of each Note (including for the avoidance of doubt, each A3 Detachable Coupon) multiplied by the Principal Amount Outstanding of such Note (or, to the extent detached, the Coupon Value of such A3 Detachable Coupon) and then multiplied by the actual number of days elapsed in the Interest Period and divided by 365 (or 366, where the last day of such period falls in a leap year) rounded to the nearest penny with half a penny being rounded upwards (the "Interest Amount") payable in respect of such Interest Period in respect of each Note (and each A3 Detachable Coupon).

**(e) Publication of Rate of Interest, Interest Amount**

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount for each Interest Period and the immediately succeeding Payment Date to be notified to each stock exchange (if any) on which to be given in accordance with Condition 15. The Interest Amount and Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period.

**(f) Deferral of Interest**

Interest on the Notes shall be payable in accordance with this Condition 4 and Condition 6 subject to the following terms of this sub-paragraph:

In the event that, whilst there are A Notes outstanding, the aggregate funds (if any) calculated in accordance with the Pre-Enforcement Priority of Payments as being available to the Issuer on any Payment Date for application in or towards the payment of interest which is, subject to this Condition 4(f), due on the C Notes on such Payment Date (such aggregate available funds being referred to in this Condition 4(f) as the "C Residual Amount") are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Condition 4(f), due on the C Notes on such Payment Date, there shall be payable on such Payment Date, by way of interest on each C Note, a *pro rata* share of the C Residual Amount.

In the event that, by virtue of the provisions of the preceding paragraph, a *pro rata* share of the C Residual Amount is paid to Noteholders of the relevant class in accordance with such provisions, the Issuer shall create provisions in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the C Notes on any Payment Date in accordance with this Condition 4(f) falls short of the aggregate amount of interest payable on the relevant class of Notes on that date pursuant to the other provisions of this Condition 4. Such shortfall shall accrue interest at a rate for each Interest Period during which it is outstanding equal to Note LIBOR plus the Relevant Margin for the relevant class of Notes for such Interest Period, as applicable. A *pro rata* share of such shortfall plus any interest accrued thereon shall be aggregated with the amount of, and treated for the purpose of this Condition as if it were interest due, subject to this Condition 4(f), on each C Note on the next succeeding Payment Date. This provision shall cease to apply on the Payment Date referred to in Condition 5(a) at which time all accrued interest shall become due and payable.

**(g) Determination or Calculation by Trustee**

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount in accordance with the foregoing paragraphs, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (ii) calculate the Interest Amount in the manner specified in paragraph (d) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

**(h) Notifications to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Trustee and all Noteholders and (in such absence as aforesaid) no liability to the Trustee or the Noteholders shall attach to the Issuer, to the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(i) **Reference Banks and Agent Bank**

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there shall at all times be an Agent Bank. The initial Agent Bank shall be JPMorgan Chase Bank. In the event of JPMorgan Chase Bank being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be approved by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

The reference banks shall be the principal London office of each of Barclays Bank PLC, National Westminster Bank Plc and HSBC Bank PLC or any other three major banks engaged in the London interbank market as may be selected by the Agent Bank (each a "Reference Bank").

**Condition 5: Redemption and Post Enforcement Call Option**

(a) **Final Redemption of the Notes**

Unless previously redeemed as provided in this Condition, the Issuer shall redeem the Notes at their Principal Amount Outstanding on the Payment Date falling in September 2034.

The Issuer may not redeem Notes in whole or in part prior to such Payment Date except as provided in this Condition but without prejudice to Condition 9.

(b) **Mandatory Redemption in Part**

On each Payment Date, other than the Payment Date on which the Notes are to be redeemed under paragraphs (a) above, (e) or (f) below, the Issuer shall apply an amount equal to the Actual Redemption Funds determined on the date which falls five Business Days prior to such Payment Date (each such date a "Determination Date") in making the following redemptions in the following priority:

- (i) in redeeming the A1 Notes until the Payment Date on which the A1 Notes have been redeemed in full;
- (ii) after the A1 Notes have been redeemed in full, in redeeming the A2 Notes until the Payment Date on which the A2 Notes have been redeemed in full;
- (iii) after the A2 Notes have been redeemed in full, in redeeming the A3 Notes until the payment date on which the A3 Notes have been redeemed in full;
- (iv) after the A3 Notes have been redeemed in full and if no amounts are due to Ambac under the Insurance and Indemnity Agreement, in redeeming the C Notes until the Payment Date on which the C Notes have been redeemed in full.

The Administrator is responsible, pursuant to the Administration Agreement, for determining the amount of the Actual Redemption Funds as at any Determination Date and each determination so made shall (in the absence of gross negligence, wilful default, bad faith or manifest error) be final and binding on the Issuer, the Trustee, Ambac and all Noteholders and no liability to the Noteholders shall attach to the Issuer, the Trustee, Ambac or (in such absence as aforesaid) to the Administrator in connection therewith.

On each Determination Date, the aggregate of (a) the amount of Further Advances which the Issuer is committed to advancing (but has not yet advanced) as at the relevant Determination Date and (b) the amount, advised to the Issuer by the Administrator, which the Issuer anticipates it will require for future (but uncommitted) Further Advances, such amount (in respect of this item (b) only) not to be greater than £500,000 (such aggregate amount, the "Committed Further Advances") will be transferred from the Principal Ledger to a ledger for that purpose (the "Further Advances Ledger"). Available Capital Funds (as defined below) may be applied or set aside by the Issuer on any day for the making of Further Advances after any amounts then standing to the credit of the Further Advances Ledger have been exhausted.

The amount of "Actual Redemption Funds" as at any Determination Date is an amount calculated as the aggregate of:

- (i) the amount standing to the credit of the Principal Ledger and the amount (if any) standing to the credit of the Further Advances Ledger (before the transfer of the Committed Further Advances calculated on that Determination Date from the Principal Ledger) in each case as at the last day of the month immediately preceding such Determination Date;
- (ii) the amount (if any) calculated on the Determination Date to be the amount by which the debit balance on the Principal Deficiency Ledger is expected to be reduced by the application of Available Revenue Funds on the immediately succeeding Payment Date;
- (iii) the amount (if any) of Available Revenue Funds calculated on the Determination Date to be the amount which is expected to be applied as Actual Redemption Funds pursuant to item (ix) of the Pre-Enforcement Priority of Payments on the immediately succeeding Payment Date;

- (iv) the amount (the "Excess Loss Amount") (if any) calculated on the Determination Date to be (after application of Available Revenue Funds as described in paragraphs (ii) and (iii) above) the amount standing to the debit of the Overcollateralisation Ledger (as defined in the Master Definitions Schedule);
- (v) on any Determination Date after the Eligible Date, the amount (if any) of the Principal Rebate standing to the credit of the Pre-Funded Mortgage Loans Ledger (each as defined in the Master Definitions Schedule),

LESS the Committed Further Advances calculated on such Determination Date.

For the purpose of the foregoing, "Available Capital Funds" means, on any day during an Interest Period (including on a Determination Date) an amount represented by the amount standing to the credit of the Principal Ledger at the close of business on the preceding day, less, in the period between the last Business Day of the month preceding a Determination Date and the application of such Actual Redemption Funds, (a) any commitments to purchase Substitute Mortgage Loans on the immediately succeeding Payment Date and (b) the amount of such Actual Redemption Funds calculated on the relevant Determination Date.

Under the terms of the Ambac Policy, Ambac does not guarantee any amounts payable by the Issuer upon mandatory redemption of the Notes pursuant to Condition 5(b) other than Excess Loss Amounts or Dissolution Amounts.

**(c) Redemption of the C Notes**

On each Payment Date, other than the Payment Date on which the C Notes are to be redeemed under paragraphs (a) above or (e) or (f) below, the Issuer shall apply an amount equal to the amounts available in accordance with item (xiii) in the Pre-Enforcement Priority of Payments to redeem the C Notes, in accordance with the terms of the Administration Agreement.

**(d) Note Principal Payments, Principal Amount Outstanding and Pool Factor**

The principal amount redeemable in respect of each Note of each class other than the C Notes (the "Note Principal Payment") on any Payment Date under paragraph (b) above shall be the amount of the Actual Redemption Funds on the Determination Date immediately preceding that Payment Date to be applied in redemption of Notes of that class divided by the number of Notes of that class outstanding on the relevant Payment Date (rounded down to the nearest pound); provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

The principal amount redeemable in respect of each C Note (the "C Note Principal Payment") on any Payment Date under paragraph (c) above shall be the amount of the funds on the Determination Date immediately preceding that Payment Date to be applied in redemption of the C Notes divided by the number of C Notes outstanding on the relevant Payment Date (rounded down to the nearest pound); provided always that no such C Note Principal Payment may exceed the C Note Principal Amount Outstanding of the relevant C Note.

With respect to each of the A Notes on (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Administrator to determine) (i) the amount of any Note Principal Payment due on the Payment Date next following such Determination Date, (ii) the principal amount outstanding of each such Note of such class on the Payment Date next following such Determination Date (after deducting any Note Principal Payment due to be made on that Payment Date) (the "A Notes Principal Amount Outstanding") and (iii) the fraction expressed as a decimal to the sixth point (the "Pool Factor"), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in (ii) above) and the denominator is 100,000. Each determination by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of negligence, wilful default, bad faith or manifest error) be final and binding on all persons.

With respect to each C Note on (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Administrator to determine) (i) the amount of any C Note Principal Payment due on the Payment Date next following such Determination Date, (ii) the principal amount outstanding of each C Note on the Payment Date next following such Determination Date (after deducting any C Note Principal Payment due to be made on that Payment Date) ("C Note Principal Amount Outstanding", together with the A Note Principal Amount Outstanding, the "Principal Amount Outstanding") and (iii) the fraction expressed as a decimal to the sixth point (the "C Note Pool Factor"), of which the numerator is the C Note Principal Amount Outstanding (as referred to in (ii) above) and the denominator is 100,000. Each determination by or on behalf of the Issuer of any C Note Principal Payment, the C Note Principal Amount Outstanding and the C Note Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

With respect to each of the classes of Notes, the Issuer will cause each determination of a Note Principal Payment, A Note Principal Amount Outstanding and Pool Factor, or C Note Principal Payment, C Note Principal Amount Outstanding and C Note Pool Factor (as the case may be) to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Notes are listed on one or more stock exchanges) the relevant stock

exchanges, and will immediately cause notice of each such determination to be given in accordance with Condition 15 by not later than two Business Days prior to the relevant Payment Date. If no Note Principal Payment or C Note Principal Payment is due to be made on the Notes on any Payment Date a notice to this effect will be given to the Noteholders.

If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) with respect to each of the classes of Notes, a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor, or a C Note Principal Payment, the C Note Principal Amount Outstanding or the C Note Pool Factor (as the case may be) in accordance with the preceding provisions of this paragraph, such determination may be made by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer.

**(e) Optional Redemption**

On any Payment Date following the Payment Date on which the aggregate Principal Amount Outstanding of the A Notes is less than 10% of the initial aggregate Principal Amount Outstanding of the A Notes, the Administrator may give not more than 60 nor less than 30 days' notice to the Trustee, Ambac (if Ambac is the then Note Controlling Party) and the Noteholders in accordance with Condition 15, and following the giving of such notice, the Issuer shall be obliged to redeem all (but not some only) of the A Notes at their A Note Principal Amount Outstanding, and all (but not some only) of the C Notes at their C Note Principal Amount Outstanding, provided that prior to giving any such notice, the Issuer shall have provided to the Trustee and Ambac (if Ambac is the then Note Controlling Party) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes as aforesaid.

Under the terms of the Ambac Policy, Ambac does not guarantee any of the amounts payable by the Issuer upon an early redemption of the Notes pursuant to Condition 5(e).

**(f) Optional Redemption for Tax Reasons**

If the Issuer at any time immediately prior to the giving of the notice referred to below satisfies the Trustee (and Ambac if (a) there are A Notes outstanding and (b) Ambac is the then Note Controlling Party) that either (i) on the next Payment Date the Issuer would be required by reason of a change in law, or the interpretation or administration thereof, to deduct or withhold from any payment of principal or interest on the A Notes (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgage Loans during an Interest Period ceases to be receivable (whether by reason of any Borrower being obliged to deduct or withhold any amount in respect of tax therefrom or otherwise, or where the Issuer is treated as receiving amounts in relation to interest on the Mortgage Loans which are not in fact received) by the Issuer during such Interest Period, then the Issuer may, having given not more than 60 nor less than 30 days' notice to the Trustee and Ambac (if the proviso relating to Ambac above is applicable) and the Noteholders in accordance with Condition 15, redeem on any Payment Date all (but not some only) of the A Notes at their A Notes Principal Amount Outstanding, and all (but not some only) of the C Notes at their C Note Principal Amount Outstanding, provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee and Ambac (if the proviso relating to Ambac above is applicable), (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and (b) if appropriate a legal opinion (in form and substance satisfactory to the Trustee and Ambac (if the proviso relating to Ambac above is applicable)) from a firm of lawyers in England (approved in writing by the Trustee and Ambac (if the proviso relating to Ambac above is applicable)) opining on the relevant change in tax law (or interpretation or administration thereof). Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and Ambac (if the proviso relating to Ambac above is applicable) and shall be conclusive and binding on the Noteholders.

The term "Optional Redemption" shall refer to redemption of the Notes under any of the foregoing circumstances or procedures referred to in paragraphs (e) or (f) above.

Under the terms of the Ambac Policy, Ambac does not guarantee any amounts payable by the Issuer upon an early redemption of the Notes pursuant to Condition 5(f).

**(g) Notice of Redemption**

Any such notice as is referred to in paragraph (e) or (f) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the A Notes at the A Note Principal Amount Outstanding, and (where applicable) the C Notes at their C Note Principal Amount Outstanding.



- (h) **Payments by Ambac on early redemption**  
 Upon any optional or mandatory early redemption (other than pursuant to Condition 5(a) or Condition 5(b) in respect of amounts equal to Excess Loss Amounts or Dissolution Amounts), Ambac's obligations will continue to be to pay the Insured Amounts as they fall Due for Payment (as defined in the Ambac Policy) on each Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Policy. However, if it does so, it may do so in whole or in part and the amount payable by Ambac will be applied first to pay the outstanding principal amount of the A1 Notes together with accrued Class A Interest, secondly to pay the outstanding principal amount of the A2 Notes together with accrued Class A Interest and thirdly to pay the outstanding principal amount of the A3 Notes together with accrued Class A Interest.
- (i) **Purchase**  
 The Issuer shall not purchase any Notes.
- (j) **Cancellation**  
 All Notes redeemed pursuant to paragraphs (b), (e) or (f) above will be cancelled upon redemption and may not be resold or re-issued.
- (k) **Post Enforcement Call Option**  
 All of the C Noteholders will, at the request of the Trustee, sell all (but not some only) of their holdings of C Notes, as the case may be, to RMAC Holdings Limited pursuant to the option granted to it by the Trustee (as agent for the Noteholders) to acquire all (but not some only) of the C Notes (plus accrued interest thereon), for the consideration of one penny per C Note outstanding in the event that the Security for the C Notes is enforced, at any time after the date on which the Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the C Notes and after the application of any such proceeds to the C Notes under the Deed of Charge, to pay any further principal and interest and any other amounts whatsoever due in respect of the C Notes.
- Furthermore, each of the Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option and each Noteholder, by subscribing for or purchasing the relevant Note(s), agrees to be so bound.
- (l) **Effect of Redemption on A3 Detachable Coupons**  
 Upon redemption in full of the A3 Notes pursuant to paragraphs (a) or (b) of this Condition 5 or the exercise of the option contained in paragraphs (e) or (f) of this Condition 5 in respect of the A3 Notes, the A3 Detachable Coupons shall become void and no further payment (other than, for the avoidance of doubt, the payment due on the Payment Date on which the A3 Notes are redeemed in full or in respect of which the option is exercised) shall be made in respect of the A3 Detachable Coupons.

**Condition 6: Method of Payments**

- (a) Payments of interest and principal in respect of any Note or Coupon, will be made against presentation (and, in the case of final redemption, surrender) of such Note or Coupon at the specified office of the Paying Agents. A record of each payment so made on a Global Note or, as the case may be, a Global Coupon distinguishing (in the case of Global Notes) between any payment of principal and/or payment of interest, will be endorsed on the schedule to the relevant Global Note or, as the case may be, a Global Coupon by or on behalf of the Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made. On and after the Exchange Date, no payment will be made on a Temporary Global Note or a Temporary Global A3 Detachable Coupon unless exchange for an interest in the relevant Permanent Global Note or, as the case may be, the Permanent Global A3 Detachable Coupon is improperly withheld or refused. If payment on a Temporary Global Note or a Temporary Global A3 Detachable Coupon is to be made as provided for above, payments of interest and principal on a Temporary Global Note or, as the case may be, a Temporary Global A3 Detachable Coupon will be made provided certification of non-U.S. beneficial ownership of the relevant Noteholders or A3 Detachable Couponholders has been given. Payments in respect of the Notes and Coupons will be made in Sterling at the specified office of the Principal Paying Agent by transfer to a Sterling account maintained by the payee with a bank in London.
- (b) Payments of principal and interest in respect of the Notes and Coupons are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c) Each Note shall be presented for payment together with all relative unmatured Coupons. Upon the date on which any Note becomes due and payable in full, all unmatured Coupons appertaining thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

- (d) If payment of principal is improperly withheld or refused on or in respect of any Note or part hereof, the interest which continues to accrue in respect of such Note in accordance with Condition 4(a) will be paid to the extent received against presentation of such Note at the specified office of the Paying Agents. If any payment due in respect of any Note is not paid in full, the Principal Paying Agent will endorse a record of the amount (if any) so paid on the relevant Note.
- (e) The initial Paying Agents and their initial specified offices are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain: (i) a Paying Agent with a specified office in London (so long as the Notes are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange), (ii) a Paying Agent with a specified office in continental Europe and (iii) an Agent Bank. The Issuer will cause at least 30 days' notice of any change in or addition to any of the agents or their specified offices to be given in accordance with Condition 15.
- (f) If any Note or Coupon is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note or Coupon. For the purpose of Condition 6, "Business Day" means a day (other than Saturday and Sunday) on which banks are open for business in London and Luxembourg and in any case where presentation or surrender of a Note or Coupon is required, in the place where the Note or Coupon is presented or surrendered.
- (g) If, upon due presentation upon a relevant Payment Date, payment of the relevant amount of principal or interest is improperly withheld or refused on or in respect of any Note or Coupon or part thereof by the Paying Agents, the Issuer will indemnify the Trustee on behalf of the relevant affected Noteholders and Couponholders by paying to the Trustee on behalf of such Noteholders and Couponholders a sum calculated as the amount so withheld or refused plus an amount calculated as equal to the amount of interest which would have accrued in accordance with Condition 4 if payment of such amount had been paid by the Issuer to the Noteholders and Couponholders (as the case may be) on the relevant Payment Date (as well after as before any judgement) up to (but excluding) the date on which all sums due in respect of such Note or Coupon up to that day are received by the relevant Noteholder or Couponholder (as the case may be), payment under such indemnity to be due without demand from the relevant Payment Date.

#### Condition 7: Prescription

A Note and a Coupon shall become void unless presented for payment of principal within a period of 10 years from the relevant date in respect thereof and five years in respect of payment of interest. After the date on which a Note or Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Condition, the "Relevant Date", in respect of a Note or Coupon is the date on which a payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of all the Notes or coupons due on or before that date has not been duly received by the Principal Paying Agent or the Trustee on or prior to such date) the date on which the full amount of such monies having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

#### Condition 8: Taxation

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Principal Paying Agent, any other Paying Agent, the Issuer nor any other person will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.

#### Condition 9: Events of Default

- (a) (x) If so requested in writing by Ambac (if it is then the Note Controlling Party) or (y) if Ambac is not the Note Controlling Party: (A) at the discretion of the Trustee, or (B) if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the A Notes or, if no A Notes are outstanding, the Principal Amount Outstanding of the C Notes, or (C) if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the A Notes or, if no A Notes are outstanding, the C Notes, (subject to the Trustee being indemnified to its satisfaction), the Trustee shall give notice (an "Enforcement Notice") to the Issuer declaring the Notes to be due and repayable at any time after the happening of any of the following events (each an "Event of Default"):
  - (i) default being made for a period of ten Business Days in the payment of the principal of or any interest on any Note when and as the same ought to be paid in accordance with these Conditions provided that a deferral of

interest in accordance with Condition 4(f) shall not constitute a default in the payment of such interest for the purposes of this Condition 9; or

- (ii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Notes or the Trust Deed or the Issuer or the Administrator failing duly to perform or observe any obligation binding on it under the Administration Agreement or the Deed of Charge and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer or the Administrator (as the case may require) of notice requiring the same to be remedied; or
- (iii) the Issuer, other than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (iv) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due within the meaning of Section 123(2) of the Insolvency Act 1986 (as amended); or
- (iv) an order being made or an effective resolution being passed for the winding up of the Issuer except a winding up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the holders of the A Notes, or if no A Notes are outstanding, the C Notes; or
- (v) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for the appointment of an administrator or liquidator) and such proceedings are not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an administrator being appointed, or a receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally,

provided that, in the case of each of the events described in sub-paragraphs (ii), (iii) or (v) to this paragraph (a), either (x) the Trustee has certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders or (y) Ambac (if it is then being the Note Controlling Party) has certified to the Issuer that such event is in its opinion materially prejudicial to it as a creditor of the Issuer in respect of obligations under the Insurance and Indemnity Agreement.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Notes are due and repayable, the A Notes shall immediately become due and repayable at the A Notes Principal Amount Outstanding and the C Notes shall immediately become due and repayable at the C Note Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed.
- (c) So long as any part of the A Notes remain outstanding the Issuer will, upon becoming aware of the occurrence of any Event of Default, give notice in writing thereof to the Trustee and Ambac.
- (d) The terms of the Ambac Policy provide that payments on the A Notes which have become immediately due and payable pursuant to this Condition 9 will not be treated as Insured Amounts which are Due for Payment unless Ambac in its sole discretion elects to do so by written notice to the Trustee. If no such election is made, Ambac will continue to be liable to make payments in respect of the A Notes pursuant to the Ambac Policy on the dates on which such payments would have been required to be made as if the A Notes had not become immediately due and payable.

#### **Condition 10: Enforcement of Notes**

At any time after the Notes have become due and repayable (a) if Ambac is then the Note Controlling Party, the Trustee shall, if and only if so directed by Ambac or (b) if Ambac is not the Note Controlling Party, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Notes together with accrued interest. The Trustee shall not be bound to take any such proceedings unless (x) in the case of (b) above it shall have been so directed by an Extraordinary Resolution of the Noteholders of the relevant class, and (y) it shall have been indemnified to its satisfaction. Neither Ambac nor any Noteholder may take any action against the Issuer to enforce its rights in respect of the Notes or to enforce all or any of the security constituted by the Deed of Charge otherwise than through the Trustee unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

"Ambac Event of Default" means each of the following events:

- (i) any Insured Amount (as defined in the Ambac Policy) which is Due for Payment, is unpaid by reason of non-payment and is not paid by Ambac on the due date for payment by Ambac in accordance with the Ambac Policy;
- (ii) Ambac disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Ambac Policy or seeks to do so;
- (iii) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including an administration receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or
- (iv) Ambac:
  - (a) presents any petition or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or
  - (b) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
  - (c) becomes unable to pay its debts within the meaning of Section 123(2) or Section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due.

Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Policy. However, if it does so, it may do so in whole or in part in accordance with Condition 5(h).

The occurrence of an Ambac Event of Default does not of itself give rise to any right on the part of the Trustee or the Noteholders to accelerate the Notes.

**Condition 11: Meetings of Noteholders, Modifications; Consents, Waiver**

For the avoidance of doubt, references in this Condition 11 to "A Noteholders", "Noteholders", "A Notes" and "Notes" do not include the A3 Detachable Couponholders and the A3 Detachable Coupons. The A3 Detachable Couponholders do not have any voting rights. The Trust Deed contains provisions for convening meetings of A Noteholders and C Noteholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of such Noteholders of the relevant class of any modification of the Notes of the relevant class (including these Conditions as they relate to the Notes of such relevant class, as the case may be) or the provisions of any of the Documents, provided that no modification of certain terms by the Noteholders of any class including, *inter alia*, the date of maturity of the Notes of the relevant class or a modification which would have the effect of postponing any day for payment of interest in respect of such Notes, the reduction or cancellation of the amount of principal payable in respect of such Notes or any alteration of the priority of such Notes (any such modification in respect of any such class of Notes being referred to below as a "Basic Terms Modification") shall be effective unless such Extraordinary Resolution complies with the relevant terms of the Trust Deed.

The quorum at any meeting of the Noteholders of any class of Notes for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding, or, at any adjourned meeting, two or more persons being or representing the Noteholders of the relevant class, whatever the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding, except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in the aggregate not less than 75%, or at any adjourned such meeting not less than 25%, of the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding. The quorum at any meeting of the Noteholders of any class of Notes for all business other than voting on an Extraordinary Resolution shall be two or more persons holding or representing in the aggregate not less than 5% of the aggregate Principal Amount Outstanding of the Notes of the relevant class or, at any adjourned meeting, two or more persons being or representing the Noteholders of the relevant class, whatever the aggregate Principal Amount Outstanding of the Notes of the relevant class then outstanding so held.

For so long as the Notes (whether being Definitive Notes or represented by Global Notes) of any class are held by one party, such party and/or any proxy or representative for such party shall constitute two persons for the purposes of forming a quorum of that class of Noteholders.

If Ambac is the Note Controlling Party an Extraordinary Resolution passed at any meeting of Noteholders shall not be effective for any purpose unless it is approved by Ambac. An Extraordinary Resolution passed at any meeting of C Noteholders shall not be effective for any purpose where the A Notes remain outstanding unless sanctioned by an Extraordinary Resolution of the A Noteholders and (if Ambac is then the Note Controlling Party) Ambac. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the A Noteholders, the exercise of which will

be binding on the C Noteholders, irrespective of the effect on their interests. Any Extraordinary Resolution to approve or consent to a Basic Terms Modification when Ambac is not the Note Controlling Party, will require either the consent of Ambac or a determination by the Trustee that such modification is not prejudicial to Ambac.

An Extraordinary Resolution passed at any meeting of the Noteholders of any class of Notes shall be binding on all Noteholders of the relevant class, whether or not they are present at the meeting and on all A3 Detachable Couponholders and in the case of Definitive Notes, on all holders of Coupons thereto. The majority required for an Extraordinary Resolution, including the sanctioning of a Basic Terms Modification, shall be not less than 75% of the votes cast on that Extraordinary Resolution.

Subject to the succeeding paragraph, the Trustee may agree, without the consent of the Noteholders of any class, (a) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Notes of such class (including these Conditions) or any of the Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders of such class or (b) to any modification of the Notes of such class (including these Conditions) or any of the Documents, which in the Trustee's opinion is to correct a manifest error or is of a formal, minor or technical nature. In respect of each class of Notes, the Trustee may also, without the consent of the Noteholders of such class, determine that any Event of Default or any condition, event or act which, with the giving of notice and/or lapse of time and/or the issue of a certificate and/or the making of any determination, would constitute an Event of Default shall not, subject to specified conditions, be treated as such (but the Trustee may not make any such determination of any Event of Default or any such waiver or authorisation of any such breach or proposed breach of the Notes (including the Conditions) or any of the Documents in contravention of an express direction of the Noteholders given by Extraordinary Resolution or a request under Condition 9 or 10). Any such modification, waiver, authorisation or determination shall be binding on the Noteholders of each such class, and, unless the Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with Condition 15 as soon as practicable thereafter.

The Rate of Interest in respect of the A3 Detachable Coupons may not, for the avoidance of doubt, be modified or cancelled by any Extraordinary Resolution passed at any meeting of Noteholders.

The Trustee will not be entitled to agree to any modification to these Conditions or any of the Charged Obligation Documents without the consent of Ambac (if it is the Note Controlling Party).

The Trustee shall be entitled to assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Documents, that such exercise will not be materially prejudicial to the interests of any Noteholders if the Rating Agencies have confirmed that the Underlying Ratings of the relevant Notes would not be adversely affected by such exercise.

#### **Condition 12: Indemnification and Exoneration of the Trustee**

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with, *inter alios*, the Issuer and Administrator, and/or related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of, *inter alia*, any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or by a clearing organisation or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

The Trust Deed provides that the Trustee shall be under no obligation to make any searches, enquiries, or independent investigations of title in relation to any of the properties secured by the Mortgages.

#### **Condition 13: Definitive Notes**

Definitive Notes (including Definitive A3 Detachable Coupons to the extent detached) will only be issued in the following limited circumstances:

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business and does so cease business and no alternative clearing system satisfactory to the Trustee is available; or
- (b) the Trustee has given an Enforcement Notice to the Issuer; or
- (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) (or in the interpretation, application or administration of the same) of any applicable jurisdiction (including payments being made net of tax) which would not be suffered were the relevant Notes in definitive form and a certificate to such effect signed by two directors of the Issuer is delivered to the Trustee.

If Definitive Notes (including Definitive A3 Detachable Coupons to the extent detached) are issued, the beneficial interests represented by the relevant Permanent Global Note or, as the case may be, the Permanent Global A3 Detachable Coupon shall be exchanged in whole (but not in part) by the Issuer for Definitive Notes of the same class or, as the case may be, Definitive A3 Detachable Coupons, in each case, in an aggregate principal amount equal to the A Note Principal Amount Outstanding or the C Note Principal Amount Outstanding (as the case may be) of the relevant Permanent Global Note or the Coupon Value of the Permanent Global A3 Detachable Coupon, subject to and in accordance with the detailed provisions of the Paying Agency Agreement, the Trust Deed and the relevant Global Notes.

**Condition 14: Replacement of Definitive Notes**

If any Note or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Note or Coupon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before new ones will be issued.

**Condition 15: Notice to Noteholders**

Any notice to the Noteholders shall be validly given if published in the Financial Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in the United Kingdom. Any such notice shall be deemed to have been given to the Noteholders and they shall be deemed to have notice of the content of any such notice, in each case, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or any class of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

For so long as the Notes are represented by Global Notes or (in the case of the A3 Detachable Coupons after Coupon Stripping has occurred) a Global Coupon and such Global Notes or (in the case of the A3 Detachable Coupons after Coupon Stripping has occurred) Global Coupon are held on behalf of Euroclear and/or Clearstream, Luxembourg notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by this Condition 15 provided that, so long as the Notes are admitted to the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange, that competent authority so agrees. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

For the avoidance of doubt, all A3 Detachable Couponholders and, in the case of Definitive Notes, all holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 15.

**Condition 16: Right of Third Parties**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**Condition 17: European Economic and Monetary Union**

- (a) The Issuer may, without the consent of the Noteholders and Couponholders and provided that the Trustee is satisfied that the obligations of Ambac under the Ambac Policy will not be adversely affected on giving at least 30 days' prior notice to the Trustee, Ambac and the Paying Agents designate a date (the "Redenomination Date"), being a Payment Date falling on or after the date on which the United Kingdom becomes a Participating Member State.
- (b) Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
  - (i) the Notes shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount outstanding of that Note in Sterling converted into euro at the rate for conversion of Sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Trustee, that the then market practice in respect of the redenomination into euro 0.01 of securities denominated in Sterling is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendments;

- (ii) if Notes have been issued in definitive form:
    - (A) all unmatured Coupons denominated in Sterling (whether or not attached to the Notes) will become void with effect from the date (the "Euro Exchange Date") on which the Issuer gives notice (the "Euro Exchange Notice") to the Noteholders, the Trustee and Ambac that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Coupons are available) and no payments will be made in respect thereof;
    - (B) the payment obligations contained in all Notes denominated in Sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 17), shall remain in full force and effect; and
    - (C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in euro in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice;
  - (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
  - (iv) a Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation. In this Condition 17, "business day" means, in respect of any place of presentation, any day which is a day on which banks are open for business in such place of presentation and which is also a day on which the TARGET system is operating.
- (c) Following redenomination of the Notes pursuant to this Condition 17:
- (i) where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the principal amount then outstanding of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01; and
  - (ii) the amount of interest payable in respect of each Note on each Payment Date shall be calculated by applying the Rate of Interest to the principal amount then outstanding of such Note, dividing the product by two and rounding the figure down to the nearest euro 0.01. If interest is required to be calculated for any other period, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (a) the number of those days falling in a leap year divided by 366 and (b) the number of those days falling in a non-leap year divided by 365); provided, however, that, if the Issuer determines, with the agreement of the Note Controlling Party, that the market practice in respect of internationally offered euro denominated securities is different from that specified above, the above shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendment.
- (d) In this Condition 17:
- "EMU" means European Economic and Monetary Union;
- "euro" means the single currency introduced on 1 January 1999 at the start of the third stage of EMU pursuant to the Treaty;
- "Participating Member State" means a Member State of the European Communities which has adopted the euro as its lawful currency in accordance with the Treaty;
- the "TARGET system" means the Trans-European Automated Real-time Gross Settlement Express Transfer system or any successor or replacement system; and
- the "Treaty" means the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam.

#### Condition 18: Governing Law

The Documents and the Notes are governed by, and shall be construed in accordance with, English law (other than those aspects of the Documents specific to the Scottish Mortgage Loans, which are governed by, and shall be construed in accordance with, Scots law and those specific to the Northern Irish Mortgages, which are governed by, and shall be construed in accordance with Northern Irish law).

## UNITED KINGDOM TAXATION

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The following is a general description of current United Kingdom law and Inland Revenue practice relating to the United Kingdom taxation of the Notes, and is limited to a general consideration of the United Kingdom tax position of persons who are absolute beneficial owners of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and should therefore be treated with appropriate caution. Some aspects do not apply to certain classes of taxpayer (such as dealers). Noteholders (or prospective Noteholders) who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

### A United Kingdom withholding tax

Interest payments on the Notes (whether in global or definitive form) will be payable without withholding or deduction for or on account of United Kingdom income tax provided that the Notes are listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 ("ICTA 1988"). The London Stock Exchange is a recognised stock exchange for these purposes. Under the Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading on the London Stock Exchange.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where interest on the Notes is paid to a person who belongs in the United Kingdom and the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest at the time the payment is made, provided that the Inland Revenue has not given a direction that it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

In all other cases, an amount must be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20%), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

Noteholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

If Ambac makes any payments under the Ambac Policy in respect of interest on the Notes (or any other amounts due under the Notes other than the repayment of amounts subscribed for under the Notes) such payments may be subject to United Kingdom withholding tax, whether or not the Notes are listed on a "recognised stock exchange" within the meaning of section 841 of ICTA 1988. If payments by Ambac under the Ambac Policy are subject to any withholding or deduction for or on account of tax, additional amounts may become payable by Ambac subject to the terms of the Ambac Policy (see "*Form of Ambac Policy*" above).

### B Direct Assessment of Non-United Kingdom Resident Noteholders to United Kingdom Tax on United Kingdom Interest

Interest on the Notes constitutes United Kingdom source income for United Kingdom tax purposes and, as such may be subject to income tax by direct assessment even where paid without withholding or deduction for or on account of United Kingdom income tax, except in the hands of a Noteholder who is exempt from United Kingdom income tax under the terms of an applicable double taxation treaty or otherwise.

However, interest with a United Kingdom source which is received without deduction or withholding for or on account of United Kingdom tax, is not normally chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom, unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are certain exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

### C Accrued Income Scheme – Individual Noteholders

For the purposes of the provisions known as the "Accrued Income Scheme" (contained in Chapter II of Part XVII of ICTA 1988), a transfer of a Note by a Noteholder who is resident or ordinarily resident in the United Kingdom or a Noteholder who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to



a charge to United Kingdom tax on income in respect of an amount treated, under the Accrued Income Scheme, as representing interest accrued on the Note at the time of the transfer.

**D Taxation of chargeable gains – individual Noteholders**

As a result of the provision for redenomination of the Notes into euros, it is not expected that the Notes will be treated by the United Kingdom Inland Revenue as “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including a redemption) of Notes by an individual Noteholder will give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the individual circumstances of the Noteholder.

**E United Kingdom corporation tax payers**

In general, Noteholders within the charge to United Kingdom corporation tax will not be subject to the taxation treatment set out in paragraphs C or D above. Instead, any profits, gains and losses, and fluctuations in the value of the Notes (whether attributable to currency fluctuations or otherwise) measured and recognised broadly in accordance with their statutory accounting treatment, are taxed or relieved as income. Noteholders within the charge to United Kingdom corporation tax are generally charged to tax in each accounting period by reference to interest accrued in that period and other profits recognised in that period.

**F Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes, or on the issue or transfer by delivery of a Note in definitive form with or without Coupons attached. No United Kingdom stamp duty or stamp duty reserve tax should be chargeable on the transfer of an A3 Detachable Coupon, if and to the extent Coupon Stripping occurs.

**G Proposed EU Savings Directive**

On 13 December 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments.

The proposed directive is not yet final, and may be subject to further amendment. Consequently it is not possible to predict what effect, if any, the adoption of the proposed directive would have on the Notes or on the payments of principal or interest on the Notes.

## PURCHASE AND SALE

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The Lead Manager has pursuant to a purchase agreement dated on or about 17 July 2002 among the Managers, the Issuer, Ambac and GMAC-RFC (the "Purchase Agreement"), agreed with the Issuer to purchase the A Notes (including the A3 Detachable Coupons) at the issue price of, in relation to the A1 Notes, 100% of the aggregate principal amount of the A1 Notes, in relation to the A2 Notes, 100% of the aggregate principal amount of the A2 Notes and in relation to the A3 Notes, 100% of the aggregate principal amount of the A3 Notes plus a premium at the market and the other Managers have, pursuant to the Purchase Agreement jointly and severally agreed to purchase from the Lead Manager certain allocated amounts of the A Notes. The Issuer will pay to the Managers in respect of the A Notes, a combined management and underwriting fee of 0.225% of the aggregate principal amount of the A Notes. The Issuer will sell the C Notes directly to GMAC-RFC.

The Purchase Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Notes to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Notes.

Each Manager has represented to and agreed with the Issuer that:

- (a) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "FSM Act") except to persons whose ordinary activities involve them acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) (the "POS Regulations") or the FSM Act;
- (b) it has complied and will comply with all applicable provisions of the FSM Act and the POS Regulations with respect to anything done by it in relation to the Notes or (for the avoidance of doubt) the A3 Detachable Coupons (as applicable) in, from or otherwise involving the United Kingdom; and
- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSM Act) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSM Act does not apply to the Issuer.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Manager has agreed that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes or A3 Detachable Coupons (as applicable), (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Issue Date (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, U.S. Persons (except in accordance with Rule 903 of Regulation S), and it will have sent to each distributor, dealer or other person to which it sells the Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons.

Each Manager has agreed that they have not (and will not), nor has (or will) any person acting on their behalf, (a) made offers or sales of any security, or solicited offers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Notes under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Notes or A3 Detachable Coupons (as applicable) in the United States.

In addition, until 40 days after the later of the date of the commencement of the offering and the Issue Date, an offer or sale of the Notes within the United States by any dealer (whether or not participating in this offering) may violate the requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are in bearer form and are subject to United States tax law requirements and may not be offered, sold or delivered within the United States or its possessions to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

No action has been taken by the Issuer or the Managers which would or is intended to permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken that it will

not, directly or indirectly, offer or sell any Notes (including the A3 Detachable Coupons), in any country or jurisdiction where action for that purpose is required and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with the applicable laws and regulations.

## NOTICE TO INVESTORS

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The Notes have not been and will not be registered under the Securities Act or any other applicable securities laws, and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and such other laws. Accordingly, the Notes (and any interests therein) are being offered and sold outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

The Notes will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE 'SECURITIES ACT'), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE ISSUE DATE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES."

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

# Ambac Assurance UK Limited

Directors' Report and Financial Statements

for the year ended 31 December 2001

Registered no: 3248674

## Ambac Assurance UK Limited

### Directors' Report and Financial Statements for the year ended 31 December 2001

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## Ambac Assurance UK Limited

### Directors and advisers

#### Directors

John W Uhlein III                      *Chairman & Managing Director*  
Robert J Genader  
Martin Roberts  
David W Wallis  
David R Larwood

#### Secretary and registered office

David R Larwood  
Hasilwood House  
60 Bishopsgate  
London EC2N 4BE

#### Registered Auditor

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

#### Bankers

Citibank NA  
336 Strand  
London WC2R 1HB

#### Solicitors

Linklaters & Alliance  
One Silk Street  
London EC2Y 8HQ

## Ambac Assurance UK Limited

### Directors' report

The directors present their report and the audited financial statements for the year to 31 December 2001.

#### Principal activity

The company carries on non-life financial loss insurance business. The company is a wholly owned subsidiary of Ambac Assurance Corporation, a financial guarantee insurance company resident in Wisconsin, United States of America. The ultimate holding company is Ambac Financial Group, Inc. a company publicly quoted on the New York Stock Exchange in New York, United States of America.

#### Business review

The company is authorised to transact credit, suretyship and financial guarantee insurance business in the United Kingdom. The company is also authorised to provide services in relation to such business to persons in twelve other European countries. The directors anticipate that the company will continue to expand its current operations by offering services into certain other countries within Western Europe.

Ambac Assurance UK Limited has earned triple A ratings, the highest ratings available from Moody's Investors Services, Inc., Standard & Poor's Ratings Services and Fitch Inc.

#### Results and dividends

The results for the year are set out in the profit and loss account on pages 5 and 6. The directors do not recommend the payment of a dividend.

#### Directors and directors' interests

The directors who held office during the year are shown on page 1\*.

According to the Register of Directors' Interests, none of the directors has any interest in the shares of the company. Under the provisions of the Company (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate parent company.

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced as pages 101 to 118 in this Offering Circular.



## Ambac Assurance UK Limited

### Directors' report – *continued*

#### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. The directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

#### Auditors

The company has, by elective resolution, dispensed with the need to appoint auditors annually and therefore KPMG Audit Plc continue to hold office.

By order of the board

David R Larwood *Secretary*  
2 April 2002

## Ambac Assurance UK Limited

### Independent auditors' report to the members of Ambac Assurance UK Limited

We have audited the financial statements on pages 5 to 16\*.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London  
2 April 2002

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced as pages 101 to 118 in this Offering Circular.

## Ambac Assurance UK Limited

### Profit and loss account Technical account – general business for the year ended 31 December 2001

	Notes	2001		2000	
		£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	32,048		14,553	
Outward reinsurance premiums	4	(28,908)		(13,123)	
			3,140		1,430
Change in the gross provision for unearned premiums	18	(22,713)		(10,667)	
Change in the provision for unearned premiums, reinsurers' share	18	20,442		9,600	
			(2,271)		(1,067)
			869		363
<b>Claims incurred net of reinsurance</b>					
<b>Claims paid</b>					
Gross amount			-		-
Reinsurers' share			-		-
Net claims paid			-		-
<b>Change in the provision for claims</b>					
Gross amount			-		-
Reinsurers' share			-		-
Change in the net provision for claims			-		-
<b>Claims incurred, net of reinsurance</b>					
			-		-
Net operating expenses	5		(1,362)		(1,075)
Balance on the technical account for general business			(493)		(712)

## Ambac Assurance UK Limited

### Profit and loss account Non-technical account – general business for the year ended 31 December 2001

	<i>Notes</i>	2001 £'000	2000 £'000
Balance on the general business technical account		(493)	(712)
Investment income	6	1,024	1,081
Investment expenses and charges	7	(21)	(20)
Other income and charges	8	179	226
<b>Profit on ordinary activities before tax</b>	9	689	575
Tax on profit on ordinary activities	12	(214)	(178)
<b>Profit on ordinary activities after tax</b>		475	397
<b>Retained profit for the year</b>		475	397

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis and therefore a separate note of historical cost profits and losses has not been included.

All amounts are derived from continuing operations.

### Statement of total recognised gains and losses

	£'000	£'000
Retained profit after tax for the year	475	397
<b>Total recognised gains in the year</b>	475	397

### Reconciliation of movements in shareholder's funds

	£'000	£'000
Reconciliation of movements in shareholder's funds		
Total recognised gains in the year	475	397
Balance at beginning of the year	12,789	12,392
<b>Balance at end of year</b>	13,264	12,789

## Ambac Assurance UK Limited

### Balance sheet at 31 December 2001

	Notes	2001 £'000	2000 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	18,962	15,210
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	66,193	45,751
<b>Debtors</b>			
Other debtors	14	178	994
<b>Other assets</b>			
Tangible assets	15	241	311
Cash at bank and in hand		2,206	1,806
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	18	7,596	5,702
<b>Total assets</b>		<u>95,376</u>	<u>69,774</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	17	11,000	11,000
Profit and loss account	20	2,264	1,789
<b>Shareholder's funds – equity interests</b>		13,264	12,789
<b>Technical provisions</b>			
Provision for unearned premiums	18	73,548	50,835
<b>Creditors</b>			
Creditors arising out of reinsurance operations		280	12
Other creditors including taxation and social security	16	1,601	1,560
<b>Accruals and deferred income</b>	19	6,683	4,578
<b>Total liabilities</b>		<u>95,376</u>	<u>69,774</u>

The financial statements on pages 5 to 16\* were approved by the board of directors on 2 April 2002 and were signed on its behalf by:

John W Uhlein III – *Chairman and Managing Director*

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced as pages 101 to 118 in this Offering Circular.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

#### 2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

##### *Basis of accounting for underwriting activities*

All business is accounted for on an annual basis.

##### *Premium income and unearned premiums*

The policy for premium recognition is dependent on the timing of the collection of premiums.

Where the premium on a policy is received up front, the premium is recognised as written at the date of inception, and earned in the technical account on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured. Where a premium is received in instalments, it is recognised as written on the date the instalment falls due and earned over the period to the next instalment date. The receipt of future amounts is considered to be sufficiently uncertain, that recognition at contract inception would not be deemed prudent.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related insurance business.

##### *Acquisition costs*

Certain costs incurred primarily related to the production of business have been deferred. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance. Acquisition costs and ceding commission income which relate to a subsequent financial year are deferred and charged or credited to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of premiums written or ceded which are unearned at the balance sheet date.

##### *Claims*

A case basis loss provision is established for insured obligations when, in the judgement of management, a monetary default in the timely payment of debt service is imminent. A case basis loss provision is established in an amount that is sufficient to cover the present value of the anticipated debt service payments over the expected period of default and estimated expenses associated with settling the claim less estimated recoveries under salvage and subrogation rights.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 2 Accounting policies *continued*

##### *Investment income*

Investment income is accounted for on a receivable basis. Interest is accrued up to the balance sheet date. Realised gains or losses represent, for investments included in the balance sheet at amortised cost, the difference between net sales proceeds and amortised cost, and for investments included in the balance sheet at current value, the difference between net sale proceeds and purchase price. All investment income, including realised gains and losses on investments, is reported in the non-technical account.

##### *Investments*

Redeemable fixed interest securities are shown at amortised cost. The difference between the purchase price of such securities and the amount repayable at maturity is charged or credited to the profit and loss account over the period to maturity.

Deposits with credit institutions are shown at current value.

##### *Foreign currencies*

Assets and liabilities held in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences are taken to the profit and loss account non-technical account. Foreign currency transactions during the year are translated into sterling using average rates of exchange, with the exchange gains and losses included in the profit and loss account non-technical account.

##### *Pension costs*

Pension contributions are charged to the profit and loss account and represent the contributions payable to a money purchase pension scheme in respect of the financial year.

##### *Taxation*

Provision is made for all taxation expected to be payable on taxable profits of the year.

Deferred taxation is provided for on a liability method on all material timing differences to the extent that a liability, or relief, to tax is expected to arise in the foreseeable future.

##### *Tangible assets*

Expenditure on leasehold improvements, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight line basis. The periods used are as follows:

Leasehold improvements	–	8 years
Fixtures, fittings and office equipment	–	5 years
Computer Equipment	–	3 years

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 3 Segmental information

The company only writes one class of business, that being non-life financial loss insurance. For the current and previous accounting periods, all such business was written in the United Kingdom and therefore the directors regard any segmental analysis as inappropriate at the present time.

#### 4 Reinsurance balance

The reinsurance balance of those items in the technical account which relate to outwards reinsurance transactions is an expense of £7,695,000 (2000: an expense of £3,170,000).

#### 5 Net operating expenses

	2001 £'000	2000 £'000
Acquisition costs	3,020	2,707
Change in gross deferred acquisition costs	(1,894)	(2,181)
	<u>1,126</u>	<u>526</u>
Administrative expenses	1,007	902
Gross operating expenses	<u>2,133</u>	<u>1,428</u>
Reinsurance commissions	(2,876)	(1,310)
Change in deferred reinsurance commission	2,105	957
	<u>1,362</u>	<u>1,075</u>

#### 6 Investment income – non-technical account

	£'000	£'000
Income from other financial investments	<u>1,024</u>	<u>1,081</u>

Investment income includes £722,000 (2000: £641,000) of income from listed investments.

#### 7 Investment expenses and charges

	£'000	£'000
Investment management expenses and bank charges	<u>21</u>	<u>20</u>

#### 8 Other income and charges

Other income relates principally to foreign exchange gains and losses.



## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

9	Profit on ordinary activities before tax	2001 £'000	2000 £'000
		<u>          </u>	<u>          </u>
	<i>Profit on ordinary activities before tax is stated after charging</i>		
	Auditors' remuneration		
	Audit	26	26
	Other services – audit of regulatory returns	5	5
	– other non-audit	41	51
	Depreciation	70	63

10	Remuneration of directors	£'000	£'000
		<u>          </u>	<u>          </u>
	Directors' emoluments	346	338
	Company contributions to money purchase schemes	14	12

The emoluments of the highest paid director were £327,000 (2000: £318,000). He is a member of a money purchase pension scheme, under which his accrued pension benefit at the year end was £104,956 (2000: £82,811).

Retirement benefits are accruing to the following number of directors under:

	Number of directors
	2001      2000
	<u>          </u> <u>          </u>
Money purchase schemes	1              1

The number of directors exercising share options in the ultimate parent company during the year were 2 (2000: 2).

#### 11 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Number of employees
	2001      2000
	<u>          </u> <u>          </u>
Underwriting	13            10
Administration	5             4

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

The aggregate payroll costs in respect of these persons were as follows:

	£'000	£'000
Wages and salaries	2,220	1,794
Payroll taxes	467	119
Other pension costs	107	66

#### 12 Taxation

	2001 £'000	2000 £'000
Current corporation tax @ 31% (2000: 31%)	214	178
Tax on profit on ordinary activities	214	178

#### 13 Other financial investments

	Market value		Cost		Carrying value	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Debt securities and other fixed interest securities:						
Listed on the UK Stock Exchange	15,316	13,922	15,484	13,884	15,363	13,866
Deposits with credit institutions	3,599	1,344	3,599	1,346	3,599	1,344
	<u>18,915</u>	<u>15,266</u>	<u>19,083</u>	<u>15,230</u>	<u>18,962</u>	<u>15,210</u>

The fixed interest securities are carried at amortised cost. The net excess of the amortised cost over the amount payable at maturity at 31 December 2001 was £613,000 (2000: £66,000).

#### 14 Other debtors

	2001 £'000	2000 £'000
Accrued interest	68	385
Receivable for investments sold	–	600
Other	110	9
	<u>178</u>	<u>994</u>

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 15 Tangible assets

The net book value of tangible assets is made up as follows:

	Leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost:			
At beginning of year	199	212	411
Additions	–	–	–
At 31 December 2001	<u>199</u>	<u>212</u>	<u>411</u>
Depreciation:			
At beginning of year	39	61	100
Additions	25	45	70
At 31 December 2001	<u>64</u>	<u>106</u>	<u>170</u>
Net book value:			
At beginning of year	160	151	311
At 31 December 2001	<u>135</u>	<u>106</u>	<u>241</u>

#### 16 Other Creditors

The net book value of other creditors is made up as follows:

	2001 £'000	2000 £'000
Corporation tax payable within one year	78	46
Accrued expenditure	1,363	1,389
Other	160	125
	<u>1,601</u>	<u>1,560</u>

Taxation above consists of the current year tax liability of £214,000 less payment on account.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 17 Called up share capital

	2001 £'000	2000 £'000
Ordinary shares of £1 each:		
Authorised: 20,000,000 shares (2000: 20,000,000)	20,000	20,000
Issued and fully paid: 11,000,000 shares (2000: 11,000,000)	11,000	11,000

#### 18 Technical provisions and deferred acquisition costs

	2001 £'000	2000 £'000
<b>Provision for unearned premiums</b>		
Gross amount		
At beginning of year	50,835	40,168
Movement in the provision	22,713	10,667
At end of period	73,548	50,835
<b>Reinsurance amount</b>		
At beginning of year	45,751	36,151
Movement in the provision	20,442	9,600
At end of period	66,193	45,751
<b>Net technical provisions</b>		
At end of year	7,355	5,084
At beginning of year	5,084	4,017
Net technical provisions at end of year	7,355	5,084
Deferred acquisition costs		
– gross	(7,596)	(5,702)
– reinsurance commissions	6,683	4,578
Net insurance funds	6,442	3,960

#### 19 Accruals and deferred income

This represents deferred reinsurance commissions.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 20 Statement of movement on reserves

	2001 £'000	2000 £'000
<b>Profit and loss account</b>		
Balance at 1 January	1,789	1,392
Retained profit for the year	475	397
Balance at 31 December	<u>2,264</u>	<u>1,789</u>

#### 21 Pension scheme

The company operates a money purchase pension scheme in respect of its full time employees and directors. The charge to the profit and loss account for the period was £107,000 (2000: £66,000).

#### 22 Cashflow

The company has not prepared a cashflow statement as it is a wholly owned subsidiary of Ambac Assurance Corporation which prepared financial statements including a consolidated cashflow statement.

#### 23 Related party transactions

The majority of the company's reinsurance protection is provided by its parent. The cover provided is a quota share agreement representing 90% of all credit and financial guarantee loss exposure. The net retention of all non-life financial loss business is reinsured on an excess of loss basis above an attachment point of £500,000. The reinsurance agreement includes an annual ceding commission payable to the company. Premiums of £28,721,000 (2000: £13,123,000) were ceded to the company's parent during the period, and commission of £2,868,000 (2000: £1,310,000) was payable to the company under the agreement.

In addition the parent company is required under a net worth maintenance agreement to cause the company to maintain free assets of at least £10,500,000.

During 2001, the company provided suretyship insurance to an affiliate. These contracts obligate the company to make payments to the affiliate if certain credit events occur in relation to covered structured credit default swaps. The company ceded 100% of these insurance policies to non-affiliated reinsurers. For the year ended 31 December 2001, the company recorded direct premiums of £186,981 relating to these policies.

## Ambac Assurance UK Limited

### Notes to the financial statements for the year ended 31 December 2001

#### 24 Commitments

There are no commitments in respect of contracts for capital expenditure not provided for. Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings		Office Equipment	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Operating leases which expire:				
Within one year	19	13	–	–
Between two through five years	230	–	–	–
In more than five years	–	230	2	2

#### 25 Ultimate parent company

The company is a wholly owned subsidiary of Ambac Assurance Corporation. The ultimate holding company is Ambac Financial Group, Inc. a company incorporated under the laws of the State of Delaware, United States of America.

The largest and smallest groups in which the results of the company are consolidated are Ambac Financial Group, Inc. and Ambac Assurance Corporation, respectively. The consolidated financial statements of both groups are available to the public and may be obtained from One State Street Plaza, New York, NY 10004, USA.

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## GENERAL INFORMATION

- 1 The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 15 July 2002.
- 2 The issue of the Ambac Policy by Ambac has been duly authorised by resolutions of the Board of Directors of Ambac passed on 9 July 2002.
- 3 It is expected that admission of the Notes to the Official List of the UK Listing Authority and admission of the Notes to trading by the London Stock Exchange will be granted on or about 25 July 2002, subject only to issue of the Global Notes of each class of Notes. Prior to official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The issue will be cancelled if the Global Notes are not issued.
- 4 The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	<i>ISIN</i>	<i>Common Code</i>
A1 Notes	XS0151914818	015191481
A2 Notes	XS0151915625	015191562
A3 Notes	XS0151916276	015191627
A3 Detachable Coupon	XS0151920039	015192003
C Notes	XS0151916789	015191678
- 5 The auditors of the Issuer, PricewaterhouseCoopers, Chartered Accountants, have issued an accountants' report on the balance sheet of the Issuer in this Offering Circular as at 23 July 2002. The financial year end of the Issuer is 31 December. The first audited accounts of the Issuer will be prepared for the period ended 31 December 2002.
- 6 The Issuer is not and nor has it been involved in any legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position nor is the Issuer aware that any such proceedings are pending or threatened.
- 7 Ambac is not, and has not been, involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular a significant effect on its financial position nor is Ambac aware that any such proceedings are pending or threatened.
- 8 In relation to this transaction the Issuer on 17 July 2002, has entered into the Purchase Agreement referred to under "Purchase and Sale" above which is or may be material.
- 9 PricewaterhouseCoopers have given and have not withdrawn their written consent to the inclusion of their reports in the form and context in which they are included in these listing particulars and have authorised the contents of that part of the listing particulars for the purposes of Section 79(3) of the FSM Act applicable to England and Wales.
- 10 The auditors of Ambac are KPMG Audit Plc, Chartered Accountants of 8 Salisbury Square, London EC4Y 8BB. Audited accounts have been prepared in relation to Ambac for the three years ended 31 December 2001. KPMG Audit Plc has given, and has not withdrawn, its consent to the inclusion of the financial statements of Ambac for the year ended 31 December 2001 in this Offering Circular in the form and context in which they are included and has authorised the contents of that part of the Listing Particulars for the purposes of Section 79(3) of the Financial Services and Markets Act 2000 in conjunction with Part III of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.
- 11 The annual accounts of Ambac for the years ended 31 December 1999, 31 December 2000 and 31 December 2001 have been audited without qualification.
- 12 Since 27 May 2002 (being the date of incorporation of the Issuer), there has been (a) no significant change in the financial or trading position of the Issuer and (b) no material adverse change in the financial position or prospects of the Issuer.
- 13 Since 31 December 2001, there has been (a) no significant change in the financial or trading position of Ambac and (b) no material adverse change in the financial position or prospects of Ambac.
- 14 Copies of the following documents may be inspected during usual business hours at the offices of Allen & Overy, One New Change, London EC4M 9QQ for 14 days from the date of this Offering Circular:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Memorandum and Articles of Association of Ambac;
  - (c) the balance sheet of the Issuer as at 23 July 2002 and PricewaterhouseCoopers' report thereon;

- (d) the accounts of Ambac for the year ended 31 December 2001, for the year ended 31 December 2000 and for the year ended 31 December 1999 and KPMG's report on the former and the latter;
- (e) the consents referred to in paragraphs 9 and 10 above;
- (f) the contract listed in paragraph 8 above;
- (g) drafts (subject to modification) of the following documents:
  - (i) the Paying Agency Agreement;
  - (ii) the Trust Deed;
  - (iii) the Deed of Charge;
  - (iv) the Mortgage Sale Agreement;
  - (v) the Administration Agreement;
  - (vi) the Guaranteed Investment Contract;
  - (vii) the Bank Agreement;
  - (viii) the Liquidity Facility Agreement;
  - (ix) the Master Definitions Schedule;
  - (x) Ambac Policy;
  - (xi) Insurance and Indemnity Agreement;
  - (xii) the Declaration of Trust;
  - (xiii) Interest Rate Cap Agreement;
  - (xiv) Cap Guarantee;
  - (xv) the Post Enforcement Call Option; and
  - (xvi) Corporate Services Agreement and the Corporate Services Fee Letter.

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