FORM 10-K

Annual report pursuant to section 13 and 15(d)

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THORNBURG MORTGAGE ASSET CORP

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

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 001-11914

THORNBURG MORTGAGE ASSET CORPORATION
(Exact name of Registrant as specified in its Charter)

MARYLAND	85-0404134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
119 E. MARCY STREET SANTA FE, NEW MEXICO	87501
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (505) 989-1900

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock ($.01 par value)	New York Stock Exchange
Series A 9.68% Cumulative Convertible Preferred Stock ($.01 par value)	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

At March 9, 1999, the aggregate market value of the voting stock held by non-affiliates was $199,887,825, based on the closing price of the common stock on the New York Stock Exchange.

Number of shares of Common Stock outstanding at March 9 , 1999: 21,489,663

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement dated March 29, 1999, issued in connection with the Annual Meeting of Shareholders of the Registrant to be held on April 29, 1999, are incorporated by reference into Parts I and III.

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PART I

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PART I

ITEM 1. BUSINESS

GENERAL

Thornburg Mortgage Asset Corporation and subsidiaries (the "Company") is a mortgage acquisition company that primarily invests in adjustable-rate mortgage ("ARM") assets comprised of ARM securities and ARM loans, thereby indirectly providing capital to the single family residential housing market. In 1998, the Company began investing in hybrid ARM assets ("Hybrid ARMs") which are included in the Company's references to ARM securities and ARM loans. Hybrid ARMs have a fixed rate of interest for an initial period, generally 3 to 5 years, and then convert to an adjustable-rate for the balance of the term of the Hybrid ARM and are funded with long-term debt obligations such that the debt obligations mature within one year of the first interest rate reset date of the Hybrid ARMs. ARM securities represent interests in pools of ARM loans, which often include guarantees or other credit enhancements against losses from loan defaults. While the Company is not a bank or savings and loan, its business purpose, strategy, method of operation and risk profile are best understood in comparison to such institutions. The Company leverages its equity capital using borrowed funds, invests in ARM assets and seeks to generate income based on the difference between the yield on its ARM assets portfolio and the cost of its borrowings. The corporate structure of the Company differs from most lending institutions in that the Company is organized for tax purposes as a real estate investment trust ("REIT") and therefore generally passes through substantially

all of its earnings to shareholders without paying federal or state income tax at the corporate level. See "Federal Income Tax Considerations -- Requirements for Qualification as a REIT". During 1998, in connection with the Company's issuance of $1.1 billion of callable AAA notes, the Company formed two REIT qualified subsidiaries. These subsidiaries are consolidated in the Company's financial statements and federal and state tax returns.

OPERATING POLICIES AND STRATEGIES

Investment Strategies

The Company's investment strategy is to purchase ARM securities and ARM loans originated and serviced by other mortgage lending institutions. Increasingly, mortgage lending is being conducted by mortgage lenders who specialize in the origination and servicing of mortgage loans and then sell these loans to other mortgage investment institutions, such as the Company. The Company believes it has a competitive advantage in the acquisition and investment of these mortgage securities and mortgage loans because of the low cost of its operations relative to traditional mortgage investors like banks and savings and loans. Like traditional financial institutions, the Company seeks to generate income for distribution to its shareholders primarily from the difference between the interest income on its ARM assets and the financing costs associated with carrying its ARM assets.

The Company purchases ARM assets from broker-dealers and financial institutions that regularly make markets in these assets. The Company also purchases ARM assets from other mortgage suppliers, including mortgage bankers, banks, savings and loans, investment banking firms, home builders and other firms involved in originating, packaging and selling mortgage loans.

The Company's mortgage assets portfolio may consist of either agency or privately issued securities (generally publicly registered) mortgage pass-through securities, multiclass pass-through securities, collateralized mortgage obligations ("CMOs"), collateralized bond obligations ("CBOs"), generally backed by high quality mortgage backed securities, ARM loans, Hybrid ARMs or short-term investments that either mature within one year or have an interest rate that reprices within one year. The Company will not invest more than 30% of its ARM assets in Hybrid ARMs and will limit its interest rate repricing mismatch (the difference between the remaining fixed-rate period of a Hybrid ARM and the maturity of the fixed-rate liability funding a Hybrid ARM) to no more than one year.

The Company's investment policy is to invest at least 70% of total assets in High Quality adjustable and variable rate mortgage securities and short-term investments. High Quality means:

(1) securities that are unrated but are guaranteed by the U.S. Government or issued or guaranteed by an agency of the U.S. Government;
(2) securities which are rated within one of the two highest rating categories by at least one of either Standard & Poor's or Moody's Investors Service, Inc. (the "Rating Agencies"); or
(3) securities that are unrated or whose ratings have not been updated but are determined to be of comparable quality (by the rating standards of at least one of the Rating Agencies) to a High Quality rated mortgage security, as determined by the Manager (as defined below) and approved by the Company's Board of Directors; or
(4) the portion of ARM or hybrid loans that have been deposited into a trust and have received a credit rating of AA or better from at least one Rating Agency.

The remainder of the Company's ARM portfolio, comprising not more than 30% of total assets, may consist of Other Investment assets, which may include:

(1) adjustable or variable rate pass-through certificates, multi-class pass-through certificates or CMOs backed by loans on single-family, multi-family, commercial or other real estate-related properties so long as they are rated at least Investment Grade at the time of purchase. "Investment Grade" generally means a security rating of BBB or Baa or better by at least one of the Rating Agencies;
(2) ARM loans secured by first liens on single-family residential properties, generally underwritten to "A" quality standards, and acquired for the purpose of future securitization (see description of "A" quality in "Portfolio of Mortgage Assets - ARM and Hybrid ARM Loans"); or
(3) a limited amount, currently $70 million as authorized by the Board of Directors, of less than investment grade classes of ARM securities that are created as a result of the Company's loan acquisition and securitization efforts.

Since inception, the Company has generally invested less than 15%, currently approximately 4%, of its total assets in Other Investment assets, excluding loans held for securitization. Despite the generally higher yield, the Company does not expect to significantly increase its investment in Other Investment

securities. This is primarily due to the difficulty of financing such assets at reasonable financing terms and values through all economic cycles. Since the Company has never had a large investment in Other Investment securities and believes it has always been very selective and cautious regarding these investments, this adjustment to the Company's investment strategy is not expected to have a material impact on the Company's operating results.

The Company does not invest in REMIC residuals or other CMO residuals and, therefore does not create excess inclusion income or unrelated business taxable income for tax exempt investors. Therefore, the Company is a mortgage REIT eligible for purchase by tax exempt investors, such as pension plans, profit sharing plans, 401(k) plans, Keogh plans and Individual Retirement Accounts ("IRAs").

Acquisition of ARM and Hybrid ARM Loans

The Company acquires existing pools of ARM loans and intends to begin acquiring individual loans directly from loan originators for future securitization. Acquiring ARM loans for future securitization is expected to benefit the Company by providing: (i) greater control over the types of ARM loans originated; (ii) the ability to acquire ARM loans at lower prices so that the amount of the premium to be amortized will be reduced in the event of prepayment; (iii) additional sources of new whole-pool ARM assets; and (iv) potentially higher yielding investments in its portfolio.

The Company acquires residential ARM and Hybrid ARM whole loans utilizing two processes which the Company calls the Bulk Acquisition Method ("Bulk Method") and the Flow Acquisition Method ("Flow Method"). The Bulk Method, which the Company began utilizing in 1997, involves a number of the Company's established relationships with mortgage originators, or mortgage aggregators, who sell the Company pools of whole loans at market prices, with the servicing rights, generally, remaining with the originator or seller. In cases where the Company buys the servicing rights along with the loans, the Company contracts with a qualified loan servicer to perform the loan servicing function for a fee. In this Bulk Method, the loans are originated using the seller's loan products and programs, and the credit review of the borrower and the appraisal of the property and the quality control procedures are performed by the originators.

The Company only considers the purchase of loans when all of the borrowers have had their incomes verified, their credit checked, their assets verified and appraisals of the properties have been obtained. The Company then obtains an independent underwriter's review, performed by a third party for the benefit of the Company, which entails a review of the processes and closing method used by the originators in verifying the borrower credit as well as a review of the property valuation. In addition, the Company will, at the request of the third party credit review providers, utilize its own personnel to re-review some of the individual loans in order to insure the highest possible loan quality. The Company generally selects loans for underwriting review based upon specific criteria such as property location, loan size, effective loan-to-value ratios, borrowers' credit scoring and other criteria the Company believes to be important indicators of credit risk. Additionally, prior to the purchase of loans, the Company obtains representations and warranties from each seller stating that each loan meets the Company's underwriting standards and other requirements. The breach of such representations and warranties in regards to a loan can result in the seller having an obligation to repurchase the loan.

In the Flow Method, which the Company will begin utilizing in the first half of 1999, the Company acquires mortgage loans using the Company's specific loan programs and underwriting criteria. This means that the originator/seller originates the individual loans using the Company's established credit and program guidelines. All program participants, (originators/sellers), are screened by the Company as to their financial strength as well as to their own established in-house mortgage procedures. The credit of each borrower and the value of each property is underwritten by the originators and are subject to the quality control procedures of the originators. This is the same process used by originators/sellers in the Bulk Method except that all of the credit and appraisal guidelines have been developed and designed by the Company to meet the Company's own credit criteria and portfolio requirements. All of the loans are then subjected to further credit review by mortgage insurance companies that also use the Company's guidelines to insure product quality and compliance to the Company's guidelines. The three mortgage insurance companies chosen by the Company to perform this function use a two-step loan approval process. After the credit review and quality control review are performed by the originator/seller, but prior to the purchase of the loans by the Company, all of the loans are placed through an automated underwriting system created by the Federal National Mortgage Association ("Fannie Mae") called "Desktop Underwriter." This is the same system used by Fannie Mae in connection with all of their own loan purchases. Secondly, all loans that pass the Desktop Underwriter test are then screened by the mortgage insurance company personnel as to their compliance to the Company's guidelines. A select number of these loans are then subjected to an additional quality control procedure performed by a third party. Additionally, all of the loans acquired through the Flow Method

are assigned a "Risk Evaluation Score" or "Mortgage Score" by each of the mortgage insurance companies. The risk score evaluates not only the borrower's credit but also the geographic location of the property, the economic viability of the area, the general market conditions and the loan product chosen by the borrower. The Company believes that obtaining risk scores will help in reducing the Company's securitization costs by insuring that the Company purchases the highest quality mortgage loans with the lowest risk possible. As in the Bulk Method, mortgage loans acquired through the Flow Method are acquired, generally, with the servicing rights remaining with the originator/seller. As with the Bulk Method, in cases where the Company buys the servicing rights along with the loans, the Company contracts with a qualified loan servicer to perform the loan servicing function for a fee. The Company obtains representations and warranties from each seller or program participant stating that each loan meets the Company's underwriting standards and other requirements. As in the Bulk Method, the breach of such representations and warranties in regards to a loan can result in the seller having an obligation to repurchase the loan.

In both methods the Company uses its in-house staff as well as third party due diligence providers to verify the credit quality of the borrowers as well as the soundness of the mortgage collateral securing the individual loans. As added security, the Company uses the services of a third party document custodian to insure the quality and accuracy of all individual mortgage loan documents which are then held in safekeeping with the third-party document custodian. As a result, all of the original individual loan documents that are signed by the borrower, other than the original credit verification documents, are examined and verified by the custodian.

Securitization of ARM and Hybrid ARM Loans

The Company acquires ARM and Hybrid ARM loans for its portfolio with the intention of securitizing them in such a way as to maximize the amount of high quality assets that can be created from an accumulation of the ARM and Hybrid ARM loans. In order to facilitate the securitization of its loans, the Company intends to create and retain a subordinate interest in the loans, to provide a limited amount of credit enhancement, and then to purchase an insurance policy from a third party financial guarantor that will "wrap" the remaining balance of the loans to a credit rating of AA or better. Upon securitization, the Company then plans to either own the high quality ARM certificates and the subordinate certificates in its portfolio and finance the high quality certificates in the repurchase agreement market, or to utilize such ARM assets to collateralize capital markets issued debt obligations with a credit rating of AA or better from a Rating Agency as an alternative financing source to the repurchase agreement market.

Financing Strategies

The Company employs a leveraging strategy to increase its assets by borrowing against its ARM assets and then using the proceeds to acquire additional ARM assets. By leveraging its portfolio in this manner, the Company expects to maintain an equity-to-assets ratio between 8% to 10%, when measured on a historical cost basis. The Company believes that this level of capital is sufficient to allow the Company to continue to operate in interest rate environments in which the Company's borrowing rates might exceed its portfolio yield. These conditions could occur when the interest rate adjustments on the ARM assets lag the interest rate increases in the Company's variable rate borrowings or when the interest rate of the Company's variable rate borrowings are mismatched with the interest rate indices of the Company's ARM assets. The Company also believes that this capital level is adequate to protect the Company from having to sell assets during periods when the value of its ARM assets are declining. During the fourth quarter of 1998, the Company did sell some assets in order to increase its equity ratio from approximately 8% to over 9%, which under the market conditions at the time was a more appropriate level. If the ratio of the Company's equity-to-total assets, measured on a historical cost basis, falls below 8%, the Company will take action to increase its equity-to-assets ratio to 8% of total assets or greater, when measured on a historical cost basis, through normal portfolio amortization, raising equity capital, sale of assets or other steps as necessary.

The Company's ARM assets are financed primarily at short-term borrowing rates and can be financed utilizing reverse repurchase agreements, dollar-roll agreements, borrowings under lines of credit and other secured or unsecured financings which the Company may establish with approved institutional lenders. Prior to 1998, reverse repurchase agreements had been the primary source of financing utilized by the Company to finance its ARM assets. In 1998, the Company issued $1.1 billion of callable AAA rated notes in addition to utilizing reverse repurchase agreements to finance its assets. Generally, upon repayment of each reverse repurchase agreement, the ARM assets used to collateralize the financing will immediately be pledged to secure a new reverse repurchase agreement. The Company has established lines of credit and collateralized financing agreements with twenty-four different financial institutions.

Reverse repurchase agreements take the form of a simultaneous sale of pledged

assets to a lender at an agreed upon price in return for the lender's agreement to resell the same assets back to the borrower at a future date (the maturity of the borrowing) at a higher price. The price difference is the cost of borrowing under these agreements. In the event of the insolvency or bankruptcy of a lender during the term of a reverse repurchase agreement, provisions of the Federal Bankruptcy Code, if applicable, may permit the lender to consider the agreement to resell the assets to be an executory contract that, at the lender's option, may be either assumed or rejected by the lender. If a bankrupt lender rejects its obligation to resell pledged assets to the Company, the Company's claim against the lender for the damages resulting therefrom may be treated as one of many unsecured claims against the lender's assets. These claims would be subject to significant delay and, if and when payments are received, they may be substantially less than the damages actually suffered by the Company. To mitigate this risk the Company enters into collateralized borrowings with only financially sound institutions approved by the Board of Directors, including a majority of unaffiliated directors, and monitors the financial condition of such institutions on a regular, periodic basis.

The Company, commencing in 1998, also utilizes capital market transactions by issuing debt collateralized by specific pools of ARM assets that are placed in a trust. The financing of ARM assets in this way eliminates the risk of margin calls on the financing of those ARM assets and limits the Company's exposure to credit risk on the ARM and Hybrid ARM loans collateralizing such debt. The Company receives a credit rating on the debt based on the quality of the ARM assets, amount of any credit enhancement obtained and subordination levels of the debt proscribed by the rating agency(ies), all of which affects the interest rate at which the debt can be issued. The principal and interest payments on the debt are paid by the trust out of the cash flows received on the collateral. By utilizing such a structure, the Company can issue either floating rate debt indexed to various indices that more closely matches the characteristics of the collateralized ARM assets, depending upon market constraints and conditions, or fixed rate debt that corresponds to the characteristics of collateralized Hybrid ARM loans.

The Company also enters into financing facilities for whole loans. The Company uses these credit lines to finance its acquisition of whole loans while it is accumulating loans for securitization or until more permanent financing is arranged in a capital markets collateralized debt transaction. In 1998, the Company utilized two whole loan financing facilities that provided the Company with uncommitted lines of credit based on the market value of its whole loans. Uncommitted lines of credit are generally less expensive than a committed line of credit, but during periods of market turmoil, uncommitted lines of credit can be terminated by the counterparty with little notice to the Company and at a time when the Company would have difficulty in replacing the line of credit. Therefore, beginning in 1999, the Company has decided to negotiate and pay a fee for committed facilities as well as continue to utilize uncommitted facilities. During January 1999, the Company entered into one committed facility in the amount of $150,000,000, which the Company can increase to $300,000,000 for an additional fee, and is negotiating a number of other committed and uncommitted facilities.

The Company mitigates its interest-rate risk from borrowings by selecting maturities that approximately match the interest-rate adjustment periods on its ARM assets. Accordingly, borrowings bear variable or short-term fixed (one year or less) interest rates. Generally, the borrowing agreements require the Company to deposit additional collateral in the event the market value of existing collateral declines, which, in dramatically rising interest rate markets, could require the Company to sell assets to reduce the borrowings.

The Company's Bylaws limit borrowings, excluding the collateralized borrowings in the form of reverse repurchase agreements, dollar-roll agreements and other forms of collateralized borrowings discussed above, to no more than 300% of the Company's net assets, on a consolidated basis, unless approved by a majority of the unaffiliated directors. This limitation generally applies only to unsecured borrowings of the Company. For this purpose, the term "net assets" means the total assets (less intangibles) of the Company at cost, before deducting depreciation or other non-cash reserves, less total liabilities, as calculated at the end of each quarter in accordance with generally accepted accounting principles. Accordingly, the 300% limitation on unsecured borrowings does not affect the Company's ability to finance its total assets with collateralized borrowings.

Hedging Strategies

The Company makes use of hedging transactions to mitigate the impact of certain adverse changes in interest rates on its net interest income. In general, ARM assets have a maximum lifetime interest rate cap, or ceiling, meaning that each ARM asset contains a contractual maximum rate. The borrowings incurred by the Company to finance its ARM assets portfolio are not subject to equivalent interest rate caps. Accordingly, the Company purchases interest rate cap agreements ("Cap Agreements") to prevent the Company's borrowing costs from exceeding the lifetime maximum interest rate on its ARM assets. These Cap

Agreements have the effect of offsetting a portion of the Company's borrowing costs if prevailing interest rates exceed the rate specified in the Cap Agreement. A Cap Agreement is a contractual agreement for which the Company pays a fee, which may at times be financed, typically to either a commercial bank or investment banking firm. Pursuant to the terms of the Cap Agreements owned as of December 31, 1998, the Company will receive cash payments if the one-month, three-month or six-month LIBOR index increases above certain specified levels, which range from 7.50% to 13.00% and average approximately 10.10%. The fair value of these Cap Agreements also tends to increase when general market interest rates increase and decrease when market interest rates decrease, helping to partially offset changes in the fair value of the Company's ARM assets.

In addition, ARM assets are generally subject to periodic caps. Periodic caps generally limit the maximum interest rate coupon change on any interest rate coupon adjustment date to either a maximum of 1% per semiannual adjustment or 2% per annual adjustment. The borrowings incurred by the Company do not have similar periodic caps. The Company generally does not hedge against the risk of its borrowing costs rising above the periodic interest rate cap level on the ARM assets because the contractual future interest rate adjustments on the ARM assets will cause their interest rates to increase over time and reestablish the ARM assets' interest rate to a spread over the then current index rate. The Company attempts to mitigate the effect of periodic caps in several ways. First, the yield on the Company's ARM assets can change by more that the 1% or 2% per periodic interest rate adjustment limitation depending upon how prepayment activity changes as interest rates change. Secondly, during 1998, the Company began to acquired variable rate CMOs and CBOs ("Floaters"), Hybrid ARMs and certain other ARM loans that do not have a periodic cap. As of December 31, 1998, approximately $622.9 million of the Company's ARM securities and $909.2 million of the Company's ARM loans did not have periodic caps or were Hybrid ARMs, representing approximately 36% of total ARM assets.

The Hybrid ARMs have an initial fixed rate period, generally 3 to 5 years. Since the Company's borrowings are generally short-term, the Company enters into interest rate swap agreements that hedge a portion of the fixed rate period, so that the unhedged fixed rate period is no more than one year. In accordance with the terms of these swap agreements, the Company pays a fixed rate of interest during the term of the agreements, and receives a payment that varies monthly with the one month LIBOR Index. Due to the longer term nature of these agreements and because the hedged Hybrid ARMs are amortizing based on homeowner scheduled payments and unscheduled prepayments, the Company generally enters into both a swap that amortizes at an agreed upon single prepayment rate and an additional swap that amortizes at a prepayment rate which the Company has the option to change monthly within a range of rates.

The Company also enters into interest rate swap agreements to manage the average interest rate reset period on its borrowings. In accordance with the terms of the swap agreements, the Company pays a fixed rate of interest during the term of the agreements and receives a payment that varies monthly with the one month LIBOR Index. These agreements have the effect of fixing the Company's borrowing costs on a similar amount of swaps owned by the Company and, as a result, the Company reduces the interest rate variability of its borrowings. The Company may also use interest rate swap agreements from time to time to change from one interest rate index to another interest rate index and thus decrease further the basis risk between the Company's interest yielding assets and the financing of such assets.

The ARM assets held by the Company were generally purchased at prices greater than par. The Company is amortizing the premiums paid for these assets over their expected lives using the level yield method of accounting. To the extent that the prepayment rate on the Company's ARM assets differs from expectations, the Company's net interest income will be affected. Prepayments generally increase when mortgage interest rates fall below the interest rates on ARM loans. To the extent there is an increase in prepayment rates, resulting in a shortening of the expected lives of the Company's ARM assets, the Company's net income and, therefore, the amount available for dividends could be adversely affected. To mitigate the adverse effect of an increase in prepayments on the Company's ARM assets, the Company has purchased ARM assets at prices at or below par, however the Company's portfolio of ARM assets is currently held at a net premium. The Company may also purchase limited amounts of "principal only" mortgage derivative assets backed by either fixed-rate mortgages or ARM assets as a hedge against the adverse effect of increased prepayments. To date, the Company has not purchased any "principal only" mortgage derivative assets.

The Company may enter into other hedging-type transactions designed to protect its borrowings costs or portfolio yields from interest rate changes. Such transactions may include the purchase or sale of interest rate futures contracts or options on interest rate futures contracts. The Company may also purchase "interest only" mortgage derivative assets or other derivative products for purposes of mitigating risk from interest rate changes. The Company has not, to date, entered into these types of transactions, but may do so in the future. The Company will not invest in any futures transactions unless the Company and

Thornburg Mortgage Advisory Corporation (the "Manager") are exempt from the registration requirements of the Commodities Exchange Act or otherwise comply with the provisions of that Act.

Hedging transactions currently utilized by the Company generally are designed to protect the Company's net interest income during periods of rising market interest rates. The Company does not intend to hedge for speculative purposes. Further, no hedging strategy can completely insulate the Company from risk, and certain of the federal income tax requirements that the Company must satisfy to qualify as a REIT limit the Company's ability to hedge, particularly with respect to hedging against periodic cap risk. The Company carefully monitors and may have to limit its hedging strategies to ensure that it does not realize excessive hedging income, or hold hedging assets having excess value in relation to total assets. See "Federal Income Tax Considerations - Requirements for Qualification as a REIT".

Operating Restrictions

The Board of Directors has established the Company's operating policies and any revisions in the operating policies and strategies require the approval of the Board of Directors, including a majority of the unaffiliated directors. Except as otherwise restricted, the Board of Directors has the power to modify or alter the operating policies without the consent of shareholders. Developments in the market which affect the operating policies and strategies mentioned herein or which change the Company's assessment of the market may cause the Board of Directors (including a majority of the unaffiliated directors) to revise the Company's operating policies and financing strategies.

In the event the rating of an ARM security held by the Company is reduced by the Rating Agencies to below Investment Grade after acquisition by the Company, the asset may be retained in the Company's investment portfolio if the Manager recommends that it be retained and the recommendation is approved by the Board of Directors (including a majority of the unaffiliated directors).

The Company has elected to qualify as a REIT for tax purposes. The Company has adopted certain compliance guidelines which include restrictions on the acquisition, holding and sale of assets. Prior to the acquisition of any asset, the Company determines whether such asset will constitute a "Qualified REIT Asset" as defined by the Internal Revenue Code of 1986, as amended (the "Code"). Substantially all the assets that the Company has acquired and will acquire for investment are expected to be Qualified REIT Assets. This policy limits the investment strategies that the Company may employ.

The Company closely monitors its purchases of ARM assets and the income from such assets, including from its hedging strategies, so as to ensure at all times that it maintains its qualification as a REIT. The Company developed certain accounting systems and testing procedures with the help of qualified accountants and tax experts to facilitate its ongoing compliance with the REIT provisions of the Code. See "Federal Income Tax Considerations - Requirements for Qualification as a REIT". No changes in the Company's investment policies and operating policies and strategies, including credit criteria for mortgage asset investments, may be made without the approval of the Company's Board of Directors, including a majority of the unaffiliated directors.

The Company at all times intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act of 1940. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. In addition, unless certain mortgage assets represent all the certificates issued with respect to an underlying pool of mortgages, such mortgage assets may be treated as assets separate from the underlying mortgage loans and, thus, may not be considered Qualifying Interests for purposes of the 55% requirement. The Company closely monitors its compliance with this requirement and intends to maintain its exempt status. Up to the present, the Company has been able to maintain its exemption through the purchase of whole pool government agency and privately issued ARM securities and loans that qualify for the exemption. See "Portfolio of Mortgage Assets - Pass-Through Certificates - Privately Issued ARM Pass-Through Certificates".

The Company does not purchase any assets from or enter into any servicing or administrative agreements (other than the Management Agreement) with any entities affiliated with the Manager. Any changes in this policy would be subject to approval by the Board of Directors, including a majority of the unaffiliated directors.

PORTFOLIO OF MORTGAGE ASSETS

As of December 31, 1998, ARM assets comprised approximately 98% of the Company's

total assets. The Company has invested in the following types of mortgage assets in accordance with the operating policies established by the Board of Directors and described in "Business - Operating Policies and Strategies - Operating Restrictions".

PASS-THROUGH CERTIFICATES

The Company's investments in mortgage assets are concentrated in High Quality ARM pass-through certificates which account for approximately 90% of ARM assets held. These High Quality ARM pass-through certificates consist of Agency Certificates and privately issued ARM pass-through certificates that meet the High Quality credit criteria. These High Quality ARM pass-through certificates acquired by the Company represent interests in ARM loans which are secured primarily by first liens on single-family (one-to-four units) residential properties, although the Company may also acquire ARM pass-through certificates secured by liens on other types of real estate-related properties. The Company also includes in this category of assets a portion of the ARM and Hybrid ARM loans that have been deposited in a trust and held as collateral for its AAA notes payable in the amount equivalent to the AAA portion of the debt issued by the trust. The ARM pass-through certificates, including the ARM and Hybrid ARM loans collateralizing AAA notes payable, acquired by the Company are generally subject to periodic interest rate adjustments, as well as periodic and lifetime interest rate caps which limit the amount an ARM security's interest rate can change during any given period.

The following is a discussion of each type of pass-through certificate held by the Company as of December 31, 1998:

FHLMC ARM Programs

FHLMC is a shareholder-owned government sponsored enterprise created pursuant to an Act of Congress on July 24, 1970. The principal activity of FHLMC consists of the purchase of first lien, conventional residential mortgages, including both whole loans and participation interests in such mortgages and the resale of the loans and participations in the form of guaranteed mortgage assets. During 1998, FHLMC issued $7.2 billion of FHLMC ARM certificates and as of December 31, 1998, there was $37.5 billion of all types of FHLMC ARM certificates outstanding, of which FHLMC held $9.8 billion in its own portfolio.

Each FHLMC ARM Certificate issued to date has been issued in the form of a pass-through certificate representing an undivided interest in a pool of ARM loans purchased by FHLMC. The ARM loans included in each pool are fully amortizing, conventional mortgage loans with original terms to maturity of up to 40 years secured by first liens on one-to-four unit family residential properties or multi-family properties. The interest rate paid on FHLMC ARM Certificates adjust periodically on the first day of the month following the month in which the interest rates on the underlying mortgage loans adjust.

FHLMC guarantees to each holder of its ARM Certificates the timely payment of interest at the applicable pass-through rate and ultimate collection of all principal on the holder's pro rata share of the unpaid principal balance of the related ARM loans, but does not guarantee the timely payment of scheduled principal of the underlying mortgage loans. The obligations of FHLMC under its guarantees are solely those of FHLMC and are not backed by the full faith and credit of the U.S. Government. If FHLMC were unable to satisfy such obligations, distributions to holders of FHLMC ARM Certificates would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to holders of FHLMC ARM Certificates would be affected by delinquent payments and defaults on such mortgage loans.

FNMA ARM Programs

FNMA is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act. FNMA provides funds to the mortgage market primarily by purchasing home mortgage loans from mortgage loan originators, thereby replenishing their funds for additional lending. FNMA established its first ARM programs in 1982 and currently has several ARM programs under which ARM certificates may be issued, including programs for the issuance of assets through REMICs under the Code. During 1998, FNMA issued $14.0 billion of FNMA ARM certificates and as of December 31, 1998, there was $59.0 billion of all types of FNMA ARM certificates outstanding, of which FNMA held $11.9 billion in its own portfolio.

Each FNMA ARM Certificate issued to date has been issued in the form of a pass-through certificate representing a fractional undivided interest in a pool of ARM loans formed by FNMA. The ARM loans included in each pool are fully amortizing conventional mortgage loans secured by a first lien on either one-to-four family residential properties or multi-family properties. The original terms to maturities of the mortgage loans generally do not exceed 40 years. FNMA has issued several different series of ARM Certificates. Each series bears an initial interest rate and margin tied to an index based on all loans in the related pool, less a fixed percentage representing servicing

compensation and FNMA's guarantee fee.

FNMA guarantees to the registered holder of a FNMA ARM Certificate that it will distribute amounts representing scheduled principal and interest (at the rate provided by the FNMA ARM Certificate) on the mortgage loans in the pool underlying the FNMA ARM Certificate, whether or not received, and the full principal amount of any such mortgage loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. The obligations of FNMA under its guarantees are solely those of FNMA and are not backed by the full faith and credit of the U.S. Government. If FNMA were unable to satisfy such obligations, distributions to holders of FNMA ARM Certificates would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to holders of FNMA ARM Certificates would be affected by delinquent payments and defaults on such mortgage loans.

Privately Issued ARM Pass-Through Certificates

Privately issued ARM Pass-Through Certificates are structured similar to the Agency Certificates discussed above but are issued by originators of, and investors in, mortgage loans, including savings and loan associations, savings banks, commercial banks, mortgage banks, investment banks and special purpose subsidiaries of such institutions. Privately issued ARM pass-through certificates are usually backed by a pool of non-conforming conventional adjustable-rate mortgage loans and are generally structured with one or more types of credit enhancement, including pool insurance, guarantees, or subordination. Accordingly, the privately issued ARM pass-through certificates typically are not guaranteed by an entity having the credit status of FHLMC or FNMA.

Privately issued ARM pass-through certificates credit enhanced by mortgage pool insurance provide the Company with an alternative source of ARM assets (other than Agency ARM assets) that meet the Qualifying Interests test for purposes maintaining the Company's exemption under the Investment Company Act of 1940. Since the inception of the Company in 1993, most of the providers of mortgage pool insurance have stopped providing such insurance. Therefore, the Company has increased its investment in Agency ARM securities and in whole loans as its primary sources of Qualifying Interests in real estate.

COLLATERALIZED MORTGAGE OBLIGATIONS ("CMOS"), COLLATERALIZED BOND OBLIGATIONS ("CBOS") AND MULTICLASS PASS-THROUGH ASSETS

CMOs are debt obligations, ordinarily issued in series and most commonly backed by a pool of fixed rate mortgage loans or pass-through certificates, each of which consists of several serially maturing classes. The CBOs acquired by the Company, like CMOs, are debt obligations, but, in the case of CBOs, are secured by security interests in portfolios of high quality, low duration, mortgage-backed, asset-backed and other fixed and floating rate securities managed by third-parties. The Company only acquires CBO's that have portfolios that consist primarily of either real estate qualifying assets or high quality mortgage backed securities. Multiclass pass-through securities are equity interests in a trust composed of similar underlying mortgage assets. Generally, principal and interest payments received on the underlying mortgage-related assets securing a series of CMOs or multiclass pass-through securities are applied to principal and interest due on one or more classes of the CMOs of such series or to pay scheduled distributions of principal and interest on multiclass pass-throughs. In a CBO transaction, principal and interest payments are used to pay current period interest and any excess is reinvested into the portfolio. CBOs typically don't amortize monthly, rather they mature on a specific maturity date. Scheduled payments of principal and interest on the mortgage-related assets and other collateral securing a series of CMOs, CBOs or multiclass pass-throughs are intended to be sufficient to make timely payments of principal and interest on such issues or securities and to retire each class of such obligations at their stated maturity.

Multiclass pass-through securities backed by ARM assets or ARM loans owned by the Company are typically structured into classes designated as senior classes, mezzanine classes and subordinated classes. The Company also owns variable rate classes of CMOs and CBOs that are backed by both fixed- and adjustable-rate mortgages.

The senior classes in a multiclass pass-through security generally have first priority over all cash flows and consequently have the least amount of credit risk since principal losses are generally covered by mortgage pool insurance policies or are charged against the subordinated classes in order of subordination. As a result of these features, the senior classes receive the highest credit rating from Rating Agencies of the series of classes for each multiclass pass-through security.

The mezzanine classes of a multiclass pass-through security generally have a slightly greater risk of principal loss than the senior classes since they provide some credit enhancement to the senior classes. In most, but not all,

instances, mezzanine classes participate on a pro-rata basis with senior classes in their right to receive cash flow and have expected lives similar to the senior classes. In other instances, mezzanine classes are subordinate in their right to receive cash flow and have average lives that are longer than the senior classes. However, in all cases, a mezzanine class has a similar or slightly lower credit rating than the senior class from the Rating Agencies. Generally, the mezzanine classes that the Company has acquired are rated High Quality.

Subordinated classes are junior in the right to receive payment from the underlying mortgages to other classes of a multiclass pass-through security. The subordination provides credit enhancement to the senior and mezzanine classes. Subordinated classes may be at risk for some payment failures on the mortgage loans securing or underlying such assets and generally represent a greater level of credit risk as they are responsible for bearing the risk of credit loss on all of the outstanding loans underlying a CMO, CBO or multi-class pass-through. As a result of being subject to more credit risk, subordinated classes generally have lower credit ratings relative to the senior and mezzanine classes.

The Subordinated classes which the Company has acquired were all rated at least Investment Grade at the time of purchase by one of the Rating Agencies, and in certain cases are High Quality, or were created as part of the Company's process of securitizing whole loans. The Subordinated classes acquired by the Company in the open market are limited in amount and bear yields which the Company believes are commensurate with the increased risks involved. In general, the Company acquires subordinated classes when they are seasoned and when the more senior classes of the multi-class security have been paid down to levels that mitigate the risk of non-payment on the subordinate classes.

The market for Subordinated classes is not extensive and at times may be illiquid. In addition, the Company's ability to sell Subordinated classes is limited by the REIT Provisions of the Code. The Company has not purchased any Subordinated classes that are not Qualified REIT Assets. The Subordinated classes acquired by the Company, which are not High Quality, together with the Company's other investments in Other Investment assets, may not, in the aggregate, comprise more than 30% of the Company's total assets, in accordance with the Company's investment policy.

The variable rate classes of CMOs and CBOs, or Floaters, owned by the Company generally float at a spread to the one-month LIBOR index and are backed by mortgages that are either fixed-rate or are adjustable-rate mortgages indexed to the one-year U. S. Treasury yield or a Cost of Funds index.

ARM AND HYBRID ARM LOANS

The ARM and Hybrid ARM loans the Company has acquired are all first mortgages on single-family residential properties. Some have additional collateral in the form of pledged financial assets that provides the Company with additional credit protection in exchange for a simpler application and approval process. The Company acquires loans are underwritten to "A" quality standards. The Company considers loans to be "A" quality when they are underwritten in such a way as to assure that the mortgages are protected by adequate borrower income to make the required loan payment, adequate verifiable equity in the underlying property, and by the borrower's willingness and ability to repay the mortgage as demonstrated by a good credit history. As a result, the loans are generally fully documented loans to borrowers with good credit histories, adequate income to support the monthly mortgage payment, adequate assets to close the loan, with 80% or lower effective loan-to-value ratios based on independently appraised property values or are seasoned loans with over five years or more of good payment history.

When acquiring ARM and Hybrid ARM loans, either originated specifically for the Company or when the Company acquires pools of loans in bulk, the Company focuses its attention on key aspects of a borrower's profile and the characteristics of a mortgage loan product that the Company believes are most important in insuring excellent loan performance and minimal credit exposure. The Company's loan programs focus on larger down payments, excellent borrower credit history (as measured by a credit report and a credit score) and a conservative appraisal process. If an ARM or Hybrid ARM loan acquired has a loan to property value that is above 80%, then the borrower is required to pay for private mortgage insurance providing additional protection to the Company against credit risk. The loans acquired have original maturities of forty years or less. The ARM and Hybrid ARM loans are either fully amortizing or are interest only for up to ten years and fully amortizing thereafter. All ARM loans acquired bear an interest rate that is tied to an interest rate index and some have periodic and lifetime constraints on how much the loan interest rate can change on any predetermined interest rate reset date. In general, the interest rate on each ARM loan resets at a frequency that is either monthly, semi-annually or annually. The indices the ARM loans are tied to are generally a U.S. Treasury Bill index, LIBOR, Certificate of Deposit, a Cost of Funds index or Prime. The Hybrid ARM loans have an initial fixed rate period, generally 3 to 5 years, and

then they convert to an ARM loan with the features of an ARM loan described above.

RISK FACTORS

FORWARD-LOOKING STATEMENTS

In accordance with the Private Securities Litigation Reform Act of 1995 (the "1995 Act"), the Company can obtain a "Safe Harbor" for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements which identify factors that could cause actual results to differ from those in the forward-looking statements. Accordingly, the following information contains or may contain forward-looking statements: (1) information included in this Annual Report on Form 10-K, including, without limitation, statements made regarding investments in ARM securities and ARM loans, and Hybrid ARM loans, hedging, leverage, interest rates and statements in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, (2) information included in future filings by the Company with the Securities and Exchange Commission including, without limitation, statements with respect to growth, projected revenues, earnings, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs, and business strategies and plans, and (3) information contained in the Company's Annual Report or other written material, releases and oral statements issued by or on behalf of, the Company, including, without limitation, statements with respect to growth, projected revenues, net income, returns and yields on its portfolio of mortgage assets, the impact of interest rates, costs and business strategies and plans.

The following is a summary of the factors the Company believes important and that could cause actual results to differ from the Company's expectations. The Company is publishing these factors pursuant to the 1995 Act. Such factors should not be construed as exhaustive or as an admission regarding the adequacy of disclosure made by the Company prior to the effective date of the 1995 Act. Readers should understand that many factors govern whether any forward-looking statement will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected. No assurance is or can be given that any important factor set forth below will be realized in a manner so as to allow the Company to achieve the desired or projected results. The words "believe," "except," "anticipate," "intend," "aim," "will," and similar words identify forward-looking statements. The Company cautions readers that the following important factors, among others, could affect the Company's actual results and could cause the Company's actual consolidated results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

- A Dramatic Increase in Short-term Interest Rates
- The Effectiveness of Using Various Interest Rate Derivative Instruments for Hedging ARM Assets or Borrowing Costs
- The Ability to Acquire Attractively Priced and Underwritten ARM and Hybrid ARM Loans and Securities
- Interest Rate Repricing Mismatch Between Asset Yields and Borrowing Rates
- A Decline in the Market Value of ARM Securities, Which Would Result in Margin Calls
- Unanticipated Levels of Prepayment Rates
- A Flattening or Inversion of the Yield Curve Between Short and Long-Term Interest Rates
- The Use of Substantial Borrowed Funds to Enhance Returns
- Risk of Credit Loss Associated with Acquiring, Accumulating and Securitizing ARM Loans
- Interest Rate Risks Associated with any Future Unhedged Portion of the Fixed Term of Hybrid ARMs
- The Loss of Key Personnel
- Fundamental Changes in Investment Policies and Strategies
- Fluctuations or Variability of Dividend Distributions
- Capital Stock Price Volatility

COMPETITION

In acquiring ARM assets, the Company competes with other mortgage REITs, investment banking firms, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, other lenders, FNMA, FHLMC and other entities purchasing ARM assets, many of which have greater financial resources than the Company. The existence of these competitive entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of ARM assets resulting in higher prices and lower yields on such mortgage assets.

EMPLOYEES

As of December 31, 1998, the Company had no employees. Thornburg Mortgage Advisory Corporation (the "Manager") carries out the day to day operations of the Company, subject to the supervision of the Board of Directors and under the terms of a management agreement discussed below.

THE MANAGEMENT AGREEMENT

On June 17, 1994, the Company renewed its management agreement with Thornburg Mortgage Advisory Corporation (the "Management Agreement"), the Manager, for a term of five years, with an annual review required each year. On December 15, 1995, the Agreement was amended to provide that in the event a person or entity obtains more than 20% of the Company's common stock, if the Company is combined with another entity, or if the Company terminates the Agreement other than for cause, the Company is obligated to acquire substantially all of the assets of the Manager through an exchange of shares with a value based on a formula tied to the Manager's net profits. The Company has the right to terminate the Management Agreement upon the occurrence of certain specific events, including a material breach by the Manager of any provision contained in the Management Agreement.

The Manager at all times is subject to the supervision of the Company's Board of Directors and has only such functions and authority as the Company may delegate to it. The Manager is responsible for the day-to-day operations of the Company and performs such services and activities relating to the assets and operations of the Company as may be appropriate.

The Manager receives a per annum base management fee on a declining scale based on average shareholders' equity, adjusted for liabilities that are not incurred to finance assets ("Average Shareholders' Equity" or "Average Net Invested Assets" as defined in the Agreement), payable monthly in arrears. The Manager is also entitled to receive, as incentive compensation for each fiscal quarter, an amount equal to 20% of the Net Income of the Company, before incentive compensation, in excess of the amount that would produce an annualized Return on Equity equal to 1% over the Ten Year U.S. Treasury Rate. For further information regarding the base management fee, incentive compensation and applicable definitions, see the Company's Proxy Statement dated March 29, 1999 under the caption "Certain Relationships and Related Transactions".

Subject to the limitations set forth below, the Company pays all operating expenses except those specifically required to be paid by the Manager under the Management Agreement. The operating expenses required to be paid by the Manager include the compensation of the Company's officers and the cost of office space, equipment and other personnel required for the Company's day-to-day operations. The expenses that will be paid by the Company will include issuance and transaction costs incident to the acquisition, disposition and financing of investments, regular legal and auditing fees and expenses, the fees and expenses of the Company's directors, the costs of printing and mailing proxies and reports to shareholders, the fees and expenses of the Company's custodian and transfer agent, if any, and reimbursement of any obligation of the Manager for any New Mexico Gross Receipts Tax liability. The expenses required to be paid by the Company which are attributable to the operations of the Company shall be limited to an amount per year equal to the greater of 2% of the Average Net Invested Assets of the Company or 25% of the Company's Net Income for that year. The determination of Net Income for purposes of calculating the expense limitation will be the same as for calculating the Manager's incentive compensation except that it will include any incentive compensation payable for such period. Expenses in excess of such amount will be paid by the Manager, unless the unaffiliated directors determine that, based upon unusual or non-recurring factors, a higher level of expenses is justified for such fiscal year. In that event, such expenses may be recovered by the Manager in succeeding years to the extent that expenses in succeeding quarters are below the limitation of expenses. The Company, rather than the Manager, will also be required to pay expenses associated with litigation and other extraordinary or non-recurring expenses. Expense reimbursement will be made monthly, subject to adjustment at the end of each year.

The transaction costs incident to the acquisition and disposition of investments, the incentive compensation and the New Mexico Gross Receipts Tax

liability will not be subject to the 2% limitation on operating expenses. Expenses excluded from the expense limitation are those incurred in connection with the servicing of mortgage loans, the raising of capital, the acquisition of assets, interest expenses, taxes and license fees, non-cash costs and the incentive management fee.

FEDERAL INCOME TAX CONSIDERATIONS

GENERAL

The Company has elected to be treated as a REIT for federal income tax purposes. In brief, if certain detailed conditions imposed by the REIT provisions of the Code are met, electing entities that invest primarily in real estate investments and mortgage loans, and that otherwise would be taxed as corporations are, with certain limited exceptions, not taxed at the corporate level on their taxable income that is currently distributed to their shareholders. This treatment eliminates most of the "double taxation" (at the corporate level and then again at the shareholder level when the income is distributed) that typically results from the use of corporate investment vehicles.

In the event that the Company does not qualify as a REIT in any year, it would be subject to federal income tax as a domestic corporation and the amount of the Company's after-tax cash available for distribution to its shareholders would be reduced. The Company believes it has satisfied the requirements for qualification as a REIT since commencement of its operations in June 1993. The Company intends at all times to continue to comply with the requirements for qualification as a REIT under the Code, as described below.

REQUIREMENTS FOR QUALIFICATION AS A REIT

To qualify for tax treatment as a REIT under the Code, the Company must meet certain tests which are described briefly below.

Ownership of Common Stock

For all taxable years after the first taxable year for which a REIT election is made, the Company's shares of capital stock must be held by a minimum of 100 persons for at least 335 days of a 12 month year (or a proportionate part of a short tax year). In addition, at all times during the second half of each taxable year, no more than 50% in value of the capital stock of the Company may be owned directly or indirectly by five or fewer individuals. The Company is required to maintain records regarding the actual and constructive ownership of its shares, and other information, and to demand statements from persons owning above a specified level of the REIT's shares (as long as the Company has over 200 or more shareholders, only persons holding 1% or more of the Company's outstanding shares of capital stock) regarding their ownership of shares. The Company must keep a list of those shareholders who fail to reply to such a demand.

The Company is required to use the calendar year as its taxable year for income purposes.

Nature of Assets

On the last day of each calendar quarter at least 75% of the value of the Company's assets must consist of Qualified REIT Assets, government assets, cash and cash items. The Company expects that substantially all of its assets will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the investments in assets not included in the foregoing 75% assets test, the value of securities issued by any one issuer may not exceed 5% in value of the Company's total assets and the Company may not own more than 10% of any one issuer's outstanding voting securities. Pursuant to its compliance guidelines, the Company intends to monitor closely the purchase and holding of its assets in order to comply with the above assets tests.

Sources of Income

The Company must meet the following separate income-based tests each year:

1. THE 75% TEST. At least 75% of the Company's gross income for the taxable year must be derived from Qualified REIT Assets including interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property or interests in real property. The investments that the Company has made and will continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

2. THE 95% TEST. In addition to deriving 75% of its gross income from the sources listed above, at least an additional 20% of the Company's gross income for the taxable year must be derived from those sources, or from dividends, interest or gains from the sale or disposition of stock or other

assets that are not dealer property. The Company intends to limit substantially all of the assets that it acquires (other than stock in certain affiliate corporations as discussed below) to Qualified REIT Assets. The policy of the Company to maintain REIT status may limit the type of assets, including hedging contracts and other assets, that the Company otherwise might acquire.

Distributions

The Company must distribute to its shareholders on a pro rata basis each year an amount equal to at least (i) 95% of its taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 95% of the excess of the net income from foreclosure property over the tax imposed on such income by the Code, less (iii) any "excess noncash income". The Company intends to make distributions to its shareholders in sufficient amounts to meet this 95% distribution requirement.

The Service has ruled that if a REIT's dividend reinvestment plan (the "DRP") allows shareholders of the REIT to elect to have cash distributions reinvested in shares of the REIT at a purchase price equal to at least 95% of fair market value on the distribution date, then such cash distributions qualify under the 95% distribution test. The Company believes that its DRP complies with this ruling.

TAXATION OF THE COMPANY'S SHAREHOLDERS

For any taxable year in which the Company is treated as a REIT for federal income purposes, amounts distributed by the Company to its shareholders out of current or accumulated earnings and profits will be includable by the shareholders as ordinary income for federal income tax purposes unless properly designated by the Company as capital gain dividends. Distributions of the Company will not be eligible for the dividends received deduction for corporations. Shareholders may not deduct any net operating losses or capital losses of the Company.

If the Company makes distributions to its shareholders in excess of its current and accumulated earnings and profits, those distributions will be considered first a tax-free return of capital, reducing the tax basis of a shareholder's shares until the tax basis is zero. Such distributions in excess of the tax basis will be taxable as gain realized from the sale of the Company's shares. The Company will withhold 30% of dividend distributions to shareholders that the Company knows to be foreign persons unless the shareholder provides the Company with a properly completed IRS form for claiming the reduced withholding rate under an applicable income tax treaty.

The Clinton Administration has introduced a proposal in the fiscal 2000 federal budget that would limit the aggregate value of businesses undertaken by a REIT through taxable subsidiaries to 5% or less of the REIT's total assets. The Company may from time to time hold, through one or more taxable subsidiaries, assets that, if held directly by the Company, could otherwise generate income that would have an adverse effect on the Company's qualification as a REIT or on certain classes of the Company's shareholders. The Company does not reasonably expect that the value of any such taxable subsidiaries, in the aggregate, ever to exceed 5% of the Company's assets and therefore the Company does not anticipate that the proposal, if enacted, would have a material effect on the Company's operations.

The provisions of the Code are highly technical and complex. This summary is not intended to be a detailed discussion of all applicable provisions of the Code, the rules and regulations promulgated thereunder, or the administrative and judicial interpretations thereof. The Company has not obtained a ruling from the Internal Revenue Service with respect to tax considerations relevant to its organization or operation, or to an acquisition of its common stock. This summary is not intended to be a substitute for prudent tax planning, and each shareholder of the Company is urged to consult its own tax advisor with respect to these and other federal, state and local tax consequences of the acquisition, ownership and disposition of shares of stock of the Company and any potential changes in applicable law.

ITEM 2. PROPERTIES

The Company's principal executive offices are located in Santa Fe, New Mexico and are provided by the Manager in accordance with the Management Agreement. The Company's two subsidiaries have their principal offices in Irvine, California.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 1998, there were no pending legal proceedings to which the Company was a party or of which any of its property was subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the trading symbol "TMA". As of January 31, 1999, the Company had 21,989,679 shares of common stock issued and 21,489,663 shares of common stock outstanding which were held by 1,161 holders of record and approximately 17,355 beneficial owners.

The following table sets forth, for the periods indicated, the high, low and closing sales prices per share of common stock as reported on the New York Stock Exchange composite tape and the cash dividends declared per share of common stock.

<TABLE>
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	Stock Prices			Cash Dividends Declared
1998	High	Low	Close	Per Share
<S>	<C>	<C>	<C>	<C>
Fourth Quarter ended December 31, 1998	9 1/2	5 5/8	7 5/8	$ 0.23
Third Quarter ended September 30, 1998	13 5/8	7 3/16	9	- (1)
Second Quarter ended June 30, 1998 . .	16 1/8	10 1/2	11 7/8	$ 0.30
First Quarter ended March 31, 1998 . .	18 1/2	14 3/4	15 7/8	$ 0.375
1997				
Fourth Quarter ended December 31, 1997	22 1/4	15 7/8	16 1/2	$ 0.50
Third Quarter ended September 30, 1997	24 9/16	20	21	$ 0.50
Second Quarter ended June 30, 1997 . .	22 1/8	17 3/4	21 1/2	$ 0.49
First Quarter ended March 31, 1997 . .	22 7/8	18 3/4	19	$ 0.48
1996				
Fourth Quarter ended December 31, 1996	21 1/2	16 1/8	21 3/8	$ 0.45
Third Quarter ended September 30, 1996	17 5/8	14 7/8	16 1/4	$ 0.40
Second Quarter ended June 30, 1996 . .	17	14 1/8	16 1/4	$ 0.40
First Quarter ended March 31, 1996 . .	16 5/8	14 1/8	14 3/8	$ 0.40

<FN>
(1) On August 17, 1998, the Company's Board of Directors announced that dividends on common stock, in the future, would be declared after each quarter-end rather than during the applicable quarter. The fourth quarter of 1998 dividend was declared in January 1999 and paid in February 1999.
</TABLE>

The Company intends to pay quarterly dividends and to make such distributions to its shareholders in such amounts that all or substantially all of its taxable income each year (subject to certain adjustments) is distributed, so as to qualify for the tax benefits accorded to a REIT under the Code. All distributions will be made by the Company at the discretion of the Board of Directors and will depend on the earnings and financial condition of the Company, maintenance of REIT status and such other factors as the Board of Directors may deem relevant from time to time.

DIVIDEND REINVESTMENT PLAN

The Company has a Dividend Reinvestment and Stock Purchase Plan (the "DRP") that allows both common and preferred shareholders to have their dividends reinvested in additional shares of common stock and to purchase additional shares. The common stock to be acquired for distribution under the DRP may be purchased at the Company's discretion from the Company at a discount from the then prevailing market price or in the open market. Shareholders and non-shareholders also can make additional purchases of stock monthly, subject to a minimum of $100 ($500 for non-shareholders) and a maximum of $5,000 for each optional cash purchase. Continental Stock Transfer & Trust Company (the "Agent"), the Company's transfer agent, is the Trustee and administrator of the DRP. Additional information about the details of the DRP and a prospectus are available from the Agent or the Company. Shareholders who own stock that is registered in their own name and want to participate must deliver a completed enrollment form to the Agent. Forms are available from the Agent or the Company. Shareholders who own stock that is registered in a name other than their own (e.g., broker or bank nominee) and want to participate must either request the broker or nominee to participate on their behalf or request that the broker or nominee re-register the stock in

the shareholder's name and deliver a completed enrollment form to the Agent.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from audited financial statements of the Company for the years ended December 31, 1998, 1997, 1996, 1995 and 1994. The selected financial data should be read in conjunction with the more detailed information contained in the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" included elsewhere in this Form 10-K (Amounts in thousands, except per share data).

<TABLE>
<CAPTION>
OPERATIONS STATEMENT HIGHLIGHTS

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net interest income	$31,040	$49,064	$30,345	$13,496	$13,055
Net income.	$22,695	$41,402	$25,737	$10,452	$11,946
Basic earnings per share.	$ 0.75	$ 1.95	$ 1.73	$ 0.88	$ 1.02
Diluted earnings per share.	$ 0.75	$ 1.94	$ 1.73	$ 0.88	$ 1.02
Average common shares	21,488	18,048	14,874	11,927	11,759
Distributable income per common share	$ 0.84	$ 1.98	$ 1.76	$ 0.92	$ 1.02
Dividends declared per common share .	$ 0.905	$ 1.97	$ 1.65	$ 0.93	$ 1.00
Noninterest expense to average assets	0.13%	0.21%	0.21%	0.13%	0.11%

</TABLE>
<TABLE>
<CAPTION>
BALANCE SHEET HIGHLIGHTS

	As of December 31				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Adjustable-rate mortgage assets	$4,268,417	$4,638,694	$2,727,875	$1,995,287	$1,727,469
Total assets.	$4,344,633	$4,691,115	$2,755,358	$2,017,985	$1,751,832
Shareholders' equity (1)	$ 395,484	$ 380,658	$ 238,005	$ 182,312	$ 180,035
Historical book value per share (2)	$ 15.34	$ 15.53	$ 14.67	$ 14.96	$ 15.29
Market value adjusted book value per share (3).	$ 11.45	$ 14.42	$ 13.70	$ 13.16	$ 10.19
Number of common shares outstanding	21,490	20,280	16,219	12,191	11,773
Yield on ARM assets	5.86%	6.38%	6.64%	6.73%	5.66%
Yield on net int.-earning assets (Portfolio Margin)	0.61%	0.96%	1.34%	1.11%	0.17%
Return on average common equity	4.80%	12.72%	11.68%	5.81%	6.94%

<FN>
---

(1) Shareholders' equity before unrealized market value adjustments.
(2) Shareholders' equity before unrealized market value adjustments, excluding preferred stock, divided by common shares outstanding.
(3) Shareholders' equity, excluding preferred stock, divided by common shares outstanding.
</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW OF FOURTH QUARTER 1998 EVENTS IN THE MORTGAGE MARKET

Like most other mortgage finance companies, the Company was affected by turmoil in the global and domestic financial markets during the fourth quarter of 1998. Due to turbulent market conditions, the Company saw its portfolio asset values decline, its margin requirements for financing certain of its ARM assets increase, especially with respect to its non-agency portfolio, and the market value of its hedging instruments decline, which required the Company to post additional collateral and caused the Company difficulty in financing its less than AA rated assets at acceptable valuations. Additionally, due to the high level of prepayments on its agency securities, which the Company must fund out of its excess liquidity prior to receipt of payments from FNMA and FHLMC, and the heightened sense of risk aversion on the part of the Company's lenders, the Company's level of available excess cash and liquid securities diminished from levels maintained in prior periods. All of these factors combined to reduce the level of liquidity available to the Company during the fourth quarter of 1998. The Company undertook several measures to increase its liquidity during these difficult market conditions. First, the Company requested that its lenders not make margin calls on its loans backed by agency securities until the applicable payments had been received by the Company. Several lenders agreed to this request. Second, the Company undertook the sale of certain assets in order to reduce its asset portfolio. Accordingly, during the fourth quarter, the Company sold $421.2 million of ARM assets and recorded a loss on sale of $4.1 million.

Of this loss amount, $3.4 million is related to $155 million of ARM securities that are indexed to the one-year U.S. Treasury index and which, as a group, prepaid at an annualized rate of 49% during October and had a yield below the Company's cost of funds. The Company believes that by selecting these specific ARM securities for sale, it not only increased its liquidity, but it improved the future return on its ARM securities portfolio. Lastly, the Company financed the majority of its whole loans and commitments to purchase whole loans by issuing $1.1 billion of AAA rated notes, callable monthly, in a securitized financing transaction in the fourth quarter of 1998. This financing benefited the Company by providing the Company with a capital efficient method to finance its whole loan assets over year end and allows the Company to call the transaction and refinance the loans at a lower interest rate in early 1999 if market conditions improve. However, the cost of this financing was greater than current financing rates available to the Company for whole loans and therefore adversely affected earnings in the fourth quarter of 1998 and possibly will continue to do so during the first half of 1999. All of these measures were successful in maintaining the Company's liquidity throughout the fourth quarter of 1998 and the Company entered 1999 with a much improved liquidity level.

FINANCIAL CONDITION

At December 31, 1998, the Company held total assets of $4.345 billion, $4.268 billion of which consisted of ARM assets. That compares to $4.691 billion in total assets and $4.639 billion of ARM assets at December 31, 1997. Since commencing operations, the Company has purchased either ARM securities (backed by agencies of the U.S. government or privately-issued, generally publicly registered, mortgage assets, most of which are rated AA or higher by at least one of the Rating Agencies) or ARM loans generally originated to "A" quality underwriting standards. At December 31, 1998, 95.9% of the assets held by the Company, including cash and cash equivalents, were High Quality assets, far exceeding the Company's investment policy minimum requirement of investing at least 70% of its total assets in High Quality ARM assets and cash and cash equivalents. Of the ARM assets currently owned by the Company, 90.0% are in the form of adjustable-rate pass-through certificates or ARM loans. The remainder are floating rate classes of CMOs (5.8%) or investments in floating rate classes of CBOs (4.2%) backed primarily by mortgaged-backed securities.

The following table presents a schedule of ARM assets owned at December 31, 1998 and December 31, 1997 classified by High Quality and Other Investment assets and further classified by type of issuer and by ratings categories.

<TABLE>
<CAPTION>

ARM ASSETS BY ISSUER AND CREDIT RATING
(Dollar amounts in thousands)

	December 31, 1998		December 31, 1997	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
<S>	<C>	<C>	<C>	<C>
HIGH QUALITY:				
FHLMC/FNMA	$ 2,072,871	48.6%	$3,117,937	67.2%
Privately Issued:				
AAA/Aaa Rating	1,398,659 (1)	32.8	476,615	10.3
AA/Aa Rating	597,493	14.0	782,206	16.8
Total Privately Issued	1,996,152	46.8	1,258,821	27.1
Total High Quality	4,069,023	95.4	4,376,758	94.3
OTHER INVESTMENT:				
Privately Issued:				
A Rating	40,591	1.0	115,055	2.5
BBB/Baa Rating	88,273	2.1	17,625	0.4
BB/Ba Rating and Other	44,120 (1)	0.9	10,269	0.2
Whole loans	26,410	0.6	118,987	2.6
Total Other Investment	199,394	4.6	261,936	5.7
Total ARM Portfolio	$ 4,268,417	100.0%	$4,638,694	100.0%

<FN>

(1) AAA Rating category includes $1.020 billion of whole loans that have been credit enhanced by an insurance policy purchased from a third-party and credit support from an unrated subordinated certificate for $32.4 million included in BB/Ba Rating and Other category and that are held as collateral for

callable AAA notes.
</TABLE>

As of December 31, 1998, the Company had reduced the cost basis of its ARM securities by a total of $1,242,000 due to potential future credit losses (other than temporary declines in fair value). The Company is providing for potential future credit losses on two securities that have an aggregate carrying value of $11.8 million, which represent less than 0.3% of the Company's total portfolio of ARM assets. Although both of these assets continue to perform, there is only minimal remaining credit support to mitigate the Company's exposure to potential future credit losses.

Additionally, during 1998, the Company recorded a $762,000 provision for potential credit losses on its loan portfolio, although no actual losses have been realized in the loan portfolio to date. As of December 31, 1998, the Company's ARM loan portfolio included eight loans that are considered seriously delinquent (60 days or more delinquent) with an aggregate balance of $5.0 million. The average original effective loan-to-value ratio on these eight delinquent loans is approximately 62%. The Company estimates that the realizable value of each of the single family homes backing these loans to be more than the value of the individual loans and, therefore, the Company does not expect to realize a loss on any of these delinquent loans. The Company's credit reserve policy regarding ARM loans is to record a monthly provision of 0.15% (annualized rate) on the outstanding principal balance of loans (including loans securitized by the Company for which the Company has retained first loss exposure), subject to adjustment on certain loans or pools of loans based upon factors such as, but not limited to, age of the loans, borrower payment history, low loan-to-value ratios and quality of underwriting standards applied by the originator.

The following table classifies the Company's portfolio of ARM assets by type of interest rate index.

<TABLE>
<CAPTION>
ARM ASSETS BY INDEX
(Dollar amounts in thousands)

	December 31, 1998		December 31, 1997	
	Carrying Value	Portfolio Mix	Carrying Value	Portfolio Mix
<S>	<C>	<C>	<C>	<C>
ARM ASSETS:				
INDEX:				
One-month LIBOR.	$ 556,574	13.0%	$ 115,198	2.5%
Three-month LIBOR.	181,143	4.2	31,215	0.7
Six-month LIBOR.	939,824	22.0	1,489,802	32.1
Six-month Certificate of Deposit . .	313,268	7.3	278,386	6.0
Six-month Constant Maturity Treasury	49,023	1.2	66,669	1.4
One-year Constant Maturity Treasury.	1,479,054	34.7	2,271,914	49.0
Cost of Funds.	268,486	6.3	385,510	8.3
	3,787,372	88.7	4,638,694	100.0
HYBRID ARM ASSETS	481,045	11.3	-	-
	$4,268,417	100.0%	$4,638,694	100.0%

</TABLE>

The ARM portfolio had a current weighted average coupon of 7.28% at December 31, 1998. This consisted of an average coupon of 6.96% on the hybrid portion of the portfolio and an average coupon of 7.32% on the rest of the portfolio. If the non-hybrid portion of the portfolio had been "fully indexed," the weighted average coupon would have been approximately 6.79%, based upon the current composition of the portfolio and the applicable indices. As of December 31, 1997, the ARM portfolio had a weighted average coupon of 7.56%. If the ARM portfolio had been "fully indexed," the weighted average coupon would have been approximately 7.64%, based upon the composition of the portfolio and the applicable indices at that time. The Company did not own any hybrids as of December 31, 1997. The lower average coupon on the ARM portfolio as of the end of 1998 compared to 1997 is reflective of the overall lower interest rates in the U.S. economy during these respective periods.

At December 31, 1998, the current yield of the ARM assets portfolio was 5.86%, compared to 6.38% as of December 31, 1997, with an average term to the next repricing date of 253 days as of December 31, 1998, compared to 110 days as of December 31, 1997. The increase in the number of days until the next repricing of the ARMs is primarily due to the hybrid loans acquired by the Company during

1998, which, in general, do not reprice for three to five years from their origination date and have an average remaining fixed rate period of 4.3 years. The current yield includes the impact of the amortization of applicable premiums and discounts, the cost of hedging, the amortization of the deferred gains from hedging activity and the impact of principal payment receivables.

The reduction in the yield as of December 31, 1998, compared to December 31, 1997, is primarily because of a combination of a lower average interest coupon on the ARM portfolio by 0.28%, as stated above, and the higher rate of ARM portfolio prepayments as of the end of 1998 compared to the end of 1997. During the fourth quarter of 1998 the rate of prepayments had slowed to 29%, but this was higher than the 24% experienced during the fourth quarter of 1997. The higher level of prepayments increased the amount of premium amortization expense and increased the impact of non-interest earning assets in the form of principal payment receivables. Higher premium amortization and a higher balance of principal payment receivables decreased the ARM portfolio yield by 0.24% as of the end of 1998 compared to the end of 1997.

The following table presents various characteristics of the Company's ARM and Hybrid ARM loan portfolio as of December 31, 1998. This information pertains to both the loans held for securitization and the loans held as collateral for the callable AAA notes payable.

<TABLE>
<CAPTION>
ARM AND HYBRID ARM LOAN PORTFOLIO CHARACTERISTICS

	Average	High	Low
<S>	<C>	<C>	<C>
Unpaid principal balance.	$277,276	$3,450,000	$ 278
Coupon rate on loans. . .	7.50%	9.63%	5.00%
Pass-through rate	7.15%	9.23%	4.73%
Pass-through margin . . .	2.20%	5.18%	0.48%
Lifetime cap.	13.04%	16.75%	9.75%
Original Term (months). .	333	480	120
Remaining Term (months) .	319	358	93

</TABLE>
<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
Geographic Distribution (Top 5 States):		Property type:	
California	21.87%	Single-family	65.23%
Florida.	12.96	DeMinimus PUD	20.00
Georgia.	7.06	Condominium	9.59
New York	6.96	Other	5.18
Colorado	4.42		
Occupancy status:.		Loan purpose:	
Owner occupied	84.14%	Purchase	57.60%
Second home.	11.38	Cash out refinance	23.78
Investor	4.48	Rate & term refinance	18.62
Documentation type:. . . .		Periodic Cap:	
Full/Alternative	95.73%	None	49.04%
Other.	4.27	2.00%	49.33
		0.50%	1.63
Average effective original loan-to-value:	67.55%		

</TABLE>

During the year ended December 31, 1998, the Company purchased $1.502 billion of ARM securities, 93.7% of which were High Quality assets, and $1.092 billion of ARM loans generally originated to "A" quality underwriting standards or seasoned loans with over five years of good payment history and/or low loan-to-value ratios. Of the ARM assets acquired during 1998, approximately 33% were Hybrid ARMs, 32% were indexed to LIBOR, 13% were indexed to U.S. Treasury bill rates, 12% were indexed to a Cost of Funds Index, 9% were indexed to a Certificate of Deposit Index and the remaining 1% to other indices. During 1998, the Company began the acquisition of Hybrid ARM assets that have an interest rate that is fixed for an initial period of time, generally 3 to 5 years, and then convert to an adjustable-rate for the balance of the term of the loan. The Company emphasized purchasing assets during 1998 at substantially lower prices relative to par in order to reduce the potential impact of future prepayments. As a result, the Company emphasized the acquisition of ARM and Hybrid ARM loans and high quality floating rate collateralized mortgage and bond obligations. In doing so, the average premium paid for ARM assets acquired in 1998 was 1.09% of par as compared to 3.29% of par in 1997 when the Company emphasized the purchase of seasoned ARM assets.

The Company sold ARM assets in the amount of $932.3 million at a net loss of $278,000 during 1998. As discussed earlier, a large portion of these sales

occurred in the fourth quarter during a period of time when liquidity was a problem for the mortgage finance industry. During this period, the Company sold $421.2 million of ARM securities at a net loss of $4.1 million. During the prior nine months, the Company had sold $511.1 million of ARM assets at a net gain of $3.8 million. These sales during the first nine months of 1998 reflect the Company's desire to manage the portfolio with a view to enhancing the total return of the portfolio. The Company monitors the performance of its individual ARM assets and generally sells an asset when there is an opportunity to replace it with an ARM asset that has an expected higher long-term yield or more attractive interest rate characteristics. The Company is presented with investment opportunities in the ARM assets market on a daily basis and management evaluates such opportunities against the performance of its existing portfolio. At times, the Company is able to identify opportunities that it believes will improve the total return of its portfolio by replacing selected assets. In managing the portfolio, the Company may realize either gains or losses in the process of replacing selected assets.

For the quarter ended December 31, 1998, the Company's mortgage assets paid down at an approximate average annualized constant prepayment rate of 29% compared to 24% during the same period of 1997. The annualized constant prepayment rate averaged approximately 31% during the full year of 1998 compared to 22% during 1997. When prepayment experience exceeds expectations due to sustained increased prepayment activity, the Company has to amortize its premiums over a shorter time period, resulting in a reduced yield to maturity on the Company's ARM assets. Conversely, if actual prepayment experience is less than the assumed constant prepayment rate, the premium would be amortized over a longer time period, resulting in a higher yield to maturity. The Company monitors its prepayment experience on a monthly basis in order to adjust the amortization of the net premium, as appropriate.

The fair value of the Company's portfolio of ARM assets classified as available-for-sale declined by 2.10% from a negative adjustment of 0.52% of the portfolio as of December 31, 1997, to a negative adjustment of 2.62% as of December 31, 1998. This price decline was primarily because of a decline in the levels of liquidity in the mortgage market, the impact of market difficulties in financing mortgage assets, a widening of credit spreads relative to treasury yields due to uncertainties regarding future economic activity in the U.S. and global economies and because of increased future prepayment expectations which have the effect of shortening the average life of the Company's ARM assets and decreasing their fair value. The amount of the negative adjustment to fair value on the ARM assets classified as available-for-sale increased from $21.7 million as of December 31, 1997, to $83.2 million as of December 31, 1998. As of December 31, 1998, all of the Company's ARM securities are classified as available-for-sale and are carried at their fair value.

The Company has purchased Cap Agreements in order to limit its exposure to risks associated with the lifetime interest rate caps of its ARM assets should interest rates rise above specified levels. The Cap Agreements act to reduce the effect of the lifetime or maximum interest rate cap limitation. The Cap Agreements purchased by the Company will allow the yield on the ARM assets to continue to rise in a high interest rate environment just as the Company's cost of borrowings would continue to rise, since the borrowings do not have any interest rate cap limitation. At December 31, 1998, the Cap Agreements owned by the Company had a remaining notional balance of $4.026 billion with an average final maturity of 2.3 years, compared to a remaining notional balance of $4.156 billion with an average final maturity of 3.1 years at December 31, 1997. Pursuant to the terms of the Cap Agreements, the Company will receive cash payments if the one-month, three-month or six-month LIBOR index increases above certain specified levels, which range from 7.50% to 13.00% and average approximately 10.10%. The fair value of these Cap Agreements also tends to increase when general market interest rates increase and decrease when market interest rates decrease, helping to partially offset changes in the fair value of the Company's ARM assets. At December 31, 1998, the fair value of the Cap Agreements was $1.5 million, $6.8 million less than the amortized cost of the Cap Agreements.

The following table presents information about the Company's Cap Agreement portfolio as of December 31, 1998:

<TABLE>
<CAPTION>
CAP AGREEMENTS STRATIFIED BY STRIKE PRICE
(Dollar amounts in thousands)

Hedged ARM Assets Balance (1)	Weighted Average Life Cap	Cap Agreement Notional Balance (2)	Strike Price	Weighted Average Remaining Term
<S>	<C>	<C>	<C>	<C>

$ 439,159	9.12%	$ 433,261	7.50%	1.3 Years
533,267	10.13	534,804	8.00	3.3
175,811	10.70	181,896	8.50	1.2
276,916	11.22	274,910	9.00	1.0
144,468	11.38	144,819	9.50	1.8
318,654	11.78	315,879	10.00	3.4
428,068	12.09	432,183	10.50	1.9
363,355	12.48	361,297	11.00	2.9
553,091	13.06	554,112	11.50	3.5
344,475	14.20	538,616	12.00	2.1
49,410	16.41	164,969	12.50	1.4
-	-	89,283	13.00	1.1
$ 3,626,674	11.70%	$ 4,026,029	10.10%	2.3 Years

<FN>

(1) Excludes ARM assets that do not have life caps or are hybrids that are match funded during a fixed rate period, in accordance with the Company's investment policy.

(2) As of December 31, 1998, the Company was $399.4 million over hedged, primarily because of the ARM asset sales that occurred during the fourth quarter of 1998. The Company has retained these Cap Agreements to hedge its future acquisitions which it expects to make during 1999. The retained Cap Agreements have a carrying value of $0.

</TABLE>

As of December 31, 1998, the Company was a counterparty to nineteen interest rate swap agreements ("Swaps") having an aggregate notional balance of $1.473 billion. As of year-end, these Swaps had a weighted average remaining term of 16.5 months. In accordance with these Swaps, the Company will pay a fixed rate of interest during the term of these Swaps and receive a payment that varies monthly with the one-month LIBOR rate. As a result of entering into these Swaps, the Company has reduced the interest rate variability of its cost to finance its ARM assets by increasing the average period until the next repricing of its borrowings from 26 days to 204 days. Fourteen of these Swaps were entered into in connection with the Company's acquisition of Hybrid ARM loans and commitments to purchase Hybrid ARM loans. These fourteen Swaps that hedge the fixed rate portion of the Company's Hybrid ARM loans (to within one year of the first interest rate reset) had a notional balance of $523 million at year-end and an average maturity of 44.0 months. The other five swaps with a notional balance of $950 million were entered into for the purpose of lengthening the average next re-pricing date of the Company's borrowings to more closely match the re-pricing characteristics of the Company's ARM assets. These five swaps mature during the first quarter of 1999.

RESULTS OF OPERATIONS - 1998 COMPARED TO 1997

For the year ended December 31, 1998, the Company's net income was $22,695,000, or $0.75 per share (Basic EPS), based on a weighted average of 21,488,000 shares outstanding. That compares to $41,402,000, or $1.95 per share (Basic EPS), based on a weighted average of 18,048,000 shares outstanding for the year ended December 31, 1997. Net interest income for the year totaled $31,040,000, compared to $49,064,000 for the same period in 1997. Net interest income is comprised of the interest income earned on portfolio assets less interest expense from borrowings. During 1998, the Company recorded a net loss on the sale of ARM securities of $278,000 as compared to a gain of $1,189,000 during 1997. Additionally, during 1998, the Company reduced its earnings and the carrying value of its ARM assets by reserving $2,032,000 for potential credit losses, compared to $886,000 during 1997. During 1998, the Company incurred operating expenses of $6,035,000, consisting of a base management fee of $4,142,000, a performance-based fee of $759,000 and other operating expenses of $1,134,000. During 1997, the Company incurred operating expenses of $7,965,000, consisting of a base management fee of $3,664,000, a performance-based fee of $3,363,000 and other operating expenses of $938,000. Total operating expenses decreased as a percentage of average assets to 0.13% for 1998, compared to 0.21% for 1997, primarily due to the elimination of the performance-based fee during the last three quarters of 1998.

The Company's return on average common equity was 4.80% for the year ended December 31, 1998 compared to 12.72% for the year ended December 31, 1997. The primary reasons for the lower return on average common equity are the Company's lower interest rate spread, discussed further below and the net loss recorded in 1998 on the sale of ARM securities, which were partially offset by lower operating expenses.

The table below highlights the historical trend and the components of return on average common equity (annualized) and the 10-year U. S. Treasury average yield during each respective quarter which is applicable to the computation of the performance fee:

<TABLE>

<CAPTION>

COMPONENTS OF RETURN ON AVERAGE COMMON EQUITY (1)

For The Quarter Ended	Net Interest Income/ Equity	Provision For Losses/ Equity	Gain (Loss) on ARM Sales/ Equity	G & A Expense (2)/ Equity	Performance Fee/ Equity	Preferred Dividend/ Equity	Net Income/ Equity (ROE)	10-Year US Treas. Average Yield	ROE in Excess of 10-Year US Treas. Average Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Mar 31, 1996.	13.37%	-	0.03%	1.04%	1.27%	-	11.08%	5.90%	5.18%
Jun 30, 1996.	13.14%	-	-	1.00%	0.92%	-	11.22%	6.72%	4.50%
Sep 30, 1996.	13.42%	0.34%	0.88%	1.03%	1.07%	-	11.86%	6.78%	5.08%
Dec 31, 1996.	14.99%	1.32%	1.38%	1.46%	1.23%	-	12.37%	6.35%	6.02%
Mar 31, 1997.	18.85%	0.32%	0.01%	1.65%	1.43%	2.07%	13.40%	6.55%	6.85%
Jun 30, 1997.	19.48%	0.34%	0.03%	1.81%	1.25%	2.67%	13.45%	6.71%	6.74%
Sep 30, 1997.	17.66%	0.30%	0.45%	1.64%	1.24%	2.23%	12.70%	6.26%	6.44%
Dec 31, 1997.	15.62%	0.33%	1.06%	1.59%	1.01%	2.12%	11.63%	5.92%	5.71%
Mar 31, 1998.	14.13%	0.48%	1.89%	1.62%	0.94%	2.06%	10.91%	5.60%	5.31%
Jun 30, 1998.	9.15%	0.53%	1.76%	1.58%	0.00%	1.96%	6.83%	5.60%	1.23%
Sep 30, 1998.	6.82%	0.66%	0.89%	1.54%	0.00%	1.97%	3.54%	5.24%	-1.70%
Dec 31, 1998.	7.27%	0.76%	-4.88%	1.57%	0.00%	2.01%	-1.95%	4.66%	-6.61%

<FN>

(1) Average common equity excludes unrealized gain (loss) on available-for-sale ARM securities.
(2) Excludes performance fees.
</TABLE>

The decline in the Company's return on common equity from the fourth quarter of 1997 to the fourth quarter of 1998 is primarily due to the decline in the net interest spread between the Company's interest-earning assets and interest-bearing liabilities, an increase in the Company's provision for losses and the impact of a net loss on ARM sales as compared to a net gain on ARM sales. This decline in net return on common equity was partially offset by the elimination of the performance-based fee. The decline in the Company's return on common equity from the third quarter of 1998 to the fourth quarter of 1998 is primarily due to the impact of a net loss on ARM sales as compared to a net gain on ARM sales and an increase in the Company's provision for losses. This decline was partially offset by an increase in the net interest spread between the Company's interest-earning assets and interest-bearing liabilities.

The following table presents the components of the Company's net interest income for the years ended December 31, 1998 and 1997:

<TABLE>
<CAPTION>

COMPARATIVE NET INTEREST INCOME COMPONENTS
(Dollar amounts in thousands)

	1998	1997
<S>	<C>	<C>
Coupon interest income on ARM assets	$335,983	$271,170
Amortization of net premium.	(46,101)	(21,343)
Amortization of Cap Agreements . . .	(5,444)	(5,313)
Amort. of deferred gain from hedging	1,889	1,992
Cash and cash equivalents.	705	1,215
Interest income.	287,032	247,721
Reverse repurchase agreements. . . .	251,462	197,006
Callable AAA notes payable	2,811	-
Other borrowings	632	969
Interest rate swaps.	1,087	682
Interest expense	255,992	198,657
Net interest income.	$ 31,040	$ 49,064

</TABLE>

As presented in the table above, the Company's net interest income decreased by $18.0 million in 1998 compared to 1997, primarily because the amortization of net premium increased by $24.8 million. In 1998 the amortization of net premium was 13.7% of coupon interest income on ARM assets as compared to 7.9% in 1997, reflecting, in part, the increased rate of ARM prepayments in 1998 as compared to 1997.

The following table reflects the average balances for each category of the

Company's interest earning assets as well as the Company's interest bearing liabilities, with the corresponding effective rate of interest annualized for the years ended December 31, 1998 and 1997:

<TABLE>
<CAPTION>

AVERAGE BALANCE AND RATE TABLE
(Dollar amounts in thousands)

	For the Year Ended December 31, 1998		For the Year Ended December 31, 1997	
	Average Balance	Effective Rate	Average Balance	Effective Rate
<S>	<C>	<C>	<C>	<C>
Interest Earning Assets:				
Adjustable-rate mortgage assets. . . .	$4,800,772	5.96%	$3,755,064	6.56%
Cash and cash equivalents.	16,214	4.35	21,774	5.57
	4,816,986	5.96	3,776,838	6.56
Interest Bearing Liabilities:				
Borrowings	4,430,167	5.78	3,446,913	5.76
Net Interest Earning Assets and Spread .	$ 386,819	0.18%	$ 329,925	0.80%
Yield on Net Interest Earning Assets (1)		0.64%		1.30%

<FN>
(1) Yield on Net Interest Earning Assets is computed by dividing annualized net interest income by the average daily balance of interest earning assets.
</TABLE>

As a result of the yield on the Company's interest-earning assets declining to 5.96% during 1998 from 6.56% during 1997 and the Company's cost of funds increasing to 5.78% during 1998 from 5.76% during 1997, net interest income decreased by $18,024,000. This decrease in net interest income is a combination of rate and volume variances. There was a combined unfavorable rate variance of $23,332,000, which was almost entirely the result of a lower yield on the Company's ARM assets portfolio and other interest-earning assets. The increased average size of the Company's portfolio during 1998 compared to 1997 contributed to higher net interest income in the amount of $5,310,000. The average balance of the Company's interest-earning assets was $4.817 billion during 1998 compared to $3.777 billion during 1997 -- an increase of 28%.

The following table highlights the components of net interest spread and the annualized yield on net interest-earning assets as of each applicable quarter end:

<TABLE>
<CAPTION>

COMPONENTS OF NET INTEREST SPREAD AND YIELD ON NET INTEREST EARNING ASSETS (1)
(Dollar amounts in millions)

	Average	ARM Assets		Yield on			Yield on
As of the Quarter Ended	Interest Earning Assets	Wgt. Avg. Fully Indexed Coupon	Weighted Average Coupon	Yield Adj. (2)	Interest Earning Assets	Cost of Funds	Net Interest Spread	Net Interest Earning Assets
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Mar 31, 1996.	$ 2,025.8	7.56%	7.48%	0.99%	6.49%	5.60%	0.89%	1.32%
Jun 30, 1996.	2,248.2	7.83%	7.28%	0.85%	6.43%	5.59%	0.84%	1.32%
Sep 30, 1996.	2,506.0	7.80%	7.31%	0.80%	6.51%	5.71%	0.80%	1.32%
Dec 31, 1996.	2,624.4	7.61%	7.57%	0.93%	6.64%	5.72%	0.92%	1.34%
Mar 31, 1997.	2,950.6	7.93%	7.53%	0.89%	6.65%	5.67%	0.98%	1.54%
Jun 30, 1997.	3,464.1	7.75%	7.57%	0.90%	6.67%	5.77%	0.90%	1.39%
Sep 30, 1997.	4,143.7	7.63%	7.65%	1.07%	6.58%	5.79%	0.79%	1.22%
Dec 31, 1997.	4,548.9	7.64%	7.56%	1.18%	6.38%	5.91%	0.47%	0.96%
Mar 31, 1998.	4,859.7	7.47%	7.47%	1.23%	6.24%	5.74%	0.50%	0.92%
Jun 30, 1998.	4,918.3	7.51%	7.44%	1.50%	5.94%	5.81%	0.13%	0.56%
Sep 30, 1998.	4,963.7	6.97%	7.40%	1.52%	5.88%	5.78%	0.09%	0.46%
Dec 31, 1998.	4,526.2	6.79%	7.28%	1.42%	5.86%	5.94%	-0.08%	0.61%

<FN>
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(1) Yield on Net Interest Earning Assets is computed by dividing annualized net interest income by the average daily balance of interest earning assets.
(2) Yield adjustments include the impact of amortizing premiums and discounts, the cost of hedging activities, the amortization of deferred gains from hedging activities and the impact of principal payment

receivables. The following table presents these components of the yield adjustments for the dates presented in the table above:

COMPONENTS OF THE YIELD ADJUSTMENTS ON ARM ASSETS

As of the Quarter Ended	Premium/ Discount Amort.	Impact of Principal Payments Receivable	Hedging Activity	Amort. of Deferred Gain from Hedging Activity	Total Yield Adjustment
Mar 31, 1996.	0.77%	0.11%	0.31%	(0.20)%	0.99%
Jun 30, 1996.	0.67%	0.07%	0.27%	(0.16)%	0.85%
Sep 30, 1996.	0.57%	0.08%	0.25%	(0.10)%	0.80%
Dec 31, 1996.	0.69%	0.09%	0.23%	(0.08)%	0.93%
Mar 31, 1997.	0.63%	0.13%	0.19%	(0.07)%	0.89%
Jun 30, 1997.	0.66%	0.13%	0.16%	(0.05)%	0.90%
Sep 30, 1997.	0.85%	0.12%	0.15%	(0.05)%	1.07%
Dec 31, 1997.	0.94%	0.14%	0.14%	(0.04)%	1.18%
Mar 31, 1998.	0.98%	0.16%	0.13%	(0.04)%	1.23%
Jun 30, 1998.	1.24%	0.17%	0.13%	(0.04)%	1.50%
Sep 30, 1998.	1.25%	0.18%	0.13%	(0.04)%	1.52%
Dec 31, 1998.	1.18%	0.14%	0.14%	(0.04)%	1.42%

As of December 31, 1998, the Company's yield on its ARM assets portfolio, including the impact of the amortization of premiums and discounts, the cost of hedging, the amortization of deferred gains from hedging activity and the impact of principal payment receivables, was 5.86%, compared to 6.38% as of December 31, 1997-- a decrease of 0.52%. The Company's cost of funds as of December 31, 1998, was 5.94%, compared to 5.91% as of December 31, 1997 -- an increase of 0.03%. As a result of these changes, the Company's net interest spread as of December 31, 1998 was -0.08%, compared to 0.47% as of December 31, 1997. The decline in the net interest spread is largely attributable to the decline in the ARM portfolio yield which is primarily the result of the lower average interest coupon and the higher level of premium amortization. The increase in the Company's cost of funds as of year end is generally the impact of the rate on the newly issued callable AAA notes payable. The notes were issued on December 18, 1998 at a time when finance rates are generally seasonably high, reflecting the mortgage finance market's reluctance to finance assets over year-end, and the notes were issued at a time when mortgage finance spreads were unusually wide due to the liquidity crises discussed earlier. Subsequent to year-end, the rate on the callable AAA notes, which floats with one-month LIBOR, decreased by 0.68%.

The Company's net interest spread declined from 0.47% as of December 31, 1997 to -0.08% as of December 31, 1998. The primary reasons for these declines continues to be the relationship between the one-year U. S. Treasury yield and LIBOR and the impact of the increased rate of ARM prepayments as well as the impact of issuing the callable AAA notes close to year-end. From December 31, 1997 to December 31, 1998, the one-year U.S. Treasury yield declined by approximately 0.98%, from 5.51% to 4.53%, while LIBOR rates applicable to the Company's borrowings decreased by only 0.70%, from 5.77% to 5.07%, creating a negative index spread as of December 31, 1998 of -0.54% compared to a negative index spread as of December 31, 1997 of -0.26%. As of December 31, 1998, approximately 35% of the Company's ARM assets were indexed to the one-year U. S. Treasury bill yield, down from approximately 49% as of December 31, 1997, and, therefore, the yield on such assets declined with the index. To put this in historical perspective, the one-year U.S. Treasury bill yield had a spread of -0.26% to the average of the one- and three-month LIBOR rate as of December 31, 1997, compared to having a spread of -0.02% at December 31, 1996, -.06% on average during 1997, 0.04% on average during 1996 and -0.07% on average during 1995. For the five-year period from 1993 to 1997, the average spread was 0.15%. The average spread during the three month period ended December 31, 1998 was -0.93%, which was substantially worse than the average spread during the previous quarter of -0.53% or in the second quarter of 1998 when the average spread was -0.27%. The Company does not know when or if the relationship between the one-year U. S. Treasury bill yield and LIBOR will return to historical norms, but the Company's spreads are expected to improve if that occurs. As of the middle of March 1999, the one-year U.S. Treasury bill yield and LIBOR spread had improved back to approximately -.25%. The Company is also continuing to decrease its exposure to the one-year U. S. Treasury/LIBOR relationship by reducing the portion of the portfolio indexed to the one-year U. S. Treasury rate and financed with LIBOR. The Company's ARM portfolio yield also was lower as of December 31, 1998 compared to December 31, 1997 because of an increase in the amortization of the net premium on ARM assets which reflects an increase in the average rate of prepayments on the ARM portfolio. During the fourth quarter of 1998, the average prepayment rate was 29%, compared to 24% during the comparable period in 1997. The impact of this was to increase the average amount of non-interest-earning assets in the form of principal payments

receivable as well as to increase the amortization expense related to writing off the Company's premiums and discounts. The Company generally amortizes its premiums and discounts on a monthly basis based on the most recent three-month average of the prepayment rate of its ARM assets, thereby adjusting its amortization to current market conditions, which is reflected in the yield of the ARM portfolio. As of December 31, 1998, the yield adjustment related to premium amortization amounted to 1.18% compared to 0.94% as of December 31, 1997. As discussed above, the Company's net spread of -.08% also reflects the cost of the callable AAA notes which were issued on December 18, 1998 and had an interest rate of 6.32% as of year-end, which has subsequently declined to a rate of 5.64% in January and which will continue to float with one-month LIBOR.

The Company's provision for losses has increased with the acquisition of whole loans. The provision for loan losses is based on an annualized rate of 0.15% on the outstanding principal balance of loans as of each month-end, subject to certain adjustments as discussed above. As of December 31, 1998, the Company's whole loans, including those held as collateral for the AAA notes payable, accounted for 24.5% of the Company's portfolio of ARM assets compared to 2.6% as of December 31, 1997. To date, the Company has not experienced any actual losses in its whole loan portfolio, but based on industry standards, losses are expected and are being provided for as the portfolio ages.

During 1998, the Company realized a net loss from the sale of ARM securities in the amount of $278,000 compared to a gain of $1,189,000 during 1997. The 1998 sales generally fall into two categories. During the first nine months of 1998, the Company realized a net gain on the sale of ARM assets in the amount $3,780,000 as part of the Company's ongoing portfolio management. These sales reflect the Company's desire to manage the portfolio with a view to enhancing the total return of the portfolio over the long-term while generating current earnings during this period of fast prepayments and narrow interest spreads. The Company monitors the performance of its individual ARM assets and selectively sells an asset when there is an opportunity to replace it with an ARM asset that has an expected higher long-term yield or more attractive interest rate characteristics. The Company sold $511.8 million of ARM assets during the first nine months of 1998, most which were either indexed to a Cost of Funds index, the one-year U. S. Treasury index or were prepaying faster than expected. During the first nine months of 1998 when the Company sold selected assets, it was able to reinvest the proceeds in ARM assets that were indexed to indices preferred by the Company and at prices that reflected current market assumptions regarding prepayments speeds and interest rates and thus far, as a whole, they have been performing better than the portfolio acquired before 1998. During the fourth quarter of 1998, the Company sold assets for the primary purpose of maintaining adequate levels of liquidity at a time when the mortgage finance market experienced a sudden liquidity crises and, thus, was able to avoid the forced liquidation of any of its assets by mortgage finance counterparties. However, the Company realized a net loss of $4,059,000 on these sales. Although the Company is never pleased when it has to sell assets at a loss, the Company was very pleased with the response of its mortgage finance counterparties to the high credit quality and highly liquid characteristics of the Company's ARM portfolio in that all of the Company's counterparties, upon review of the company's ARM portfolio and investment policies, continued to provide financing at reasonable collateral values and reasonable requirements for over collateralization.

As a REIT, the Company is required to declare dividends amounting to 85% of each year's taxable income by the end of each calendar year and to have declared dividends amounting to 95% of its taxable income for each year by the time it files its applicable tax return and, therefore, generally passes through substantially all of its earnings to shareholders without paying federal income tax at the corporate level. As of December 31, 1998, the Company had distributed all of its cumulative taxable income to its shareholders. Since the Company, as a REIT, pays its dividends based on taxable earnings, the dividends may at times be more or less than reported earnings. The following table provides a reconciliation between the Company's earnings as reported based on generally accepted accounting principles and the Company's taxable income before its' common dividend deduction:

<TABLE>
<CAPTION>
RECONCILIATION OF REPORTED NET INCOME TO TAXABLE NET INCOME
(Dollar amounts in thousands)

	Years Ending December 31,	
	1998	1997
<S>	<C>	<C>
Net income.	$22,695	$41,402
Additions:		
Provision for credit losses.	2,032	886
Net compensation related items	165	(195)
Non-deductible capital losses.	278	-

Deductions:		
Dividend on Series A Preferred Shares	(5,009)	(6,251)
Actual credit losses on ARM securities	(1,766)	(96)
Taxable net income.	$18,395	$35,746

</TABLE>

On August 17, 1998, the Company announced that its Board of Directors had approved a rescheduling of the Company's quarterly board meetings and the declaration, record and payment dates of its regular cash dividend on its common stock. Under the new schedule, the Board of Directors will meet after the close of each quarter end, so the Board can review actual quarterly financial results as they consider the declaration of common dividends. This action is also expected to provide a modest benefit to the financial results of the Company as the Company will be able to retain earnings over each quarter end and to leverage this additional capital for an extended period of time, generating additional income for shareholders when the additional assets are invested at a positive effective margin. This action does not effect the dividend dates in connection with the Company's Series A 9.68% Cumulative Convertible Preferred Shares.

For the year ended December 31, 1998, the Company's ratio of operating expenses to average assets was 0.13% compared to 0.21% for 1997. The Company's expense ratios are among the lowest of any company investing in mortgage assets, giving the Company what it believes to be a significant competitive advantage over more traditional mortgage portfolio lending institutions such as banks and savings and loans. This competitive advantage enables the Company to operate with less risk, such as credit and interest rate risk, and still generate an attractive long-term return on equity when compared to these more traditional mortgage portfolio lending institutions. The Company pays the Manager an annual base management fee, generally based on average shareholders' equity, not assets, as defined in the Management Agreement, payable monthly in arrears as follows: 1.1% of the first $300 million of Average Shareholders' Equity, plus 0.8% of Average Shareholders' Equity above $300 million. Since this management fee is based on shareholders' equity and not assets, this fee increases as the Company successfully accesses capital markets and raises additional equity capital and is, therefore, managing a larger amount of invested capital on behalf of its shareholders. In order for the Manager to earn a performance fee, the rate of return on the shareholders' investment, as defined in the Management Agreement, must exceed the average ten-year U.S. Treasury rate during the quarter plus 1%. During 1998, as the Company's return on shareholders' equity declined, compared to 1997, the performance fee also declined, to an annualized 0.02% of average assets compared to 0.09% during 1997. As presented in the following table, the performance fee is a variable expense that fluctuates with the Company's return on shareholders' equity relative to the average 10-year U.S. Treasury rate.

The following table highlights the quarterly trend of operating expenses as a percent of average assets:

<TABLE>
<CAPTION>

ANNUALIZED OPERATING EXPENSE RATIOS

For The Quarter Ended	Management Fee & Other Expenses/ Average Assets	Total Performance Fee/ Average Assets	G & A Expense/ Average Assets
<S>	<C>	<C>	<C>
Mar 31, 1996.	0.09%	0.12%	0.21%
Jun 30, 1996.	0.10%	0.09%	0.19%
Sep 30, 1996.	0.10%	0.10%	0.20%
Dec 31, 1996.	0.13%	0.11%	0.24%
Mar 31, 1997.	0.14%	0.11%	0.25%
Jun 30, 1997.	0.13%	0.09%	0.22%
Sep 30, 1997.	0.12%	0.09%	0.21%
Dec 31, 1997.	0.12%	0.05%	0.17%
Mar 31, 1998.	0.10%	0.06%	0.16%
Jun 30, 1998.	0.10%	0.00%	0.10%
Sep 30, 1998.	0.10%	0.00%	0.10%
Dec 31, 1998.	0.11%	0.00%	0.11%

</TABLE>

RESULTS OF OPERATIONS - 1997 COMPARED TO 1996

For the year ended December 31, 1997, the Company's net income was $41,402,000, or $1.95 per share (Basic EPS), based on a weighted average of 18,047,955 shares outstanding. That compares to $25,737,000, or $1.73 per share (Basic EPS), based on a weighted average of 14,873,700 shares outstanding for the year ended December 31, 1996. This 61% increase in earnings -- a 13% increase on a per-share basis -- was achieved despite a 21% increase in the average number of shares outstanding during the two periods. Net interest income for the year

totaled $49,064,000, compared to $30,345,000 for the same period in 1996, an increase of 62%. Net interest income is comprised of the interest income earned on mortgage investments less interest expense from borrowings. During 1997, the Company recorded a gain on the sale of ARM securities of $1,189,000 as compared to a gain of $1,362,000 during 1996. Additionally, during 1997, the Company reduced its earnings and the carrying value of its ARM assets by reserving $886,000 for potential credit losses, compared to $990,000 during 1996. During 1997, the Company incurred operating expenses of $7,965,000, consisting of a base management fee of $3,664,000, a performance-based fee of $3,363,000 and other operating expenses of $938,000. During 1996, the Company incurred operating expenses of $4,980,000, consisting of a base management fee of $1,872,000, a performance-based fee of $2,462,000 and other operating expenses of $646,000. Total operating expenses decreased as a percentage of net interest income to 16.2% for 1997, compared to 16.4% for 1996, thereby contributing to the Company's improved net earnings.

The Company's return on average common equity for the year ended December 31, 1997 was 12.72%, compared to 11.68% for the same period in 1996.

The following table presents the components of the Company's net interest income for the years ended December 31, 1997 and 1996:

<TABLE>
<CAPTION>

COMPARATIVE NET INTEREST INCOME COMPONENTS
(Dollar amounts in thousands)

	1997	1996
<S>	<C>	<C>
Coupon interest income on ARM assets	$271,170	$165,105
Amortization of net premium.	(21,343)	(12,466)
Amortization of Cap Agreements . . .	(5,313)	(5,313)
Amort. of deferred gain from hedging	1,992	3,433
Cash and cash equivalents.	1,215	752
Interest income.	247,721	151,511
Reverse repurchase agreements. . . .	197,006	118,752
Other borrowings	969	1,332
Interest rate swaps.	682	1,082
Interest expense	198,657	121,166
Net interest income.	$ 49,064	$ 30,345

</TABLE>

Despite the fact that the Company's cost of funds increased from 5.67% in 1996 to 5.76% in 1997, its net interest income increased during this same time period, primarily due to the increased size of the Company's portfolio. Net interest income increased by $18,719,000, which is a combination of rate and volume variances. There was a combined favorable rate variance of $623,000, which consisted of a favorable variance of $2,691,000 resulting from the higher yield on the Company's ARM assets portfolio and other interest-earning assets and an unfavorable variance of $2,068,000 resulting from an increase in the Company's cost of funds. The increased average size of the Company's portfolio during 1997 compared to 1996 contributed to higher net interest income in the amount of $18,096,000. The average balance of the Company's interest-earning assets was $3.777 billion during 1997 compared to $2.351 billion during 1996 -- an increase of 61%.

The Company's ARM assets portfolio generated a yield of 6.56% during 1997, compared to 6.45% during 1996. The Company's cost of funds during 1997 was 5.76%, compared to 5.67% during 1996, primarily as a result of higher short-term interest rates available to the Company for financing purposes. Despite the fact that the Company's cost of funds increased, the Company's net spread increased to 0.80% for 1997 from a spread of 0.78% for 1996 -- an increase of 0.02%. The Company's yield on net interest-earning assets, which includes the impact of shareholders' equity, rose to 1.30% for 1997 from 1.29% for 1996.

The following table reflects the average balances for each category of the Company's interest-earning assets as well as the Company's interest-bearing liabilities with the corresponding effective rate of interest annualized for the years ended December 31, 1997, and December 31, 1996:

<TABLE>
<CAPTION>

AVERAGE BALANCE AND RATE TABLE
(Dollar amounts in thousands)

	For the Year Ended December 31, 1997		For the Year Ended December 31, 1996	
	Average Balance	Effective Rate	Average Balance	Effective Rate
<S>	<C>	<C>	<C>	<C>
Interest-Earning Assets:				
Adjustable-rate mortgage assets	$3,755,064	6.56%	$2,336,900	6.45%
Cash and cash equivalents	21,774	5.57	14,200	5.29
	3,776,838	6.56	2,351,100	6.45
Interest-Bearing Liabilities:				
Borrowings	3,446,913	5.76	2,138,236	5.67
Net Interest-Earning Assets and Spread	$ 329,925	0.80%	$ 212,864	0.78%
Yield on Net Interest-Earning Assets (1)		1.30%		1.29%

<FN>
(1) Yield on Net Interest-Earning Assets is computed by dividing annualized net interest income by the average daily balance of interest-earning assets.
</TABLE>

As of the end of 1997, the Company's yield on its ARM assets portfolio, including the impact of the amortization of premiums and discounts, the cost of hedging, the amortization of deferred gains from hedging activity and the impact of principal payment receivables, was 6.38%, compared to 6.64% as of the end of 1996 -- a decrease of 0.26%. The Company's cost of funds as of December 31, 1997, was 5.91%, compared to 5.72% as of December 31, 1996 -- an increase of 0.19%. This increase was primarily the result of financing a portion of the ARM portfolio over 1997 year-end at a time when LIBOR interest rates increased suddenly late in November due to year-end pressures. Fortunately the Company, expecting this to occur, already had financed most of its portfolio over year-end before the LIBOR increase and, thus, was able to avoid the full potential impact. Subsequent to year-end, LIBOR interest rates have generally returned to their previous level, which will be reflected in first quarter 1998 interest rate spreads. As a result of these changes, the Company's net interest spread as of the end of 1997 was 0.47%, compared to 0.92% as of the end of 1996 -- a decrease of 0.45%.

During 1997, the Company realized a net gain from the sale of ARM securities in the amount of $1,189,000, compared to a gain of $1,362,000 during 1996. Additionally, the Company recorded a provision for credit losses in the amount of $886,000 during the year ended December 31, 1997, although the Company only incurred actual credit losses of $96,000 during the year, compared to a provision for credit losses in the amount of $990,000 during 1996 with no actual credit losses. The Company provided for additional credit losses because its review of underlying ARM collateral indicates potential for some loss on two ARM securities, which, at December 31, 1997 were being carried at a market value of $13.1 million, or 0.3% of the Company's ARM portfolio. The Company also has a policy to regularly record a provision for possible credit losses on its portfolio of ARM loans.

For both years ended December 31, 1997 and 1996, the Company's ratio of operating expenses to average assets was 0.21%. The Company's operating expense ratio is well below the average of other more traditional mortgage portfolio lending institutions such as banks and savings and loans. The Company pays the Manager an annual base management fee, generally based on average shareholders' equity, not assets, as defined in the Management Agreement, payable monthly in arrears as follows: 1.1% of the first $300 million of Average Shareholders' Equity, plus 0.8% of Average Shareholders' Equity above $300 million. Since this management fee is based on shareholders' equity and not assets, this fee increases as the Company successfully accesses capital markets and raises additional equity capital and is, therefore, managing a larger amount of invested capital on behalf of its shareholders. In order for the Manager to earn a performance fee, the rate of return on the shareholders' investment, as defined in the Management Agreement, must exceed the average ten-year U.S. Treasury rate during the quarter plus 1%. During 1997, the Manager earned a performance fee of $3,363,000. During 1997, after paying this performance fee, the Company's return on common equity was 12.72%. See Note 7 to the Financial Statements for a discussion of the management fee formulas.

MARKET RISKS

The market risk management discussion and the amounts estimated from the analysis that follows are forward-looking statements regarding market risk that assume that certain adverse market conditions occur. Actual results may differ materially from these projected results due to changes in the Company's ARM portfolio and borrowings mix and due to developments in the domestic and global financial and real estate markets. The analytical methods utilized by the Company to assess and mitigate these market risks should not be considered projections of future events or operating performance.

As a financial institution that has only invested in U.S. dollar denominated instruments, primarily residential mortgage instruments, and has only borrowed money in the domestic market, the Company is not subject to foreign currency exchange or commodity price risk, but rather the Company's market risk exposure is limited solely to interest rate risk. Interest rate risk is defined as the sensitivity of the Company's current and future earnings to interest rate volatility, variability of spread relationships and the difference in repricing intervals between the Company's assets and liabilities. Interest rate risk impacts the Company's interest income, interest expense and the market value on a large portion of the Company's assets and liabilities. The management of interest rate risk attempts to maximize earnings and to preserve capital by minimizing the negative impacts of changing market rates, asset and liability mix and prepayment activity.

The table below presents the Company's consolidated interest rate risk using the static gap methodology. This method reports the difference between interest rate sensitive assets and liabilities at specific points in time as of December 31, 1998, based on the earlier of term to repricing or the term to repayment of the of the asset or liability. The table does not include assets and liabilities that are not interest rate sensitive such as payment receivables, prepaid expenses, payables and accrued expenses. The table provides a projected repricing or maturity based on scheduled rate adjustments, scheduled payments, and estimated prepayments. For many of the Company's assets and certain of the Company's liabilities, the maturity date is not determinable with certainty. In general, the Company's ARM assets can be prepaid before contractual amortization and/or maturity. Likewise, the Company's callable AAA rated notes are paid down as the related ARM asset collateral pays down. The static gap report reflects the Company's investment policy that allows for only the acquisition of ARM assets that reprice within one year or Hybrids ARMs that are match funded to within one-year of their initial repricing.

The difference between assets and liabilities repricing or maturing in a given period is one approximate measure of interest rate sensitivity. More assets than liabilities repricing in a period (a positive gap) implies earnings will rise as interest rates rise and decline as interest rates decline. More liabilities repricing than assets (a negative gap) implies declining income as rates rise and increasing income as rates decline. The static gap analysis does not take into consideration constraints on the repricing of the interest rate of ARM assets in a given period resulting from periodic and lifetime cap features nor the behavior of various indexes applicable to the Company's assets and liabilities. Different interest rate indexes exhibit different degrees of volatility in the same interest rate environment due to other market factors such as, but not limited to, government fiscal policies, market concern regarding potential credit losses, changes in spread relationships among different indexes and global market disruptions.

The use of interest rate instruments such as Swaps and Cap Agreements are integrated into the Company's interest rate risk management. The notional amounts of these instruments are not reflected in the Company's balance sheet. The Swaps are included in the static gap report for purposes of analyzing interest rate risk because they have the affect of adjusting the repricing characteristics of the Company's liabilities. The Cap Agreements are not considered in a static gap report because they do not effect the timing of the repricing of the instruments they hedge, but rather they, in effect, remove the limit on the amount of interest rate change that can occur relative to the applicable hedged asset.

<TABLE>
<CAPTION>

INTEREST RATE SENSITIVITY GAP ANALYSIS
(Dollar amounts in millions)

December 31, 1998

	3 Months or less	Over 3 Months to 6 Months	Over 6 Months to 1 Year	Over 1 Year	Total
<S>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:					
ARM securities	$ 1,722,897	$ 907,114	$620,671	$ -	$3,250,682
ARM loans.	413,743	137,813	45,923	-	597,479
Hybrid ARM loans	20,422	22,552	44,834	393,038	480,846
Cash and cash equivalents.	36,431	-	-	-	36,431

Total interest-earning assets. .	2,193,493	1,067,479	711,428	393,038	4,365,438
Interest-bearing liabilities:					
Reverse repurchase agreements. . .	2,867,207	-	-	-	2,867,207
Callable AAA notes	1,131,007	-	-	-	1,131,007
Other borrowings	83	602	712	632	2,029
Swaps.	(1,249,843)	774,983	58,062	416,798	-
Total interest-bearing liabilities.	2,748,454	775,585	58,774	417,430	4,000,243
Interest rate sensitivity gap. . . .	$ (554,961)	$ 291,894	$652,654	$(24,392)	$ 365,195
Cumulative interest rate sensitivity gap.	$ (554,961)	$ (263,067)	$389,587	$365,195	
Cumulative interest rate sensitivity gap as a percentage of total assets before market value adjustments. . .	(12.53)%	(5.94)%	8.79%	8.25%	

</TABLE>

Although the static gap methodology is widely accepted in identifying interest rate risk, it does not take into consideration changes that may occur such as, but not limited to, changes in investment and financing strategies, changes in market spreads and relationships among different indexes, changes in hedging strategy, changes in prepayment speeds and changes in business volumes. Accordingly, the Company makes extensive usage of an earnings simulation model to analyze its level of interest rate risk. This analytical technique used to measure and manage interest rate risk includes the impact of all on-balance-sheet and off-balance-sheet financial instruments.

There are a number of key assumptions made in using the Company's earnings simulation model. These key assumptions include changes in market conditions that effect interest rates, the pricing of ARM products, the availability of ARM products, the availability and the cost of financing for ARM products. Other key assumptions made in using the simulation model include prepayment speeds, management's investment, financing and hedging strategies and the issuance of new equity. The Company typically runs the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide the Company with a range of possible earnings outcomes in order to assess potential interest rate risk. The assumptions used represent the Company's estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in the Company's ARM assets in determining the earnings at risk.

At December 31, 1998, based on the earnings simulation model, the Company's potential earnings at risk to a gradual, parallel 100 basis point rise in market interest rates over the next twelve months was approximately 6.3% of projected 1998 net income. The assumptions used in the earnings simulation model are inherently uncertain and as a result, the analysis cannot precisely predict the impact of higher interest rates on net income. Actual results would differ from simulated results due to timing, magnitude and frequency of interest rate changes, changes in prepayment speed other than what was assumed in the model, changes in other market conditions and management strategies to offset its potential exposure, among other factors. This measure of risk represents the Company's exposure to higher interest rates at a particular point in time. The Company's actual risk is always changing. The Company continuously monitors the Company's risk profile as it changes and alters its strategies as appropriate in its view of the likely course of interest rates and other developments in the Company's business.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of funds for the year ended December 31, 1998 consisted of reverse repurchase agreements, which totaled $2.867 billion, and callable AAA notes, which had a balance of $1.127 billion. The Company's other significant sources of funds for the year ended December 31, 1998 consisted primarily of payments of principal and interest from its ARM assets in the amount of $2.1 billion and proceeds from the sale of ARM assets in the amounts of $932.0 million. In the future, the Company expects its primary sources of funds will consist of borrowed funds under reverse repurchase agreement transactions with one- to twelve-month maturities, capital market financing transactions collateralized by ARM and hybrid loans, proceeds from monthly payments of principal and interest on its ARM assets portfolio and occasional

asset sales. The Company's liquid assets generally consist of unpledged ARM assets, cash and cash equivalents.

Total borrowings incurred at December 31, 1998, had a weighted average interest rate of 5.84%. The reverse repurchase agreements had a weighted average remaining term to maturity of 2.0 months and the callable AAA notes payable had a final maturity of January 25, 2029, but will be paid down as the ARM assets collateralizing the notes are paid down. As of December 31, 1998, $1.147 billion of the Company's borrowings were variable-rate term reverse repurchase agreements. Term reverse repurchase agreements are committed financings with original maturities that range from three months to two years. The interest rates on these term reverse repurchase agreements are indexed to either the one-, three- or six-month LIBOR rate and reprice accordingly. The interest rate on the callable AAA notes adjusts monthly based on changes in one-month LIBOR.

The Company has arrangements to enter into reverse repurchase agreements with 24 different financial institutions and on December 31, 1998, had borrowed funds with 16 of these firms. Because the Company borrows money under these agreements based on the fair value of its ARM assets and because changes in interest rates can negatively impact the valuation of ARM assets, the Company's borrowing ability under these agreements could be limited and lenders may initiate margin calls in the event interest rates change or the value of the Company's ARM assets decline for other reasons. Additionally, certain of the Company's ARM assets are rated less than AA by the Rating Agencies (approximately 4.0%) and have less liquidity than assets that are rated AA or higher. Other mortgage assets which are rated AA or higher by the Rating Agencies derive their credit rating based on a mortgage pool insurer's rating. As a result of either changes in interest rates, credit performance of a mortgage pool or a downgrade of a mortgage pool issuer, the Company may find it difficult to borrow against such assets and, therefore, may be required to sell certain mortgage assets in order to maintain liquidity. If required, these sales could be at prices lower than the carrying value of the assets, which would result in losses. During the fourth quarter of 1998, as discussed earlier, the Company maintained an adequate level of liquidity by selling certain ARM securities. The Company believes it will continue to have sufficient liquidity to meet its future cash requirements from its primary sources of funds for the foreseeable future without needing to sell assets.

The Company, by issuing the callable AAA notes, has financed $1.1 billion of its ARM assets in a structure that is not subject to margin calls. In this structure, the financing of these assets is not based on their market value or subject to subsequent changes in mortgage credit markets as is the case of the reverse repurchase agreement arrangements. The Company has retained a call on both the notes and the collateral in the event the Company should choose to refinance these ARM assets in a different manner.

As of December 31, 1998, the Company had one whole loan financing facility with an uncommitted borrowing capacity of $250,000,000. The Company had no balance borrowed against this facility as of year-end. This facility matured on January 8, 1999 and has been subsequently re-negotiated for an additional one year period. Under the new agreement in effect as of January 8, 1999, the whole loan financing facility is a committed facility in an amount of up to $150,000,000, with an option to increase the amount to $300,000,000. The Company is also negotiating to enter into one other committed whole loan financing facility and three uncommitted whole loan financing facilities in order to facilitate its acquisitions of whole loans in a prudent manner.

In December 1996, the Company's Registration Statement on Form S-3, registering the sale of up to $200 million of additional equity securities, was declared effective by the Securities and Exchange Commission. This registration statement includes the possible issuances of common stock, preferred stock, warrants or shareholder rights. As of December 31, 1998, the Company had $109 million of its securities registered for future sale under this Registration Statement.

On July 13, 1998, the Board of Directors approved a common stock repurchase program of up to 500,000 shares at prices below book value, subject to availability of shares and other market conditions. On September 18, 1998, the Board of Directors expanded this program by approving the repurchase of up to 1,000,000 shares at prices below book value. To date, the Company has repurchased 500,016 shares at an average price of $9.28 per share.

The Company has a Dividend Reinvestment and Stock Purchase Plan (the "DRP") designed to provide a convenient and economical way for existing shareholders to automatically reinvest their dividends in additional shares of common stock and for new and existing shareholders to purchase shares at a discount to the current market price of the common stock, as defined in the DRP. As a result of participation in the DRP during the first half of 1998, the Company issued 1,581,550 new shares of common stock and received $24.4 million of new equity capital. During the second half of 1998, the Company purchased shares in the open market on behalf of the participants in its DRP instead of issuing new shares below book value. In accordance with the terms and conditions of the

DRP, the Company pays the brokerage commission in connection with these purchases.

EFFECTS OF INTEREST RATE CHANGES

Changes in interest rates impact the Company's earnings in various ways. While the Company only invests in ARM assets, rising short-term interest rates may temporarily negatively affect the Company's earnings and conversely falling short-term interest rates may temporarily increase the Company's earnings. This impact can occur for several reasons and may be mitigated by portfolio prepayment activity as discussed below. First, the Company's borrowings will react to changes in interest rates sooner than the Company's ARM assets because the weighted average next repricing date of the borrowings is usually a shorter time period. Second, interest rates on ARM loans are generally limited to an increase of either 1% or 2% per adjustment period (commonly referred to as the periodic cap) and the Company's borrowings do not have similar limitations. Third, the Company's ARM assets lag changes in the indices due to the notice period provided to ARM borrowers when the interest rates on their loans are scheduled to change. The periodic cap only affects the Company's earnings when interest rates move by more than 1% per six-month period or 2% per year.

Interest rate changes may also impact the Company's ARM assets and borrowings differently because the Company's ARM assets are indexed to various indices whereas the interest rate on the Company's borrowings generally move with changes in LIBOR. Although the Company has always favored acquiring LIBOR based ARM assets in order to reduce this risk, LIBOR based ARMs are not generally well accepted by home owners in the U.S. As a result, the Company has acquired ARM assets indexed to a mix of indices in order to diversify its exposure to changes in LIBOR in contrast to changes in other indices. During times of global economic instability, U.S. Treasury rates generally decline because foreign and domestic investors generally consider U.S. Treasury instruments to be a safe haven for investments. The Company's ARM assets indexed to U.S. Treasury rates then decline in yield as U.S. Treasury rates decline, whereas the Company's borrowings and other ARM assets may not be affected by the same pressures or to the same degree. As a result, the Company's income can improve or decrease depending on the relationship between the various indices that the Company's ARM assets are indexed to compared to changes in the Company's cost of funds.

The rate of prepayment on the Company's mortgage assets may increase if interest rates decline, or if the difference between long-term and short-term interest rates diminishes. Increased prepayments would cause the Company to amortize the premiums paid for its mortgage assets faster, resulting in a reduced yield on its mortgage assets. Additionally, to the extent proceeds of prepayments cannot be reinvested at a rate of interest at least equal to the rate previously earned on such mortgage assets, the Company's earnings may be adversely affected.

Conversely, the rate of prepayment on the Company's mortgage assets may decrease if interest rates rise, or if the difference between long-term and short-term interest rates increases. Decreased prepayments would cause the Company to amortize the premiums paid for its ARM assets over a longer time period, resulting in an increased yield on its mortgage assets. Therefore, in rising interest rate environments where prepayments are declining, not only would the interest rate on the ARM assets portfolio increase to re-establish a spread over the higher interest rates, but the yield also would rise due to slower prepayments. The combined effect could significantly mitigate other negative effects that rising short-term interest rates might have on earnings.

Lastly, because the Company only invests in ARM assets and approximately 8% to 10% of such mortgage assets are purchased with shareholders' equity, the Company's earnings over time will tend to increase following periods when short-term interest rates have risen and decrease following periods when short-term interest rates have declined. This is because the financed portion of the Company's portfolio of ARM assets will, over time, reprice to a spread over the Company's cost of funds, while the portion of the Company's portfolio of ARM assets that are purchased with shareholders' equity will generally have a higher yield in a higher interest rate environment and a lower yield in a lower interest rate environment.

YEAR 2000 ISSUES

The Year 2000 issues involve both hardware design flaws in which many computer systems, and machines that use computer chips, will not correctly recognize the date beginning in the Year 2000 and, additionally, software applications and compilers that do not use a four-digit reference to years which might not behave as intended once the Year 2000 is reached. Three general areas of concern are: 1) clocks built into computers and computer chips that will rollover to 1900 or 1980 instead of 2000, 2) purchased software that does not recognize the Year 2000 as a leap year or that does not use a four-digit reference to years, and 3) internally developed applications that do not store the year as a four-digit year. The Company invests in assets and enters into agreements that employ the use of dates and is, therefore, concerned about the ability of equipment and computer programs to interpret dates or recognize dates accurately.

In consideration of the Year 2000 issues, the Manager has reviewed the ability of its own computers and computer programs to properly recognize and handle dates in the Year 2000. Through the normal upgrading of computer equipment, the Manager has already replaced all computers that were not Year 2000 compliant. The software used by the Company has been internally developed using products that are Year 2000 compliant. The Manager has also reviewed all the date fields embedded in its internally developed spreadsheets, databases and other programs and has determined that all such programs are using four-digit years in references to dates. Therefore, the Company believes that all of its equipment and internal systems are ready for the Year 2000. To date, the Manager has incurred all costs in order for the Company to be Year 2000 compliant.

The Company believes that most of its exposure to Year 2000 issues involves the readiness of third parties such as, but not limited to, loan servicers, security master servicers, security paying agents and trustees, its stock transfer agent, its securities custodian, the counterparties on its various financing agreements and hedging contracts and vendors. The Manager, at its expense, is conducting a survey, which is expected to be completed during the first half of 1999, of all such third parties to try to determine the readiness of such third parties to handle Year 2000 dates and to try to determine the potential impact of Year 2000 issues. The Company cannot be certain that such a survey will fully identify all Year 2000 issues or to fully access the potential problems or loss associated with Year 2000 issues or that any failure by these other third parties to resolve Year 2000 issues would not have an adverse effect on the Company's operations and financial condition. The Company and the Manager believe that they are spending the appropriate and necessary resources to try to identify Year 2000 issues and to resolve them or to mitigate the impact of them to the best of their ability as they are identified. The Company has not developed likely worst case scenarios nor contingency plans for such scenarios.

OTHER MATTERS

The Company calculates its Qualified REIT Assets, as defined in the Internal Revenue Code of 1986, as amended (the "Code"), to be 99.1% of its total assets, compared to the Code requirement that at least 75% of its total assets must be Qualified REIT Assets. The Company also calculates that 99.8% of its 1998 revenue qualifies for the 75% source of income test and 100% of its 1998 revenue qualifies for the 95% source of income test under the REIT rules. The Company also met all REIT requirements regarding the ownership of its common stock and the distributions of its net income. Therefore, as of December 31, 1998, the Company believes that it will continue to qualify as a REIT under the provisions of the Code.

The Company at all times intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, the Company's use of leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. In addition, unless certain mortgage assets represent all the certificates issued with respect to an underlying pool of mortgages, such mortgage assets may be treated as assets separate from the underlying mortgage loans and, thus, may not be considered Qualifying Interests for purposes of the 55% requirement. As of December 31, 1998, the Company calculates that it is in compliance with this requirement.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is incorporated by reference from the information in Item 7 under the caption "Market Risk" set forth on pages 34 through 36 in this Form 10-K

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company, the related notes and schedules to the financial statements, together with the Independent Auditor's Report thereon are set forth on pages F-3 through F-23 in this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated herein by reference to

the definitive Proxy Statement dated March 29, 1999 pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the definitive Proxy Statement dated March 29, 1999 pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the definitive Proxy Statement dated March 29, 1999 pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the definitive Proxy Statement dated March 29, 1999 pursuant to General Instruction G(3).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. The following Financial Statements of the Company are included in Part II, Item 8 of this Annual Report on Form-K:

   Independent Auditors' Report;
   Consolidated Balance Sheets as of December 31, 1998 and 1997;
   Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996;
   Consolidated Statements of Shareholders' Equity for the years ended December 31, 1998, 1997 and 1996;
   Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996 and
   Notes to Consolidated Financial Statements.

2. Schedules to Consolidated Financial Statements:

   All consolidated financial statement schedules are included in Part II, Item 8 of this Annual Report on Form-K.

3. Exhibits:

   See "Exhibit Index".

(b) Reports on Form 8-K:

None

THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For Inclusion in Form 10-K

Filed with

Securities and Exchange Commission

December 31, 1998

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THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Thornburg Mortgage Asset Corporation
Santa Fe, New Mexico

We have audited the accompanying consolidated balance sheets of Thornburg Mortgage Asset Corporation and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thornburg Mortgage Asset Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule IV is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ McGLADREY & PULLEN, LLP

McGLADREY & PULLEN, LLP

New York, New York
January 20 , 1999

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THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	December 31	
	1998	1997
<S>	<C>	<C>
ASSETS		
Adjustable-rate mortgage ("ARM") assets (Notes 2 and 3)		
ARM securities	$3,094,657	$4,519,707
Collateral for callable collateralized notes	1,147,350	-
ARM loans held for securitization.	26,410	118,987
	4,268,417	4,638,694
Cash and cash equivalents (Note 3)	36,431	13,780
Accrued interest receivable.	37,939	38,353
Prepaid expenses and other	1,846	289
	$4,344,633	$4,691,116
LIABILITIES		
Reverse repurchase agreements (Note 3)	$2,867,207	$4,270,170
Callable collateralized notes (Note 3)	1,127,181	-
Other borrowings (Note 3).	2,029	10,018
Accrued interest payable	31,514	39,749
Dividends payable (Note 5)	1,670	11,810
Accrued expenses and other	3,209	1,215
	4,032,810	4,332,962
COMMITMENTS (Note 2)		
SHAREHOLDERS' EQUITY (Note 5)		
Preferred stock: par value $.01 per share; 2,760 shares authorized; 9.68% Cumulative Convertible Series A, 2,760 and 2,760 issued and outstanding, respectively; aggregate preference in liquidation $69,000	65,805	65,805
Common stock: par value $.01 per share; 47,240 shares authorized, 21,990 and 20,280 shares issued and 21,490 and 20,280 outstanding, respectively.	220	203
Additional paid-in-capital	341,756	315,240
Accumulated other comprehensive income (loss).	(82,148)	(19,445)
Notes receivable from stock sales.	(4,632)	(2,698)
Retained earnings (deficit).	(4,512)	(951)
Treasury stock: at cost, 500 and 0 shares respectively	(4,666)	-
	311,823	358,154
	$4,344,633	$4,691,116

</TABLE>

See Notes to Consolidated Financial Statements.

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THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Year ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income from ARM assets and cash	$ 287,032	$ 247,721	$ 151,511
Interest expense on borrowed funds	(255,992)	(198,657)	(121,166)
Net interest income	31,040	49,064	30,345
Gain (loss) on sale of ARM assets.	(278)	1,189	1,362
Provision for credit losses.	(2,032)	(886)	(990)
Management fee (Note 7).	(4,142)	(3,664)	(1,872)
Performance fee (Note 7)	(759)	(3,363)	(2,462)
Other operating expenses	(1,134)	(938)	(646)
NET INCOME.	$ 22,695	$ 41,402	$ 25,737
Net income	$ 22,695	$ 41,402	$ 25,737
Dividend on preferred stock.	(6,679)	(6,251)	-
Net income available to common shareholders.	$ 16,016	$ 35,151	$ 25,737
Basic earnings per share	$ 0.75	$ 1.95	$ 1.73
Diluted earnings per share	$ 0.75	$ 1.94	$ 1.73
Average number of common shares outstanding.	21,488	18,048	14,874

</TABLE>

See Notes to Consolidated Financial Statements.

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THORNBURG MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Years Ended December 31, 1998
(Dollar amounts in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accum. Other Comprehensive Income	Notes Receivable From Stock Sales	Retained Earnings/ (Deficit)	Treasury Stock	Comprehensive Income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	$ -	$ 122	$175,708	$(14,826)	$ -	$ (527)	$ -		$160,477
Comprehensive income:									
Net income.						25,737		$ 25,737	25,737
Other comprehensive income:									
Available-for-sale assets: Fair value adjustment, net of amortization	-	-	-	6,028	-	-	-	6,028	6,028
Deferred gain on sale of hedges, net of amortization	-	-	-	(2,468)	-	-	-	(2,468)	(2,468)
Other comprehensive income.								$ 29,297	
Issuance of common Issuance of common stk. (Note 5)	-	40	57,469	-	-	-	-		57,509
Dividends declared on common stock - $1.65 per share	-	-	-	-	-	(25,085)	-		(25,085)
Balance, December 31, 1996	-	162	233,177	(11,266)	-	125	-		222,198
Comprehensive income:									
Net income.						41,402			$ 41,402
Other comprehensive income:									
Available-for-sale assets: Fair value adjustment, net									

of amortization	-	-	-	(6,697)	-	-	-	(6,697)	(6,697)
Deferred gain on sale of hedges, net of amortization	-	-	-	(1,482)	-	-	-	(1,482)	(1,482)
Other comprehensive loss								$(33,223)	
Series A preferred stock issued, Net of issuance cost (Note 5)	65,805	-	-	-	-	-	-		65,805
Issuance of common									
Issuance of common stk. (Note 5)	-	41	82,063	-	(2,698)	-	-		79,406
Dividends declared on preferred stock - $2.265 per share	-	-	-	-	-	(6,251)	-		(6,251)
Dividends declared on common stock - $1.97per share	-	-	-	-	-	(36,227)	-		(36,227)
Balance, December 31, 1997	65,805	203	315,240	(19,445)	(2,698)	(951)	-		358,154
Comprehensive income:									
Net income						22,695		$ 22,695	22,695
Other comprehensive income:									
Available-for-sale assets:									
Fair value adjustment, net of amortization	-	-	-	(61,157)	-	-	-	(61,157)	(61,157)
Deferred gain on sale of hedges, net of amortization	-	-	-	(1,546)	-	-	-	(1,546)	(1,546)
Other comprehensive loss								$(40,008)	
Issuance of common stk. (Note 5)	-	17	26,259	-	(1,934)	-	-		24,342
Purchase of treasury stock (Note 5)	-	-	-	-	-	-	(4,666)		(4,666)
Interest from notes receivable from stock sales						257			257
Dividends declared on preferred stock - $2.42 per share	-	-	-	-	-	(6,679)	-		(6,679)
Dividends declared on common stock - $0.905 per share	-	-	-	-	-	(19,577)	-		(19,577)
Balance, December 31, 1998	$65,805	$ 220	$341,756	$(82,148)	$(4,632)	$ (4,512)	$ (4,666)		$311,823

<FN>
See Notes to Consolidated Financial Statements.
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THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	Year ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Operating Activities:			
Net income	$ 22,695	$ 41,402	$ 25,737
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	49,657	24,665	14,346
Net realized (gain) loss from investing activities	2,310	(303)	(372)
Decrease (increase) in accrued interest receivable	414	(14,789)	(4,785)
Decrease (increase) in prepaid expenses and other	(1,557)	(62)	33
Increase (decrease) in accrued interest payable	(8,235)	21,002	8,840
Increase (decrease) in accrued expenses and other	1,994	101	433
Net cash provided by operating activities	67,278	72,016	44,232
Investing Activities:			
Available-for-sale securities:			
Purchases	(1,501,961)	(2,929,746)	(1,583,678)
Proceeds on sales	929,999	190,196	277,594
Proceeds from calls	138,926	67,202	
Principal payments	1,635,298	756,379	441,722
Held-to-maturity securities:			
Principal payments	16,152	63,120	111,684
Collateral for callable collateralized bonds:			
Principal payments	13,416	-	-
ARM Loans:			
Purchases	(1,092,238)	(123,211)	-
Principal payments	115,081	4,092	-
Proceeds on sales	2,043	-	-

Purchase of interest rate cap and floor agreements.	(1,081)	(4,074)	(631)
Net cash provided by (used in) investing activities	255,635	(1,976,042)	(753,309)
Financing Activities:			
Net borrowings from (repayments of) reverse repurchase agreements.	(1,402,963)	1,811,038	678,278
Net borrowings from callable collateralized notes	1,127,181	-	-
Repayments of other borrowings.	(7,989)	(4,169)	(4,259)
Proceeds from preferred stock issued.	-	65,805	-
Proceeds from common stock issued	24,342	79,406	57,509
Purchase of treasury stock.	(4,666)	-	-
Dividends paid.	(36,396)	(37,967)	(22,418)
Interest from notes receivable from stock sales	229	-	-
Net cash provided by (used in) financing activities	(300,262)	1,914,113	709,110
Net increase (decrease) in cash and cash equivalents	22,651	10,087	33
Cash and cash equivalents at beginning of period	13,780	3,693	3,660
Cash and cash equivalents at end of period	$ 36,431	$ 13,780	$ 3,693

<FN>
Supplemental disclosure of cash flow information and non-cash investing and financing activities are included in Notes 2 and 3.
</TABLE>

See Notes to Consolidated Financial Statements.

THORNBURG MORTGAGE ASSET CORPORATION
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Thornburg Mortgage Asset Corporation (the "Company") was incorporated in Maryland on July 28, 1992. The Company commenced its operations of purchasing and managing for investment a portfolio of adjustable-rate mortgage assets on June 25, 1993, upon receipt of the net proceeds from the initial public offering of the Company's common stock.

A summary of the Company's significant accounting policies follows:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates their value.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly owned special purpose finance subsidiaries, Thornburg Mortgage Funding Corporation and Thornburg Mortgage Acceptance Corporation. The Company formed these entities in connection with the issuance of the callable collateralized notes discussed in Note 3. All material intercompany accounts and transactions are eliminated in consolidation.

ADJUSTABLE-RATE MORTGAGE ASSETS

The Company's adjustable-rate mortgage ("ARM") assets are comprised of ARM securities, ARM loans and collateral for callable AAA notes payable, which also consists of ARM securities and ARM loans.

In the second quarter of 1998, the Company decided to change its policy regarding its classification of ARM securities such that each ARM security is classified as available-for-sale. The Company changed its policy because the remaining amount of ARM securities classified as held-to-maturity had become a relatively small percentage of the portfolio, less than 8% of assets at March 31, 1998, and because it is apparent that as more mortgage REITs have been formed, that it is industry practice to carry all mortgage securities as available-for-sale. The Company had not classified any ARM securities purchased since 1994 as held-to-maturity and does not expect to do so in the future. Management has made the determination that all of its ARM securities should be designated as available-for-sale in order to be prepared to respond to potential future opportunities in the market, to sell ARM securities in order to optimize the portfolio's total return and to retain its ability to respond to economic conditions that might require the Company to sell assets in order to maintain an

appropriate level of liquidity. Since all ARM securities are designated as available-for-sale, they are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income as a separate component of shareholders' equity.

Management has the intent and ability to hold the Company's ARM loans for the foreseeable future and until maturity or payoff. Therefore, they are carried at their unpaid principal balances, net of unamortized premium or discount and allowance for loan losses.

The collateral for the callable AAA notes includes ARM securities and ARM loans which are accounted for in the same manner as the ARM securities and ARM loans that are not held as collateral.

Premiums and discounts associated with the purchase of the ARM assets are amortized into interest income over the lives of the assets using the effective yield method adjusted for the effects of estimated prepayments.

ARM asset transactions are recorded on the date the ARM assets are purchased or sold. Purchases of new issue ARM assets are recorded when all significant uncertainties regarding the characteristics of the assets are removed, generally shortly before settlement date. Realized gains and losses on ARM asset transactions are determined on the specific identification basis.

CREDIT RISK

The Company limits its exposure to credit losses on its portfolio of ARM securities by only purchasing ARM securities that have an investment grade rating at the time of purchase and have some form of credit enhancement or are guaranteed by an agency of the federal government. An investment grade security generally has a security rating of BBB or Baa or better by at least one of two nationally recognized rating agencies, Moody's Investor Services, Inc. or Standard & Poor's, Inc. (the "Rating Agencies"). Additionally, the Company has also purchased ARM loans and limits its exposure to credit losses by restricting its whole loan purchases to ARM loans generally originated to "A" quality underwriting standards or loans that have at least five years of pay history and/or low loan to property value ratios. The Company further limits its exposure to credit losses by limiting its investment in investment grade securities that are rated A, or equivalent, BBB, or equivalent, or ARM loans originated to "A" quality underwriting standards ("Other Investments") to no more than 30% of the portfolio.

The Company monitors the delinquencies and losses on the underlying mortgage loans backing its ARM assets. If the credit performance of the underlying mortgage loans is not as expected, the Company makes a provision for possible credit losses at a level deemed appropriate by management to provide for known losses as well as unidentified losses in its ARM assets portfolio. The provision is based on management's assessment of numerous factors affecting its portfolio of ARM assets including, but not limited to, current economic conditions, delinquency status, credit losses to date on underlying mortgages and remaining credit protection. The provision for ARM securities is made by reducing the cost basis of the individual security for the decline in fair value which is other than temporary, and the amount of such write-down is recorded as a realized loss, thereby reducing earnings. The Company also makes a monthly provision for possible credit losses on its portfolio of ARM loans which is an increase to the reserve for possible loan losses. The provision for possible credit losses on loans is based on loss statistics of the real estate industry for similar loans, taking into consideration factors including, but not limited to, underwriting characteristics, seasoning, geographic location and current economic conditions. When a loan or a portion of a loan is deemed to be uncollectible, the portion deemed to be uncollectible is charged against the reserve and subsequent recoveries, if any, are credited to the reserve.

Credit losses on pools of loans that are held as collateral for AAA notes payable are also covered by third party insurance policies that protect the Company from credit losses above a specified level, limiting the Company's exposure to credit losses on such loans. The Company makes a monthly provision for possible credit losses on these loans the same as it does for loans that are not held as collateral for AAA notes payable, except, taking into consideration its maximum exposure.

Provisions for credit losses do not reduce taxable income and thus do not affect the dividends paid by the Company to shareholders in the period the provisions are taken. Actual losses realized by the Company do reduce taxable income in the period the actual loss is realized and would affect the dividends paid to shareholders for that tax year.

DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE CAP AGREEMENTS

The Company purchases interest rate cap agreements (the "Cap Agreements") to

limit the Company's risks associated with the lifetime or maximum interest rate caps of its ARM assets should interest rates rise above specified levels. The Cap Agreements reduce the effect of the lifetime cap feature so that the yield on the ARM assets will continue to rise in high interest rate environments as the Company's cost of borrowings also continue to rise.

Under policies in effect prior to the second quarter of 1998, Cap Agreements classified as a hedge against held-to-maturity assets were initially carried at their fair value as of the time the Cap Agreements and the related assets are designated as held-to-maturity with an adjustment to equity for any unrealized gains or losses at the time of the designation. Any adjustment to equity was thereafter amortized into interest income as a yield adjustment in a manner consistent with the amortization of any premium or discount. All Cap Agreements are now classified as a hedge against available-for-sale assets and are carried at their fair value with unrealized gains and losses reported as a separate component of equity, consistent with the reporting of such assets. The carrying value of the Cap Agreements are included in ARM securities on the balance sheet. The Company purchases Cap Agreements by incurring a one-time fee or premium. The amortization of the premium paid for the Cap Agreements is included in interest income as a contra item (i.e., expense) and, as such, reduces interest income over the lives of the Cap Agreements.

Realized gains and losses resulting from the termination of the Cap Agreements that were hedging assets classified as held-to-maturity were deferred as an adjustment to the carrying value of the related assets and are being amortized into interest income over the terms of the related assets. Realized gains and losses resulting from the termination of such agreements that are hedging assets classified as available-for-sale are initially reported in a separate component of equity, consistent with the reporting of those assets, and are thereafter amortized as a yield adjustment.

INTEREST RATE SWAP AGREEMENTS

The Company enters into interest rate swap agreements in order to manage its interest rate exposure when financing its ARM assets. In general, swap agreements have been utilized by the Company in two ways. One way has been to use swap agreements as a cost effective way to lengthen the average repricing period of its variable rate and short term borrowings. Additionally, as the Company acquires hybrid assets, it also enters into swap agreements in order to manage the interest rate repricing mismatch (the difference between the remaining fixed-rate period of a hybrid and the maturity of the fixed-rate liability funding a hybrid) to approximately one year. Revenues and expenses from the interest rate swap agreements are accounted for on an accrual basis and recognized as a net adjustment to interest expense.

INCOME TAXES

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and complies with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") with respect thereto. Accordingly, the Company will not be subject to Federal income tax on that portion of its income that is distributed to shareholders and as long as certain asset, income and stock ownership tests are met.

NET EARNINGS PER SHARE

Basic EPS amounts are computed by dividing net income (adjusted for dividends declared on preferred stock) by the weighted average number of common shares outstanding. Diluted EPS amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce a loss or increase the earnings per common share.

Following is information about the computation of the earnings per share data for the years ended December 31, 1998, 1997 and 1996 (Amounts in thousands except per share data):

<TABLE>
<CAPTION>

	Income	Shares	Earnings Per Share
<S>	<C>	<C>	<C>
1998			
Net income	$ 22,695		
Less preferred stock dividends	(6,679)		
Basic EPS, income available to			

common shareholders	16,016	21,488	$ 0.75
Effect of dilutive securities:			
Stock options	-	-	
Diluted EPS.	$ 16,016	21,488	$ 0.75
1997			
Net income	$ 41,402		
Less preferred stock dividends	(6,251)		
Basic EPS, income available to common shareholders	35,151	18,048	$ 1.95
Effect of dilutive securities:			
Stock options	-	110	
Diluted EPS.	$ 35,151	18,158	$ 1.94
1996			
Net income	$ 25,737		
Less preferred stock dividends	-		
Basic EPS, income available to common stockholders	25,737	14,874	$ 1.73
Effect of dilutive securities:			
Stock options	-	37	
Diluted EPS.	$ 25,737	14,911	$ 1.73

</TABLE>

The Company has granted options to directors and officers of the Company and employees of the Manager to purchase 59,784 in 1998, 240,320 in 1997 and 169,099 shares of common stock in 1996 at average prices of $14.82, $20.89 and $15.44 per share during the years ended December 31, 1998, 1997 and 1996, respectively. The conversion of preferred stock was not included in the computation of diluted EPS for any year because such conversion would increase the diluted EPS.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, Reporting Comprehensive Income. This statement requires companies to classify items of other comprehensive income, such as unrealized gains and losses on available-for-sale securities, by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company adopted this statement in the first quarter of 1998.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 established a framework of accounting rules that standardize accounting and reporting for all derivative instruments and is effective for financial statements issued for fiscal years beginning after June 15, 1999. The Statement requires that all derivative financial instruments be carried on the balance sheet at fair value. Currently the only derivative instruments that are not on the Company's balance sheet at fair value are interest rate swap agreements. The fair value of interest rate swap agreements is disclosed in Note 4, Fair Value of Financial Instruments. The Company believes that its use of interest rate swap agreements qualify as

cash-flow hedges as defined in the statement. Therefore, the effective portion of the hedge's change in the fair value of these derivatives instruments will be recorded in other comprehensive income and the ineffective portion will be included in earnings when the Company adopts the statement in the first quarter of its fiscal 2000 year.

In October 1998, the FASB issued SFAS No. 134, Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. This Statement, which is effective for the first fiscal quarter beginning after December 15, 1998, provides guidance to mortgage banking entities who securitize mortgage loans such that their accounting for securitized loans will be the same as their accounting for marketable securities. The Company has already been accounting for its securitized loans in a manner consistent with the new statement and therefore expects no changes to its financial position or results of operations as a result of adopting SFAS No. 134.

NOTE 2. ADJUSTABLE-RATE MORTGAGE ASSETS AND INTEREST RATE CAP AND FLOOR AGREEMENTS

The following tables present the Company's ARM assets as of December 31, 1998 and December 31, 1997. The ARM securities classified as available-for-sale are carried at their fair value, while the ARM securities classified as held-to-maturity in 1997 and ARM loans are carried at their amortized cost basis (dollar amounts in thousands):

<TABLE>
<CAPTION>
December 31, 1998:

	ARM Securities				
	Available-for-Sale	Held-to-Maturity	Total	Collateral for Notes Payable	ARM Loans
<S>	<C>	<C>	<C>	<C>	<C>
Principal balance outstanding	$3,070,107	$ -	$3,070,107	$ 1,131,007	$26,161
Net unamortized premium	86,956	-	86,956	17,112	324
Deferred gain from hedging	(613)	-	(613)	-	-
Allowance for losses	(1,242)	-	(1,242)	(729)	(75)
Cap Agreements	8,302	-	8,302	440	-
Principal payment receivable	14,330	-	14,330		-
Amortized cost, net	3,177,840	-	3,177,840	1,147,830	26,410
Gross unrealized gains	1,070	-	1,070	38	53
Gross unrealized losses	(84,253)	-	(84,253)	(7,606)	(87)
Fair value	$3,094,657	$ -	$3,094,657	$ 1,140,262	$26,376
Carrying value	$3,094,657	$ -	$3,094,657	$ 1,147,350	$26,410

</TABLE>
<TABLE>
<CAPTION>
December 31, 1997:

	ARM Securities				
	Available-for-Sale	Held-to-Maturity	Total	Collateral for Notes Payable	ARM Loans
<S>	<C>	<C>	<C>	<C>	<C>
Principal balance outstanding	$3,984,770	$ 386,290	$4,371,060	$ -	$115,996
Net unamortized premium	119,133	5,025	124,158	-	3,033
Deferred gain from hedging	-	(1,217)	(1,217)	-	-
Allowance for losses	(1,739)	-	(1,739)	-	(42)
Cap Agreements	11,144	2,160	13,304	-	-
Principal payment receivable	32,337	3,545	35,882	-	-
Amortized cost, net	4,145,645	395,803	4,541,448	-	118,987
Gross unrealized gains	11,075	5,609	16,684	-	-
Gross unrealized losses	(32,816)	(2,859)	(35,675)	-	-
Fair value	$4,123,904	$ 398,553	$4,522,457	$ -	$118,987
Carrying value	$4,123,904	$ 395,803	$4,519,707	$ -	$118,987

</TABLE>

During 1998, the Company realized $4,634,000 in gains and $4,912,000 in losses on the sale of $932.3 million of ARM securities and ARM loans. During 1997, the Company realized $2,179,000 in gains and $990,000 in losses on the sale of $189.0 million of ARM securities, and during 1996, the Company realized $1,427,000 in gains and $65,000 in losses on the sale of $276.4 million of ARM securities. All of the ARM securities sold were classified as available-for-sale. During 1998, approximately $379 million securities previously classified as held-to-maturity were reclassified as available-for-sale.

As of December 31, 1998, the Company had reduced the cost basis of its ARM securities due to potential future credit losses (other than temporary declines in fair value) in the amount of $1,242,000. At December 31, 1998, the Company is providing for potential future credit losses on two assets that have an aggregate carrying value of $11.8 million, which represent less than 0.3% of the Company's total portfolio of ARM assets. Both of these assets are performing and one has some remaining credit support that mitigates the Company's exposure to potential future credit losses. Additionally, during 1998, the Company, in accordance with its credit policies, recorded a $762,000 provision for potential credit losses on its loan portfolio, although no actual losses have been realized in the loan portfolio to date.

The following tables summarize ARM loan delinquency information as of December 31, 1998 and 1997 (dollar amounts in thousands):

<TABLE>
<CAPTION>
1998

Delinquency Status	Loan Count	Loan Balance	Percent of ARM Loans	Percent of Total Assets
<S>	<C>	<C>	<C>	<C>
30 to 59 days. .	4	$ 1,138	0.11%	0.03%
60 to 89 days. .	2	423	0.04	0.01
90 days or more.	1	3,450	0.32	0.08
In foreclosure .	5	1,097	0.10	0.02
	12	$ 6,108	0.57%	0.14%

</TABLE>
<TABLE>
<CAPTION>
1997

Delinquency Status	Loan Count	Loan Balance	Percent of ARM Loans	Percent of Total Assets
<S>	<C>	<C>	<C>	<C>
30 to 59 days. .	-	$ -	-	-
60 to 89 days. .	1	215	0.19%	0.00%
90 days or more.	1	167	0.14	0.00
In foreclosure .	-	-	-	-
	2	$ 382	0.33%	0.01%

</TABLE>

The following table summarizes the activity for the allowance for losses on ARM loans for the year ended December 31, 1998 and 1997 (dollar amounts in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Beginning balance. .	$ 42	$ 0
Provision for losses	762	42
Charge-offs, net . .	0	0
Ending balance . . .	$ 804	$ 42

</TABLE>

As of December 31, 1998, the Company had commitments to purchase $102.1 million of ARM loans.

The average effective yield on the ARM assets owned was 5.86% as of December 31,

1998 and 6.38% as of December 31, 1997. The average effective yield is based on historical cost and includes the amortization of the net premium paid for the ARM assets and the Cap Agreements, the impact of ARM principal payment receivables and the amortization of deferred gains from hedging activity.

As of December 31, 1998 and December 31, 1997, the Company had purchased Cap Agreements with a remaining notional amount of $4.026 billion and $4.156 billion, respectively. The notional amount of the Cap Agreements purchased decline at a rate that is expected to approximate the amortization of the ARM assets. Under these Cap Agreements, the Company will receive cash payments should the one-month, three-month or six-month London InterBank Offer Rate ("LIBOR") increase above the contract rates of the Cap Agreements which range from 7.50% to 13.00% and average approximately 10.10%. The Company's ARM assets portfolio had an average lifetime interest rate cap of 11.70%. The Cap Agreements had an average maturity of 2.3 years as of December 31, 1998. The initial aggregate notional amount of the Cap Agreements declines to approximately $3.485 billion over the period of the agreements, which expire between 1999 and 2004. The Company purchased these Cap Agreements by incurring a one-time fee, or premium. The premium is amortized, or expensed, over the lives of the Cap Agreements and decreases interest income on the Company's ARM assets during the period of amortization. The Company has credit risk to the extent that the counterparties to the cap agreements do not perform their obligations under the Cap Agreements. If one of the counterparties does not perform, the Company would not receive the cash to which it would otherwise be entitled under the conditions of the Cap Agreement. In order to mitigate this risk and to achieve competitive pricing, the Company has entered into Cap Agreements with six different counterparties, five of which are rated AAA, and one is rated AA.

NOTE 3. REVERSE REPURCHASE AGREEMENTS, CALLABLE COLLATERALIZED NOTES PAYABLE AND OTHER BORROWINGS

The Company has entered into reverse repurchase agreements to finance most of its ARM assets. The reverse repurchase agreements are short-term borrowings that are secured by the market value of the Company's ARM assets and bear interest rates that have historically moved in close relationship to LIBOR.

As of December 31, 1998, the Company had outstanding $2.867 billion of reverse repurchase agreements with a weighted average borrowing rate of 5.62% and a weighted average remaining maturity of 2.0 months. As of December 31, 1998, $1.147 billion of the Company's borrowings were variable-rate term reverse repurchase agreements with original maturities that range from three months to two years. The interest rates of these term reverse repurchase agreements are indexed to either the one-, three- or six-month LIBOR rate and reprice accordingly. The reverse repurchase agreements at December 31, 1997 were collateralized by ARM assets with a carrying value of $3.005 billion, including accrued interest and cash in the amount of $22.4 million.

At December 31, 1998, the reverse repurchase agreements had the following remaining maturities (dollar amounts in thousands):

<TABLE>
<CAPTION>

<S>	<C>
Within 30 days . .	$1,440,407
31 to 89 days. . .	748,095
90 days or greater	678,705
	$2,867,207

</TABLE>

As of December 31, 1998, the Company had one whole loan financing facility with an uncommitted borrowing capacity of $250,000,000. The Company had no balance borrowed against this facility as of year-end. This facility matured on January 8, 1999 and has been subsequently re-negotiated for an additional one year period. Under the new agreement in effect as of January 8, 1999, the whole loan financing facility is a committed facility in an amount of up to $150,000,000, with an option to increase this amount to $300,000,000.

On December 18, 1998, the Company, through a special purpose finance subsidiary, issued $1.144 billion of callable AAA notes payable ("Notes") collateralized by ARM loans with a principal balance of $1.049 billion and ARM securities with a balance of $128.3 million. As part of this transaction, the Company retained ownership of a subordinated certificate in the amount of $32.4 million, which represents the Company's maximum exposure to credit losses on the loans collateralizing the Notes. As of December 31, 1998, the Notes had a balance of $1.127 billion and an interest rate of 6.32%. The interest rate adjusts monthly at one-month LIBOR plus 0.70% through November 1999 and at one-month LIBOR plus 1.40% thereafter. The Notes mature on January 25, 2029 and are callable by the Company or Bear Stearns, one of the underwriters, monthly, although Bear Stearns has indicated it does not intend to exercise its ability to call the collateral

prior to May 1999. The Company may call either the collateral or the Notes, at its option. In connection with the issuance of the Notes, the Company incurred costs of $3.9 million which is being amortized over the expected life of the Notes. Since the Notes are paid down as the collateral pays down, the amortization of the issuance cost will be adjusted periodically based on actual payment experience. If the collateral pays down faster than currently estimated, then the amortization of the issuance cost will increase and the effective cost of the Notes will increase and, conversely, if the collateral pays down slower than currently estimated, then the amortization of issuance cost will be decreased and the effective cost of the Notes will also decrease.

As of December 31, 1998, the Company was a counterparty to nineteen interest rate swap agreements ("Swaps") having an aggregate notional balance of $1.473 billion. As of year-end, these Swaps had a weighted average remaining term of 16.5 months. In accordance with these Swaps, the Company will pay a fixed rate of interest during the term of these Swaps and receive a payment that varies monthly with the one-month LIBOR rate. As a result of entering into these Swaps, the Company has reduced the interest rate variability of its cost to finance its ARM securities by increasing the average period until the next repricing of its borrowings from 26 days to 204 days. Fourteen of these Swaps were entered into in connection with the Company's acquisition of hybrid loans and commitments to acquire hybrid loans. These fourteen Swaps that hedge the fixed rate portion of the Company's hybrid loans (to within one year of the first interest rate reset) had a notional balance of $523 million at year-end and an average maturity of 44.0 months. The Swaps at December 31, 1998 were collateralized by ARM assets with a carrying value of $0.9 million, including accrued interest.

As of December 31, 1998, the Company had financed a portion of its portfolio of interest rate cap agreements with $2.0 million of other borrowings which require quarterly or semi-annual payments until the year 2000. These borrowings have a weighted average fixed rate of interest of 7.87% and have a weighted average remaining maturity of 1.4 years. The other borrowings financing cap agreements at December 31, 1998 were collateralized by ARM securities with a carrying value of $3.1 million, including accrued interest. The aggregate maturities of these other borrowings are as follows (dollars in thousands):

1999	$ 1,397
2000	632
	$ 2,029

The total cash paid for interest was $267.9 million, $177.9 million and $112.2 million for 1998, 1997 and 1996 respectively.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1998 and December 31, 1997. FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale (dollar amounts in thousands):

<TABLE>
<CAPTION>

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Assets:				
ARM assets.	$4,266,497	$4,259,374	$4,634,612	$4,639,513
Cap Agreements.	1,920	1,920	4,082	1,931
Liabilities:				
Callable collateralized notes	1,127,181	1,127,181	-	-
Other borrowings.	2,029	2,077	10,018	10,321
Swap agreements	(87)	7,326	(50)	184

</TABLE>

The above carrying amounts for assets are combined in the balance sheet under the caption adjustable-rate mortgage assets. The carrying amount for assets categorized as available-for-sale is their fair value whereas the carrying amount for assets held-to-maturity or held for the foreseeable future is their amortized cost.

The fair values of the Company's ARM securities and cap agreements are based on market prices provided by certain dealers who make markets in these financial instruments or third-party pricing services. The fair values for ARM loans is

determined by the Company by using the same pricing models employed by the Company in the process of determining a price to bid for loans in the open market, taking into consideration the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, margin, life cap, periodic cap, underwriting standards, age and delinquency experience. The fair value of the Company's long-term debt and interest rate swap agreements, which are off-balance sheet financial instruments, are based on market values provided by dealers who are familiar with the terms of the long-term debt and swap agreements. The fair values reported reflect estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Cash and cash equivalents, interest receivable, reverse repurchase agreements, callable collateralized notes and other liabilities are reflected in the financial statements at their amortized cost, which approximates their fair value because of the short-term nature of these instruments.

NOTE 5. COMMON AND PREFERRED STOCK

In January 1997, the Company issued 2,760,000 shares of Series A 9.68% Cumulative Convertible Preferred Stock at a price of $25 per share pursuant to its Registration Statement on Form S-3 declared effective in December 1996. Net proceeds from this issuance totaled $65.8 million. The dividends are cumulative commencing on the issue date and are payable quarterly, in arrears. The dividends per share are equal to the greater of (i) $0.605 per quarter, or (ii) the quarterly dividend declared on the Company's common stock. Each share is convertible at the option of the holder at any time into one share of common stock. The preferred shares are redeemable by the Company on and after December 31, 1999, in whole or in part, as follows: (i) for one share of common stock plus accumulated, accrued but unpaid dividends, provided that for 20 trading days within any period of 30 consecutive trading days the closing price of the common stock equals or exceeds the conversion price of $25, or (ii) for cash at the issue price of $25, plus any accumulated, accrued but unpaid dividends through the redemption date. In the event of liquidation, the holders of the preferred shares will be entitled to receive out of the assets of the Company, prior to any distribution to the common shareholders, the issue price of $25 per share in cash, plus any accumulated, accrued and unpaid dividends.

During 1998, the Company issued 1,581,550 shares of common stock under its Dividend Reinvestment and Stock Purchase Plan and received net proceeds of $24.4 million. During 1997, the Company issued 912,590 shares of common stock under this plan and received net proceeds of $18.0 million, and during 1996, the Company issued 347,434 shares of common stock under this plan and received net proceeds of $5.4 million.

During 1998, stock options for 128,377 shares of common stock were exercised at an average price of $15.23 and $2.0 million of notes receivable were executed in connection with the exercise of these options. During 1997, stock options for 186,071 shares of common stock were exercised at an average price of $15.71. The Company received net proceeds of $0.2 million, and $2.7 million of notes receivable were executed in connection with the exercise of certain options. During 1996, stock options for 23,595 shares of common stock were exercised at an average price of $15.41 that generated net proceeds of $0.4 million.

On July 13, 1998, the Board of Directors approved a common stock repurchase program of up to 500,000 shares at prices below book value, subject to availability of shares and other market conditions. On September 18, 1998, the Board of Directors expanded this program by approving the repurchase of up to an additional 500,000 shares. To date, the company has repurchased 500,016 at an average price of $9.28 per share.

During the Company's 1998 fiscal year, the Company declared dividends to shareholders totaling $0.905 per common share, all of which was paid during 1998, and $2.42 per preferred share, of which $1.815 was paid during 1998 and $0.605 was paid on January 11, 1999. During the Company's 1997 fiscal year, the Company declared dividends to shareholders totaling $1.97 per common share, of which $1.47 was paid during 1997 and $0.50 was paid on January 12, 1998, and $2.265 per preferred share, of which $1.66 was paid during 1997 and $0.605 was paid on January 12, 1998. During the Company's 1996 fiscal year, the Company declared dividends to shareholders totaling $1.65 per common share, of which $1.20 was paid during 1996 and $0.45 was paid on January 12, 1997. For federal income tax purposes, $0.0638 of the 1998 common stock dividends was return of capital and not taxable, $0.01 of the 1997 common stock dividend was capital gains subject to a maximum tax rate of 28%, and $0.05 of the 1997 common stock dividend was capital gains subject to a maximum tax rate of 20%, and $0.03 of the 1996 common stock dividend was long-term capital gains. In addition, the preferred dividend paid on January 11, 1999 will be taken as a dividend deduction on the Company's 1999 income tax return and is therefore not taxable income for preferred shareholders until 1999. The remainder of the dividends paid for fiscal years 1998, 1997 and 1996 was ordinary income to the Company's common and preferred shareholders.

NOTE 6. STOCK OPTION PLAN

The Company has a Stock Option and Incentive Plan (the "Plan") which authorizes the granting of options to purchase an aggregate of up to 1,800,000 shares, but not more than 5% of the outstanding shares of the Company's common stock. The Plan authorizes the Board of Directors, or a committee of the Board of Directors, to grant Incentive Stock Options ("ISOs") as defined under section 422 of the Internal Revenue Code of 1986, as amended, options not so qualified ("NQSOs"), Dividend Equivalent Rights ("DERs"), Stock Appreciation Rights ("SARs"), and Phantom Stock Rights ("PSRs").

The exercise price for any options granted under the Plan may not be less than 100% of the fair market value of the shares of the common stock at the time the option is granted. Options become exercisable six months after the date granted and will expire ten years after the date granted, except options granted in connection with an offering of convertible preferred stock, in which case such options become exercisable if and when the convertible preferred stock is converted into common stock.

The Company issued DERs at the same time as ISOs and NQSOs based upon a formula defined in the Plan. During 1998 the number of DERs issued was based on 35% of the ISOs and NQSOs granted during 1998. The number of PSRs issued are based on the level of the Company's dividends and on the price of the Company's stock on the related dividend payment date and is equivalent to the cash that otherwise would be paid on the outstanding DERs and previously issued PSRs. The Company recorded an expense associated with the DERs and the PSRs of $11,000 and $32,000 for the years ended December 31, 1998 and 1997, respectively.

Notes receivable from stock sales has resulted from the Company selling shares of common stock through the exercise of stock options. The notes have maturity terms ranging from 3 years to 9 years and accrue interest at rates that range from 5.40% to 6.00% per annum. In addition, the notes are full recourse promissory notes and are secured by a pledge of the shares of the Common Stock acquired. Interest, which is credited to paid-in-capital, is payable quarterly, with the balance due at the maturity of the notes. The payment of the notes will be accelerated only upon the sale of the shares of Common Stock pledged for the notes. The notes may be prepaid at any time at the option of each borrower. As of December 31, 1998, there were $4.6 million of notes receivable from stock sales outstanding.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the Company's stock option plan. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 1998, 1997 and 1996 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated in the table below. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model (dollar amounts in thousands, except per share data).

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Net income - as reported. .	$ 22,695	$ 41,402	$ 25,737
Net income - pro forma. . .	22,629	41,093	25,551
Basic EPS - as reported . .	0.75	1.95	1.73
Basic EPS - pro forma . . .	0.74	1.93	1.72
Diluted EPS - as reported .	0.75	1.94	1.73
Diluted EPS - pro forma . .	0.74	1.92	1.71
Assumptions:			
Dividend yield.	10.00%	10.00%	10.00%
Expected volatility . .	25.60%	21.50%	23.30%
Risk-free interest rate	5.68%	6.40%	6.52%
Expected lives.	7 years	7 years	7 years

</TABLE>

Information regarding options is as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	Weighted Average Exercise	Weighted Average Exercise	Weighted Average Exercise

	Shares	Price	Shares	Price	Shares	Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding, beginning of year.	680,995	$ 17.353	626,746	$ 15.510	482,078	$ 15.529
Granted	59,784	14.817	240,320	20.888	169,099	15.439
Exercised	(128,377)	15.234	(186,071)	15.711	(23,595)	15.407
Expired	-	-	-	-	(836)	14.375
Outstanding, end of year.	612,402	$ 17.549	680,995	$ 17.353	626,746	$ 15.511
Weighted average fair value of options granted during the year	$ 1.22		$ 1.29		$ 1.10	
Options exercisable at year end	479,482		476,875		613,413	

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 1998:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Exercisable At 12/31/98	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
9.375 - $12.4375	20,049	9.6	$ 11.953	3,049	$ 12.388
14.375 - $16.125	321,061	5.7	15.342	321,061	15.342
17.500 - $20.000	183,092	8.2	19.588	67,172	18.876
$22.625.	88,200	8.5	22.625	88,200	22.625
$9.375 - $22.625	612,402	6.9	17.549	479,482	17.158

</TABLE>

NOTE 7. TRANSACTIONS WITH AFFILIATES

The Company has a Management Agreement (the "Agreement") with Thornburg Mortgage Advisory Corporation ("the Manager"). Under the terms of this Agreement, the Manager, subject to the supervision of the Company's Board of Directors, is responsible for the management of the day-to-day operations of the Company and provides all personnel and office space. The Agreement provides for an annual review by the unaffiliated directors of the Board of Directors of the Manager's performance under the Agreement.

The Company pays the Manager an annual base management fee based on average shareholders' equity, adjusted for liabilities that are not incurred to finance assets ("Average Shareholders' Equity" or "Average Net Invested Assets" as defined in the Agreement) payable monthly in arrears as follows: 1.1% of the first $300 million of Average Shareholders' Equity, plus 0.8% of Average Shareholders' Equity above $300 million.

For the years ended December 31, 1998, 1997 and 1996, the Company paid the Manager $4,142,000, $3,664,000 and $1,872,000, respectively, in base management fees in accordance with the terms of the Agreement.

The Manager is also entitled to earn performance based compensation in an amount equal to 20% of the Company's annualized net income, before performance based compensation, above an annualized Return on Equity equal to the ten year U.S. Treasury Rate plus 1%. For purposes of the performance fee calculation, equity is generally defined as proceeds from issuance of common stock before underwriter's discount and other costs of issuance, plus retained earnings. For the years ended December 31, 1998, 1997 and 1996, the Company paid the Manager $759,000, $3,363,000 and $2,462,000, respectively, in performance based compensation in accordance with the terms of the Agreement.

NOTE 8. NET INTEREST INCOME ANALYSIS

The following table summarizes the amount of interest income and interest expense and the average effective interest rate for the periods ended December 31, 1998, 1997 and 1996 (dollar amounts in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
	Average	Average	Average

	Amount	Rate	Amount	Rate	Amount	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Earning Assets:						
ARM assets.	$286,327	5.96%	$246,507	6.56%	$150,759	6.45%
Cash and cash equivalents	705	4.35	1,214	5.57	752	5.29
	287,032	5.96	247,721	6.56	151,511	6.44
Interest Bearing Liabilities:						
Borrowings.	255,992	5.78	198,657	5.76	121,166	5.67
Net Interest Earning Assets and Spread .	$ 31,040	0.18%	$ 49,064	0.80%	$ 30,345	0.77%
Yield on Net Interest Earning Assets (1)		0.64%		1.30%		1.29%

<FN>

(1) Yield on Net Interest Earning Assets is computed by dividing annualized net interest income by the average daily balance of interest earning assets.

</TABLE>

The following table presents the total amount of change in interest income/expense from the table above and presents the amount of change due to changes in interest rates versus the amount of change due to changes in volume (dollar amounts in thousands):

<TABLE>
<CAPTION>

	1998 versus 1997			1997 versus 1996		
	Rate	Volume	Total	Rate	Volume	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income:						
ARM assets.	$(22,549)	$62,368	$ 39,819	$2,651	$93,097	$95,748
Cash and cash equivalents	(266)	(242)	(508)	40	422	462
	(22,815)	62,126	39,311	2,691	93,519	96,210
Interest Expense:						
Borrowings.	518	56,817	57,335	2,068	75,423	77,491
Net interest income. . . .	$(23,333)	$ 5,309	$(18,024)	$ 623	$18,096	$18,719

</TABLE>

NOTE 9. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of the quarterly results of operations (amounts in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Year Ended December 31, 1998			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<S>	<C>	<C>	<C>	<C>
Interest income from ARM assets and cash . .	$ 65,446	$ 72,252	$ 73,019	$ 76,315
Interest expense on borrowed funds	(59,402)	(66,458)	(65,243)	(64,889)
Net interest income	6,044	5,794	7,776	11,426
Gain (loss) on ARM assets.	(4,689)	194	1,044	1,141
General and administrative expenses.	(1,309)	(1,310)	(1,345)	(2,071)
Dividend on preferred stock.	(1,669)	(1,670)	(1,670)	(1,670)
Net income available to common shareholders	$ (1,623)	$ 3,008	$ 5,805	$ 8,826
Basic EPS.	$ (0.08)	$ 0.14	$ 0.27	$ 0.42
Diluted EPS.	$ (0.08)	$ 0.14	$ 0.27	$ 0.42

Average number of common shares outstanding.	21,490	21,858	21,796	20,797

</TABLE>

<TABLE>
<CAPTION>

	Year Ended December 31, 1997			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<S>	<C>	<C>	<C>	<C>
Interest income from ARM assets and cash . .	$ 73,011	$ 68,088	$ 57,623	$ 48,999
Interest expense on borrowed funds	(60,680)	(54,862)	(45,448)	(37,667)
Net interest income	12,331	13,226	12,175	11,332
Gain (loss) on ARM assets.	566	112	(189)	(186)
General and administrative expenses.	(2,047)	(2,156)	(1,911)	(1,851)
Dividend on preferred stock.	(1,670)	(1,670)	(1,670)	(1,241)
Net income available to common shareholders	$ 9,180	$ 9,512	$ 8,405	$ 8,054
Basic EPS.	$ 0.46	$ 0.50	$ 0.50	$ 0.49
Diluted EPS.	$ 0.46	$ 0.49	$ 0.50	$ 0.49
Average number of common shares outstanding.	19,860	19,152	16,817	16,311

</TABLE>

SCHEDULE IV - Mortgage Loans on Real Estate

Column A, Description: The Company's whole loan portfolio at December 31, 1998, which consists of only first mortgages on single-family residential housing, is stratified as follows (dollar amounts in thousands):

<TABLE>
<CAPTION>

Column A (continued)	Column B	Column C	Column G	Column H
Description (4)				
Range of Carrying Amounts of Mortgages	Number of Loans	Interest Rate	Final Maturity Date	Carrying Amount of Mortgages (3)	Principal Amount of Loans Subject to Delinquent Principal or Interest
<S>	<C>	<C>	<C>	<C>	<C>
ARM Loans:					
$ 0 - 250	931	5.73 - 8.98	Various	$ 123,067	$ 827
251 - 500	498	5.23 - 8.48	Various	174,335	932
501 - 750	157	5.98 - 8.73	Various	96,788	644
751 - 1,000	78	5.86 - 8.11	Various	71,221	
over 1,000	86	5.73 - 8.36	Various	129,613	3,450
	1,750			595,024	5,853
Hybrid Loans:					
0 - 250	1,418	4.73 - 9.23	Various	184,056	255
251 - 500	465	5.61 - 7.98	Various	164,727	
501 - 750	95	5.61 - 7.73	Various	57,186	
751 - 1,000	41	6.11 - 7.98	Various	37,219	
over 1,000	15	5.98 - 7.48	Various	23,481	
	2,034			466,669	255
Premium				17,436	
Allowance for losses (2)				(804)	
	3,784			$ 1,078,325	$ 6,108

</TABLE>

Notes:

(1) Reconciliation of carrying amounts of mortgage loans:

Balance at December 31, 1997. .	$ 118,987
Additions during 1998:	
Loan purchases.	1,092,238
Deductions during 1998:	
Collections of principal. .	128,079
Cost of mortgage loans sold	2,043
Provision for losses. . . .	762
Amortization of premium . .	2,016
	132,900
Balance at December 31, 1998. .	$1,078,325

(2) The provision for losses is based on management's assessment of various factors.

(3) Cost for Federal income taxes is the same.

(4) The geographic distribution of the Company's whole loan portfolio at December 31, 1998 is as follows:

<TABLE>
<CAPTION>

State or Territory	Number of Loans	Carrying Amount
<S>	<C>	<C>
Arizona	92	$ 25,087
California.	559	232,178
Colorado.	112	46,930
Connecticut	67	29,295
Florida	554	137,587
Georgia	241	74,916
Illinois.	189	36,189
Massachusetts	84	28,868
Michigan.	186	31,894
Missouri.	225	46,515
New Jersey.	154	44,361
New York.	287	73,875
Pennsylvania.	67	17,376
Texas	129	33,138
Washington.	69	21,460
Other states, less than 60 loans each . . .	769	182,024
Premium		17,436
Allowance for losses. .		(804)
TOTAL	3,784	$ 1,078,325

</TABLE>

SIGNATURES

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

THORNBURG MORTGAGE ASSET CORPORATION
(Registrant)

Dated: March 26, 1999

/s/ Garrett Thornburg

Garrett Thornburg
Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

Dated: March 26, 1999

/s/ Richard P. Story

Richard P. Story
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the

registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Garrett Thornburg Garrett Thornburg	Chairman of the Board, Director and Chief Executive Officer	March 26, 1999
/s/ Larry A. Goldstone Larry A. Goldstone	President, Director and Chief Operating Officer	March 26, 1999
/s/ David A. Ater David A. Ater	Director	March 26, 1999
/s/ Joseph H. Badal Joseph H. Badal	Director	March 26, 1999
/s/ Owen M. Lopez Owen M. Lopez	Director	March 26, 1999
/s/ James H. Lorie James H. Lorie	Director	March 26, 1999
/s/ Stuart C. Sherman Stuart C. Sherman	Director	March 26, 1999

Exhibit Index

Exhibit Number	Exhibit Description	Sequentially Numbered Page
1.1	Sales Agency Agreement (a)	
3.1	Articles of Incorporation of the Registrant (b)	
3.1.1	Articles of Amendment to Articles of Incorporation dated June 29, 1995 (c)	
3.1.2	Articles Supplementary dated January 21, 1997 (d)	
3.2	Amended and Restated Bylaws of the Registrant (e)	
4.1	Specimen Common Stock Certificates (b)	
4.2	Specimen Preferred Stock Certificates (d)	
10.1	Management Agreement between the Registrant and Thornburg Mortgage Advisory Corporation dated June 17, 1994 (e)	
10.1.1	Amendment to Management Agreement dated June 16, 1995 (a)	
10.1.2	Amendment to Management Agreement dated December 15, 1995 (f)	
10.1.3	Amendment to Management Agreement dated September 18, 1996 (g)	
10.1.4	Amendment to Management Agreement dated October 1, 1998 *	69
10.2	Form of Servicing Agreement (b)	
10.3	Form of 1992 Stock Option and Incentive Plan as amended and restated March 14, 1997 (h)	
10.3.1	Amendment dated December 16, 1997 to the amended and restated 1992 Stock Option and Incentive Plan (i)	
10.4	Form of Dividend Reinvestment and Stock Purchase Plan (j)	
10.5	Trust Agreement dated as of December 1, 1998 *	71

10.6	Indenture Agreement dated as of December 1, 1998 *	105
10.7	Sales and Service Agreement dated as of December 1, 1998 *	145
22.	Notice and Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 1998 (k)	
27	Financial Data Schedule *	187

<FN>

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* Being filed herewith.

(a) Previously filed with Registrant's Form 8-K dated October 10, 1995 and incorporated herein by reference pursuant to Rule 12b-32.

(b) Previously filed as part of Form S-11 which went effective on June 18, 1993 and incorporated herein by reference pursuant to Rule 12b-32.

(c) Previously filed with Registrant's Form 10-Q dated June 30, 1995 and incorporated herein by reference pursuant to Rule 12b-32.

(d) Previously filed as part of Form 8-A dated January 17, 1997 and incorporated herein by reference pursuant to Rule 12b-32.

(e) Previously filed as part of Form S-8 dated July 1, 1994 and incorporated herein by reference pursuant to Rule 12b-32.

(f) Previously filed with Registrant's Form 10-K dated December 31, 1995 and incorporated herein by reference pursuant to Rule 12b-32.

(g) Previously filed with Registrant's Form 10-Q dated September 30, 1996 and incorporated herein by reference pursuant to Rule 12b-32.

(h) Previously filed with Registrant's Form 10-K dated December 31, 1996 and incorporated herein by reference pursuant to Rule 12b-32.

(i) Previously filed with Registrant's Form 10-K dated December 31, 1997 and incorporated herein by reference pursuant to Rule 12b-32.

(j) Previously filed as Exhibit 4 to Registrant's registration statement on Form S-3D dated September 24, 1997 and incorporated herein by reference pursuant to Rule 12b-32.

(k) Previously filed on March 30, 1998 and incorporated by reference pursuant to Rule 12-b32.

</TABLE>

EXHIBIT 10.1.4

THORNBURG MORTGAGE ASSET CORPORATION
AMENDMENT TO MANAGEMENT AGREEMENT
AS OF OCTOBER 1, 1998

The Management Agreement (the "Management Agreement") between Thornburg Mortgage Asset Corporation, a Maryland corporation (the "Company") and Thornburg Mortgage Advisory Corporation, a Delaware corporation (the "Manager"), is amended, effective as of October 1, 1998, as follows:

RECITALS

This amendment to the Management Agreement is being effected for the purpose of amending the method of computing the Incentive Compensation payable to the Manager pursuant to Section 7 of the Management Agreement, as approved by the Board of Directors of the Company, including all of the independent directors, on October 16, 1998, and to restate and confirm in all respects the Management Agreement as so amended. Capitalized terms used herein shall have the meanings ascribed to them in the Management Agreement.

IT IS THEREFORE AGREED AS FOLLOWS:

1. Section 7 of the Management Agreement is amended by adding after subsection (c) thereof the following as subsection 7(d):

Solely for purposes of calculating the Manager's Incentive Compensation under Section 7(b), Average Net Worth shall be reduced by the amount that the Company pays for the purchase of Company stock.

2. Section 7 of the Management Agreement is amended by adding after new subsection (d) thereof the following as subsection 7(e):

Net Income of the Company, solely for purposes of calculating the Manager's Incentive Compensation under Section 7(b), shall be determined by calculating net income, including deductions and charges thereto, in accordance with generally accepted accounting principles ("GAAP"), as determined by the Company's independent certified public accountants.

3. The Management Agreement, as amended by this Amendment dated as of October 1, 1998, is in all respects restated and affirmed between the parties.

IN WITNESS WHEREOF, the Company and the Manager hereby execute this Amendment to the Management Agreement as of October 1, 1998.

THORNBURG MORTGAGE ASSET CORPORATION
a Maryland corporation

By: /s/ Larry A. Goldstone

Larry A. Goldstone, President

THORNBURG MORTGAGE ADVISORY CORPORATION
a Delaware corporation

By: /s/ Garrett Thornburg

Garrett Thornburg, President

EXHIBIT 10.5

EXECUTION COPY

TRUST AGREEMENT

Among

THORNBURG MORTGAGE FUNDING CORPORATION,
as Depositor

THORNBURG MORTGAGE ASSET CORPORATION,
as Sponsor

and

WILMINGTON TRUST COMPANY,
as Owner Trustee

Dated as of December 1, 1998

TMA MORTGAGE FUNDING TRUST I

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AUTHORITY AND DUTIES OF OWNER TRUSTEE

ARTICLE VII
CONCERNING THE OWNER TRUSTEE

ARTICLE VIII
COMPENSATION OF OWNER TRUSTEE

TRUST AGREEMENT (the "Trust Agreement") dated as of December 1, 1998, among THORNBURG MORTGAGE FUNDING CORPORATION, a Delaware corporation, as depositor (the "Depositor"), THORNBURG MORTGAGE ASSET CORPORATION, as sponsor, (the "Sponsor") and WILMINGTON TRUST COMPANY, a Delaware banking corporation, as owner trustee (the "Owner Trustee").

In consideration of the premises and the mutual agreements herein contained, the Depositor and the Owner Trustee hereby agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definitions. For all purposes of the Trust Agreement, except as otherwise expressly provided herein or unless the context otherwise requires, capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in Appendix A hereto which are incorporated by reference herein. All other capitalized terms used herein shall have the meanings specified herein.

SECTION 1.02. Rules of Construction. Unless the context otherwise requires:

(a) All terms defined in the Trust Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(b) As used in the Trust Agreement and in any certificate or other

document made or delivered pursuant hereto or thereto, accounting terms not defined in the Trust Agreement or in any such certificate or other document, and accounting terms partly defined in the Trust Agreement or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms in the Trust Agreement or in any such certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in the Trust Agreement or in any such certificate or other document shall control.

(c) The words "hereof," "herein," "hereunder" and words of similar import when used in the Trust Agreement shall refer to the Trust Agreement as a whole and not to any particular provision of the Trust Agreement; Section and Exhibit references contained in the Trust Agreement are references to Sections and Exhibits in or to the Trust Agreement unless otherwise specified; and the term "including" shall mean "including without limitation".

(d) The definitions contained in the Trust Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

(e) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

ARTICLE II
F
Organization

SECTION 2.01. Name of Trust; Statement of Intent. The Trust created hereby shall be known as "TMA Mortgage Funding Trust I," in which name the Owner Trustee may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued on behalf of the Trust. The parties hereto intend that the Trust shall constitute a business trust within the meaning of Section 3801(a) of the Business Trust Statute and that the Trust Agreement constitute the governing instrument of the Trust in accordance with the Business Trust Statute. The Owner Trustee is hereby authorized to file a certificate of trust with the Secretary of State of the State of Delaware pursuant to Section 3810(a) of the Business Trust Statute.

SECTION 2.02. Office. The office of the Trust shall be in care of the Owner Trustee at the Corporate Trust Office or at such other address in Delaware as the Owner Trustee may designate by written notice to the Owners, the Depositor and the Paying Agent.

SECTION 2.03. Purposes and Powers. The purpose of the Trust is to engage in the following activities, and the Trust shall have the power and authority:

(i) to issue the Notes pursuant to the Indenture and the Trust Certificates and certain purchase options pursuant to the Trust Agreement and to sell, transfer or exchange the Notes and to sell, transfer and exchange the Trust Certificates;

(ii) with the proceeds of the sale of the Notes to purchase the Mortgage Loans, the Pooled Certificates, the Swap Agreements and certain other assets, to pay the organizational, start-up and transactional expenses of the Trust, and to pay the balance to the Depositor pursuant to the Sale and Servicing Agreement;

(iii) to assign, grant, transfer, pledge, mortgage and convey the Trust Estate pursuant to the Indenture and to hold, manage and distribute to the

Certificateholders pursuant to the terms of the Trust Agreement and the Sale and Servicing Agreement any portion of the Trust Estate released from the Lien of, and remitted to the Trust pursuant to, the Indenture;

(iv) to enter into and perform its obligations under the Basic Documents to which it is to be a party;

(v) to engage in those activities, including entering into agreements, that are necessary, suitable or convenient to accomplish the foregoing or are incidental thereto or connected therewith;

(vi) subject to compliance with the Basic Documents, to engage in such other activities as may be required in connection with conservation of the Trust Estate and the making of payments or distributions to the Certificateholders, the Noteholders and others as specified in the Basic Documents;

(vii) to establish accounts in accordance with the Basic Documents and to make deposits into and withdrawals from such accounts in accordance with the Basic Documents;

(viii) to enter into the Note Purchase Agreement and to perform its obligations thereunder; and

(ix) to enter into the Recognition Agreement and to perform its obligations thereunder.

The Trust is hereby authorized to engage in the foregoing activities. The Trust shall not engage in any activity other than in connection with the foregoing or other than as required or authorized by the terms of the Trust Agreement or the other Basic Documents.

SECTION 2.04. Appointment of Owner Trustee. The Depositor hereby appoints the Owner Trustee as trustee of the Trust effective as of the date hereof, to have all the rights, powers and duties set forth herein.

SECTION 2.05. Initial Capital Contribution of Owner Trust Estate. The Depositor hereby sells, assigns, transfers, conveys and sets over to the Owner Trustee, as of the date hereof, the sum of $1.00. The Owner Trustee hereby acknowledges receipt in trust from the Depositor, as of the date hereof, of the foregoing contribution, which shall constitute the initial Owner Trust Estate and shall be deposited in the Certificate Distribution Account. The Depositor shall pay organizational expenses of the Trust as they may arise or shall, upon the request of the Owner Trustee, promptly reimburse the Owner Trustee for any such expenses paid by the Owner Trustee.

SECTION 2.06. Declaration of Trust. The Owner Trustee hereby declares that it will hold the Owner Trust Estate in trust upon and subject to the conditions set forth herein for the use and benefit of the Certificateholders, subject to the obligations of the Trust under the Basic Documents. It is the intention of the parties hereto that the Trust constitute a business trust under the Business Trust Statute and that the Trust Agreement constitute the governing instrument of such business trust. It is the intention of the parties hereto that, solely for federal income tax purposes, the Trust shall be treated as a grantor trust for federal income tax purposes. The parties agree that, unless otherwise required by appropriate tax authorities, the Trust will file or cause to be filed annual or other necessary returns, reports and other forms consistent with the characterization of the Trust as a grantor trust for such tax purposes. Effective as of the date hereof, the Owner Trustee shall have all rights, powers and duties set forth herein and in the Business Trust Statute with respect to accomplishing the purposes of the Trust.

SECTION 2.07. Liability of the Certificateholders. No Certificateholder shall have any personal liability for any liability or obligation of the Trust.

SECTION 2.08. Title to Trust Property. Legal title to all the Owner Trust

Estate shall be vested at all times in the Trust as a separate legal entity except where applicable law in any jurisdiction requires title to any part of the Owner Trust Estate to be vested in a trustee or trustees, in which case title shall be deemed to be vested in the Owner Trustee, a co-trustee and/or a separate trustee, as the case may be.

SECTION 2.09. Situs of Trust. The Trust will be located and administered in the State of Delaware. All bank accounts maintained by the Owner Trustee on behalf of the Trust shall be located in the State of Delaware, the State of Illinois or the State of California. The Trust shall not have any employees in any state other than Delaware; provided, however, that nothing herein shall restrict or prohibit the Owner Trustee from having employees within or without the State of Delaware. Payments will be received by the Trust only in Delaware, Illinois or California, and payments will be made by the Trust only from Delaware, Illinois or California. The only office of the Trust will be at the Corporate Trust Office in Delaware.

SECTION 2.10. Representations and Warranties of the Depositor and the Sponsor. The Depositor and the Sponsor hereby represent and warrant to the Owner Trustee that:

(a) The Depositor and the Sponsor are duly organized and validly existing as corporations in good standing under the laws of the jurisdiction of their respective jurisdictions of incorporation, with power and authority to own their properties and to conduct their business as such properties are currently owned and such business is presently conducted.

(b) The Depositor and the Sponsor have the power and authority to execute and deliver the Trust Agreement and to carry out its terms; the Depositor has full power and authority to sell and assign the property to be sold and assigned to and deposited with the Trust and the Depositor has duly authorized such sale and assignment and deposit to the Trust by all necessary corporate action; and the execution, delivery and performance of the Trust Agreement have been duly authorized by the Depositor and the Sponsor by all necessary corporate action.

(c) The Trust Agreement constitutes a legal, valid and binding obligation of the Depositor and the Sponsor enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization and similar laws relating to creditors' rights generally and subject to general principles of equity.

(d) The consummation of the transactions contemplated by the Trust Agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the certificate of incorporation or bylaws of the Depositor or the Sponsor, or any material indenture, agreement or other instrument to which the Depositor or the Sponsor is a party or by which either is bound; nor result in the creation or imposition of any Lien upon any of the properties of the Depositor or the Sponsor pursuant to the terms of any such indenture, agreement or other instrument (other than pursuant to the Basic Documents); nor violate any law or, to the best of the Depositor's and the Sponsor's knowledge, any order, rule or regulation applicable to the Depositor or the Sponsor of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Depositor or the Sponsor or their respective properties.

(e) To the Depositor's and the Sponsor's best knowledge, there are no proceedings or investigations pending or threatened before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Depositor or the Sponsor or their respective properties: (A) asserting the invalidity of the Trust Agreement, (B) seeking to prevent the consummation of any of the transactions contemplated by the Trust Agreement or (C) seeking any determination or ruling that might materially and adversely affect the performance by the Depositor or the Sponsor of the obligations of either under, or the validity or enforceability of, the Trust

Agreement.

ARTICLE III

Trust Certificates and Transfer of Interests

SECTION 3.01. Initial Ownership. Upon the formation of the Trust by the contribution by the Depositor pursuant to Section 2.05 and until the issuance of the Trust Certificates, the Depositor shall be the sole beneficiary of the Trust.

SECTION 3.02. The Trust Certificates. (a) The Trust Certificates shall be substantially in the form set forth in Exhibit A hereto, with an initial Certificate Balance of $32,362,457. The Trust Certificates shall be issued in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof; provided however that one Trust Certificate may be issued in a denomination that represents any residual amount of the Initial Certificate Balance. The Trust Certificates shall be executed on behalf of the Trust by manual or facsimile signature of an authorized officer of the Owner Trustee. Trust Certificates bearing the manual or facsimile signatures of individuals who were, at the time when such signatures shall have been affixed, authorized to sign on behalf of the Trust, shall be validly issued and entitled to the benefit of the Trust Agreement, notwithstanding that such individuals or any of them shall have ceased to be so authorized prior to the authentication and delivery of such Trust Certificates or did not hold such offices at the date of authentication and delivery of such Trust Certificates. Notwithstanding the foregoing or any other provision contained herein, so long as the Certificateholder Collateral Purchase Option or the Note Purchase Option is outstanding, there shall only be a single holder of all of the Trust Certificates which Certificateholder shall also own such options.

(b) On the Closing Date, the Trust Certificates, in the initial Certificate Balance of $32,362,457, shall be issued to TMA Acceptance Corp. in exchange for the purchase price of $32,362,457 and registered in the name of TMA Acceptance Corp. The Trust hereby directs that such cash amount be paid to, or at the direction of, the Depositor as part of the consideration for the purchase of the Trust Estate pursuant to the terms of the Sale and Servicing Agreement.

SECTION 3.03. Authentication of Trust Certificates. Concurrently with the initial sale of the Collateral to the Trust pursuant to the Sale and Servicing Agreement, the Owner Trustee shall cause the Trust Certificates in an aggregate principal amount equal to the Initial Certificate Balance to be executed on behalf of the Trust, authenticated and delivered to or upon the written order of TMA Acceptance Corp., as provided in Section 3.02(b), signed by its chairman of the board, its president, any vice president, secretary or any assistant treasurer, without further corporate action by the Depositor, in authorized denominations. No Trust Certificate shall entitle its Holder to any benefit under the Trust Agreement or be valid for any purpose unless there shall appear on such Trust Certificate a certificate of authentication substantially in the form set forth in Exhibit A, executed by the Owner Trustee, by manual signature; such authentication shall constitute conclusive evidence that such Trust Certificate shall have been duly authenticated and delivered hereunder. All Trust Certificates shall be dated the date of their authentication. No further Trust Certificates shall be issued except pursuant to Section 3.04 or 3.05 hereunder.

SECTION 3.04. Registration of Transfer and Exchange of Trust Certificates. The Certificate Registrar shall keep or cause to be kept, at the office or agency maintained pursuant to Section 3.08, a Certificate Register in which, subject to such reasonable regulations as it may prescribe, the Owner Trustee shall provide for the registration of Trust Certificates and, subject to Section 3.10 hereof, of transfers and exchanges of Trust Certificates as herein provided. The Owner Trustee shall be the initial Certificate Registrar.

Upon surrender for registration of transfer of any Trust Certificate at the office or agency maintained pursuant to Section 3.08, the Owner Trustee shall

execute, authenticate and deliver, in the name of the designated transferee or transferees, one or more new Trust Certificates in authorized denominations of a like aggregate amount dated the date of authentication by the Owner Trustee or any authenticating agent. At the option of a Certificateholder, Trust Certificates may be exchanged for other Trust Certificates of authorized denominations of a like aggregate amount upon surrender of the Trust Certificates to be exchanged at the office or agency maintained pursuant to Section 3.08. Whenever any Trust Certificates are surrendered for exchange, the Owner Trustee shall execute on behalf of the Trust, authenticate and deliver one or more new Trust Certificates dated the date of authentication by the Owner Trustee or any authenticating agent to the Certificateholder making such exchange.

Every Trust Certificate presented or surrendered for registration of transfer or exchange shall be accompanied by a written instrument of transfer in form satisfactory to the Owner Trustee and the Certificate Registrar duly executed by the Certificateholder or such Certificateholder's attorney duly authorized in writing. Each Trust Certificate surrendered for registration of transfer or exchange shall be canceled and subsequently disposed of by the Owner Trustee in accordance with its customary practice.

No service charge shall be made for any registration of transfer or exchange of Trust Certificates, but the Owner Trustee or the Certificate Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Trust Certificates.

SECTION 3.05. Mutilated, Destroyed, Lost or Stolen Trust Certificates. If
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(a) any mutilated Trust Certificate shall be surrendered to the Certificate Registrar, or if the Certificate Registrar shall receive evidence to its satisfaction of the destruction, loss or theft of any Trust Certificate, and (b) there shall be delivered to the Certificate Registrar and the Owner Trustee such security or indemnity as may be required by them to save each of them harmless, then in the absence of notice that such Trust Certificate has been acquired by a protected purchaser, the Owner Trustee on behalf of the Trust shall execute and the Owner Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Trust Certificate, a new Trust Certificate of like tenor and denomination. In connection with the issuance of any new Trust Certificate under this Section, the Owner Trustee or the Certificate Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. Any duplicate Trust Certificate issued pursuant to this Section shall constitute conclusive evidence of ownership in the Trust, as if originally issued, whether or not the lost, stolen or destroyed Trust Certificate shall be found at any time.

If, after the delivery of a replacement Trust Certificate pursuant to this Section, a protected purchaser of the original Trust Certificate in lieu of which such replacement Trust Certificate was issued presents for payment such original Trust Certificate, the Owner Trustee shall be entitled to recover such replacement Trust Certificate (and any distributions made with respect thereto) from the Person to whom it was delivered or any Person taking such replacement Trust Certificate from such Person to whom such replacement Trust Certificate was delivered or any assignee of such Person, except a protected purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Owner Trustee or Certificate Registrar in connection therewith.

SECTION 3.06. Persons Deemed Certificateholders. Prior to due
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presentation of a Trust Certificate for registration of transfer, the Owner Trustee, the Certificate Registrar or any Paying Agent or other agent thereof may treat the Person in whose name any Trust Certificate is registered in the Certificate Register as the owner of such Trust Certificate for the purpose of receiving distributions pursuant to Section 5.02 and for all other purposes whatsoever, and none of the Owner Trustee, the Certificate Registrar or any Paying Agent or other agent thereof shall be bound by any notice to the contrary.

SECTION 3.07. Access to List of Certificateholders' Names and Addresses.

The Owner Trustee shall furnish or cause to be furnished to the Paying Agent, the Servicer and the Depositor, no later than the fifth Business Day following each Record Date, a list, in such form as the Paying Agent, the Servicer or the Depositor may reasonably require, of the names and addresses of the Certificateholders as of the most recent Record Date. If three or more Certificateholders or one or more Holders of Trust Certificates evidencing not less than 25% of the aggregate Certificate Balance apply in writing to the Owner Trustee, and such application states that the applicants desire to communicate with other Certificateholders with respect to their rights under the Trust Agreement or under the Trust Certificates and such application is accompanied by a copy of the communication that such applicants propose to transmit, then the Owner Trustee shall, within five Business Days after the receipt of such application, afford such applicants access during normal business hours to the current list of Certificateholders. Upon receipt of any such application, the Owner Trustee will promptly notify the Depositor by providing a copy of such application and a copy of the list of Certificateholders produced in response thereto. Each Certificateholder, by receiving and holding a Trust Certificate, shall be deemed to have agreed not to hold any of the Depositor, the Certificate Registrar or the Owner Trustee accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

SECTION 3.08. Maintenance of Office or Agency. The Owner Trustee shall maintain in the Borough of Manhattan, The City of New York, an office or offices or agency or agencies where Trust Certificates may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Owner Trustee in respect of the Trust Certificates and the Basic Documents may be served. The Owner Trustee initially designates Harris Trust Company of New York, 88 Pine Street, Wall Street Plaza, 19th Floor, New York, New York 10005; Attn: Reginold Aloisi as its office for such purposes. The Owner Trustee shall give prompt written notice to the Depositor and to the Certificateholders of any change in the location of the Certificate Register or any such office or agency.

SECTION 3.09. Appointment of Paying Agent. The Paying Agent shall make distributions to Certificateholders from the Certificate Distribution Account pursuant to Section 5.02 and shall report the amounts of such distributions to the Owner Trustee. Any Paying Agent shall have the revocable power to withdraw funds from the Certificate Distribution Account for the purpose of making the distributions referred to above. The Owner Trustee may revoke such power and remove the Paying Agent if the Owner Trustee determines in its sole discretion that the Paying Agent shall have failed to perform its obligations under the Trust Agreement in any material respect. The Paying Agent initially shall be Bankers Trust Company of California, N.A. Bankers Trust Company of California, N.A., shall be permitted to resign as Paying Agent upon 30 days' written notice to the Owner Trustee, the Note Insurer and the Servicer. In the event that Bankers Trust Company of California, N.A., shall no longer be the Paying Agent, the Owner Trustee shall appoint a successor to act as Paying Agent (which shall be a bank or trust company acceptable to the Note Insurer). The Owner Trustee shall cause such successor Paying Agent or any additional Paying Agent appointed by the Owner Trustee to execute and deliver to the Owner Trustee an instrument in which such successor Paying Agent or additional Paying Agent shall agree with the Owner Trustee that, as Paying Agent, such successor Paying Agent or additional Paying Agent will hold all sums, if any, held by it for payment to the Certificateholders in trust for the benefit of the Certificateholders entitled thereto until such sums shall be paid to such Certificateholders. The Paying Agent shall return all unclaimed funds to the Owner Trustee and upon removal of a Paying Agent such Paying Agent shall also return all funds in its possession to the Owner Trustee. The provisions of Sections 7.01, 7.04 and 8.02 shall apply to Bankers Trust Company of California, N.A. or the Owner Trustee also in its role as Paying Agent, for so long as Bankers Trust Company of California, N.A. or the Owner Trustee shall act as Paying Agent and, to the extent applicable, to any other paying agent appointed hereunder. Any reference in the Trust Agreement to the Paying Agent shall include any co-paying agent unless the context requires otherwise.

SECTION 3.10. Trust Certificate Transfer Restrictions. The Trust Certificates may not be offered or sold except to the Depositor or an Affiliate thereof or to institutional "accredited investors" (as defined in Rule 501(a)(1)-(3) or (7) under the Securities Act who are United States persons (as defined in Section 7701(a)(30) of the Code) in reliance on an exemption from the registration requirements of the Securities Act. Further, for purposes of the Investment Company Act of 1940, as amended, for so long as the Note Purchase Option or either of the Collateral Purchase Options are outstanding, and until an opinion of counsel is provided to the Owner Trustee to the effect that such limitation is no longer necessary, the total number of beneficial owners of the Certificates may not exceed three. Notwithstanding the foregoing, no transfer of a Trust Certificate shall be permitted, and no such transfer shall be registered by the Certificate Registrar or be effective hereunder, if, for purposes of of Treasury regulation 1.7704-1(h)(3), the number of beneficial owners of Trust Certificates exceeds 99. For purposes of Treasury regulation 1.7704-1(h)(3), in determining the number of beneficial owners, the Certificate Registrar may treat the number of beneficial owners as equal to the number of registered holders, provided that each holder represents that it is the beneficial owner and (i) is an individual or a United States corporation (other than an S corporation) or (ii) no principal purpose of the use of the entity to hold the Trust Certificate is to permit the Trust to satisfy the 100 partners limitation of Treasury regulation 1.7704-1(h)(3).

(a) The Trust Certificates have not been registered or qualified under the Securities Act, or any state securities law. No transfer, sale, pledge or other disposition of any Trust Certificate shall be made unless such disposition is made pursuant to an effective registration statement under the Securities Act and effective registration or qualification under applicable state securities laws, or is made in a transaction which does not require such registration or qualification. In the event that a transfer is to be made in reliance upon an exemption from the Securities Act, the Owner Trustee may require, in order to assure compliance with the Securities Act, that the Certificateholder's prospective transferee certify to the Owner Trustee in writing the facts surrounding such disposition. Unless the Owner Trustee requests otherwise, such certification shall be substantially in the form of Exhibit C hereto. In the event that such certification of facts does not on its face establish the availability of an exemption under the Securities Act, the Owner Trustee may require the prospective transferee to provide an opinion of counsel satisfactory to it that such transfer may be made pursuant to an exemption from the Securities Act, which opinion of counsel shall not be an expense of the Owner Trustee or of the Trust.

(b) The Trust Certificates and any beneficial interest in such Trust Certificates may not be acquired by or with the assets of (a) employee benefit plans, retirement arrangements, individual retirement accounts or Keogh plans subject to either Title I of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, or (b) entities (including insurance company general accounts) whose underlying assets include plan assets by reason of the investment by any such plans, arrangements or accounts in such entities (a "Benefit Plan Investor") and any such purported transfer shall not be effective. Each transferee of a Trust Certificate shall be required to represent (a) that it is not a Benefit Plan Investor and is not acquiring such Trust Certificate with the assets of a Benefit Plan Investor and (b) that if such Trust Certificate is subsequently deemed to be a plan asset, it will dispose of such Trust Certificate.

(c) Each Trust Certificate will bear legends substantially to the following effect.

THIS TRUST CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS TRUST CERTIFICATE, AGREES THAT THIS TRUST CERTIFICATE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND TO A PERSON WHO HAS FURNISHED TO THE OWNER TRUSTEE (A) AN INVESTMENT LETTER SATISFACTORY TO THE OWNER TRUSTEE TO THE EFFECT THAT SUCH PURCHASER IS AN INSTITUTIONAL ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1)-(3) OR (7) UNDER THE ACT AND (B) IF REQUIRED, AN OPINION OF COUNSEL SATISFACTORY TO THE OWNER TRUSTEE.

THIS TRUST CERTIFICATE MAY NOT BE TRANSFERRED DIRECTLY OR INDIRECTLY TO (1) EMPLOYEE BENEFIT PLANS, RETIREMENT ARRANGEMENTS, INDIVIDUAL RETIREMENT ACCOUNTS OR KEOGH PLANS SUBJECT TO EITHER TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR (2) ENTITIES (INCLUDING INSURANCE COMPANY GENERAL ACCOUNTS) WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF ANY SUCH PLAN'S ARRANGEMENTS OR ACCOUNT'S INVESTMENT IN SUCH ENTITIES. FURTHER, THIS TRUST CERTIFICATE MAY BE TRANSFERRED ONLY TO A UNITED STATES PERSON WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

IF THE CERTIFICATEHOLDER COLLATERAL PURCHASE OPTION OR THE NOTE PURCHASE OPTION ARE OUTSTANDING, THIS TRUST CERTIFICATE MUST REPRESENT ALL OUTSTANDING TRUST CERTIFICATES AND SHALL BE HELD BY ONLY ONE HOLDER.

THE HOLDER OF THIS TRUST CERTIFICATE FURTHER UNDERSTANDS AND AGREES THAT THE NUMBER OF BENEFICIAL OWNERS OF ALL TRUST CERTIFICATES MAY NOT EXCEED 3 IN NUMBER; THAT TRANSFERS OF THE TRUST CERTIFICATES WILL BE RESTRICTED ACCORDINGLY; AND THAT THE HOLDER HEREOF WILL NOTIFY THE OWNER TRUSTEE IF THE NUMBER OF BENEFICIAL OWNERS OF THIS TRUST CERTIFICATE WILL CHANGE AS PROVIDED IN THE TRUST AGREEMENT.

SECTION 3.11. Note and Collateral Purchase Options. (a) As long as one Person holds 100% of the Trust Certificates there is hereby granted to such Certificateholder, the Note Purchase Option and the Certificateholder Collateral Purchase Option. The Note Purchase Option shall permit such Certificateholder to purchase all of the outstanding Notes on any Payment Date for the Note Purchase Price and otherwise in accordance with the procedures set forth in Article X of the Indenture. The Certificateholder Collateral Purchase Option shall permit such Certificateholder to purchase all of the Collateral on any Payment Date for the Certificateholder Collateral Purchase Price and otherwise in accordance with the procedures set forth in Article X of the Indenture. Each of the Note Purchase Option and the Certificateholder Collateral Purchase Option shall be automatically transferred to the transferee of all of the Trust Certificates upon such a transfer. Such Options shall cease to exist and be void if there is more than one holder of the Trust Certificates.

(b) There is hereby granted to Bear Stearns the Bear Stearns Collateral Purchase Option. The Bear Stearns Collateral Purchase Option is transferable in whole but not in part by Bear Stearns or any assignee and does not require Bear Stearns to hold any Trust Certificates or Notes. The Bear Stearns Collateral Purchase Option shall permit the holder thereof to purchase all of the Collateral on any Payment Date for the Bear Stearns Collateral Purchase Price and otherwise in accordance with the procedures set forth in Article X of the Indenture. Bear Stearns and any subsequent transferor shall provide notice of any transfer of the Bear Stearns Collateral Purchase Option and of the name and address of the transferee to the Owner Trustee, the Indenture Trustee, the Note Insurer, the Servicer and the Rating Agencies.

(c) Upon the exercise of any option granted pursuant to this Section 3.11, payment of the applicable exercise price and transfer of the Notes or Collateral to or as directed by the Person exercising such option, such respective option shall terminate. Exercise of the Note Purchase Option shall not affect the Collateral Purchase Options. Exercise of a Collateral Purchase Option and payment of the applicable exercise price and transfer of the Collateral to the Person exercising such option shall cause the other Collateral Purchase Option and the Note Purchase Option to terminate. Notwithstanding the foregoing, if the holder thereof gives notice of exercise of the Bear Stearns Collateral Purchase Option, the sole Certificateholder shall have the right during the time period provided in Section 10.01 of the Indenture to itself exercise its Certificateholder Collateral Purchase Option and, subject to its provision of the Certificateholder Collateral Purchase Price by the time provided in the Indenture, to purchase the Collateral. In such latter event, the Bear Stearns Collateral Purchase Option shall terminate.

SECTION 3.12. Beneficial Owner Limitation. The Certificate Registrar shall keep a list of the total number of beneficial owners of Trust Certificates as evidenced by the claims made by Holders on each representation letter executed by a prospective Holder pursuant to Section 3.10(a). In the event that the

transfer of Trust Certificates would cause the total number of beneficial owners of Trust Certificates to exceed three, the Owner Trustee shall not permit the proposed transfer of such Trust Certificates. Any transfer of Trust Certificates that causes the total number of beneficial owners of Trust Certificates to exceed three shall be null and void and the Certificate Register shall be amended to reflect such voided transfer; provided, however, that in the event
(i) all of the Purchase Options are no longer outstanding and (ii) an opinion of counsel, acceptable to the Depositor, the Note Insurer, the Indenture Trustee and the Owner Trustee, is provided to such Persons, at the sole cost and expense of the provider thereof, to the effect that for purposes of the Investment Company Act of 1940, as amended, the total number of beneficial owners of all Notes and Trust Certificates may exceed 100, then the total number of beneficial owners of the Trust Certificates may exceed three and the related restrictive legend may be removed from the Trust Certificates.

ARTICLE IV

Actions by Owner Trustee

SECTION 4.01. Prior Notice to Certificateholders and Note Insurer with Respect to Certain Matters. With respect to the following matters, the Owner Trustee shall not take action unless at least 30 days before the taking of such action, the Owner Trustee shall have notified the Note Insurer and the Certificateholders in writing of the proposed action and neither the Certificateholders nor the Note Insurer shall have notified the Owner Trustee in writing prior to the 30th day after such notice is given that such Certificateholders or the Note Insurer have withheld consent or provided alternative direction; provided, however, that any direction by the Certificateholders shall require the prior consent of the Note Insurer:

(a) the initiation of any material claim or lawsuit by the Trust (except claims or lawsuits brought in connection with the collection of the Mortgage Loans or under the Pooled Certificates) and the compromise of any material action, claim or lawsuit brought by or against the Trust (except with respect to the aforementioned claims or lawsuits for collection of the Mortgage Loans or under the Pooled Certificates);

(b) the election by the Trust to file an amendment to the Certificate of Trust (unless such amendment is required to be filed under the Business Trust Statute);

(c) the amendment of the Indenture by a supplemental indenture in circumstances where the consent of any Noteholder or the Note Insurer is required;

(d) the amendment of the Indenture by a supplemental indenture in circumstances where the consent of any Noteholder or the Note Insurer is not required and such amendment materially adversely affects the interest of the Certificateholders or the Note Insurer;

(e) the appointment pursuant to the Indenture of a successor Paying Agent or Indenture Trustee or pursuant to the Trust Agreement of a successor Certificate Registrar, or the consent to the assignment by the Paying Agent or Indenture Trustee or Certificate Registrar of its obligations under the Indenture or the Trust Agreement, as applicable;

(f) the consent to the calling or waiver of any default of any Basic Document;

(g) the consent to the assignment of the Indenture Trustee or Servicer of their respective obligations under any Basic Document;

(h) except as provided in Article IX hereof, the dissolution, termination or liquidation of the Trust in whole or in part;

(i) the merger or consolidation of the Trust with or into any other

entity, or conveyance or transfer of all or substantially all of the Trust's assets to any other entity;

(j) the incurrence, assumption or guaranty in the Trust of any indebtedness other than as set forth in the Trust Agreement or the Basic Documents;

(k) the doing of any act that conflicts with any of the Basic Documents;

(l) the doing of any act which would make it impossible to carry on the ordinary business of the Trust as described in Section 2.3 hereof;

(m) the confession of a judgment against the Trust;

(n) the possession of Trust assets, or assignment of the Trust's right to property, for other than a Trust purpose as determined pursuant to the Trust Agreement and the other Basic Documents;

(o) the lending by the Trust of any funds to any Person;

(p) the change in the Trust's purpose and powers from those set forth in this Trust Agreement; or

(q) the removal or replacement of the Servicer or the Indenture Trustee. In addition the Trust shall not commingle its assets with those of any other entity. The Trust shall maintain its financial and accounting books and records separate from those of any other entity. Except as expressly set forth herein, the Trust shall pay its indebtedness, operating expenses and liabilities from its own funds, and the Trust shall not pay the indebtedness, operating expenses and liabilities of any other entity.

SECTION 4.02. Action by Certificateholders with Respect to Certain Matters. The Owner Trustee shall not have the power, (a) except upon the written direction of the Certificateholders with the written consent of the Note Insurer, to remove the Servicer under the Sale and Servicing Agreement pursuant to Section 7.1 thereof, to consent to a successor Servicer, to remove the Indenture Trustee under the Indenture pursuant to Section 6.08 thereof or to consent to a successor Indenture Trustee or (b) except upon the written direction of the Certificateholders and as expressly provided in the Basic Documents, sell the Mortgage Loans and/or the Pooled Certificates after the termination of the Indenture. The Owner Trustee shall take the actions referred to in the preceding sentence only upon written instructions signed by the Certificateholders.

SECTION 4.03. Action by Certificateholders with Respect to Bankruptcy. The Owner Trustee shall not have the power, except upon the written direction of all of the Certificateholders with the written consent of the Note Insurer, and to the extent otherwise consistent with the Basic Documents, to (i) institute proceedings to have the Trust declared or adjudicated a bankrupt or insolvent, (ii) consent to the institution of bankruptcy or insolvency proceedings against the Trust, (iii) file a petition or consent to a petition seeking reorganization or relief on behalf of the Trust under any applicable federal or state law relating to bankruptcy, (iv) consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or any similar official) of the Trust or a substantial portion of the property of the Trust, (v) make any assignment for the benefit of the Trust's creditors, (vi) cause the Trust to admit in writing its inability to pay its debts generally as they become due, (vii) take any action, or cause the Trust to take any action, in furtherance of any of the foregoing (any of the above, a "Bankruptcy Action"). So long as the Indenture and the Insurance Agreement remain in effect and no Note Insurer Default exists, no Certificateholder shall have the power to take and shall not take, any Bankruptcy Action with respect to the Trust or direct the Owner Trustee to take any Bankruptcy Action with respect to the Trust.

SECTION 4.04. Restrictions on Certificateholders' Power. The Certificateholders shall not direct the Owner Trustee to take or to refrain from

taking any action if such action or inaction would be contrary to any obligation of the Trust or the Owner Trustee under the Trust Agreement or any of the Basic Documents or would be contrary to Section 2.03, nor shall the Owner Trustee be obligated to follow any such direction, if given.

SECTION 4.05. Majority Control. Except as expressly provided herein, any action that may be taken by the Certificateholders under the Trust Agreement may be taken by the Holders of Trust Certificates evidencing not less than a majority of the aggregate Certificate Balances. Except as expressly provided herein, any written notice of the Certificateholders delivered pursuant to the Trust Agreement shall be effective if signed by Certificateholders evidencing not less than a majority of the aggregate Certificate Balances at the time of the delivery of such notice.

ARTICLE V

Application of Trust Funds; Certain Duties

SECTION 5.01. Establishment of Trust Account. The Owner Trustee, for the benefit of the Certificateholders, shall cause the Paying Agent to establish and maintain in the name of the Trust a segregated account with the Indenture Trustee (the "Certificate Distribution Account"), bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Certificateholders.

SECTION 5.02. Application of Trust Funds. (a) On each Payment Date, the Owner Trustee shall, or shall cause the Paying Agent to, distribute to the Certificateholders, pro rata based on their respective Certificate Balances, from amounts deposited in the Certificate Distribution Account received from the Indenture Trustee pursuant to Section 5.2 of the Sale and Servicing Agreement, the Certificate Interest Distribution Amount, the Certificate Principal Distribution Amount and Additional Certificate Interest in each case, if any.

(b) On each Payment Date, the Owner Trustee shall, or shall cause the Paying Agent to, send to each Certificateholder the statement or statements provided to the Owner Trustee by the Indenture Trustee pursuant to Section 5.4 of the Sale and Servicing Agreement with respect to such Payment Date provided that such statement or statements have actually been received by the Owner Trustee.

(c) In the event that any withholding tax is imposed on the Trust's payment (or allocations of income) to a Certificateholder, such tax shall reduce the amount otherwise distributable to the Certificateholder in accordance with this Section. The Owner Trustee is hereby authorized and directed to retain from amounts otherwise distributable to the Certificateholders sufficient funds for the payment of any tax that is legally owed by the Trust (but such authorization shall not prevent the Owner Trustee from contesting any such tax in appropriate proceedings, and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings). The amount of any withholding tax imposed with respect to a Certificateholder shall be treated as cash distributed to such Certificateholder at the time it is withheld by the Trust and remitted to the appropriate taxing authority. If there is a possibility that withholding tax is payable with respect to a distribution (such as a distribution to a non-U.S. Certificateholder), the Owner Trustee may in its sole discretion withhold such amounts in accordance with this paragraph (c). In the event that a Certificateholder wishes to apply for a refund of any such withholding tax, the Owner Trustee shall reasonably cooperate with such Certificateholder in making such claim so long as such Certificateholder agrees to reimburse the Owner Trustee or the Paying Agent for any out-of-pocket expenses incurred. In enforcing its rights hereunder, the Owner Trustee may direct the Paying Agent to withhold the applicable tax and remit to the appropriate taxing authority any such amounts withheld.

SECTION 5.03. Method of Payment. Subject to Section 9.01(c), distributions required to be made to Certificateholders on any Payment Date

shall be made to each Certificateholder of record on the related Record Date either by check mailed to such Certificateholder at the address of such holder appearing in the Certificate Register or by wire transfer, in immediately available funds, to the account of such Certificateholder at a bank or other entity having appropriate facilities therefor, if (i) such Certificateholder shall have provided to the Certificate Registrar and the Certificate Registrar has forwarded such information promptly to the Paying Agent appropriate written instructions at least five Business Days prior to such Payment Date and such Certificateholder's Trust Certificates in the aggregate evidence an original denomination of not less than $1,000,000 or, (ii) such Certificateholder is the Depositor, or an Affiliate thereof.

SECTION 5.04. No Segregation of Moneys; No Interest. Subject to Sections 5.01 and 5.02, moneys received by the Owner Trustee hereunder need not be segregated in any manner except to the extent required by law or the Sale and Servicing Agreement and may be deposited under such general conditions as may be prescribed by law, and the Owner Trustee shall not be liable for any interest thereon.

SECTION 5.05. Accounting and Reports to the Certificateholders, the Internal Revenue Service and Others. The Indenture Trustee shall (a) maintain (or cause to be maintained) the books of the Trust on a calendar year basis on the accrual method of accounting, (b) deliver (or cause to be delivered) to each Certificateholder, as may be required by the Code and applicable Treasury Regulations, such information as may be required to enable each Certificateholder to prepare its federal and state income tax returns, (c) prepare or cause to be prepared, and file, or cause to be filed, all tax returns, if any, relating to the Trust and direct the Owner Trustee, in writing, to make such elections as from time to time may be required or appropriate under any applicable state or federal statute or any rule or regulation thereunder so as to maintain the Trust's characterization as a grantor trust for federal income tax purposes, and (d) collect or cause to be collected any withholding tax as described in and in accordance with Section 5.02(c) with respect to income or distributions to Certificateholders. The Owner Trustee shall make all elections pursuant to this Section 5.05 as directed by the Indenture Trustee in writing.

SECTION 5.06. Signature on Returns. The Owner Trustee shall sign on behalf of the Trust the tax returns of the Trust, and any other returns as may be required by law if any, furnished to it in execution form by the Depositor, unless applicable law requires a Certificateholder to sign such documents. In executing any such return, the Owner Trustee shall rely entirely upon, and shall have no liability for information or calculations provided by the Depositor.

ARTICLE VI ARTICLE VI1 G

Authority and Duties of Owner Trustee

SECTION 6.01. General Authority. The Owner Trustee is authorized and directed to execute and deliver the Basic Documents to which the Trust is to be a party and each certificate or other document attached as an exhibit to or contemplated by the Basic Documents to which the Trust is to be a party and any amendment or other agreement or instrument, in each case, in such form as the Depositor shall approve, as evidenced conclusively by the Owner Trustee's execution thereof. In addition to the foregoing, the Owner Trustee is authorized, but shall not be obligated, to take all actions required of the Trust pursuant to the Basic Documents. The Owner Trustee is further authorized from time to time to take, but shall not be obligated to take, such action as the Servicer recommends with respect to the Basic Documents.

SECTION 6.02. General Duties. It shall be the duty of the Owner Trustee to discharge (or cause to be discharged) all of its responsibilities pursuant to

the terms of the Trust Agreement and the Basic Documents to which the Trust is a party and to administer the Trust for the benefit of the Certificateholders, subject to the Basic Documents and in accordance with the provisions of the Trust Agreement. Notwithstanding the foregoing, the Owner Trustee shall be deemed to have discharged its duties and responsibilities hereunder and under the Basic Documents to the extent the Depositor has agreed hereunder or the Servicer has agreed in the Sale and Servicing Agreement to perform any act or to discharge any duty of the Owner Trustee hereunder or of the Trust under any Basic Document, and the Owner Trustee shall not be held liable for the default or failure of the Depositor or the Servicer to carry out its obligations under the Sale and Servicing Agreement, or the Trust Agreement, as applicable.

SECTION 6.03. Action upon Instruction. (a) Subject to Article IV and Section 7.01 and in accordance with the terms of the Basic Documents, the Certificateholders may by written instruction direct the Owner Trustee in the management of the Trust. Such direction may be exercised at any time by written instruction of the Certificateholders pursuant to Article IV.

(b) The Owner Trustee shall not be required to take any action hereunder or under any Basic Document if the Owner Trustee shall have reasonably determined, or shall have been advised by counsel, that such action is likely to result in liability on the part of the Owner Trustee or is contrary to the terms hereof or of any Basic Document or is otherwise contrary to law.

(c) Whenever the Owner Trustee is unable to decide between alternative courses of action permitted or required by the terms of the Trust Agreement or under any Basic Document, the Owner Trustee shall promptly give notice (in such form as shall be appropriate under the circumstances) to the Certificateholders requesting instruction as to the course of action to be adopted, and to the extent the Owner Trustee acts in good faith in accordance with any written instruction of the Certificateholders received, the Owner Trustee shall not be liable on account of such action to any Person. If the Owner Trustee shall not have received appropriate instruction within 10 days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances) it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with the Trust Agreement or the Basic Documents, as it shall deem to be in the best interests of the Certificateholders, and shall have no liability to any Person for such action or inaction.

(d) In the event that the Owner Trustee is unsure as to the application of any provision of the Trust Agreement or any Basic Document or any such provision is ambiguous as to its application, or is, or appears to be, in conflict with any other applicable provision, or in the event that the Trust Agreement permits any determination by the Owner Trustee or is silent or is incomplete as to the course of action that the Owner Trustee is required to take with respect to a particular set of facts, the Owner Trustee may give notice (in such form as shall be appropriate under the circumstances) to the Certificateholders requesting instruction and, to the extent that the Owner Trustee acts or refrains from acting in good faith in accordance with any such instruction received, the Owner Trustee shall not be liable, on account of such action or inaction, to any Person. If the Owner Trustee shall not have received appropriate instruction within 10 days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances) it may, but shall be under no duty to, take or refrain from taking such action not inconsistent with the Trust Agreement or the Basic Documents, as it shall deem to be in the best interests of the Certificateholders, and shall have no liability to any Person for such action or inaction.

SECTION 6.04. No Duties Except as Specified in the Trust Agreement or in Instructions. The Owner Trustee shall not have any duty or obligation to manage, make any payment with respect to, register, record, sell, dispose of, or otherwise deal with the Owner Trust Estate, or to otherwise take or refrain from taking any action under, or in connection with, any document contemplated hereby to which the Owner Trustee is a party, except as expressly provided by the terms of the Trust Agreement or in any document or written instruction received by the

Owner Trustee pursuant to Section 6.03; and no implied duties or obligations shall be read into the Trust Agreement or any other Basic Document against the Owner Trustee. The Owner Trustee shall have no responsibility for filing any financing or continuation statement in any public office at any time or to otherwise perfect or maintain the perfection of any security interest or lien granted to it hereunder or to prepare or file any Securities and Exchange Commission filing for the Trust or to record the Trust Agreement or any Basic Document. The Owner Trustee nevertheless agrees that it will, at its own cost and expense, promptly take all action as may be necessary to discharge any liens on any part of the Owner Trust Estate that result from actions by, or claims against, the Owner Trustee that are not related to the ownership or the administration of the Owner Trust Estate.

SECTION 6.05. No Action Except Under Specified Documents or Instructions.

The Owner Trustee shall not manage, control, use, sell, dispose of or otherwise deal with any part of the Owner Trust Estate except (i) in accordance with the powers granted to and the authority conferred upon the Owner Trustee pursuant to the Trust Agreement, (ii) in accordance with the Basic Documents and (iii) in accordance with any document or instruction delivered to the Owner Trustee pursuant to Section 6.03.

SECTION 6.06. Restrictions. The Owner Trustee shall not take any action

that (a) is inconsistent with the purposes of the Trust set forth in Section 2.03 or (b) to the Actual Knowledge of the Owner Trustee, would result in the Trust's becoming taxable as a corporation for federal income tax purposes. The Certificateholders shall not direct the Owner Trustee to take action that would violate the provisions of this Section.

SECTION 6.07 Delegation to Indenture Trustee. The Owner Trustee hereby

delegates to the Indenture Trustee, and the Indenture Trustee hereby accepts, the responsibility for reviewing on behalf of the Trust representations given in connection with transfers of Notes under Section 4.07 of the Indenture.

ARTICLE VII
H
Concerning the Owner Trustee

SECTION 7.01. Acceptance of Trusts and Duties. The Owner Trustee accepts

the trusts hereby created and agrees to perform its duties hereunder with respect to such trusts but only upon the terms of the Trust Agreement. The Owner Trustee also agrees to disburse all moneys actually received by it constituting part of the Owner Trust Estate upon the terms of the Trust Agreement and the other Basic Documents. The Owner Trustee shall not be answerable or accountable hereunder or under any other Basic Document under any circumstances, except (i) for its own willful misconduct, bad faith or gross negligence or (ii) in the case of the inaccuracy of any representation or warranty contained in Section 7.03 expressly made by the Owner Trustee. In particular, but not by way of limitation (and subject to the exceptions set forth in the preceding sentence):

(a) the Owner Trustee shall not be liable for any error of judgment made by an Authorized Officer of the Owner Trustee;

(b) the Owner Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the instructions of the Depositor or any Certificateholder;

(c) no provision of the Trust Agreement or any other Basic Document shall require the Owner Trustee to expend or risk funds or otherwise incur any financial liability in the performance of any of its rights or powers hereunder or under any Basic Document if the Owner Trustee shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured or provided to it;

(d) under no circumstances shall the Owner Trustee be liable for indebtedness evidenced by or arising under any of the Basic Documents, including the principal of and interest on the Notes;

(e) the Owner Trustee shall not be responsible for or in respect of the validity or sufficiency of the Trust Agreement or for the due execution hereof by the Depositor or for the form, character, genuineness, sufficiency, value or validity of any of the Owner Trust Estate, or for or in respect of the validity or sufficiency of the Basic Documents, other than the execution and the certificate of authentication on the Trust Certificates, and the Owner Trustee shall in no event assume or incur any liability, duty, or obligation to any Noteholder or to any Certificateholder, other than as expressly provided for herein or expressly agreed to in the Basic Documents;

(f) the Owner Trustee shall not be liable for the default or misconduct of the Depositor, the Indenture Trustee or the Servicer under any of the Basic Documents or otherwise and the Owner Trustee shall have no obligation or liability to perform the obligations of the Trust under the Trust Agreement or the other Basic Documents that are required to be performed by the Indenture Trustee under the Indenture or the Servicer or the Depositor under the Sale and Servicing Agreement; and

(g) the Owner Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement, or to institute, conduct or defend any litigation under the Trust Agreement or otherwise or in relation to the Trust Agreement or any other Basic Document, at the request, order or direction of any of the Certificateholders, unless such Certificateholders have offered to the Owner Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred by the Owner Trustee therein or thereby. The right of the Owner Trustee to perform any discretionary act enumerated in the Trust Agreement or in any other Basic Document shall not be construed as a duty, and the Owner Trustee shall not be answerable for other than its willful misconduct, bad faith or gross negligence in the performance of any such act.

SECTION 7.02. Furnishing of Documents. The Owner Trustee shall furnish to the Certificateholders and the Note Insurer promptly upon receipt of a written request therefor, duplicates or copies of all reports, notices, requests, demands, certificates, financial statements and any other instruments furnished to the Owner Trustee under the Basic Documents.

SECTION 7.03. Representations and Warranties. Wilmington Trust Company hereby represents and warrants to the Depositor, for the benefit of the Certificateholders, that:

(a) It is a banking corporation duly organized and validly existing in good standing under the laws of the State of Delaware. It has all requisite corporate power and authority to execute, deliver and perform its obligations under the Trust Agreement.

(b) It has taken all corporate action necessary to authorize the execution and delivery by it of the Trust Agreement, and the Trust Agreement will be executed and delivered by one of its officers who is duly authorized to execute and deliver the Trust Agreement on its behalf.

(c) Neither the execution nor the delivery by it of the Trust Agreement, nor the consummation by it of the transactions contemplated hereby nor compliance by it with any of the terms or provisions hereof will contravene any federal or Delaware law, governmental rule or regulation governing the banking or trust powers of the Owner Trustee or any judgment or order binding on it, or constitute any default under its charter documents or bylaws or any indenture, mortgage, contract, agreement or instrument to which it is a party or by which any of its properties may be bound.

SECTION 7.04. Reliance; Advice of Counsel. (a) The Owner Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond, or

other document or paper believed by it to be genuine and believed by it to be signed by the proper party or parties. The Owner Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the method of determination of which is not specifically prescribed herein, the Owner Trustee may for all purposes hereof rely on a certificate, signed by the president or any vice president or by the treasurer or other authorized officers of the relevant party, as to such fact or matter and such certificate shall constitute full protection to the Owner Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon.

(b) In the exercise or administration of the trusts hereunder and in the performance of its duties and obligations under the Trust Agreement or the other Basic Documents, the Owner Trustee may act directly or through its agents or attorneys pursuant to agreements entered into with any of them, and the Owner Trustee shall not be liable for the conduct or misconduct of such agents or attorneys if such agents or attorneys shall have been selected by the Owner Trustee with reasonable care, and may consult with counsel, accountants and other skilled Persons to be selected with reasonable care and employed by it. The Owner Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the written opinion or advice of any such counsel, accountants or other such Persons.

SECTION 7.05. Not Acting in Individual Capacity. Except as provided in this Article VII, in accepting the trusts hereby created, Wilmington Trust Company acts solely as Owner Trustee hereunder and not in its individual capacity, and all Persons having any claim against the Owner Trustee by reason of the transactions contemplated by the Trust Agreement or any Basic Document shall look only to the Owner Trust Estate for payment or satisfaction thereof.

SECTION 7.06. Owner Trustee Not Liable for Trust Certificates, Mortgage Loans or Pooled Certificates. The recitals contained herein and in the Certificates (other than the signature and countersignature of the Owner Trustee on the Trust Certificates) shall be taken as the statements of the Depositor and the Owner Trustee assumes no responsibility for the correctness thereof. The Owner Trustee makes no representations as to the validity or sufficiency of the Trust Agreement, of any other Basic Document or of the Trust Certificates (other than the signature and the certificate of authentication of the Owner Trustee on the Trust Certificates) or the Notes, or of any Mortgage Loan, Swap Agreement or Pooled Certificate or related documents. The Owner Trustee shall at no time have any responsibility or liability for or with respect to the legality, validity and enforceability of any Mortgage Loan, Swap Agreement or Pooled Certificate, or for or with respect to the sufficiency of the Owner Trust Estate or its ability to generate the payments to be distributed to Certificateholders under the Trust Agreement or the Noteholders under the Indenture, including, without limitation: the existence, condition and ownership of any property securing a Mortgage Loan; the existence and enforceability of any insurance thereon; the validity of the assignment of any Mortgage Loan to the Trust or of any intervening assignment; the performance or enforcement of any Mortgage Loan, Swap Agreement or Pooled Certificate; the compliance by the Depositor or the Servicer with any warranty or representation made under any Basic Document or in any related document or the accuracy of any such warranty or representation, or any action of the Depositor, the Indenture Trustee or the Servicer or any subservicer taken in the name of the Owner Trustee.

SECTION 7.07. Owner Trustee May Own Trust Certificates and Notes. The Owner Trustee in its individual or any other capacity may become the owner or pledgee of Trust Certificates or Notes and may deal with the Depositor, the Indenture Trustee, the Paying Agent and the Servicer in banking transactions with the same rights as it would have if it were not Owner Trustee.

ARTICLE VIII
I
Compensation of Owner Trustee

SECTION 8.01. Owner Trustee's Fees and Expenses. The Owner Trustee shall receive as compensation for its services hereunder such fees as have been separately agreed upon before the date hereof among the Sponsor, the Depositor and the Owner Trustee, and the Owner Trustee shall be entitled to be reimbursed by the Depositor for its other reasonable expenses hereunder, including the reasonable compensation, expenses and disbursements of such agents, representatives, experts and counsel as the Owner Trustee may employ in connection with the exercise and performance of its rights and its duties hereunder.

SECTION 8.02. Indemnification. The Sponsor shall be liable as primary obligor for, and shall indemnify the Owner Trustee, the Paying Agent and their successors, assigns, agents and servants (collectively, the "Indemnified Parties") from and against, any and all liabilities, obligations, losses, damages, taxes, claims, actions and suits, and any and all reasonable costs, expenses and disbursements (including reasonable legal fees and expenses) of any kind and nature whatsoever (collectively, "Expenses") which may at any time be imposed on, incurred by, or asserted against the Owner Trustee, the Paying Agent or any Indemnified Party in any way relating to or arising out of the Trust Agreement, the Basic Documents, the Owner Trust Estate, the administration of the Owner Trust Estate or the action or inaction of the Owner Trustee or the Paying Agent hereunder, except only that the Sponsor shall not be liable for or required to indemnify an Indemnified Party from and against Expenses arising or resulting from any of the matters described in the third sentence of Section 7.01. The indemnities contained in this Section shall survive the resignation or termination of the Owner Trustee or the Paying Agent or the termination of the Trust Agreement. In any event of any claim, action or proceeding for which indemnity will be sought pursuant to this Section, the Owner Trustee's or the Paying Agent's, as applicable, choice of legal counsel shall be subject to the approval of the Sponsor, which approval shall not be unreasonably withheld.

SECTION 8.03. Payments to the Owner Trustee. Any amounts paid to the Owner Trustee pursuant to this Article VIII shall be deemed not to be a part of the Owner Trust Estate immediately after such payment.

ARTICLE IX
J
Termination of Trust Agreement

SECTION 9.01. Termination of Trust Agreement. (a) The Trust Agreement (other than Article VIII) shall terminate and the Trust shall dissolve and be of no further force or effect upon the final distribution by the Paying Agent of all moneys or other property or proceeds of the Owner Trust Estate whether following the exercise of a Collateral Purchase Option or otherwise and in any case in accordance with the terms of the Indenture, the Sale and Servicing Agreement and Article V. The bankruptcy, liquidation, dissolution, death or incapacity of any Certificateholder shall not (x) operate to terminate the Trust Agreement or the Trust or (y) entitle such Certificateholder's legal representatives or heirs to claim an accounting or to take any action or proceeding in any court for a partition or winding up of all or any part of the Trust or Owner Trust Estate or (z) otherwise affect the rights, obligations and liabilities of the parties hereto.

(b) Except as provided in Section 9.01(a), neither the Depositor nor any Certificateholder shall be entitled to revoke or terminate the Trust or the Trust Agreement.

(c) Notice of any dissolution of the Trust, specifying the Payment Date upon which the Certificateholders shall surrender their Trust Certificates to the Paying Agent for payment of the final distribution thereon and cancellation thereof, shall be given by the Owner Trustee by letter to Certificateholders mailed within five Business Days of receipt of notice of such dissolution from

the Paying Agent stating (i) the Payment Date upon or with respect to which final payment of the Trust Certificates shall be made upon presentation and surrender of the Trust Certificates at the office of the Paying Agent therein designated, (ii) the amount of any such final payment and (iii) that the Record Date otherwise applicable to such Payment Date is not applicable, payments being made only upon presentation and surrender of the Trust Certificates at the office of the Paying Agent therein specified. The Owner Trustee shall give such notice to the Certificate Registrar (if other than the Owner Trustee) and the Paying Agent at the time such notice is given to Certificateholders. Upon presentation and surrender of the Trust Certificates, the Paying Agent shall cause to be distributed to Certificateholders amounts distributable on such Payment Date pursuant to Section 5.02.

In the event that all of the Certificateholders shall not surrender their Trust Certificates for cancellation within six months after the date specified in the above mentioned written notice, the Owner Trustee shall give a second written notice to the remaining Certificateholders to surrender their Trust Certificates for cancellation and receive the final distribution with respect thereto. If within one year after the second notice all the Trust Certificates shall not have been surrendered for cancellation, the Owner Trustee may take appropriate steps, or may appoint an agent to take appropriate steps, to contact the remaining Certificateholders concerning surrender of their Trust Certificates, and the cost thereof shall be paid out of the funds and other assets that shall remain subject to the Trust Agreement. Any funds remaining in the Trust after exhaustion of such remedies shall be distributed by the Owner Trustee to the Depositor. Certificateholders shall thereafter look solely to the Depositor as general unsecured creditors.

(d) Upon the winding up of the Trust and payment of its obligations in accordance with applicable law, the Owner Trustee shall cause the Certificate of Trust to be cancelled by filing a certificate of cancellation with the Secretary of State in accordance with the provisions of Section 3810 of the Business Trust Statute and the Trust shall terminate.

ARTICLE X
K

Successor Owner Trustees and Additional Owner Trustees

SECTION 10.01. Eligibility Requirements for Owner Trustee. The Owner Trustee shall at all times be a corporation satisfying the provisions of Section 3807(a) of the Business Trust Statute; authorized to exercise corporate trust powers; having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authorities; and having (or having a parent that has) a rating of at least BBB from S&P and Baa2 from Moody's (or such lower rating as may be acceptable to S&P, Moody's and the Note Insurer). If such corporation shall publish reports of condition at least annually pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purpose of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Owner Trustee shall cease to be eligible in accordance with the provisions of this Section, the Owner Trustee shall resign immediately in the manner and with the effect specified in Section 10.02.

SECTION 10.02. Resignation or Removal of Owner Trustee. The Owner Trustee may at any time resign and be discharged from the trusts hereby created by giving written notice thereof to the Depositor. Upon receiving such notice of resignation, the Depositor shall promptly appoint a successor Owner Trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Owner Trustee and one copy to the successor Owner Trustee. If no successor Owner Trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Owner Trustee may petition any court of competent jurisdiction for the appointment of a successor Owner Trustee.

If at any time the Owner Trustee shall cease to be eligible in accordance

with the provisions of Section 10.01 and shall fail to resign after written request therefor by the Depositor, or if at any time the Owner Trustee shall be legally unable to act, or shall be adjudged bankrupt or insolvent, or a receiver of the Owner Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Owner Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Depositor may remove the Owner Trustee. If the Depositor shall remove the Owner Trustee under the authority of the immediately preceding sentence, the Depositor shall promptly appoint a successor Owner Trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the outgoing Owner Trustee so removed and one copy to the successor Owner Trustee, and shall pay all fees owed to the outgoing Owner Trustee.

Any resignation or removal of the Owner Trustee and appointment of a successor Owner Trustee pursuant to any of the provisions of this Section shall not become effective until acceptance of appointment by the successor Owner Trustee pursuant to Section 10.03 and payment of all fees and expenses owed to the outgoing Owner Trustee. The Depositor shall provide notice of such resignation or removal of the Owner Trustee to the Note Insurer and each of the Rating Agencies.

SECTION 10.03. Successor Owner Trustee. Any successor Owner Trustee
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appointed pursuant to Section 10.02 shall execute, acknowledge and deliver to the Depositor and to its predecessor Owner Trustee an instrument accepting such appointment under the Trust Agreement, and thereupon the resignation or removal of the predecessor Owner Trustee shall become effective, and such successor Owner Trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties and obligations of its predecessor under the Trust Agreement, with like effect as if originally named as Owner Trustee. The predecessor Owner Trustee shall upon payment of its fees and expenses deliver to the successor Owner Trustee all documents and statements and moneys held by it under the Trust Agreement; and the Depositor and the predecessor Owner Trustee shall execute and deliver such instruments and do such other things as may reasonably be required for fully and certainly vesting and confirming in the successor Owner Trustee all such rights, powers, duties and obligations.

No successor Owner Trustee shall accept appointment as provided in this Section unless at the time of such acceptance such successor Owner Trustee shall be eligible pursuant to Section 10.01.

Upon acceptance of appointment by a successor Owner Trustee pursuant to this Section, the Depositor shall mail notice thereof to all Certificateholders, the Indenture Trustee, the Noteholders, the Paying Agent, the Note Insurer, the Swap Counterparty and the Rating Agencies. If the Depositor shall fail to mail such notice within 10 days after acceptance of such appointment by the successor Owner Trustee, the successor Owner Trustee shall cause such notice to be mailed at the expense of the Depositor.

SECTION 10.04. Merger or Consolidation of Owner Trustee. Any Person into
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which the Owner Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Owner Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Owner Trustee, shall be the successor of the Owner Trustee hereunder, without the execution or filing of any instrument or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding; provided, that such Person shall be eligible pursuant to Section 10.01 and, provided, further, that the Owner Trustee shall mail notice of such merger or consolidation to the Note Insurer, the Paying Agent, the Swap Counterparty and the Rating Agencies.

SECTION 10.05. Appointment of Co-Trustee or Separate Trustee.

Notwithstanding any other provisions of the Trust Agreement, at any time, for the purpose of meeting any legal requirements of any jurisdiction in which any part of the Owner Trust Estate may at the time be located, the Depositor and the Owner Trustee acting jointly shall have the power and shall execute and deliver

all instruments to appoint one or more Persons approved by the Depositor and Owner Trustee to act as co-trustee, jointly with the Owner Trustee, or as separate trustee or separate trustees, of all or any part of the Owner Trust Estate, and to vest in such Person, in such capacity, such title to the Trust or any part thereof and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Depositor and the Owner Trustee may consider necessary or desirable. If the Depositor shall not have joined in such appointment within 15 days after the receipt by it of a request so to do, the Owner Trustee alone shall have the power to make such appointment. No co-trustee or separate trustee under the Trust Agreement shall be required to meet the terms of eligibility as a successor Owner Trustee pursuant to Section 10.01 and no notice of the appointment of any co-trustee or separate trustee shall be required pursuant to Section 10.03.

Each separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(a) all rights, powers, duties and obligations conferred or imposed upon the Owner Trustee shall be conferred upon and exercised or performed by the Owner Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Owner Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Owner Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Owner Trust Estate or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Owner Trustee;

(b) no trustee under the Trust Agreement shall be personally liable by reason of any act or omission of any other trustee under the Trust Agreement; and

(c) the Depositor and the Owner Trustee acting jointly may at any time accept the resignation of or remove any separate trustee or co-trustee.

Any notice, request or other writing given to the Owner Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to the Trust Agreement and the conditions of this Article. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Owner Trustee or separately, as may be provided therein, subject to all the provisions of the Trust Agreement, specifically including every provision of the Trust Agreement relating to the conduct of, affecting the liability of, or affording protection to, the Owner Trustee. Each such instrument shall be filed with the Owner Trustee and a copy thereof given to each of the Depositor and the Servicer.

Any separate trustee or co-trustee may at any time appoint the Owner Trustee as its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of the Trust Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Owner Trustee, to the extent permitted by law, without the appointment of a new or successor co-trustee or separate trustee.

ARTICLE XI
L
Miscellaneous

SECTION 11.01. Supplements and Amendments. The Trust Agreement may be amended by the Depositor and the Owner Trustee, with the written consent of the Note Insurer, without the consent of any of the Sponsor, the Noteholders or the

Certificateholders, to cure any ambiguity, to correct or supplement any provisions in the Trust Agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in the Trust Agreement or of modifying in any manner the rights of the Noteholders or the Certificateholders; provided, however, that such action shall not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of any Noteholder or Certificateholder; provided, further, that no opinion of counsel shall be required if the Person requesting such amendment shall deliver to the Owner Trustee and the Note Insurer a letter from each Rating Agency to the effect that such amendment, in and of itself, will not cause such Rating Agency to reduce its "shadow rating" on the Notes rated by it.

The Trust Agreement may also be amended from time to time by the Depositor and the Owner Trustee, with the written consent of the Note Insurer, with the consent of the Holders of Notes evidencing not less than a majority of the Class Principal Balance of the Notes and, to the extent affected thereby, the consent of the Holders of Certificates evidencing not less than a majority of the Certificate Balance, for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Trust Agreement or of modifying in any manner the rights of the Noteholders or the Certificateholders; provided, however, that no such amendment shall (a) increase or reduce in any manner the amount of, or accelerate or delay the timing of, collections of payments on Mortgage Loans or Pooled Certificates or pursuant to the Swap Agreements or distributions that shall be required to be made for the benefit of the Noteholders or the Certificateholders or (b) reduce the aforesaid percentage of the Class Principal Balance of the Notes and the Certificate Balance required to consent to any such amendment, without the consent of the holders of all the outstanding Notes and Certificates.

Promptly after the execution of any such amendment or consent, the Owner Trustee shall furnish written notification of the substance of such amendment or consent to each Certificateholder, the Indenture Trustee and each of the Rating Agencies.

It shall not be necessary for the consent of Certificateholders or Noteholders pursuant to this Section to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof. The manner of obtaining such consents (and any other consents of Certificateholders provided for in the Trust Agreement or in any other Basic Document) and of evidencing the authorization of the execution thereof by Certificateholders shall be subject to such reasonable requirements as the Owner Trustee may prescribe.

Promptly after the execution of any amendment to the Certificate of Trust, the Owner Trustee shall cause the filing of such amendment with the Secretary of State.

Prior to the execution of any amendment to the Trust Agreement or the Certificate of Trust, the Owner Trustee shall be entitled to receive and rely upon an opinion of counsel stating that the execution of such amendment is authorized or permitted by the Trust Agreement. The Owner Trustee may, but shall not be obligated to, enter into any such amendment that affects the Owner Trustee's own rights, duties or immunities under the Trust Agreement or otherwise.

Notwithstanding anything herein to the contrary, no provision of this Agreement affecting the rights, duties and responsibilities of the Paying Agent may be amended without the consent of the Paying Agent, such consent not to be unreasonably withheld.

SECTION 11.02. No Legal Title to Owner Trust Estate in Certificateholders.

The Certificateholders shall not have legal title to any part of the Owner Trust Estate. The Certificateholders shall be entitled to receive distributions with respect to their undivided ownership interest therein only in accordance with Articles V and IX. No transfer, by operation of law or otherwise, of any right, title or interest of the Certificateholders to and in their ownership interest in the Owner Trust Estate shall operate to terminate the Trust Agreement or the trusts under the Trust Agreement or entitle any transferee to an accounting or to the transfer to it of legal title to any part of the Owner

Trust Estate.

SECTION 11.03. Limitations on Rights of Others. The provisions of the Trust Agreement are solely for the benefit of the Owner Trustee, the Depositor, the Note Insurer, the Certificateholders, and, to the extent expressly provided herein, the Indenture Trustee and the Noteholders, and nothing in the Trust Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Owner Trust Estate or under or in respect of the Trust Agreement or any covenants, conditions or provisions contained herein.

SECTION 11.04. Notices. (a) Unless otherwise expressly specified or permitted by the terms hereof, all notices shall be in writing and shall be deemed given upon receipt by the intended recipient or three Business Days after mailing if mailed by certified mail, postage prepaid (except that notice to the Owner Trustee shall be deemed given only upon actual receipt by the Owner Trustee), if to the Owner Trustee, addressed to its Corporate Trust Office; if to the Depositor, addressed to Thornburg Mortgage Funding Corporation, 18881 Von Karman Avenue, Irvine, California 92612, Attention: Rick Story, Chief Financial Officer; if to the Sponsor, addressed to Thornburg Mortgage Asset Corporation, 119 East Marcy Street, Suite 201, Santa Fe, New Mexico, 87501, Attention: Larry Goldstone, President, or, as to each party, at such other address as shall be designated by such party in a written notice to each other party.

(b) Any notice required or permitted to be given to a Certificateholder shall be given by first-class mail, postage prepaid, at the address of such Certificateholder as shown in the Certificate Register. Any notice so mailed within the time prescribed in the Trust Agreement shall be conclusively presumed to have been duly given, whether or not the Certificateholder receives such notice.

SECTION 11.05. Severability. Any provision of the Trust Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.06. Separate Counterparts. The Trust Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 11.07. Successors and Assigns. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of, each of the Sponsor, the Depositor, the Owner Trustee and its successors and each Certificateholder and its successors and permitted assigns, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by a Certificateholder shall bind the successors and assigns of such Certificateholder.

SECTION 11.08. No Petition. (a) Neither the Sponsor nor the Depositor will, prior to the date which is one year and one day after the termination of the Indenture, institute against the Trust any bankruptcy proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Trust Certificates, the Notes, the Trust Agreement or any of the other Basic Documents.

(b) The Owner Trustee, by entering into the Trust Agreement, each Certificateholder, by accepting a Trust Certificate, and the Indenture Trustee and each Noteholder, by accepting the benefits of the Trust Agreement, hereby covenant and agree that they will not, prior to the date which is one year and one day after the termination of the Indenture, institute against the Depositor or the Trust, or join in any institution against the Depositor or the Trust of,

any bankruptcy proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Trust Certificates, the Notes, the Trust Agreement or any of the other Basic Documents.

SECTION 11.09. No Recourse. Each Certificateholder by accepting a Trust Certificate acknowledges that such Certificateholder's Trust Certificates represent beneficial interests in the Trust only and do not represent interests in or obligations of the Depositor, the Servicer, the Owner Trustee, the Indenture Trustee or any Affiliate thereof and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in the Trust Agreement, the Trust Certificates or the Basic Documents. Except as expressly provided in the Basic Documents, neither the Depositor, the Servicer, the Indenture Trustee nor the Owner Trustee in their respective individual capacities, nor any of their respective Affiliates, partners, beneficiaries, agents, officers, directors, employees or successors or assigns, shall be personally liable for, nor shall recourse be had to any of them for, the distribution of any amount with respect to the Trust Certificates, or the Trust's performance of, or omission to perform, any of the covenants, obligations or indemnifications contained in the Trust Certificates or the Trust Agreement, it being expressly understood that said covenants and obligations have been made solely by the Trust. Each Certificateholder by the acceptance of a Trust Certificate (or a beneficial interest therein) agrees that, except as expressly provided in the Basic Documents, in the case of nonpayment of any amounts with respect to such Trust Certificate, it shall have no claim against any of the foregoing for any deficiency, loss or claim therefrom.

SECTION 11.10. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 11.11. GOVERNING LAW. THE TRUST AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES UNDER THE TRUST AGREEMENT SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 11.12. Grant of Certificateholder Rights to Note Insurer. The rights of the Note Insurer to direct certain actions and consent to certain actions of the Certificateholders hereunder will terminate at such time as the Class Principal Balance of the Notes has been reduced to zero and the Note Insurer has been reimbursed for any amounts owed under the Insurance Policy and the Insurance Agreement and the Note Insurer has no further obligation under the Insurance Policy.

SECTION 11.13. Third-Party Beneficiary. The Note Insurer is an intended third-party beneficiary of the Trust Agreement, and the Trust Agreement shall be binding upon and inure to the benefit of the Note Insurer. Without limiting the generality of the foregoing, all covenants and agreements in the Trust Agreement that expressly confer rights upon the Note Insurer shall be for the benefit of and run directly to the Note Insurer, and the Note Insurer shall be entitled to rely on and enforce such covenants to the same extent as if it were a party to the Trust Agreement. Provided, however, nothing in this Section 11.13 shall be construed to impose a fiduciary obligation of the Owner Trustee to the Note Insurer.

SECTION 11.14. The Note Insurer. Any right conferred to the Note Insurer hereunder shall be suspended during any period in which the Note Insurer is in default in its payment obligations under either of the Insurance Policies. At such time as the Notes are no longer outstanding, and no amounts owed to the Note Insurer remain unpaid, the Note Insurer's rights hereunder shall terminate.

* * * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed by their respective officers hereunto duly authorized, as of the day and year first above written.

THORNBURG MORTGAGE FUNDING CORPORATION,
as Depositor

By: _____
Name:
Title:

THORNBURG MORTGAGE ASSET CORPORATION, as Sponsor

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY,
not in its individual capacity but solely as
Owner Trustee and as Certificate Registrar

By: _____
Name:
Title:

BANKERS TRUST COMPANY OF CALIFORNIA, N.A. hereby accepts the appointment as Paying Agent pursuant to Section 3.09 hereof and accepts the obligations and duties provided under Sections 5.05 and 6.07 hereof.

By: _____
Name:
Title:

We hereby agree to purchase the Trust Certificates in the amount and for the price set forth in Section 3.02(b) hereof

TMA ACCEPTANCE CORP.

By: _____
Name:
Title:

Appendix A

Definitions

See Exhibit A of the Sale and Servicing Agreement.

EXHIBIT A

FORM OF TRUST CERTIFICATE

THIS TRUST CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE HOLDER HEREOF, BY PURCHASING THIS TRUST

CERTIFICATE, AGREES THAT THIS TRUST CERTIFICATE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND TO A PERSON WHO HAS FURNISHED TO THE OWNER TRUSTEE (A) AN INVESTMENT LETTER SATISFACTORY TO THE OWNER TRUSTEE TO THE EFFECT THAT SUCH PURCHASER IS AN INSTITUTIONAL ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1)-(3) UNDER THE ACT AND (B) IF REQUIRED, AN OPINION OF COUNSEL SATISFACTORY TO THE OWNER TRUSTEE.

THIS TRUST CERTIFICATE MAY NOT BE TRANSFERRED DIRECTLY OR INDIRECTLY TO (1) EMPLOYEE BENEFIT PLANS, RETIREMENT ARRANGEMENTS, INDIVIDUAL RETIREMENT ACCOUNTS OR KEOGH PLANS SUBJECT TO EITHER TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR (2) ENTITIES (INCLUDING INSURANCE COMPANY GENERAL ACCOUNTS) WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF ANY SUCH PLAN'S ARRANGEMENTS OR ACCOUNT'S INVESTMENT IN SUCH ENTITIES. FURTHER, THIS TRUST CERTIFICATE MAY BE TRANSFERRED ONLY TO A UNITED STATES PERSON WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

IF THE CERTIFICATEHOLDER COLLATERAL PURCHASE OPTION OR THE NOTE PURCHASE OPTION ARE OUTSTANDING, THIS TRUST CERTIFICATE MUST REPRESENT ALL OUTSTANDING TRUST CERTIFICATES AND SHALL BE HELD BY ONLY ONE HOLDER.

THE HOLDER OF THIS TRUST CERTIFICATE FURTHER UNDERSTANDS AND AGREES THAT THE NUMBER OF BENEFICIAL OWNERS OF ALL TRUST CERTIFICATES MAY NOT EXCEED 3 IN NUMBER; THAT TRANSFERS OF THE TRUST CERTIFICATES WILL BE RESTRICTED ACCORDINGLY; AND THAT THE HOLDER HEREOF WILL NOTIFY THE OWNER TRUSTEE IF THE NUMBER OF BENEFICIAL OWNERS OF THIS TRUST CERTIFICATE WILL CHANGE AS PROVIDED IN THE TRUST AGREEMENT.

THIS TRUST CERTIFICATE IS NOT GUARANTEED OR INSURED BY AMBAC OR ANY GOVERNMENTAL AGENCY.

NUMBER: _____ DENOMINATION:_____

INITIAL CERTIFICATE BALANCE: $32,362,457

TMA MORTGAGE FUNDING TRUST I

ASSET-BACKED TRUST CERTIFICATE

evidencing a beneficial ownership interest in the Trust, as defined below, the property of which includes (i) a pool of adjustable rate mortgage loans and adjustable rate mortgage loans with an original fixed rate period (collectively, the "Mortgage Loans"), (ii) ten interest rate swap agreements between the Trust and Merrill Lynch Capital Services, Inc. (the "Swap Agreements"), and (iii)100% if the Class A-1 and Class A-2 Pass-through Certificates from CS First Boston Mortgage Securities Corporation, Pass-through Certificates, Series 1993-B (collectively, the "Pooled Certificates") caused to be sold to the Trust by Thornburg Mortgage Funding Corporation.

(THIS TRUST CERTIFICATE DOES NOT REPRESENT AN INTEREST IN OR OBLIGATION OF THORNBURG MORTGAGE FUNDING CORPORATION, THE SERVICER (AS DEFINED BELOW) OR THE OWNER TRUSTEE (AS DEFINED BELOW) OR ANY OF THEIR RESPECTIVE AFFILIATES, EXCEPT TO THE EXTENT DESCRIBED BELOW.)

THIS CERTIFIES THAT _____ is the registered owner of the Percentage Interest evidenced hereby in the nonassessable, fully paid, beneficial ownership interest in TMA MORTGAGE FUNDING TRUST I (the "Trust") formed by Thornburg Mortgage Funding Corporation, a Delaware corporation.

The Trust was created pursuant to a Trust Agreement, dated as of December 1, 1998 (the "Trust Agreement"), among Thornburg Mortgage Funding Corporation, as depositor (the "Depositor"), Thornburg Mortgage Asset Corporation, as Sponsor (the "Sponsor") and Wilmington Trust Company, as owner trustee (the "Owner Trustee"), a summary of certain of the pertinent provisions of which is set forth below. To the extent not otherwise defined herein, the capitalized terms used herein have the meanings assigned to them in the Trust Agreement.

This Certificate is one of a duly authorized issue of Asset-Backed Trust

Certificates (herein called the "Trust Certificates"). Also issued under the Indenture dated as of December 1, 1998 between the Trust and Bankers Trust Company of California, N.A., as indenture trustee, are a Series of Notes designated as Collateralized Asset-Backed Notes, Series 1998-1 (the "Notes"). This Trust Certificate is issued under and is subject to the terms, provisions and conditions of the Trust Agreement, to which Trust Agreement the holder of this Trust Certificate by virtue of its acceptance hereof assents and by which such holder is bound. The property of the Trust consists of the Mortgage Loans and the Pooled Certificates; the collections in respect of the Mortgage Loans and the Pooled Certificates received after the applicable Cut-off Date; property that secured a Mortgage Loan which has been acquired by foreclosure or deed in lieu of foreclosure and any REO Proceeds; the Note Insurance Policy and collections thereunder; the Swap Agreements and collections thereunder net of payments required to be made by the Trust; rights under certain Insurance Policies relating to the Mortgage Loans; the Reserve Account; and certain other assets and rights as provided under the Trust Agreement and the Sale and Servicing Agreement.

Under the Trust Agreement, there will be distributed on the 25th day of each month or, if such 25th day is not a Business Day, the next Business Day (each, a "Payment Date"), commencing in December 1998, to the Person in whose name this Trust Certificate is registered at the close of business on the last day of the calendar month immediately preceding the Payment Date (the "Record Date"), interest on the Certificate Balance of this Trust Certificate at a per annum rate equal to the lesser of (i) 7.00% per annum and (ii) the result of dividing the Certificate Interest Distribution Amount by the then Certificate Balance of all of the Certificates, expressed as a per annum rate, and principal in each case to the extent of such Certificateholder's Percentage Interest in the amount to be distributed to Certificateholders on such Payment Date pursuant to the terms of the Sale and Servicing Agreement. The holder of this Certificate may also receive Additional Certificate Interest to the extent provided in the Sale and Servicing Agreement.

The holder of this Trust Certificate acknowledges and agrees that its rights to receive distributions in respect of this Trust Certificate are subordinated to the rights of the Noteholders as described in the Sale and Servicing Agreement and the Indenture.

It is the intent of the Depositor and the Certificateholders that, for purposes of federal income taxes, the Trust will be treated as a grantor trust. The Certificateholders, by acceptance of a Trust Certificate, agree to treat, and to take no action inconsistent with the treatment of, the Trust and the Trust Certificates for such tax purposes as just described.

Each Certificateholder, by its acceptance of a Trust Certificate, covenants and agrees that such Certificateholder, will not prior to the date which is one year and one day after the termination of the Indenture, institute against the Trust or the Depositor, or join in any institution against the Trust or the Depositor of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Trust Certificates, the Notes, the Trust Agreement or any of the other Basic Documents.

Distributions on this Trust Certificate will be made as provided in the Trust Agreement by the Certificate Paying Agent by wire transfer or check mailed to the Certificateholder of record in the Certificate Register without the presentation or surrender of this Trust Certificate or the making of any notation hereon. Except as otherwise provided in the Trust Agreement and notwithstanding the above, the final distribution on this Trust Certificate will be made after due notice by the Owner Trustee of the pendency of such distribution and only upon presentation and surrender of this Trust Certificate at the office or agency maintained for that purpose by the Owner Trustee in the Borough of Manhattan, The City of New York.

The holder of this Certificate may have the right to the extent provided in the Trust Agreement, the Indenture and the Sale and Servicing Agreement to exercise options to purchase (i) among other items the Mortgage Loans and the Pooled Certificates or (ii) the Notes.

Reference is hereby made to the further provisions of this Trust Certificate set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon shall have been executed by an authorized officer of the Owner Trustee, by manual signature, this Trust Certificate shall not entitle the holder hereof to any benefit under the Trust Agreement or the Sale and Servicing Agreement or be valid for any purpose.

THIS TRUST CERTIFICATE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

IN WITNESS WHEREOF, the Owner Trustee, on behalf of the Trust and not in its individual capacity, has caused this Trust Certificate to be duly executed.
Date:

TMA MORTGAGE FUNDING TRUST I

By: WILMINGTON TRUST COMPANY,
solely as Owner Trustee and not in its individual capacity

By:_____
Authorized Signatory

OWNER TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Trust Certificates of TMA Mortgage Funding Trust I referred to in the within-mentioned Trust Agreement.

Date:

WILMINGTON TRUST COMPANY,
solely as Owner Trustee and not in its individual capacity

By:_____
Authorized Signatory

[REVERSE OF TRUST CERTIFICATE]

The Trust Certificates do not represent an obligation of, or an interest in, the Sponsor, the Depositor, the Servicer, the Owner Trustee or any affiliates of any of them and no recourse may be had against such parties or their assets, except as expressly set forth or contemplated herein or in the Trust Agreement, the Indenture or the other Basic Documents. In addition, this Trust Certificate is not guaranteed by any governmental agency or instrumentality and is limited in right of payment to certain collections and recoveries with respect to the Mortgage Loans, the Pooled Certificates, the Swap Agreements (and certain other amounts), all as more specifically set forth in the Trust Agreement and in the Sale and Servicing Agreement. A copy of each of the Sale and Servicing Agreement and the Trust Agreement may be examined by any Certificateholder upon written request during normal business hours at the principal office of the Depositor and at such other places, if any, designated by the Depositor.

The Trust Agreement permits, with certain exceptions therein provided, the amendment thereof and the modification of the rights and obligations of the Depositor and the rights of the Certificateholders under the Trust Agreement at any time by the Depositor and the Owner Trustee with the consent of the Note Insurer and the holders of the Trust Certificates evidencing not less than a majority of the outstanding Certificate Balances and of the holders of the Notes evidencing not less than a majority of the outstanding Class Principal Balance of the Notes, each voting as a class. Any such consent by the holder of this

Trust Certificate shall be conclusive and binding on such holder and on all future holders of this Trust Certificate and of any Trust Certificate issued upon the transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent is made upon this Trust Certificate. The Trust Agreement also permits the amendment thereof, in certain limited circumstances, without the consent of the holders of any of the Trust Certificates.

As provided in the Trust Agreement and subject to certain limitations therein set forth, the transfer of this Trust Certificate is registerable in the Certificate Register upon surrender of this Trust Certificate for registration of transfer at the offices or agencies of the Certificate Registrar maintained by the Owner Trustee in the Borough of Manhattan, The City of New York, accompanied by a written instrument of transfer in form satisfactory to the Owner Trustee and the Certificate Registrar duly executed by the holder hereof or such holder's attorney duly authorized in writing, and thereupon one or more new Trust Certificates of authorized denominations evidencing the same aggregate interest in the Trust will be issued to the designated transferee. The initial Certificate Registrar appointed under the Trust Agreement is the Owner Trustee.

The Trust Certificates are issuable only as registered Trust Certificates without coupons in denominations of $100,000 and integral multiples of $1,000 in excess thereof; PROVIDED, HOWEVER, that one Trust Certificate may be issued in a denomination that represents any residual amount of the Initial Certificate Balance. As provided in the Trust Agreement and subject to certain limitations therein set forth, Trust Certificates are exchangeable for new Trust Certificates of authorized denominations evidencing the same aggregate denomination, as requested by the holder surrendering the same. No service charge will be made for any such registration of transfer or exchange, but the Owner Trustee or the Certificate Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

The Owner Trustee, the Certificate Registrar and any agent of the Owner Trustee or the Certificate Registrar may treat the Person in whose name this Certificate is registered as the owner hereof for all purposes, and none of the Owner Trustee, the Certificate Registrar or any such agent shall be affected by any notice to the contrary.

This Trust Certificate may not be transferred directly or indirectly to (1) employee benefit plans, retirement arrangements, individual retirement accounts or Keogh plans subject to either Title I of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, or (2) entities (including insurance company general accounts) whose underlying assets include plan assets by reason of the investment by such plans, arrangements or accounts in such entities. By accepting and holding this Trust Certificate, the Holder hereof shall be deemed to have represented and warranted that it is not any of the foregoing entities.

This Trust Certificate may not be transferred to any person who is not a U.S. Person, as such term is defined in Section 7701(a)(30) of the Internal Revenue Code, as amended.

No transfer of a Trust Certificate shall be permitted, and no such transfer shall be registered by the Certificate Registrar or be effective hereunder, if the number of beneficial owners of Trust Certificates exceeds 99. For purposes of determining the number of beneficial owners, the Certificate Registrar may treat the number of beneficial owners as equal to the number of registered holders, provided that each holder represents that it is the beneficial owner and (i) is an individual or a United States corporation (other than an S corporation) or (ii) no principal purpose of the use of the entity to hold the Trust Certificate is to permit the Trust to satisfy the 100 partners limitation of Treasury regulation 1.7704-1(h)(3).

Each purchaser of the Trust Certificates shall be required, prior to purchasing a Trust Certificate, to execute the Purchaser's Representation and Warranty Letter in the form attached to the Trust Agreement as Exhibit C.

The obligations and responsibilities created by the Trust Agreement shall terminate and the Trust created thereby shall dissolve upon the payment to Certificateholders of all amounts required to be paid to them pursuant to the

Trust Agreement and the Sale and Servicing Agreement and the disposition of all property held as part of the Trust. In addition, Bear, Stearns & Co. Inc. ("Bear Stearns") has the option to purchase, among other items, the Mortgage Loans and the Pooled Certificates, at a price specified in the Indenture. The exercise of such option will effect repayment of the Notes in full and early retirement of the Trust Certificates. It is unlikely that in such event, the Trust Certificates will receive any proceeds. However, the Holder of 100% of the Trust Certificates may choose to exercise its Certificateholder Collateral Purchase Option and purchase the Mortgage Loans and Pooled Certificates, in lieu of Bear Stearns, for the purchase price specified in the Indenture.

This Trust Certificate shall be construed in accordance with the laws of the State of Delaware, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto
PLEASE INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

(Please print or type name and address, including postal zip code, of assignee)

---

the within Trust Certificate, and all rights thereunder, hereby irrevocably constituting and appointing

---

to transfer said Trust Certificate on the books of the Certificate Registrar, with full power of substitution in the premises.

Dated:

_____*
Signature Guaranteed:

_____*

_____

* NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Trust Certificate in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

EXHIBIT B

CERTIFICATE OF TRUST OF
TMA MORTGAGE FUNDING TRUST I

This Certificate of Trust of TMA MORTGAGE FUNDING TRUST I (the "Trust"), is being duly executed and filed by Wilmington Trust Company, a Delaware bank and trust company, as trustee, to form a business trust under the Delaware Business Trust Act (12 Del. Code, 3801 et seq.).

1. Name. The name of the business trust formed hereby is TMA MORTGAGE FUNDING TRUST I.

2. Delaware Trustee. The name and business address of the trustee of the Trust in the State of Delaware is Wilmington Trust Company, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890, Attention: TMA

MORTGAGE FUNDING TRUST I.

3. Effective Time. This Certificate of Trust shall be effective upon filing.

IN WITNESS WHEREOF, the undersigned, being the sole trustee of the Trust, has executed this Certificate of Trust.

Wilmington Trust Company,
not in its individual capacity but solely as owner trustee of the Trust.

By: _____
Name:
Title:

EXHIBIT C

[Form of Purchaser's Representation and Warranty Letter]

Thornburg Mortgage Funding Corporation
18881 on Karman Avenue
Suite 1400
Irvine, California 92612

TMA Mortgage Funding Trust I
c/o Wilmington Trust Company, as
Owner Trustee
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890

Re: TMA Mortgage Funding Trust I - Trust Certificates

Ladies and Gentlemen:

In connection with our proposed purchase of Trust Certificates (the "Certificates") issued under the Trust Agreement dated as of December 1, 1998 (the "Agreement"), among Thornburg Mortgage Funding Corporation, as Depositor (the "Depositor"), Thornburg Mortgage Assets Corporation, as Sponsor, and Wilmington Trust Company, as Owner Trustee, the undersigned (the "Purchaser") represents, warrants and agrees that:

1. It is an institutional "accredited investor" as defined in Rule 501(a)(1)-(3) or (7) under the Securities Act and is acquiring the Certificates for its own institutional account or for the account of an institutional accredited investor.

2. It is not (i) an employee benefit plan, retirement arrangement, individual retirement account or Keogh plan subject to either Title I of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, or (2) an entity (including an insurance company general account) whose underlying assets include plan assets by reason of the investment by such plans, arrangements or accounts in any such entity.

3. It is a U.S. Person as defined in Section 7701(a)(30) of the Code.

4. It has such knowledge and experience in evaluating business and financial matters so that it is capable of evaluating the merits and risks of an investment in the Certificates. It understands the full nature and risks of an investment in the Certificates and based upon its present and projected net income and net worth, it believes that it can bear the economic risk of an immediate or future loss of its entire investment in the Certificates.

5. It understands that the Certificates will be offered in a transaction not involving any public offering within the meaning of the Securities Act, and that, if in the future it decides to resell, pledge or otherwise transfer any Certificates, such Certificates may be resold, pledged or transferred only (a) to a person who the seller reasonably believes is an institutional "accredited investor" as defined in Rule 501(a)(1)-(3) or (7) under the Securities Act that purchases for its own account or for the account of another institutional accredited investor or (b) pursuant to an effective registration statement under the Securities Act.

6. It understands that each Certificate will bear legends substantially to the following effect:

"THIS TRUST CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS TRUST CERTIFICATE, AGREES THAT THIS TRUST CERTIFICATE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND TO A PERSON WHO HAS FURNISHED TO THE OWNER TRUSTEE (A) AN INVESTMENT LETTER SATISFACTORY TO THE TRUSTEE TO THE EFFECT THAT SUCH PURCHASER IS AN INSTITUTIONAL ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(A)(1)-(3) OR (7) UNDER THE ACT AND (B) IF REQUIRED, AN OPINION OF COUNSEL SATISFACTORY TO THE OWNER TRUSTEE.

THIS TRUST CERTIFICATE MAY NOT BE TRANSFERRED DIRECTLY OR INDIRECTLY TO (1) EMPLOYEE BENEFIT PLANS, RETIREMENT ARRANGEMENTS, INDIVIDUAL RETIREMENT ACCOUNTS OR KEOGH PLANS SUBJECT TO EITHER TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR (2) ENTITIES (INCLUDING INSURANCE COMPANY GENERAL ACCOUNTS) WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF THE INVESTMENT BY SUCH PLANS, ARRANGEMENTS OR ACCOUNTS IN SUCH ENTITIES. FURTHER, THIS TRUST CERTIFICATE MAY BE TRANSFERRED ONLY TO A UNITED STATES PERSON WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

IF THE CERTIFICATEHOLDER COLLATERAL PURCHASE OPTION OR THE NOTE PURCHASE OPTION ARE OUTSTANDING, THIS TRUST CERTIFICATE MUST REPRESENT ALL OUTSTANDING TRUST CERTIFICATES AND SHALL BE HELD BY ONLY ONE HOLDER.

THE HOLDER OF THIS TRUST CERTIFICATE FURTHER UNDERSTANDS AND AGREES THAT THE NUMBER OF BENEFICIAL OWNERS OF ALL TRUST CERTIFICATES MAY NOT EXCEED 3 IN NUMBER; THAT TRANSFERS OF THE TRUST CERTIFICATES WILL BE RESTRICTED ACCORDINGLY; AND THAT THE HOLDER HEREOF WILL NOTIFY THE OWNER TRUSTEE IF THE NUMBER OF BENEFICIAL OWNERS OF THIS TRUST CERTIFICATE WILL CHANGE AS PROVIDED IN THE TRUST AGREEMENT."

7. It is acquiring the Certificates for its own account and not with a view to the public offering thereof in violation of the Securities Act (subject, nevertheless, to the understanding that disposition of its property shall at all times be and remain within its control).

8. It has been furnished with all information regarding the Trust and Certificates which it has requested from the Trust and the Depositor.

9. Neither it nor anyone acting on its behalf has offered, transferred, pledged, sold or otherwise disposed of any Certificate, any interest in any Certificate or any other similar security to, or solicited any offer to buy or accept a transfer, pledge or other disposition of any Certificate, any interest in any Certificate or any other similar security from, or otherwise approached or negotiated with respect to any Certificate, any interest in any Certificate or any other similar security with, any person in any manner or made any general solicitation by means of general advertising or in any other manner, which would constitute a distribution of the Certificates under the Securities Act or which would require registration pursuant to the Securities Act nor will it act, nor has it authorized or will authorize any person to act, in such manner with respect to any Certificate.

10. If the purchase to which this letter relates applies to less than all of the Certificates, the Purchaser acknowledges that the Certificateholder Collateral Purchase Option and the Note Purchase Option are no longer outstanding.

11. For purposes of the Investment Company Act of 1940, as amended, the total number of beneficial owners of the Trust Certificates it is purchasing is _____.

12. The Purchaser is a beneficial owner of the Trust Certificates and either (i) is an individual or a United States corporation (other than an S corporation) or (ii) no principal purpose of the use of the entity to hold the Trust Certificate is to permit the Trust to satisfy the 100 partners limitation of Treasury regulation 1.7704-1(h)(3).

Dated:_____

Very truly yours,

_____
NAME OF PURCHASER

By: _____

Name:_____

Title:_____

NOTE: To be executed by an executive officer

EXHIBIT 10.6

EXECUTION COPY

TMA MORTGAGE FUNDING TRUST I,

as Issuer

and

BANKERS TRUST COMPANY OF CALIFORNIA, N.A.,

as Indenture Trustee

INDENTURE

Dated as of December 1, 1998

COLLATERALIZED ASSET-BACKED NOTES,

SERIES 1998-1

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This Indenture, dated as of December 1, 1998, between TMA MORTGAGE FUNDING TRUST I, a Delaware statutory business trust, as Issuer (the "Issuer"), and BANKERS TRUST COMPANY OF CALIFORNIA, N.A., as Indenture Trustee (the "Indenture Trustee").

WITNESSETH THAT:

Each party hereto agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Issuer's Notes and Note Insurer.

GRANTING CLAUSE

The Issuer hereby Grants to the Indenture Trustee at the Closing Date, as Indenture Trustee for the benefit of the Holders of the Notes, the Swap Counterparty and the Note Insurer, all of the Issuer's right, title and interest in and to whether now existing or hereafter created (a) the Trust Estate; (b) all moneys on deposit from time to time in the Reserve Account; and (c) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under, and all proceeds of every kind and nature whatsoever in respect of, any or all of the foregoing and all payments on or under, and all proceeds of every kind and nature whatsoever in the conversion thereof, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, checks, deposit accounts, rights to payment of any and every kind (including but not limited to all proceeds of any Insurance Policies relating to any Mortgage Loan), and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing (collectively, the "Collateral"). The foregoing Grant is made in trust to secure the payment of principal of and interest on, and any other amounts owing in respect of, the Notes, equally and

ratably without prejudice, priority or distinction, and to secure compliance with the provisions of this Indenture, all as provided in this Indenture. The Indenture Trustee, as Indenture Trustee on behalf of the Holders of the Notes, the Swap Counterparty and the Note Insurer, acknowledges such Grant, accepts the trust under this Indenture in accordance with the provisions hereof and agrees to perform its duties as Indenture Trustee as required herein.

ARTICLE I

Definitions

Section 1.01. Definitions. For all purposes of this Indenture, except as otherwise expressly provided herein or unless the context otherwise requires, capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in Appendix A hereto which are incorporated by reference herein. All other capitalized terms used herein shall have the meanings specified herein.

Section 1.02. [Reserved].

Section 1.03. Rules of Construction. Unless the context otherwise requires:

(i) a term has the meaning assigned to it;

(ii) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time;

(iii) "or" is not exclusive;

(iv) "including" means including without limitation;

(v) words in the singular include the plural and words in the plural include the singular;

(vi) any pronouns shall be deemed to cover all genders; and

(vii) any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

ARTICLE II

Original Issuance of Notes

Section 2.01. Form. The Notes, together with the Indenture Trustee's certificate of authentication, shall be in substantially the form set forth in Exhibit A, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the officers executing the Notes, as evidenced by their execution of the Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The Notes shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the Authorized Officers executing such Notes, as evidenced by their execution of such Notes.

The terms of the Note set forth in Exhibit A are part of the terms of this Indenture.

Section 2.02. Execution, Authentication and Delivery. The Notes shall be executed on behalf of the Issuer by any of the Authorized Officers of the Owner Trustee. The signature of any such Authorized Officer on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signature of individuals who were at any time Authorized Officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

The Indenture Trustee shall upon Issuer Request authenticate and deliver Notes for original issue in an aggregate initial principal amount $1,144,423,000. The aggregate principal amount of Notes outstanding at any time may not exceed $1,144,423,000.

Each Note shall be dated the date of its authentication. The Notes shall be issuable as registered Notes in the minimum initial denominations of $100,000 and in integral multiples of $1,000 in excess thereof; provided, however, that one Note may be issued in a different denomination.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Note a certificate of authentication substantially in the form provided for herein executed by the Indenture Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder.

Section 2.03. Opinions of Counsel. On the Closing Date, the Indenture Trustee shall have received: (i) an opinion of counsel, in form and substance reasonably satisfactory to the Indenture Trustee and its counsel, with respect to securities law matters; (ii) an opinion of counsel, in form and substance reasonably satisfactory to the Indenture Trustee and its counsel, with respect to the tax status of the arrangement created by the Indenture; and (iii) an opinion of counsel to the Issuer, in form and substance reasonably satisfactory to the Indenture Trustee and its counsel, with respect to the due authorization, valid execution and delivery of this Indenture and with respect to its binding effect on the Issuer.

ARTICLE III

Covenants

Section 3.01. Maintenance of Accounts; Payments of Notes. The Indenture Trustee shall establish and maintain each of the Accounts specified in Sections 5.1 of the Sale and Servicing Agreement. The Indenture Trustee or other Paying Agent shall make all payments of principal of and interest on the Notes, subject to Section 3.03 and as provided in Section 3.05 herein, from moneys on deposit in the Trustee Collection Account.

Section 3.02. Maintenance of Office or Agency. The Issuer will maintain in the Borough of Manhattan, The City of New York, an office or agency where, subject to satisfaction of conditions set forth herein, Notes may be surrendered for registration of transfer or exchange, and where notices and demands to or upon the Issuer in respect of the Notes and this Indenture may be served. The Issuer hereby initially appoints the Indenture Trustee to serve as its agent for the foregoing purposes. If at any time the Issuer shall fail to maintain any such office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such surrenders, notices and demands may be made or served at the Corporate Trust Office of the Indenture Trustee, and the Issuer hereby appoints the Indenture Trustee as its agent to receive all such surrenders, notices and demands.

Section 3.03. Money for Payments To Be Held in Trust; Paying Agent. (a) The Issuer will cause each Paying Agent other than the Indenture Trustee to execute

and deliver to the Indenture Trustee an instrument in which such Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Paying Agent, it hereby so agrees), subject to the provisions of this Section 3.03, that such Paying Agent will:

(i) hold all sums held by it for the payment of amounts due with respect to the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(ii) give the Indenture Trustee notice of any default by the Issuer of which it has Actual Knowledge in the making of any payment required to be made with respect to the Notes;

(iii) at any time during the continuance of any such default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Paying Agent;

(iv) immediately resign as a Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Notes if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment; and

(v) comply with all requirements of the Code with respect to the withholding from any payments made by it on any Notes of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Request, direct any Paying Agent to pay to the Indenture Trustee all sums held in trust by such Paying Agent, such sums to be held by the Indenture Trustee upon the same trusts as those upon which the sums were held by such Paying Agent; and upon such payment by any Paying Agent to the Indenture Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheat of funds, any money held by the Indenture Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Note and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer on Issuer Request; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense and direction of the Issuer cause to be published once, in an Authorized Newspaper published in the English language, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. The Indenture Trustee shall also adopt and employ, at the expense and direction of the Issuer, any other reasonable means of notification of such repayment (including, but not limited to, mailing notice of such repayment to Holders whose Notes have been called but have not been surrendered for purchase or redemption or whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Indenture Trustee or of any Paying Agent, at the last address of record for each such Holder).

Section 3.04. Existence. The Issuer will keep in full effect its existence, rights and franchises as a business trust under the laws of the State of Delaware (unless it becomes, or any successor Issuer hereunder is or becomes, organized under the laws of any other State or of the United States of America, in which case the Issuer will keep in full effect its existence, rights and franchises under the laws of such other jurisdiction) and will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the Notes, the Mortgage Loans, the Pooled Certificates and the Swap Agreements and each other instrument or agreement

included in the Trust Estate.

Section 3.05. Payments of Principal and Interest. The Issuer will duly and punctually pay the principal of and interest on the Notes in accordance with the terms of the Notes, this Indenture and the Sale and Servicing Agreement. Without limiting the foregoing, subject to Section 8.02(b), the Issuer will cause to be distributed all amounts on deposit in the Trustee Collection Account on a Payment Date deposited therein pursuant to the Sale and Servicing Agreement for the benefit of the Notes, to the Noteholders. Amounts properly withheld under the Code by any Person from a payment to any Noteholder of interest and/or principal shall be considered as having been paid by the Issuer to such Noteholder for all purposes of this Indenture.

Section 3.06. Protection of Trust Estate. (a) The Issuer will from time to time prepare (or shall cause to be prepared), execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments, and will take such other action necessary or advisable to:

(i) maintain or preserve the lien and security interest (and the priority thereof) of this Indenture or carry out more effectively the purposes hereof;

(ii) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture;

(iii) enforce any of the Mortgage Loans, the Pooled Certificates, the Swap Agreements or the other Collateral; or

(iv) preserve and defend title to the Trust Estate and the rights of the Indenture Trustee, the Swap Counterparty, the Note Insurer and the Noteholders in such Trust Estate against the claims of all persons and parties.

(b) Except as otherwise provided in the Sale and Servicing Agreement or this Indenture, the Indenture Trustee shall not remove any portion of the Trust Estate that consists of money or is evidenced by an instrument, certificate or other writing from the jurisdiction in which it was held at the date of the most recent opinion of counsel delivered pursuant to Section 3.07 (or from the jurisdiction in which it was held as described in the opinion of counsel delivered at the Closing Date pursuant to Section 3.07(a), if no opinion of counsel has yet been delivered pursuant to Section 3.07(b)) unless the Trustee shall have first received an opinion of counsel to the effect that the lien and security interest created by this Indenture with respect to such property will continue to be maintained after giving effect to such action or actions.

The Issuer hereby designates the Indenture Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required to be executed pursuant to this Section 3.06.

Section 3.07. Opinions as to Trust Estate. (a) On the Closing Date, the Issuer shall furnish to the Indenture Trustee and the Note Insurer an opinion of counsel either stating that, in the opinion of such counsel, such action has been taken with respect to the delivery of the Mortgage Notes, the recording of the Assignments of Mortgage (as and if required under the Sale and Servicing Agreement), the recording and filing of this Indenture, any indentures supplemental hereto, and any other requisite documents, and with respect to the execution and filing of any financing statements and continuation statements, as are necessary to perfect and make effective the lien and security interest of this Indenture and reciting the details of such action, or stating that, in the opinion of such counsel, no such action is necessary to make such lien and security interest effective.

(b) On or before September 30 in each calendar year, beginning in 1999, the Issuer shall furnish or cause the Servicer to furnish to the Indenture Trustee and the Note Insurer an opinion of counsel at the expense of the Issuer either stating that, in the opinion of such counsel, such action has been taken with respect to the recording, filing, re-recording and refiling of this Indenture,

any indentures supplemental hereto and any other requisite documents and with respect to the execution and filing of any financing statements and continuation statements as is necessary to maintain the lien and security interest created by this Indenture and reciting the details of such action or stating that in the opinion of such counsel no such action is necessary to maintain such lien and security interest. Such opinion of counsel shall also describe the recording, filing, re-recording and refiling of this Indenture, any indentures supplemental hereto and any other requisite documents and the execution and filing of any financing statements and continuation statements that will, in the opinion of such counsel, be required to maintain the lien and security interest of this Indenture until September 30 in the following calendar year.

Section 3.08. [Reserved]

Section 3.09. Performance of Obligations; Sale and Servicing Agreement. (a)

The Issuer will punctually perform and observe all of its obligations and agreements contained in this Indenture, the other Basic Documents and in the instruments and agreements included in the Trust Estate. Except as otherwise expressly provided therein, the Issuer shall not waive, amend, modify, supplement or terminate any Basic Document, including without limitation the Sale and Servicing Agreement or any provision thereof without the consent of the Indenture Trustee and the Note Insurer or the Holders of at least a majority of the Class Principal Balance of the Notes, the Servicer and the Note Insurer. Upon the taking of any such action with respect to any Basic Document, the Issuer shall give written notice thereof to the Rating Agencies.

(b) The Issuer may contract with other Persons to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Indenture Trustee in an Officer's Certificate of the Issuer shall be deemed to be action taken by the Issuer. Initially, the Issuer has contracted with the Servicer to assist the Issuer in performing its duties under this Indenture.

(c) The Issuer will not take any action or permit any action to be taken by others which would release any Person from any of such Person's material covenants or obligations under any of the documents relating to the Mortgage Loans, the Pooled Certificates and the Swap Agreements or under any Instrument included in the Trust Estate, or which would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any of the documents relating to the Mortgage Loans, the Pooled Certificates and the Swap Agreements or any such instrument, except such actions as the Servicer is expressly permitted to take in the Sale and Servicing Agreement.

(d) If the Issuer shall have knowledge of the occurrence of a Servicer Termination Event, the Issuer shall promptly notify the Indenture Trustee and the Note Insurer thereof, and shall specify in such notice the action, if any, the Issuer is taking in respect of such Servicer Termination Event. If such Servicer Termination Event arises from the failure of the Servicer to perform any of its duties or obligations under the Sale and Servicing Agreement, the Issuer may remedy such failure. So long as any such Servicer Termination Event shall be continuing, the Indenture Trustee, with the consent of the Note Insurer, may exercise its remedies set forth in Section 7.1 of the Sale and Servicing Agreement. Unless granted or permitted by the Note Insurer or the Holders of the Notes to the extent provided above, the Issuer may not waive any such Servicer Termination Event or terminate the rights and powers of the Servicer under the Sale and Servicing Agreement.

(e) Upon any termination of the Servicer's rights and powers pursuant to Section 7.1 of the Sale and Servicing Agreement, the Indenture Trustee, in consultation with the Issuer, shall appoint a successor servicer acceptable to the Note Insurer, and such successor servicer shall accept its appointment by a written assumption in a form acceptable to the Indenture Trustee, the Issuer and the Note Insurer. In the event that a successor servicer has not been appointed and accepted its appointment at the time when the Servicer ceases to act as servicer, the Indenture Trustee without further action shall automatically be appointed the successor servicer in accordance with Section 7.1 of the Sale and Servicing Agreement. The Indenture Trustee may resign as the Servicer by giving

written notice of such resignation to the Issuer and the Note Insurer and in such event will be released from such duties and obligations, such release to be effective on the date a successor servicer enters into a servicing agreement with the Issuer as provided below. Upon delivery of any such notice to the Issuer, the Issuer shall obtain a successor servicer, satisfactory in all respects to the Indenture Trustee and the Note Insurer, which shall enter into a servicing agreement with the Issuer and the Indenture Trustee, such agreement to be not less favorable to the Note Insurer in its reasonable judgment, or the Noteholders if a Note Insurer Default shall have occurred and be continuing, than the Sale and Servicing Agreement in any material respect. If, within 30 days after the delivery of the notice referred to above, the Issuer shall not have obtained such successor servicer, the Indenture Trustee may appoint, or may petition a court of competent jurisdiction to appoint, a successor servicer acceptable to the Note Insurer to service the Mortgage Loans. In connection with any such appointment, the Indenture Trustee, in consultation with the Issuer, may make such arrangements for the compensation of such successor as it and such successor shall agree, and the Issuer shall enter into an agreement with such successor for the servicing of the Mortgage Loans, such agreement to be substantially similar to the Sale and Servicing Agreement or otherwise acceptable to the Note Insurer; provided that any such compensation of the successor servicer unless otherwise agreed to by the Note Insurer, shall not be in excess of the Servicing Fee payable to the Servicer under the Sale and Servicing Agreement. If the Indenture Trustee shall succeed to the Servicer's duties as servicer of the Mortgage Loans as provided herein, it shall do so in its individual capacity and not in its capacity as Indenture Trustee.

(f) Without derogating from the absolute nature of the assignment granted to the Indenture Trustee under this Indenture or the rights of the Indenture Trustee hereunder, the Issuer agrees that it will not, without the prior written consent of the Indenture Trustee and the Note Insurer, or the Noteholders of at least a majority in Class Principal Balance of the Notes, amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, supplement, termination, waiver or surrender of, the terms of any Collateral or the other Basic Documents, except to the extent otherwise provided in this Indenture or the Sale and Servicing Agreement, or waive timely performance or observance by the Servicer, the Depositor or the Issuer under the Sale and Servicing Agreement; provided however, that no such amendment shall (i) increase or reduce in any manner the amount of, or accelerate or delay the timing of, distributions that are required to be made for the benefit of the Noteholders, or (ii) reduce the aforesaid percentage of the Notes which is required to consent to any such amendment, without the consent of all of the Noteholders. If any such amendment, modification, supplement or waiver shall be so consented to by the Indenture Trustee and the Note Insurer or such Noteholders, the Issuer agrees, to execute and deliver in furtherance of such amendment, modification, supplement or waiver, in its own name and at its own expense, such agreements, instruments, consents and other documents as the Indenture Trustee may deem necessary or appropriate in the circumstances.

Section 3.10. Negative Covenants. So long as any Notes are Outstanding, the Issuer shall not:

(i) except as expressly permitted by this Indenture or any other Basic Document, sell, transfer, exchange or otherwise dispose of the Trust Estate, unless directed to do so by the Indenture Trustee with the approval of the Note Insurer;

(ii) claim any credit on, or make any deduction from the principal or interest (including any LIBOR Interest Carryover Amounts) payable in respect of, the Notes (other than amounts properly withheld from such payments under the Code or applicable state law) or assert any claim against any present or former Noteholder by reason of the payment of the taxes levied or assessed upon any part of the Trust Estate;

(iii) (A) permit the validity or effectiveness of this Indenture to be impaired, or permit the lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Notes under this Indenture except as may be expressly permitted hereby, (B) permit any lien, charge,

excise, claim, security interest, mortgage or other encumbrance (other than the lien of this Indenture) to be created on or extend to or otherwise arise upon or burden the Trust Estate or any part thereof or any interest therein or the proceeds thereof (other than tax liens or other liens that arise by operation of law, in each case solely as a result of an action or omission of the related obligor, and other than as expressly permitted by the Basic Documents) or (C) permit the lien of this Indenture not to constitute a valid first priority security interest in the Trust Estate; or

(iv) except as contemplated by the Basic Documents, dissolve or liquidate in whole or in part.

Section 3.11. Annual Statement as to Compliance. The Issuer will deliver (or cause the Servicer to deliver to) the Indenture Trustee, within 120 days after the end of each calendar year (commencing with the calendar year 1999), an Officer's Certificate stating, as to the Authorized Officer signing such Officer's Certificate, that:

(i) a review of the activities of the Issuer (or the Servicer on the Issuer's behalf) during such year and of its performance under this Indenture has been made under such Authorized Officer's supervision; and

(ii) to the best of such Authorized Officer's knowledge, based on such review, the Issuer (or the Servicer on the Issuer's behalf) has complied with all conditions and covenants under this Indenture throughout such year, or, if there has been a default in its compliance with any such condition or covenant, specifying each such default known to such Authorized Officer and the nature and status thereof.

Section 3.12. Recording of Assignments. The Issuer shall (or shall cause the Depositor to) exercise its right under the Collateral Sale Agreement with respect to the obligation of the Seller to submit or cause to be submitted for recording all Assignments of Mortgages (in and to the extent required under the Sale and Servicing Agreement) within one year after the Closing Date.

Section 3.13. Representations and Warranties Concerning the Collateral. The Issuer has pledged to the Indenture Trustee all of its rights under the Collateral Sale Agreement and the Sale and Servicing Agreement and the Indenture Trustee has the benefit of the representations and warranties made by the Seller and the Depositor in such documents concerning the Collateral and the right to enforce any remedy against the Seller or the Depositor, as applicable, provided in the Collateral Sale Agreement and the Sale and Servicing Agreement, as applicable, to the same extent as though such representations and warranties were made directly to the Indenture Trustee.

Section 3.14. Indenture Trustee's Review of Files. The Indenture Trustee agrees, for the benefit of the holders of the Notes and the Note Insurer, to review the Files as provided in Section 2.2 of the Sale and Servicing Agreement.

Section 3.15. Trust Estate; Related Documents. (a) When required by the provisions of this Indenture or the Sale and Servicing Agreement, the Indenture Trustee shall execute instruments to release property from the lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances which are not inconsistent with the provisions of this Indenture or the Sale and Servicing Agreement. No party relying upon an instrument executed by the Indenture Trustee as provided in this Article III shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

(b) In order to facilitate the servicing of the Mortgage Loans, the Indenture Trustee authorizes the Servicer in the name and on behalf of both the Indenture Trustee and the Issuer, to perform the Servicer's duties and obligations under the Sale and Servicing Agreement and the Indenture Trustee agrees to perform its obligations thereunder in accordance with the terms

thereof.

(c) The Indenture Trustee shall, at such time as there are no Notes Outstanding and no amounts due to the Note Insurer, release all of the Trust Estate to the Issuer (other than any cash held for the payment of the Notes pursuant to Sections 3.03 or 4.10), subject, however, to the rights of the Indenture Trustee under Section 6.07.

Section 3.16. Amendments to Sale and Servicing Agreement. The Indenture Trustee may enter into any amendment or supplement to the Sale and Servicing Agreement only in accordance with Section 9.1 of the Sale and Servicing Agreement. The Indenture Trustee may, in its discretion, decline to enter into or consent to any such supplement or amendment if its own rights, duties or immunities shall be adversely affected.

Section 3.17. Servicer as Agent and Bailee of Indenture Trustee. Solely for purposes of perfection under Section 9-305 of the Uniform Commercial Code or other similar applicable law, rule or regulation of the state in which such property is held by the Servicer or a Subservicer, the Indenture Trustee hereby acknowledges that the Servicer or Subservicer, as applicable, is acting as agent and bailee of the Indenture Trustee in holding amounts on deposit in the Servicer Collection Account or related Subservicer Principal and Interest Accounts, as the case may be, pursuant to Sections 4.2 (a) and 4.3 (a) of the Sale and Servicing Agreement, as well as its agent and bailee in holding any documents released to the Servicer or Subservicer, as applicable, pursuant to the Sale and Servicing Agreement, and any other items constituting a part of the Trust Estate which from time to time come into the possession of the Servicer or Subservicer, as the case may be. It is intended that, by the Servicer's execution and delivery of the Sale and Servicing Agreement, the Indenture Trustee, as a secured party, will be deemed to have possession of such documents, such moneys and such other items for purposes of Section 9-305 of the Uniform Commercial Code of the state in which such property is held by the Servicer.

Section 3.18. Investment Company Act. The Issuer shall not become an "investment company" or under the "control" of an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (or any successor or amendatory statute), and the rules and regulations thereunder (taking into account not only the general definition of the term "investment company" but also any available exceptions to such general definition); provided, however, that the Issuer shall be in compliance with this Section 3.18 if it shall have obtained an order exempting it from regulation as an "investment company" so long as it is in compliance with the conditions imposed in such order.

Section 3.19. Issuer May Consolidate, etc., Only on Certain Terms. (a) The Issuer shall not consolidate or merge with or into any other Person, unless:

(i) the Person (if other than the Issuer) formed by or surviving such consolidation or merger shall be a Person organized and existing under the laws of the United States of America or any State or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form reasonably satisfactory to the Indenture Trustee and the Note Insurer, the due and punctual payment of the principal of and interest (including LIBOR Interest Carryover Amounts) on all Notes and Certificates and the performance or observance of every agreement and covenant of this Indenture on the part of the Issuer to be performed or observed, all as provided herein;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(iii) each of the Rating Agencies shall have notified the Issuer that such transaction shall not cause the rating of the Notes to be reduced, suspended or withdrawn or to be considered by such Rating Agency to be below investment grade without taking into account the Note Insurance Policy;

(iv) the Issuer shall have received an opinion of counsel (and shall have delivered copies thereof to the Indenture Trustee and the Note Insurer) to the effect that such transaction will not have any material adverse Federal or relevant state tax consequence to the Issuer, any Noteholder or any Certificateholder;

(v) the Note Insurer shall have provided written consent with respect to such transaction;

(vi) any action that is necessary to maintain the lien and security interest created by this Indenture shall have been taken; and

(vii) the Issuer shall have delivered to the Indenture Trustee and the Note Insurer an Officer's Certificate and an opinion of counsel each stating that such consolidation or merger and such supplemental indenture comply with this Article III and that all conditions precedent herein provided for or relating to such transaction have been complied with (including any filing required by the Exchange Act).

(b) The Issuer shall not convey or transfer all or substantially all its properties or assets, including those included in the Trust Estate, to any Person, unless:

(i) the Person that acquires by conveyance or transfer the properties and assets of the Issuer the conveyance or transfer of which is hereby restricted shall (A) be a United States citizen or a Person organized and existing under the laws of the United States of America or any State or the District of Columbia, (B) expressly assumes, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form reasonably satisfactory to the Indenture Trustee and the Note Insurer, the due and punctual payment of the principal of and interest (including LIBOR Interest Carryover Amounts) on all Notes and the performance or observance of every agreement and covenant of this Indenture on the part of the Issuer to be performed or observed, all as provided herein, (C) expressly agrees by means of such supplemental indenture that all right, title and interest so conveyed or transferred shall be subject and subordinate to the rights of Holders of the Notes, and (D) unless otherwise provided in such supplemental indenture, expressly agrees to indemnify, defend and hold harmless the Issuer against and from any loss, liability or expense arising under or related to this Indenture and the Notes;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(iii) each Rating Agency shall have notified the Issuer that such transaction shall not cause the rating of the Notes to be reduced, suspended or withdrawn without taking into account the Note Insurance Policy;

(iv) the Issuer shall have received an opinion of counsel (and shall have delivered copies thereof to the Indenture Trustee and the Note Insurer) to the effect that such transaction will not have any material adverse Federal or relevant State tax consequence to the Issuer, any Noteholder or any Certificateholder;

(v) the Note Insurer shall have provided written consent with respect to such transaction;

(vi) any action that is necessary to maintain the lien and security interest created by this Indenture shall have been taken; and

(vii) the Issuer shall have delivered to the Indenture Trustee and the Note Insurer an Officer's Certificate and an opinion of counsel each stating that such conveyance or transfer and such supplemental indenture comply with this Article III and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 3.20. Successor or Transferee. (a) Upon any consolidation or merger
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of the Issuer in accordance with Section 3.19(a), the Person formed by or

surviving such consolidation or merger (if other than the Issuer) shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such Person had been named as the Issuer herein.

(b) Upon a conveyance or transfer of all or substantially all of the assets and properties of the Issuer pursuant to Section 3.19(b), the Issuer will be released from every covenant and agreement of this Indenture to be observed or performed on the part of the Issuer with respect to the Notes immediately upon the delivery of written notice to the Indenture Trustee that the Issuer is to be so released.

Section 3.21. No Other Business. The Issuer shall not engage in any business other than (A) financing, purchasing, owning and selling and managing the Collateral, (B) issuing the Notes and the Certificates and making payments thereon and (C) issuing the Purchase Options, each in the manner contemplated by this Indenture, the Trust Agreement and the other Basic Documents and all activities that are necessary, suitable or convenient to accomplish the foregoing or are incidental thereto or connected therewith or that are contemplated or required by this Indenture or the other Basic Documents.

Section 3.22. No Borrowing. The Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the Notes.

Section 3.23. Guarantees, Loans, Advances and Other Liabilities. Except as contemplated by this Indenture, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person.

Section 3.24. Capital Expenditures. The Issuer shall not make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty).

Section 3.25. [Reserved]

Section 3.26. Restricted Payments. The Issuer shall not, directly or indirectly, (i) pay any dividend or make any distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, to the Owner Trustee or any owner of a beneficial interest in the Issuer or otherwise with respect to any ownership or equity interest or security in or of the Issuer, (ii) redeem, purchase, retire or otherwise acquire for value any such ownership or equity interest or security or (iii) set aside or otherwise segregate any amounts for any such purpose; provided, however, that the Issuer may make, or cause to be made, (w) distributions to the Owner Trustee and the Certificateholders as contemplated by, and to the extent funds are available for such purpose under the Trust Agreement and the Sale and Servicing Agreement, (x) payment to the Servicer pursuant to the terms of the Sale and Servicing Agreement and (y) payments to the Indenture Trustee pursuant to Section 5.2 of the Sale and Servicing Agreement and (z) payments to the Indenture Trustee for deposit in the Reserve Account as provided in Section 5.7 of the Sale and Servicing Agreement. The Issuer will not, directly or indirectly, make payments to or distributions from the Trustee Collection Account except in accordance with this Indenture and the other Basic Documents.

Section 3.27. Notice of Events of Default. Upon Actual Knowledge thereof, the Issuer shall give the Indenture Trustee, the Note Insurer and the Rating Agencies prompt written notice of each Event of Default hereunder and under the

Sale and Servicing Agreement and the Trust Agreement.

Section 3.28. Further Instruments and Acts. Upon request of the Indenture Trustee or the Note Insurer, the Issuer will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

Section 3.29. Statements to Noteholders. The Indenture Trustee shall forward by mail to each Noteholder and the Note Insurer the statement prepared by it pursuant to Section 5.4(a) of the Sale and Servicing Agreement and the statement delivered to it pursuant to Section 5.4(b) of the Sale and Servicing Agreement.

Section 3.30. [Reserved].

Section 3.31. Determination of Note Rate. Until the Class Principal Balance of the Notes has been reduced to zero, the Indenture Trustee shall determine LIBOR and the Note Rate for each Accrual Period as provided in the Sale and Servicing Agreement.

Section 3.32. Payments under the Note Insurance Policy. The Indenture Trustee on behalf of the Noteholders shall make a draw on the Note Insurance Policy, as provided in Section 5.02(c) of the Sale and Servicing Agreement.

Section 3.33. Payment Under the Swap Agreements: The Indenture Trustee on behalf of the Noteholders, the Note Insurer and the Certificateholders shall verify with the Swap Counterparty that the amounts to be paid and the amounts being received under the Swap Agreements are correct.

Section 3.34. Exercise of Rights as Registered Holder of Pooled Certificates. If at any time the Indenture Trustee, as the registered holder of the Pooled Certificates, is asked to exercise a right to vote inherent in any Pooled Certificate or to take any action or give any consent, approval or waiver with respect to such Pooled Certificate or the related agreement, the Indenture Trustee shall, subject to the rights of the Note Insurer as conferred under Section 11.07 hereof, promptly notify all of the Noteholders of such request in writing, requesting direction from such Noteholders as to the course of action the Indenture Trustee should take. The Indenture Trustee shall furnish copies to the Holders of any request or other notice requiring action by, and received by the Indenture Trustee as, registered holder of any Pooled Certificate, and shall act in accordance with the written directions of Holders of the Notes evidencing a majority of the Class Principal Balances of the Notes. In the absence of such directions, the Indenture Trustee may, but shall have no obligation to, take such action as it may determine in its absolute discretion. Except as so provided, the Indenture Trustee shall have no responsibility to monitor or regulate on behalf of the Holders the exercise by any Person of its rights under the trust agreement relating to the Pooled Certificates, including any right to amend or terminate such trust agreement, nor any responsibility to monitor or regulate the liquidation of mortgage loans or other collateral pursuant to such trust agreement.

ARTICLE IV

The Notes; Satisfaction and Discharge of Indenture

Section 4.01. The Notes. The Notes shall be registered in the name of the Noteholders. The Notes shall, on original issue, be executed on behalf of the Issuer by the Owner Trustee, not in its individual capacity but solely as Owner Trustee, authenticated by the Note Registrar and delivered by the Indenture Trustee to or upon the order of the Issuer.

Section 4.02. Registration of and Limitations on Transfer and Exchange of Notes; Appointment of Note Registrar. The Issuer shall cause to be kept a

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register (the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and the registration of transfers of Notes. The Indenture Trustee shall be "Note Registrar" for the purpose of registering Notes and transfers of Notes as herein provided. Upon any resignation of any Note Registrar, the Issuer shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Note Registrar.

If a Person other than the Indenture Trustee is appointed by the Issuer as Note Registrar, the Issuer will give the Indenture Trustee prompt written notice of the appointment of such Note Registrar and of the location, and any change in the location, of the Note Register, and the Indenture Trustee shall have the right to inspect the Note Register at all reasonable times and to obtain copies thereof, and the Indenture Trustee shall have the right to rely upon a certificate executed on behalf of the Note Registrar by an Authorized Officer thereof as to the names and addresses of the Noteholders and the principal amounts and number of such Notes.

Subject to the restrictions and limitations set forth below, upon surrender for registration of transfer of any Note at the Corporate Trust Office of the Indenture Trustee, the Indenture Trustee shall make provision to obtain the signature of the Owner Trustee on such Note, which may be in facsimile or photostatic reproduction form, and the Note Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes in authorized denominations evidencing the same aggregate principal amount.

Subject to the foregoing, at the option of the Noteholders, Notes may be exchanged for other Notes of like tenor or, in each case in authorized denominations evidencing the same aggregate principal amount upon surrender of the Notes to be exchanged at the Corporate Trust Office of the Note Registrar. Whenever any Notes are so surrendered for exchange, the Indenture Trustee shall execute and the Note Registrar shall authenticate and deliver the Notes which the Noteholder making the exchange is entitled to receive. Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by the Noteholder thereof or such Noteholder's attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agent's Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP, all in accordance with the Exchange Act.

No service charge shall be made for any registration of transfer or exchange of Notes, but the Note Registrar shall require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes.

All Notes surrendered for registration of transfer and exchange shall be cancelled by the Note Registrar and delivered to the Indenture Trustee for subsequent destruction without liability on the part of either.

Each transferee of a Note shall be required to represent that it is not an employee benefit plan, retirement arrangement, individual retirement account or Keogh plan subject to either Title I of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, or an entity (including insurance company general accounts) whose underlying assets include plan assets by reason of the investment by any such plan, arrangement or account in such entity, unless the proposed transferee provides a representation to the Indenture Trustee and the Issuer, which representation shall be in form and substance satisfactory to the Issuer, to the effect that an individual or class prohibited transaction exemption including but not limited to Department of Labor Prohibited Transaction Exemption ("PTE") 84-14 (Class Exemption for Plan Asset Transactions Determined by Independent Qualified Professional Asset Managers); PTE 91-38 (Class Exemption for Certain Transactions Involving Bank Collective Investment Funds); PTE 90-1 (Class Exemption for Certain Transactions Involving Insurance Company Pooled Separate Accounts), PTE 95-60 (Class Exemption for Certain Transactions Involving

Insurance Company General Accounts), and PTCE 96-23 (Class Exemption for Plan Asset Transactions Determined by In-House Asset Managers) will apply to the proposed transfer and/or holding of a Note. The Indenture Trustee shall be entitled to conclusively rely on any such certificate provided to it. Each Note shall bear the legend referring to the foregoing restrictions contained in Section 4.07(b).

Section 4.03. Mutilated, Destroyed, Lost or Stolen Notes. If (i) any mutilated Note is surrendered to the Indenture Trustee, or the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Issuer and the Indenture Trustee harmless, then, in the absence of notice to the Issuer, the Note Registrar or the Indenture Trustee that such Note has been acquired by a bona fide purchaser, the Owner Trustee shall execute, and upon its request the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a replacement Note; provided, however, that if any such destroyed, lost or stolen Note, but not a mutilated Note, shall have become or within seven days shall be due and payable, or shall have been called for purchase or redemption, instead of issuing a replacement Note, the Issuer may pay such destroyed, lost or stolen Note when so due or payable without surrender thereof. If, after the delivery of such replacement Note or payment of a destroyed, lost or stolen Note pursuant to the proviso to the preceding sentence, a bona fide purchaser of the original Note in lieu of which such replacement Note was issued presents for payment such original Note, the Issuer and the Indenture Trustee shall be entitled to recover such replacement Note (or such payment) from the Person to whom it was delivered or any Person taking such replacement Note from such Person to whom such replacement Note was delivered or any assignee of such Person, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith.

Upon the issuance of any replacement Note under this Section 4.03, the Issuer may require the payment by the Holder of such Note of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee) connected therewith.

Every replacement Note issued pursuant to this Section 4.03 in replacement of any mutilated, destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section 4.03 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 4.04. Persons Deemed Owners. Prior to due presentment for registration of transfer of any Note, the Issuer, the Indenture Trustee, the Note Insurer and any agent of the Issuer, the Note Insurer or the Indenture Trustee may treat the Person in whose name any Note is registered on the Note Register (as of the day of determination) as the owner of such Note for the purpose of receiving payments of principal of and interest, if any, on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Issuer, the Note Insurer, the Indenture Trustee nor any agent of the Issuer, the Note Insurer or the Indenture Trustee shall be affected by notice to the contrary.

Section 4.05. Cancellation. All Notes surrendered for payment, registration of transfer, exchange, purchase or redemption shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly cancelled by the Indenture Trustee. The Issuer may at any time deliver to the Indenture Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Issuer may have acquired in any

manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Indenture Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section 4.05, except as expressly permitted by this Indenture. All cancelled Notes may be held or disposed of by the Indenture Trustee in accordance with its standard retention or disposal policy as in effect at the time unless the Issuer shall direct by an Issuer Request that they be destroyed or returned to it; provided, that such Issuer Request is timely and the Notes have not been previously disposed of by the Indenture Trustee.

Section 4.06. Release of Collateral. The Indenture Trustee shall release property from the lien of this Indenture only (i) upon receipt of an Issuer Request accompanied by an Officer's Certificate of the Issuer and (ii) in connection with the exercise of either the Certificateholder Collateral Purchase Option or the Bear Stearns Collateral Purchase Option, as provided in Section 10.01(a) and (b) hereof.

Section 4.07. Restrictions on Transfer. (a) The Notes may not be offered or sold except to "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act) or institutional "accredited investors" as defined in Rule 501(a)(1)-(3) or (7) under the Securities Act or any entity in which all of the equity owners come within such paragraphs. Further, for purposes of the Investment Company Act of 1940, as amended, the total number of beneficial owners of Notes may not exceed 97.

The Notes will not have been registered or qualified under the Securities Act, or any state securities law. No transfer, sale, pledge or other disposition of any Note shall be made unless such disposition is made pursuant to an effective registration statement under the Securities Act and effective registration or qualification under applicable state securities laws, or is made in a transaction which does not require such registration or qualification. In the event that a transfer is to be made in reliance upon an exemption from the Securities Act, the Indenture Trustee, the Issuer and the Note Insurer may require that the Noteholders' prospective transferee certify to the Indenture Trustee, the Issuer and the Note Insurer in writing the facts surrounding such disposition. Unless the Indenture Trustee or the Note Insurer requests otherwise, such certification shall be substantially in the form of Exhibit E or Exhibit F hereto. In the event that such certification of facts does not on its face establish the availability of an exemption under the Securities Act, the Indenture Trustee, the Issuer and the Note Insurer, as applicable, may require an opinion of counsel satisfactory to it that such transfer may be made pursuant to an exemption from the Securities Act, which opinion of counsel shall not be an expense of the Indenture Trustee or of the Trust.

(b) Each Note will bear legends substantially to the following effect:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS NOTE AGREES FOR THE BENEFIT OF THE TRUST THAT THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY TO A PERSON WHOM THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR TO AN INSTITUTIONAL ACCREDITED INVESTOR TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON REGULATION D, AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE REPRESENTS AND AGREES FOR THE BENEFIT OF THE TRUST, THE DEPOSITOR, THE SERVICER, THE INDENTURE TRUSTEE, THE NOTE INSURER, THE OWNER TRUSTEE AND THE INITIAL PURCHASERS THAT IT IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A)(1)-(3) AND (7) OF REGULATION D UNDER THE SECURITIES ACT) OR AN ENTITY IN WHICH ALL THE EQUITY OWNERS COME WITHIN SUCH PARAGRAPHS AND THAT IT IS HOLDING THIS NOTE FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION."

"THE HOLDER OF THIS NOTE FURTHER UNDERSTANDS AND AGREES THAT THE NUMBER OF BENEFICIAL OWNERS OF ALL NOTES MAY NOT EXCEED 97 IN NUMBER; THAT TRANSFERS OF THE NOTES WILL BE RESTRICTED ACCORDINGLY; AND THAT THE HOLDER HEREOF WILL NOTIFY

THE INDENTURE TRUSTEE IF THE NUMBER OF BENEFICIAL OWNERS OF THIS NOTE WILL CHANGE AS PROVIDED HEREIN AND IN THE INDENTURE."

"THIS NOTE MAY NOT BE ACQUIRED DIRECTLY OR INDIRECTLY BY A TRANSFEREE UNLESS THE PROPOSED TRANSFEREE REPRESENTS TO THE TRUST AND THE INDENTURE TRUSTEE, IN FORM AND SUBSTANCE SATISFACTORY TO THE TRUST AND THE INDENTURE TRUSTEE, THAT IT EITHER: (I) IS NOT, AND IS NOT PURCHASING A NOTE, DIRECTLY OR INDIRECTLY, FOR, ON BEHALF OF OR WITH THE ASSETS OF, AN EMPLOYEE BENEFIT PLAN OR OTHER RETIREMENT ARRANGEMENT WHICH IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (II) PTCE 95-60, PTCE 96-23, PTCE 91-38, PTCE 90-1, PTCE 84-14 OR SOME OTHER PROHIBITED TRANSACTION EXEMPTION IS APPLICABLE TO THE PURCHASE AND HOLDING OF A NOTE BY THE TRANSFEREE."

Section 4.08. Limitation on Beneficial Owners. The Indenture Trustee shall monitor the number of beneficial owners of all Notes, as represented to the Indenture Trustee in the related purchaser representation letters, and shall not permit the transfer of any Note if the effect of such transfer is to cause the total number of beneficial owners of Notes to exceed 97. Any transfer of Notes that causes the total number of beneficial owners of Notes to exceed 97 is hereby deemed to be null and void and the Indenture Trustee shall amend the Note Register to reflect such voided transfer; provided, however, that in the event (i) all of the Purchase Options are no longer outstanding and (ii) an opinion of counsel, acceptable to the Depositor, the Indenture Trustee, the Note Insurer and the Owner Trustee, is provided to the Depositor, the Indenture Trustee, the Note Insurer and the Owner Trustee at the sole cost and expense of the provider, to the effect that for purposes of the Investment Company Act of 1940, as amended, the total number of beneficial owners of all Notes and Certificates may exceed 100 holders, then the total number of beneficial owners of the Notes may exceed 97 and the related restrictive legend may be removed from the Notes.

Section 4.09. [Reserved].

Section 4.10. Payment of Principal and Interest; Defaulted Interest. (a) The Notes shall accrue interest during each Accrual Period on the basis of the actual number of days in such Accrual Period and a year assumed to consist of 360 days. Any installment of interest or principal, if any, payable on any Note which is punctually paid or duly provided for by the Issuer on the applicable Payment Date shall be paid to the Person in whose name such Note is registered on the Record Date, by check mailed first-class, postage prepaid, to such Person's address as it appears on the Note Register on such Record Date, or upon written receipt from a Noteholder which holds Notes with an aggregate initial principal balance of $1,000,000 or more, payment may be made by wire transfer in immediately available funds to the account designated by such Noteholder and except for the final installment of principal payable with respect to such Note on a Payment Date or on the Maturity Date (and except for the Final Payment Amount for any Note purchased or called for redemption pursuant to Section 10.01) which shall be payable as provided below. The funds represented by any such checks returned undelivered shall be held in accordance with Section 3.03.

(b) The principal of each Note shall be payable in installments on each Payment Date as provided in the form of the Note set forth in Exhibit A and in Section 5.2 of the Sale and Servicing Agreement. Notwithstanding the foregoing, the entire unpaid principal amount of the Notes shall be due and payable, if not previously paid, on the date on which an Event of Default shall have occurred and be continuing, if the Indenture Trustee with the consent of the Note Insurer, or the Holders of the Notes representing not less than a majority of the Class Principal Balance of the Notes with the consent of the Note Insurer, have declared the Notes to be immediately due and payable in the manner provided in Section 5.02. All principal payments on the Notes shall be made pro rata to the Noteholders. Except as provided in Section 10.02, the Indenture Trustee shall notify the Person in whose name a Note is registered at the close of business on the Record Date preceding the Payment Date on which the Issuer expects that the final installment of principal of and interest on such Note will be paid. Such notice shall be mailed or transmitted by facsimile prior to such final Payment Date and shall specify that such final installment will be payable only upon presentation and surrender of such Note and shall specify the

place where such Note may be presented and surrendered for payment of such installment. Notices in connection with a purchase or a redemption of the Notes as a result of the exercise of a Purchase Option shall be mailed to Noteholders as provided in Section 10.2.

Section 4.11. Tax Treatment. The Issuer has entered into this Indenture, and the Notes will be issued, with the intention that, for federal, state and local income, single business and franchise tax purposes, the Notes will qualify as indebtedness of the Issuer. The Issuer, by entering into this Indenture, and each Noteholder, by its acceptance of its Note, agrees to treat the Notes for federal, state and local income, single business and franchise tax purposes as indebtedness of the Issuer.

Section 4.12. Satisfaction and Discharge of Indenture. This Indenture shall cease to be of further effect with respect to the Notes except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Notes, (iii) rights of Noteholders to receive payments of principal thereof and interest thereon, (iv) Sections 3.03, 3.04, 3.06, 3.10, 3.19, 3.21, 3.22, 4.11, 11.16 and 11.17, (v) the rights, obligations and immunities of the Indenture Trustee hereunder (including the rights of the Indenture Trustee under Section 6.07 and the obligations of the Indenture Trustee under Section 4.13) and (vi) the rights of Noteholders as beneficiaries hereof with respect to the property so deposited with the Indenture Trustee payable to all or any of them, and the Indenture Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to the Notes, when:

(A) either

(1) all Notes theretofore authenticated and delivered (other than (i) Notes that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 4.03 and (ii) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 3.03) have been delivered to the Indenture Trustee for cancellation; or

(2) all Notes not theretofore delivered to the Indenture Trustee for cancellation

a. have become due and payable, or

b. will become due and payable at the Maturity Date within one year,

and the Issuer, in the case of a. or b. above, has irrevocably deposited or caused to be irrevocably deposited with the Indenture Trustee cash or direct obligations of or obligations guaranteed by the United States of America (which will mature prior to the date such amounts are payable), in trust for such purpose, in an amount sufficient to pay and discharge the entire indebtedness on such Notes then outstanding not theretofore delivered to the Indenture Trustee for cancellation when due on the applicable Maturity Date;

(B) the Issuer has paid or caused to be paid all other sums payable hereunder and under the Insurance Agreement by the Issuer; and

(C) the Issuer has delivered to the Indenture Trustee and the Note Insurer an Officer's Certificate and an opinion of counsel, each meeting the applicable requirements of Section 11.01 and, subject to Section 11.01 each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with and, if the opinion of counsel relates to a deposit made in connection with Section 4.12(A)(2)b. above, such opinion shall further be to the effect that such deposit will not have any material adverse tax consequences to the Issuer, any Noteholders or any Certificateholders.

Section 4.13. Application of Trust Money. All moneys deposited with the Indenture Trustee pursuant to Section 4.12 hereof shall be held in trust and

applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent, as the Indenture Trustee may determine, to the Holders of Notes for the payment, purchase or redemption of which such moneys have been deposited with the Indenture Trustee, of all sums due and to become due thereon for principal and interest; but such moneys need not be segregated from other funds except to the extent required herein or in the Sale and Servicing Agreement or required by law.

Section 4.14. Subrogation and Cooperation. (a) The Issuer and the Indenture Trustee acknowledge that (i) to the extent the Note Insurer makes payments under the Note Insurance Policy on account of principal of or interest on the Notes, or under the Swap Insurance Policy on account of amounts due the Swap Counterparty, the Note Insurer will be fully subrogated to the rights of such Holders or the Swap Counterparty, as applicable, to receive such principal and interest or amounts otherwise due the Swap Counterparty from the Issuer, and (ii) the Note Insurer shall be paid such principal and interest and such other amounts but only from the sources and in the manner provided herein and in the Sale and Servicing Agreement and the Insurance Agreement for the payment of such principal and interest.

The Indenture Trustee shall cooperate in all respects with any reasonable request by the Note Insurer for action to preserve or enforce the Note Insurer's rights or interest under this Indenture, the Sale and Servicing Agreement or the Insurance Agreement without limiting the rights of the Noteholders as otherwise set forth in the Indenture, including, without limitation, upon the occurrence and continuance of a default under the Insurance Agreement, a request to take any one or more of the following actions:

(i) institute Proceedings for the collection of all amounts then payable on the Notes, or under this Indenture in respect to the Notes and all amounts payable under the Insurance Agreement and to enforce any judgment obtained and collect from the Issuer moneys adjudged due;

(ii) sell the Trust Estate or any portion thereof or rights or interest therein, at one or more public or private Sales (as defined in Section 5.15 hereof) called and conducted in any manner permitted by law;

(iii) file or record all Assignments of Mortgages that have not previously been recorded;

(iv) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture; and

(v) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Note Insurer hereunder.

Section 4.15. Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture with respect to the Notes, all moneys then held by any Paying Agent other than the Indenture Trustee under the provisions of this Indenture with respect to such Notes shall, upon demand of the Issuer, be paid to the Indenture Trustee to be held and applied according to Section 3.05 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

ARTICLE V

Remedies

Section 5.01. Events of Default. "Event of Default," wherever used herein, shall have the meaning provided in Appendix A; provided, however, that Noteholders shall have no remedies for an Event of Default under clause (i) or clause (ii) of the definition of "Event of Default" if the Issuer fails to make payments of principal of and interest on the Notes so long as the Note Insurer makes payments sufficient with respect thereto under the Note Insurance Policy.

The Issuer shall deliver to the Indenture Trustee and the Note Insurer, within five days after having Actual Knowledge of the occurrence of an Event of Default, written notice in the form of an Officer's Certificate of any event which with the giving of notice and the lapse of time would become an Event of Default under clause (iii) of the definition of "Event of Default," its status and what action the Issuer is taking or proposes to take with respect thereto.

Section 5.02. Acceleration of Maturity; Rescission and Annulment. If an Event of Default should occur and be continuing, then and in every such case (i) the Indenture Trustee with the consent of the Note Insurer, (ii) the Note Insurer, or (iii) the Holders of the Notes, representing not less than a majority of the Class Principal Balance of all Notes with the consent of the Note Insurer, may declare the Notes to be immediately due and payable, by a notice in writing to the Issuer (and to the Indenture Trustee if given by Noteholders), and upon any such declaration the unpaid principal amount of such Notes, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as hereinafter in this Article V provided, the Holders of the Notes representing a majority of the Class Principal Balance of the Notes, by written notice to the Issuer and the Indenture Trustee, may rescind and annul such declaration and its consequences if:

(A) the Issuer has paid or deposited with the Indenture Trustee a sum sufficient to pay:

(i) all payments of principal of and interest on the Notes and all other amounts that would then be due hereunder or upon the Notes if the Event of Default giving rise to such acceleration had not occurred; and

(ii) all sums paid or advanced by the Indenture Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel; and

(B) all Events of Default, other than the nonpayment of the principal of the Notes that has become due solely by such acceleration, have been cured or waived as provided in Section 5.12.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

Section 5.03. Collection of Indebtedness and Suits for Enforcement by Indenture Trustee. (a) The Issuer covenants that if (i) default is made in the payment of any interest on any Note when the same becomes due and payable, and such default continues for a period of five days, or (ii) default is made in the payment of the principal of or any installment of the principal of any Note when the same becomes due and payable, the Issuer will, upon demand of the Indenture Trustee, pay to it, for the benefit of the Holders of the Notes and of the Note Insurer, the whole amount then due and payable on the Notes for principal and interest, with interest upon the overdue principal, and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel.

(b) In case the Issuer shall fail forthwith to pay such amounts upon such demand, the Indenture Trustee, in its own name and as trustee of an express trust, subject to the provisions of Section 11.17 hereof may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Issuer or other obligor upon the Notes and collect in the manner provided by law out of the Trust Estate, wherever situated, the moneys adjudged or decreed to be payable.

(c) If an Event of Default occurs and is continuing, the Indenture Trustee subject to the provisions of Section 11.17 hereof may, as more

particularly provided in Section 5.04, in its discretion, and shall, as directed by the Note Insurer or the Noteholders representing not less than a majority of the Class Principal Balance of all the Notes, proceed to protect and enforce its rights and the rights of the Noteholders and the Note Insurer, by such appropriate Proceedings as the Indenture Trustee shall deem most effective, or as so directed, to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture or by law.

(d) In case there shall be pending, relative to the Issuer or any other obligor upon the Notes or any Person having or claiming an ownership interest in the Trust Estate (if such Person is an Affiliate of the Issuer), Proceedings under Title 11 of the United States Code or any other applicable Federal or state bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer or its property or such other obligor or Person, or in case of any other comparable judicial Proceedings relative to the Issuer or other obligor upon the Notes, or to the creditors or property of the Issuer or such other obligor, the Indenture Trustee, irrespective of whether the principal of any Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand pursuant to the provisions of this Section, shall be entitled and empowered, by intervention in such Proceedings or otherwise:

(i) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for reasonable compensation to the Indenture Trustee and each predecessor Indenture Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee, except as a result of negligence or bad faith) and of the Noteholders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Noteholders in any election of a trustee, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Noteholders and of the Indenture Trustee on their behalf; and

(iv) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee or the Noteholders allowed in any judicial proceedings relative to the Issuer, its creditors and its property;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Noteholders to make payments to the Indenture Trustee, and, in the event that the Indenture Trustee shall consent to the making of payments directly to such Noteholders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

(e) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Noteholder thereof or to authorize the Indenture Trustee to vote in respect of the claim of any Noteholder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(f) All rights of action and of asserting claims under this Indenture,

or under any of the Notes, may be enforced by the Indenture Trustee without the possession of any of the Notes or the production thereof in any trial or other Proceedings relative thereto, and any such action or Proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Indenture Trustee, each predecessor Indenture Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Noteholders.

(g) In any Proceedings brought by the Indenture Trustee (and also any Proceedings involving the interpretation of any provision of this Indenture to which the Indenture Trustee shall be a party), the Indenture Trustee shall be held to represent all the Noteholders, and it shall not be necessary to make any Noteholder a party to any such Proceedings.

Section 5.04. Remedies; Priorities. (a) If an Event of Default shall have
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occurred and be continuing, the Indenture Trustee subject to the provisions of Section 11.17 hereof may do one or more of the following (subject to Section 5.05):

(i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Notes or under this Indenture with respect thereto, whether by declaration or otherwise, and all amounts payable under the Insurance Agreement or the Sale and Servicing Agreement, enforce any judgment obtained, and collect from the Issuer and any other obligor upon such Notes moneys adjudged due;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Trust Estate;

(iii) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee, the Noteholders and the Note Insurer; and

(iv) sell the Trust Estate or any portion thereof or rights or interest therein, at one or more public or private Sales called and conducted in any manner permitted by law;

provided, however, that the Indenture Trustee may not sell or otherwise liquidate the Trust Estate following an Event of Default, other than a default in the payment of any principal or interest on the Notes for thirty (30) days or more, unless (A) the Holders of 100% of the Class Principal Balance of the Notes and the Note Insurer consent thereto, which consent will not be unreasonably withheld, (B) the proceeds of such sale or liquidation distributable to the Noteholders are sufficient to discharge in full all amounts then due and unpaid upon the Notes for principal and interest including any LIBOR Interest Carryover Amounts or (C) the Indenture Trustee determines that the Collateral will not continue to provide sufficient funds for the payment of principal of and interest on the Notes, as they would have become due if the Notes had not been declared due and payable, and the Indenture Trustee obtains the consent of the Note Insurer, which consent will not be unreasonably withheld, and of the Holders of not less than 66-2/3% of the Class Principal Balance of the Notes. In determining such sufficiency or insufficiency with respect to clause (B) and (C), the Indenture Trustee may, but need not, obtain and rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose. Notwithstanding the foregoing, so long as a Servicer Termination Event has not occurred, any Sale (as defined in Section 5.15) of the Trust Estate shall be made subject to the continued servicing of the Mortgage Loans by the Servicer as provided in the Sale and Servicing Agreement.

(b) If the Indenture Trustee collects any money or property pursuant to this Article V, it shall pay out the money or property in the following order:

FIRST: to the Indenture Trustee for amounts due under Section 6.07;

SECOND: to (i) the Swap Counterparty for all amounts due under the Swap Agreement, and (ii) Noteholders, pari passu, for amounts due and unpaid on the

Notes for interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for interest (excluding all existing LIBOR Interest Carryover Amounts) and amounts due to the Swap Counterparty under the Swap Agreements, respectively;

THIRD: to Noteholders for amounts due and unpaid on the Notes for principal, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal;

FOURTH: to the payment of all amounts due and owing to the Note Insurer;

FIFTH: to the Noteholders for all existing LIBOR Interest Carryover Amounts;

SIXTH: to the Issuer for amounts due to the Owner Trustee under Section 8.01 of the Trust Agreement (or to reimburse the Sponsor for amounts paid to the Owner Trustee pursuant to Section 8.02 of the Trust Agreement); and

SEVENTH: to the Issuer for amounts required to be distributed to the Certificateholders.

The Indenture Trustee may fix a record date and payment date for any payment to Noteholders pursuant to this Section 5.04. At least 15 days before the Record Date with respect to payments under this Section 5.04, the Issuer shall mail to each Noteholder and the Indenture Trustee a notice that states the record date, the payment date and the amount to be paid.

Section 5.05. Optional Preservation of the Trust Estate. If the Notes have been declared to be due and payable under Section 5.02 following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee may, but need not, elect to maintain possession of the Trust Estate. It is the desire of the parties hereto and the Noteholders that there be at all times sufficient funds for the payment of principal of and interest on the Notes and other obligations of the Issuer including payment to the Note Insurer, and the Indenture Trustee shall take such desire into account when determining whether or not to maintain possession of the Trust Estate. In determining whether to maintain possession of the Trust Estate, the Indenture Trustee may, but need not, obtain and rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose.

Section 5.06. Limitation of Suits. No Holder of any Note shall have any right to institute any Proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless and subject to the provisions of Section 11.17 hereof:

(i) such Holder has previously given written notice to the Indenture Trustee of a continuing Event of Default;

(ii) the Holders of not less than 25% of the Class Principal Balance of the Notes have made written request to the Indenture Trustee to institute such Proceeding in respect of such Event of Default in its own name as Indenture Trustee hereunder;

(iii) such Holder or Holders have offered to the Indenture Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in complying with such request;

(iv) the Indenture Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings; and

(v) no direction inconsistent with such written request has been given to the Indenture Trustee during such 60-day period by the Holders of a majority of the Class Principal Balance of the Notes.

It is understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other

Holders of Notes or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Indenture Trustee shall receive conflicting or inconsistent requests and indemnity satisfactory to it from two or more groups of Holders of Notes, each representing less than a majority of the Class Principal Balance of the Notes, the Indenture Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture. In no event shall the Indenture Trustee be liable for any action taken in accordance herewith, except as otherwise provided in Section 6.01.

Section 5.07. Unconditional Rights of Noteholders To Receive Principal and Interest. Notwithstanding any other provisions in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest, if any, on such Note on or after the respective due dates thereof expressed in such Note or in this Indenture and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

Section 5.08. Restoration of Rights and Remedies. If the Indenture Trustee or the Holder of any Note has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Indenture Trustee or to such Holder of any Note, then and in every such case the Issuer, the Indenture Trustee and the Holders of such Notes shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Indenture Trustee and the Holders of such Notes shall continue as though no such Proceeding had been instituted.

Section 5.09. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Noteholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.10. Delay or Omission Not a Waiver. No delay or omission of the Indenture Trustee, the Note Insurer or any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Indenture Trustee, the Note Insurer or to the Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee, the Note Insurer or by the Noteholders, as the case may be.

Section 5.11. Control by Noteholders. The Holders of a majority of the Class Principal Balance of the Notes, with the consent of the Note Insurer, shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Indenture Trustee with respect to the Notes or exercising any trust or power conferred on the Indenture Trustee; provided that:

(i) such direction shall not be in conflict with any rule of law or with this Indenture;

(ii) subject to the express terms of Section 5.04, any direction to the Indenture Trustee to sell or liquidate the Trust Estate shall be by Holders of the Notes representing not less than 100% of the Class Principal Balance of the Notes;

(iii) if the conditions set forth in Section 5.05 have been satisfied and

the Indenture Trustee elects to retain the Trust Estate pursuant to such Section, then any direction to the Indenture Trustee by Holders of Notes representing less than 100% of the Class Principal Balance of the Notes to sell or liquidate the Trust Estate shall be of no force and effect; and

(iv) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction.

Notwithstanding the rights of Noteholders set forth in this Section, subject to Section 6.01, the Indenture Trustee need not take any action that it determines might involve it in liability or might materially adversely affect the rights of any Noteholders not consenting to such action.

Section 5.12. Waiver of Past Defaults. Prior to the declaration of the
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acceleration of the maturity of the Notes as provided in Section 5.02, the Holders of Notes of not less than a majority of the Class Principal Balance of the Notes, with the consent of the Note Insurer, may waive any past Event of Default and its consequences except an Event of Default (a) in payment when due of principal of or interest on any of the Notes or (b) in respect of a covenant or provision hereof which cannot be modified or amended without the consent of the Holder of each Note or the waiver of which would materially and adversely affect the interests of the Note Insurer or modify its obligation under the Note Insurance Policy. In the case of any such waiver, the Issuer, the Indenture Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereto.

Upon any such waiver, any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereto.

Section 5.13. Undertaking for Costs. All parties to this Indenture agree, and
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each Holder of any Note by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.13 shall not apply to (a) any suit instituted by the Indenture Trustee, (b) any suit instituted by any Noteholder, or group of Noteholders, in each case holding in the aggregate more than 10% of the Class Principal Balance of the Notes or (c) any suit instituted by any Noteholder for the enforcement of the payment of principal of or interest on any Note on or after the respective due dates expressed in such Note and in this Indenture.

Section 5.14. Waiver of Stay or Extension Laws. The Issuer covenants (to the
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extent that it may lawfully do so) that it will not at any time insist upon, or plead or in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.15. Sale of Trust Estate. (a) The power to effect any sale or other
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disposition (a "Sale") of any portion of a Trust Estate pursuant to Section 5.04 is expressly subject to the provisions of Section 5.05 and this Section 5.15. The power to effect any such Sale shall not be exhausted by any one or more Sales as to any portion of the Trust Estate remaining unsold, but shall continue unimpaired until the entire Trust Estate shall have been sold or all amounts

payable on the Notes and under this Indenture and under the Insurance Agreement shall have been paid. The Indenture Trustee may from time to time postpone any public Sale by public announcement made at the time and place of such Sale. The Indenture Trustee hereby expressly waives its right to any amount fixed by law as compensation for any Sale.

(b) The Indenture Trustee shall not in any private Sale sell the Trust Estate, or any portion thereof, unless

(i) the Holders of all Notes and the Note Insurer consent to, or direct the Indenture Trustee to make, such Sale, or

(ii) the proceeds of such Sale would be not less than the entire amount which would be payable to the Noteholders under the Notes, and the Note Insurer in respect of amounts drawn under the Note Insurance Policy and any other amounts due the Note Insurer under the Insurance Agreement, in full payment thereof in accordance with Section 5.02, on the Payment Date next succeeding the date of such Sale, or

(iii) the Indenture Trustee determines, in its sole discretion, that the conditions for retention of the Trust Estate set forth in Section 5.05 cannot be satisfied (in making any such determination, the Indenture Trustee may rely upon an opinion of an Independent investment banking firm obtained and delivered as provided in Section 5.05) and the Note Insurer consents to such Sale, which consent will not be unreasonably withheld, and the Holders representing at least 66-2/3% of the Class Principal Balance of the Notes consent to such Sale.

The purchase by the Indenture Trustee of all or any portion of a Trust Estate at a private Sale shall not be deemed a Sale or other disposition thereof for purposes of this Section 5.15(b).

(c) Unless the Holders of the Notes and the Note Insurer have otherwise consented or directed the Indenture Trustee, at any public Sale of all or any portion of the Trust Estate at which a minimum bid equal to or greater than the amount described in paragraph (ii) of subsection (b) of this Section 5.15 has not been established by the Indenture Trustee and no Person bids an amount equal to or greater than such amount, the Indenture Trustee shall bid an amount at least $1.00 more than the highest other bid.

(d) In connection with a Sale of all or any portion of the Trust Estate

(i) any Holder or Holders of Notes may bid for and with the consent of the Note Insurer purchase the property offered for sale, and upon compliance with the terms of sale may hold, retain and possess and dispose of such property, without further accountability, and may, in paying the purchase money therefor, deliver any Notes or claims for interest thereon in lieu of cash up to the amount which shall, upon distribution of the net proceeds of such sale, be payable thereon, and such Notes, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Holders thereof after being appropriately stamped to show such partial payment;

(ii) the Indenture Trustee may bid for and acquire the property offered for Sale in connection with any Sale thereof, and, subject to any requirements of, and to the extent permitted by, applicable law in connection therewith, may purchase all or any portion of the Trust Estate in a private sale, and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting the gross Sale price against the sum of (A) the amount which would be distributable to the Holders of the Notes and amounts owing to the Note Insurer as a result of such Sale in accordance with Section 5.04(b) on the Payment Date next succeeding the date of such Sale and (B) the expenses of the Sale and of any Proceedings in connection therewith which are reimbursable to it, without being required to produce the Notes in order to complete any such Sale or in order for the net Sale price to be credited against such Notes, and any property so acquired by the Indenture Trustee shall be held and dealt with by it in accordance with the provisions of this Indenture;

(iii) the Indenture Trustee shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the Trust Estate in connection with a Sale thereof;

(iv) the Indenture Trustee is hereby irrevocably appointed the agent and attorney-in-fact of the Issuer to transfer and convey its interest in any portion of the Trust Estate in connection with a Sale thereof, and to take all action necessary to effect such Sale; and

(v) no purchaser or transferee at such a Sale shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

Section 5.16. Action on Notes. The Indenture Trustee's right to seek and recover judgment on the Notes or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Noteholders shall be impaired by the recovery of any judgment by the Indenture Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Trust Estate or upon any of the assets of the Issuer. Any money or property collected by the Indenture Trustee shall be applied in accordance with Section 5.04(b).

Section 5.17. Performance and Enforcement of Certain Obligations. (a) Promptly following a request from the Indenture Trustee to do so, the Issuer shall take all such lawful action as the Indenture Trustee may request to compel or secure the performance and observance by the Depositor, the Seller and the Servicer, as applicable, of each of their obligations to the Issuer under or in connection with the Basic Documents, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Basic Documents to the extent and in the manner directed by the Indenture Trustee, including the transmission of notices of default on the part of the Depositor, the Seller or the Servicer thereunder and the institution of legal or administrative actions or proceedings to compel or secure performance by the Depositor, the Seller or the Servicer of each of their obligations under the Basic Documents.

(b) If a Servicer Termination Event has occurred and is continuing, the Indenture Trustee subject to the rights of the Note Insurer under the Sale and Servicing Agreement may, and at the direction (which direction shall be in writing or by telephone (confirmed in writing promptly thereafter)) of the Holders of 66-2/3% of the Class Principal Balance of the Notes with the consent of the Note Insurer shall, exercise all rights, remedies, powers, privileges and claims of the Issuer against the Servicer under or in connection with the Sale and Servicing Agreement, including the right or power to take any action to compel or secure performance or observance by the Servicer of its obligations to the Issuer thereunder and to give any consent, request, notice, direction, approval, extension or waiver under the Sale and Servicing Agreement, and any right of the Issuer to take such action shall not be suspended.

ARTICLE VI

The Indenture Trustee

Section 6.01. Duties of Indenture Trustee. (a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs with respect to the Trust Estate.

(b) Except during the continuance of an Event of Default:

(i) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the

Indenture Trustee and conforming to the requirements of this Indenture; provided, however, that the Indenture Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Indenture Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section 6.01;

(ii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it (A) pursuant to Section 5.11 or (B) from the Note Insurer, which it is entitled to give under any of the Basic Documents.

(d) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to paragraphs (a), (b), (c) and (g) of this Section 6.01.

(e) The Indenture Trustee shall not be liable for interest on any money received by it except as the Indenture Trustee may agree in writing with the Issuer or pursuant to the Sale and Servicing Agreement.

(f) Money held in trust by the Indenture Trustee need not be segregated from other funds except to the extent required by law or the terms of this Indenture or the Sale and Servicing Agreement.

(g) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(h) In the event that the Indenture Trustee is the Paying Agent or the Note Registrar, the rights and protections afforded to the Indenture Trustee pursuant to this Indenture shall also be afforded to the Indenture Trustee in its capacity as Paying Agent or Note Registrar.

(i) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section.

Section 6.02. Rights of Indenture Trustee. (a) The Indenture Trustee may rely
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on any document believed by it to be genuine and to have been signed or presented by the proper person. The Indenture Trustee need not investigate any fact or matter stated in the document.

(b) Before the Indenture Trustee acts or refrains from acting, it may require an Officer's Certificate or an opinion of counsel. The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Officer's Certificate or opinion of counsel.

(c) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it hereunder.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Indenture Trustee's conduct does

not constitute willful misconduct, negligence or bad faith.

(e) The Indenture Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

Section 6.03. Individual Rights of Indenture Trustee. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Indenture Trustee. Any Paying Agent, Note Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Indenture Trustee must comply with Sections 6.11 and 6.12.

Section 6.04. Indenture Trustee's Disclaimer. The Indenture Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Issuer's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Issuer in the Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Indenture Trustee's certificate of authentication.

Section 6.05. Notice of Event of Default. If an Event of Default occurs and is continuing and if it is known to a Responsible Officer of the Indenture Trustee, the Indenture Trustee shall give notice thereof to the Note Insurer. The Indenture Trustee shall mail to each Noteholder and the Owner Trustee notice of the Event of Default within 90 days after it occurs. Except in the case of an Event of Default in payment of principal of or interest on any Note, the Indenture Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Noteholders.

Section 6.06. Reports by Indenture Trustee to Holders. (a) The Indenture Trustee shall deliver to each Noteholder (and to each Person who was a Noteholder at any time during the applicable calendar year) such information, as may be required to enable such holder to prepare its Federal and state income tax returns. In addition, upon the Issuer's written request, the Indenture Trustee shall promptly furnish information reasonably requested by the Issuer that is reasonably available to the Indenture Trustee to enable the Issuer to perform its federal and state income tax reporting obligations.

(b) In addition, (1) the Indenture Trustee will provide to any Noteholder and any prospective purchaser thereof designated by such a Noteholder, upon the request of such Noteholder or prospective purchaser, the information required to be provided to such Noteholder or prospective purchaser by Rule 144A(d)(4) under the Securities Act; and (2) the Indenture Trustee shall update or shall cause to be updated such information from time to time in order to prevent such information from becoming false and misleading and will take such other actions as are necessary to ensure that the safe harbor exemption from the registration requirements of the Securities Act under Rule 144A is and will be available for resales of the Notes conducted in accordance with Rule 144A.

Section 6.07. Compensation and Indemnity. The Issuer shall pay to the Indenture Trustee on each Payment Date reasonable compensation for its services. The Indenture Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall or shall cause the Servicer to reimburse the Indenture Trustee for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Indenture Trustee's agents, counsel, accountants and experts. The Issuer shall or shall cause the Servicer to indemnify the Indenture Trustee against any and all loss, liability or expense (including attorneys' fees) incurred by it in connection with the

administration of this trust and the performance of its duties hereunder. The Indenture Trustee shall notify the Issuer and the Servicer promptly of any claim for which it may seek indemnity. Failure by the Indenture Trustee to so notify the Issuer and the Servicer shall not relieve the Issuer or the Servicer of its obligations hereunder or under the Sale and Servicing Agreement. The Issuer shall or shall cause the Servicer to defend any such claim, and the Indenture Trustee may have separate counsel and the Issuer shall or shall cause the Servicer to pay the fees and expenses of such counsel. Neither the Issuer nor the Servicer need reimburse any expense or indemnify against any loss, liability or expense incurred by the Indenture Trustee through the Indenture Trustee's own willful misconduct, negligence or bad faith.

The Issuer's payment obligations to the Indenture Trustee pursuant to this Section 6.07 shall survive the discharge of this Indenture or the removal or resignation of the Indenture Trustee hereunder. When the Indenture Trustee incurs expenses after the occurrence of an Event of Default specified in clause (iv) of the definition of "Event of Default" with respect to the Issuer, the expenses are intended to constitute expenses of administration under Title 11 of the United States Code or any other applicable Federal or state bankruptcy, insolvency or similar law.

Section 6.08. Replacement of Indenture Trustee. No resignation or removal of
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the Indenture Trustee and no appointment of a successor Indenture Trustee shall become effective until the acceptance of appointment by the successor Indenture Trustee pursuant to this Section 6.08. The Indenture Trustee may resign at any time by so notifying the Issuer, the Servicer and the Note Insurer. The Holders of a majority of the Class Principal Balance of the Notes may remove the Indenture Trustee by so notifying the Indenture Trustee, the Servicer and the Note Insurer and may appoint a successor Indenture Trustee, with the consent of the Note Insurer and the Servicer. The Issuer shall remove the Indenture Trustee if:

(i) the Indenture Trustee fails to comply with Section 6.11;

(ii) the Indenture Trustee is adjudged a bankrupt or insolvent;

(iii) a receiver or other public officer takes charge of the Indenture Trustee or its property; or

(iv) the Indenture Trustee otherwise becomes incapable of acting.

If the Indenture Trustee resigns or is removed or if a vacancy exists in the office of Indenture Trustee for any reason (the Indenture Trustee in such event being referred to herein as the retiring Indenture Trustee), the Issuer shall promptly appoint a successor Indenture Trustee with the consent of the Note Insurer and the Servicer.

A successor Indenture Trustee shall deliver a written acceptance of its appointment to the retiring Indenture Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee under this Indenture. The successor Indenture Trustee shall mail a notice of its succession to Noteholders. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee.

If a successor Indenture Trustee does not take office within 60 days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Issuer or the Holders of a majority of the Class Principal Balance of the Notes, with the consent of the Note Insurer and the Servicer, may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

If the Indenture Trustee fails to comply with Section 6.11, any Noteholder, with the consent of the Note Insurer, may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

Notwithstanding the replacement of the Indenture Trustee pursuant to this

Section, the Issuer's obligations under Section 6.07 shall continue for the benefit of the retiring Indenture Trustee.

Upon appointment of a successor Indenture Trustee, the Indenture Trustee shall make arrangements, at its own cost and expense, to deliver all items of Collateral in its possession to the successor Indenture Trustee together with all releases, bond powers, assignments, transfer documents or other documents required to evidence the transfer of the lien of this Indenture from the Indenture Trustee to the successor Indenture Trustee.

Section 6.09. Successor Indenture Trustee by Merger. If the Indenture Trustee
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consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Indenture Trustee; provided, that such corporation or banking association shall be otherwise qualified and eligible under Section 6.11. The Indenture Trustee shall provide the Issuer, the Note Insurer, the Servicer and the Rating Agencies prior written notice of any such transaction.

In case at the time such successor or successors by merger, conversion or consolidation to the Indenture Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Indenture Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Indenture Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Indenture Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Indenture Trustee shall have.

Section 6.10. Appointment of Co-Indenture Trustee or Separate Indenture
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Trustee. (a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust Estate may at the time be located, the Indenture Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity and for the benefit of the Noteholders, such title to the Trust Estate, or any part thereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Indenture Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Noteholders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08 hereof.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust Estate or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Indenture Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

Section 6.11. Eligibility; Disqualification. The Indenture Trustee shall have
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a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition and it or its parent shall have a long-term deposit rating of at least BBB from S&P and Baa2 from Moody's (or such lower rating as may be acceptable to S&P, Moody's and the Note Insurer). If such entity publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 6.11, the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in is most recent report of condition so published. If at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of this Section 6.11, it shall resign immediately in the manner and with the effect hereinafter specified in this Article VI.

Section 6.12. [Reserved] .

Section 6.13. Representation and Warranty. The Indenture Trustee represents
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and warrants to the Issuer, for the benefit of the Noteholders and the Note Insurer, that this Indenture has been executed and delivered by one of its Responsible Officers who is duly authorized to execute and deliver such document in such capacity on its behalf.

Section 6.14. Directions to Indenture Trustee. The Indenture Trustee is hereby
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directed:

(i) to accept assignment of the Mortgage Loans, the Pooled Certificates, the Swap Agreements, the Reserve Account, the Note Insurance Policy, and the other portions of the Trust Estate being assigned hereunder, and hold the Collateral in trust for the Noteholders and the Note Insurer;

(ii) to issue, execute and deliver the Notes substantially in the form prescribed by Exhibit A in accordance with the terms of this Indenture;

(iii) to take all other actions as shall be required to be taken by the terms of this Indenture;

(iv) to (A) establish the Swap Counterparty Floor Account, (B) accept delivery and retain possession of the Interest Rate Floor Agreement in its own name for the benefit of the Note Insurer, (C) deposit payments received from the Interest Rate Floor Agreement into the Swap Counterparty Floor Account, and (D) make distributions from the Swap Counterparty Floor Account to the Note Insurer and/or the Certificateholder, all in accordance with the terms of the Sale and

Servicing Agreement, and in each case for the benefit of the Note Insurer and the Certificateholders; and

(v) to (A) establish the Swap Counterparty Reserve Account, (B) accept delivery on the Closing Date and retain possession of the initial deposit of $800,000 into the Swap Counterparty Reserve Account, and (C) make distributions from the Swap Counterparty Reserve Account to the Note Insurer and/or the Certificateholder, all in accordance with the terms of the Sale and Servicing Agreement, and in each case for the benefit of the Note Insurer and the Certificateholders.

ARTICLE VII

Noteholders' Lists and Reports

Section 7.01. Issuer To Furnish Indenture Trustee Names and Addresses of Noteholders. The Issuer will furnish or cause to be furnished to the Indenture Trustee (a) not more than five days after each Record Date, a list, in such form as the Indenture Trustee may reasonably require, of the names and addresses of the Holders of Notes as of such Record Date, and (b) at such other times as the Indenture Trustee and the Note Insurer may request in writing, within 30 days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than 10 days prior to the time such list is furnished; provided, however, that so long as the Indenture Trustee is the Note Registrar, no such list shall be required to be furnished.

Section 7.02. Preservation of Information; Communications to Noteholders. (a) The Indenture Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Holders of Notes contained in the most recent list furnished to the Indenture Trustee as provided in Section 7.01 and the names and addresses of Holders of Notes received by the Indenture Trustee in its capacity as Note Registrar. The Indenture Trustee may destroy any list furnished to it as provided in such Section 7.01 upon receipt of a new list so furnished.

(b) If three or more Noteholders or one or more Holders of Notes evidencing not less than 25% of the aggregate Class Principal Balance of the Notes apply in writing to the Indenture Trustee, and such application states that the applicants desire to communicate with other Noteholders with respect to their rights under this Indenture or under the Notes and such application is accompanied by a copy of the communication that such applicants propose to transmit, then the Indenture Trustee shall, within five Business Days after the receipt of such application, afford such applicants access during normal business hours to the current list of Noteholders. Upon receipt of any such application, the Indenture Trustee will promptly notify the Issuer by providing a copy of such application and a copy of the list of Noteholders produced in response thereto. Each Noteholder, by receiving and holding a Note, shall be deemed to have agreed not to hold any of the Issuer, the Note Registrar or the Indenture Trustee accountable by reason of the disclosure of its name and address, regardless of the source from which such information was derived.

(c) The Indenture Trustee shall furnish to the Noteholders promptly upon receipt of a written request therefor, duplicates or copies of all reports, notices, requests, demands, certificates, financial statements and any other instruments furnished to the Indenture Trustee under the Basic Documents or as a result of being record holder of the Pooled Certificates.

Section 7.03. Fiscal Year. Unless the Issuer otherwise determines, the fiscal year of the Issuer shall end on December 31 of each year.

ARTICLE VIII

Accounts, Disbursements and Releases

Section 8.01. Collection of Money. Except as otherwise expressly provided

herein, the Indenture Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee pursuant to this Indenture. The Indenture Trustee shall apply all such money received by it as provided in this Indenture. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Trust Estate, the Indenture Trustee may take such action as may be appropriate to enforce such payment or performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim an Event of Default under this Indenture and any right to proceed thereafter as provided in Article V.

Section 8.02. Trust Accounts. (a) On or prior to the Closing Date, the Issuer shall cause the Indenture Trustee to establish and maintain, in the name of the Indenture Trustee, for the benefit of the Noteholders and the Certificateholders and the Note Insurer, the Accounts as provided in Section 5.1 of the Sale and Servicing Agreement.

(b) All moneys deposited from time to time in the Trustee Collection Account pursuant to the Sale and Servicing Agreement and all deposits therein pursuant to this Indenture are for the benefit of the Noteholders, the Certificateholders and the other entities to receive payments therefrom as provided herein and in the Sale and Servicing Agreement and all investments made with such moneys including all income or other gain from such investments are for the benefit of the Certificateholders as provided by the Sale and Servicing Agreement.

On or before each Payment Date, the Indenture Trustee shall make the transfers and payments set forth in Article V of the Sale and Servicing Agreement.

On each Payment Date, Collateral Purchase Date and Note Purchase Date, the Indenture Trustee shall distribute all amounts on deposit in the Trustee Collection Account to the Noteholders to the extent of amounts due and unpaid for principal and interest in the amounts and in the order of priority as set forth in Section 5.02 of the Sale and Servicing Agreement. The Indenture Trustee shall invest any funds in the Trustee Collection Account as provided in the Sale and Servicing Agreement.

Section 8.03. Opinion of Counsel. Other than as provided in Article X, the Indenture Trustee shall receive at least seven days notice when requested by the Issuer to take any action pursuant to Section 8.05(a), accompanied by copies of any instruments to be executed, and the Indenture Trustee shall also require, as a condition to such action, an opinion of counsel, in form and substance satisfactory to the Indenture Trustee, stating the legal effect of any such action, outlining the steps required to complete the same, and concluding that all conditions precedent to the taking of such action have been complied with and such action will not materially and adversely impair the security for the Notes or the rights of the Noteholders or the Note Insurer in contravention of the provisions of this Indenture; provided, however, that such opinion of counsel shall not be required to express an opinion as to the fair value of the Trust Estate. Counsel rendering any such opinion may rely, without independent investigation, on the accuracy and validity of any certificate or other instrument delivered to the Indenture Trustee in connection with any such action.

Section 8.04. Termination Upon Distribution to Noteholders. This Indenture and the respective obligations and responsibilities of the Issuer and the Indenture Trustee created hereby shall terminate upon the distribution to the Noteholders, the Swap Counterparty, the Note Insurer and the Indenture Trustee of all amounts required to be distributed pursuant to Article VIII and the Sale and Servicing Agreement; provided, however, that in no event shall the trust created hereby continue beyond the expiration of 21 years from the death of the survivor of the descendants of Joseph P. Kennedy, the late ambassador of the United States to the Court of St. James, living on the date hereof.

Section 8.05. Release of Trust Estate. (a) Subject to the payment of its fees

and expenses, the Indenture Trustee may, and when required by the provisions of this Indenture shall, execute instruments to release property from the lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Indenture Trustee as provided in Article IV hereunder shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent, or see to the application of any moneys.

(b) The Indenture Trustee shall, at such time as (i) there are no Notes Outstanding, (ii) all sums due the Indenture Trustee pursuant to this Indenture have been paid, and (iii) all sums due the Note Insurer have been paid, release any remaining portion of the Trust Estate that secured the Notes from the lien of this Indenture. The Indenture Trustee shall release property from the lien of this Indenture pursuant to this Section 8.05 only upon receipt of an request from the Issuer accompanied by an Officers' Certificate and an opinion of counsel.

Section 8.06. Surrender of Notes Upon Final Payment. By acceptance of any Note, the Holder thereof agrees to surrender such Note to the Indenture Trustee promptly, prior to such Noteholder's receipt of the final payment thereon.

ARTICLE IX

Supplemental Indentures

Section 9.01. Supplemental Indentures Without Consent of Noteholders. (a) Without the consent of the Holders of any Notes but with the consent of the Note Insurer and prior notice to the Rating Agencies and the Note Insurer, the Issuer and the Indenture Trustee, when authorized by an Issuer Request, at any time and from time to time, may enter into one or more indentures supplemental, in form satisfactory to the Indenture Trustee, for any of the following purposes:

(i) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or better to assure, convey and confirm unto the Indenture Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject to the lien of this Indenture additional property;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another person to the Issuer, and the assumption by any such successor of the covenants of the Issuer herein and in the Notes contained;

(iii) to add to the covenants of the Issuer, for the benefit of the Holders of the Notes, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee;

(v) to cure any ambiguity, to correct or supplement any provision herein or in any supplemental indenture that may be inconsistent with any other provision herein or in any supplemental indenture or to make any other provisions with respect to matters or questions arising under this Indenture or in any supplemental indenture; provided, that such action shall not materially adversely affect the interests of the Holders of the Notes; provided further that such supplement shall be deemed not to materially adversely affect the interests of the Holders of the Notes if the Person requesting such supplement delivers to the Indenture Trustee a letter from each Rating Agency to the effect that such supplement will not cause such Rating Agency to lower or withdraw its current rating on the Notes without regard to the Note Insurance Policy; or

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Notes and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article VI;

provided, however, that no such indenture supplements shall be entered into unless the Indenture Trustee shall have received an opinion of counsel stating that entering into such indenture supplement will not have any material adverse tax consequences to the Noteholders; and provided, further, that no indenture supplement shall amend or modify the rights of the Swap Counterparty without the consent of the Swap Counterparty.

The Indenture Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) The Issuer and the Indenture Trustee, when authorized by an Issuer Request, may, also without the consent of any of the Holders of the Notes but with the consent of the Note Insurer and the Swap Counterparty and prior notice to the Rating Agencies and the Note Insurer, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Notes under this Indenture; provided, however, that such action shall not, as evidenced by an opinion of counsel, (i) adversely affect in any material respect the interests of any Noteholder; provided further that such supplement shall be deemed not to adversely affect the interests in any material respect of the Holders of the Notes if the Person requesting such supplement delivers to the Indenture Trustee a letter from each Rating Agency to the effect that such supplement will not cause such Rating Agency to lower or withdraw its current rating on the Notes without regard to the Note Insurance Policy; or (ii) cause the Issuer to be subject to an entity level tax or be classified as a taxable mortgage pool within the meaning of Section 7701(i) of the Code.

Section 9.02. Supplemental Indentures With Consent of Noteholders. The Issuer
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and the Indenture Trustee, when authorized by an Issuer Request, also may, with prior notice to the Rating Agencies and, with the written consent of the Note Insurer and the Swap Counterparty and with the consent of the Holders of not less than a majority of the Class Principal Balance of the Notes by Act of such Holders delivered to the Issuer and the Indenture Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Notes under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Note affected thereby:

(i) change the date of payment of any installment of principal of or interest on any Note, or reduce the principal amount thereof or the interest rate thereon, change the provisions of this Indenture relating to the application of collections on, or the proceeds of the sale of the Trust Estate to payment of principal of or interest on the Notes, or change any place of payment where, or the coin or currency in which, any Note or the interest thereon is payable, or impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds available therefor, as provided in Article V, to the payment of any such amount due on the Notes on or after the respective due dates thereof (or, in the case of purchase or redemption, on or after the Purchase Date) or Redemption Date;

(ii) reduce the percentage of the Class Principal Balance of the Notes, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture;

(iii) modify or alter the provisions of the proviso to the definition of the term "Outstanding" or modify or alter the exception in the definition of the term "Noteholder";

(iv) reduce the percentage of the Class Principal Balance of the Notes required to direct the Indenture Trustee to direct the Issuer to sell or liquidate the Trust Estate pursuant to Section 5.04;

(v) modify any provision of this Section 9.02 except to increase any percentage specified herein or to provide that certain additional provisions of this Indenture or the Basic Documents cannot be modified or waived without the consent of the Holder of each Note affected thereby;

(vi) modify any of the provisions of this Indenture in such manner as to affect the calculation of the amount of any payment of interest or principal due on any Note following the exercise of the Note Purchase Option or a Collateral Purchase Option on any Payment Date; or

(vii) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Trust Estate or, except as otherwise expressly permitted or contemplated herein, terminate the lien of this Indenture on any property at any time subject hereto or deprive the Holder of any Note of the security provided by the lien of this Indenture; and provided, further, that such action shall not, as evidenced by an opinion of counsel, cause the Issuer to be subject to an entity level tax or be classified as a taxable mortgage pool within the meaning of Section 7701(i) of the Code.

The Indenture Trustee may in its discretion determine whether or not any Notes would be affected by any supplemental indenture and any such determination shall be conclusive upon the Holders of all Notes, whether theretofore or thereafter authenticated and delivered hereunder. The Indenture Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for any Act of Noteholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Indenture Trustee of any supplemental indenture pursuant to this Section 9.02, the Indenture Trustee shall mail to the Holders of the Notes to which such amendment or supplemental indenture relates a notice setting forth in general terms the substance, of such supplemental indenture. Any failure of the Indenture Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

Section 9.03. Execution of Supplemental Indentures. In executing, or permitting the additional trusts created by, any supplemental indenture permitted by this Article IX or the modification thereby of the trusts created by this Indenture, the Indenture Trustee shall be entitled to receive, and subject to Sections 6.01 and 6.02, shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise. The Indenture Trustee shall provide copies of each supplemental indenture to the Rating Agencies.

Section 9.04. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and shall be deemed to be modified and amended in accordance therewith with respect to the Notes affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Indenture Trustee, the Issuer and the Holders of the Notes shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.05. [Reserved].

Section 9.06. Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter

provided for in such supplemental indenture. If the Issuer or the Indenture Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Indenture Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Notes.

Section 9.07. Book Entry Notes. In addition to the supplements and amendments contemplated under this Article IX, at such time as the total number of beneficial owners of the Notes may exceed 100 for purposes of the Investment Company Act of 1940, as demonstrated in an opinion of counsel acceptable to the Indenture Trustee and the Note Insurer, the Holders of 100% of the Notes may request with the consent of the Note Insurer (such consent not to be unreasonably withheld), and the Issuer and Indenture Trustee shall prepare, an amendment to this Indenture to provide for the conversion of the Notes from physical to book entry form, permit the entering into of a contractual depository arrangement with The Depository Trust Company or similar clearing agency, and remove the requirements for the provision by proposed transferees of representation letters, without any requirements for the provision of new legal opinions or officer's Certificates by any party otherwise required hereunder. All costs and expenses (including attorneys' fees) associated with such conversion to book-entry form shall be borne by the Noteholders.

ARTICLE X

Note and Collateral Purchase Options

Section 10.01. Note and Collateral Purchase Options. (a) All but not less than all of the Notes are subject to purchase on the Note Purchase Date from the then Noteholders by the Certificateholder pursuant to the Note Purchase Option granted to the Certificateholder under Section 3.11(a) of the Trust Agreement. The purchase price for the Notes shall be equal to the Note Purchase Price. In order to exercise the Note Purchase Option, the Certificateholder must, no later than the eighth Business Day prior to the Note Purchase Date, deliver to the Issuer, the Indenture Trustee (with copies to Bear Stearns, the Rating Agencies, the Note Insurer and the Servicer) written notice, in the form of Exhibit G hereto, of its intent to purchase all of the Notes and of the Payment Date on which it intends to do so, which will constitute the Note Purchase Date. The Indenture Trustee shall furnish notice of the exercise of the Note Purchase Option to the Noteholders in compliance with Section 10.02. On such Note Purchase Date, the Certificateholder shall deposit with the Indenture Trustee cash in an amount sufficient, together with amounts on deposit (i) in the Reserve Account otherwise to be paid to the Noteholders with respect to the LIBOR Interest Carryover Amount on such Note Purchase Date and (ii) in the Trustee Collection Account and available for payment on the Notes to provide for payment of the Note Purchase Price. Such amount shall be deposited by the Indenture Trustee into a separate sub-account of the Trustee Collection Account. Such amounts shall be paid by the Indenture Trustee to Holders of Notes (and, if funds are due, to the Note Insurer) as provided in Section 10.03.

(b) The Notes are subject to redemption in whole, but not in part, on the Payment Date following the exercise of the Certificateholder Collateral Purchase Option, granted to the Certificateholder under Section 3.11(a) of the Trust Agreement, or following the exercise of the Bear Stearns Collateral Purchase Option, granted to Bear, Stearns under Section 3.11(b) of the Trust Agreement and receipt by the Indenture Trustee of the Certificateholder Collateral Purchase Price or the Bear Stearns Collateral Purchase Price, as applicable. In order to exercise the Certificateholder Collateral Purchase Option or the Bear Stearns Collateral Purchase Option, the Certificateholder or Bear Stearns (or Bear Stearns' assignee), respectively, must, no later than the eighth Business Day prior to the Collateral Purchase Date, deliver to the Issuer, the Indenture Trustee (with copies to the Certificateholder (in the case of the exercise of the Bear Stearns Collateral Option), the Rating Agencies, the Note Insurer, the Swap Counterparty and the Servicer) written notice, in the form of Exhibit H hereto, of its intent to purchase all of the Collateral and of the Payment Date on which it intends to do so which will constitute the Collateral Purchase Date and the Redemption Date for the Notes. The Indenture Trustee shall furnish notice of the exercise of the Certificateholder Collateral Purchase Option or the Bear Stearns Collateral Purchase Option to the Noteholders in compliance

with Section 10.02. On such Collateral Purchase Date, the Certificateholder or Bear Stearns (or Bear Stearns' assignee) shall deposit with the Indenture Trustee cash in an amount sufficient, together with amounts on deposit (i) in the Reserve Account and (ii) in the Trustee Collection Account and available for payment on the Notes, to provide for payment of the Collateral Purchase Price, plus any amounts due to the Swap Counterparty pursuant to Section 10.04(b) below. Such amount shall be deposited by the Indenture Trustee into a separate sub-account of the Trustee Collection Account. Such amounts shall be paid by the Indenture Trustee to Holders of Notes (and, if funds are due, to the Note Insurer and/or the Swap Counterparty, as applicable) as provided in Section 10.03.

(c) If the Bear Stearns Collateral Purchase Option is exercised, upon receipt of the notice specified in with Section 10.01(b) above, the Certificateholder shall have the option to exercise the Certificateholder Collateral Purchase Option, in the manner specified in Section 10.01(b) above, at any time up to and including the fifth Business Day prior to the related Collateral Purchase Date. If both the Bear Stearns Collateral Purchase Option and the Certificateholder Collateral Purchase Option are exercised, the Indenture Trustee shall accept the instructions of the Certificateholder and shall deliver the Mortgage Loans, the Pooled Certificates and (with the consent of the Swap Counterparty) the Swap Agreements, to the Certificateholder on the related Collateral Purchase Date, in exchange for the Certificateholder Collateral Purchase Price, plus any amounts due to the Swap Counterparty pursuant to Section 10.04(b) below; provided, however, that if both Collateral
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Purchase Options are exercised and the Certificateholder fails to deliver the Certificateholder Collateral Purchase Price on the Collateral Purchase Date, the Certificateholder Collateral Purchase Option shall be terminated; in such event, the Indenture Trustee shall notify Bear Stearns (or its assignee), and Bear Stearns (or its assignee) shall have the option to exercise the Bear Stearns Collateral Purchase Option on the second succeeding Business Day, which shall become the new Collateral Purchase Date. In the event that Bear Stearns (or its assignee) chooses not to re-exercise the Bear Stearns Collateral Purchase Option or fails to deliver the Bear Stearns Collateral Purchase Price on such new Collateral Purchase Date, the Bear Stearns Collateral Purchase Option shall also be terminated.

(d) Notwithstanding the forgoing, if the Certificateholder or Bear Stearns (or its assignee) exercises its Collateral Purchase Option or Note Purchase Option, as the case may be, and fails to deliver the related Collateral Purchase Price or Note Purchase Price, as applicable, on the related Collateral Purchase Date or Note Purchase Date, as applicable, such exercised Collateral Purchase Option or Note Purchase Option shall become null, void and terminated. The failure of the Certificateholder or Bear Stearns (or its assignee), as the case may be, to deliver the related Collateral Purchase Price or Note Purchase Price, as applicable, on the related Collateral Purchase Date or Note Purchase Price, as applicable, shall not affect the rights of the Certificateholder or Bear Stearns (or its assignee), as the case may be, in any unexercised Collateral Purchase Option or Note Purchase Option, as the case may be.

(e) In all cases of an exercise of a Collateral Purchase Option or a Note Purchase Option, the party exercising such Collateral Purchase Option or Note Purchase Option, as applicable, shall be solely responsible for the costs and expenses of the Issuer, the Owner Trustee, the Indenture Trustee, and in the case of any exercise of a Collateral Purchase Option, the Note Insurer, the Swap Counterparty and the Servicer.

Section 10.02. Form of Option Notice. Notice of exercise of the Note
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Purchase Option, Certificateholder Collateral Purchase Option or the Bear Stearns Collateral Purchase Option, as the case may be, under Section 10.01 shall be given by the Indenture Trustee by facsimile or by first-class mail, postage prepaid, transmitted or mailed not less than five Business Days prior to the Note Purchase Date or the Redemption Date, as applicable, to each Holder of Notes, as of the close of business on the Record Date preceding such Purchase Date or Redemption Date, as applicable, at such Holder's address appearing in the Note Register.

All such notices shall state:

(i) the Note Purchase Date or Redemption Date upon which the Noteholders will receive payment in full on their Notes;

(ii) the amount the Noteholders will be paid separately stating amounts in respect of principal, interest and LIBOR Interest Carryover Amounts;

(iii) that the Record Date otherwise applicable to such Note Purchase Date or Redemption Date is not applicable and that payments shall be made only upon presentation and surrender of such Notes and the place where such Notes are to be surrendered for payment of the Note Purchase Price or the Redemption Price (which shall be the office or agency of the Issuer to be maintained as provided in Section 3.02); and

(iv) that interest on the Notes shall cease to accrue (i) for the benefit of the then Noteholders on such Note Purchase Date and (ii) on such Redemption Date and no interest shall accrue on the Note Purchase Price, the Certificateholder Collateral Purchase Price or the Bear Stearns Collateral Purchase Price, as applicable.

The foregoing notice shall be given by the Indenture Trustee in the name and at the expense of the party exercising the Note Purchase Option or Collateral Purchase Option. Failure to give notice of such purchase or redemption, or any defect therein, to any Holder of any Note shall not impair or affect the validity of the purchase or redemption of any other Note.

Section 10.03. Notes Payable on Purchase Date. The Notes to be purchased
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or redeemed shall, following notice as required by Section 10.02, on the Note Purchase Date or Redemption Date become due and payable at the Note Purchase Price or the Redemption Price, as applicable, and (unless the party exercising such Note Purchase Option or Collateral Purchase Option shall default in the payment of the Note Purchase Price or the Redemption Price, as applicable) no interest shall accrue on the Note Purchase Price or the Redemption Price, as applicable, for any period after the date to which accrued interest is calculated for purposes of calculating the Note Purchase Price or the Redemption Price, as applicable.

Section 10.04. The Indenture After the Exercise of the Note Purchase Option or
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a Collateral Purchase Option . (a) Subsequent to the purchase of the Notes
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following exercise of the Note Purchase Option, the Certificateholder shall be the sole Noteholder. The Certificateholder may subsequently transfer some or all of the Notes in accordance with the provisions hereof.

(b) Subsequent to the purchase of the Collateral following exercise of a Collateral Purchase Option, this Indenture shall be satisfied and discharged in accordance with Section 4.12 hereof. The Indenture Trustee shall release the lien of this Indenture with respect to the purchased Collateral in accordance with the provisions of Section 4.06 hereof; provided, however, the Swap
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Agreements shall be terminated in accordance with their terms on such Redemption Date unless the Swap Counterparty shall have consented in writing to the assignment of the Swap Agreements to the Certificateholder or Bear Stearns (or its assignee), as applicable, and if the Swap Agreements are so terminated, the Certificateholder or Bear Stearns (or its assignee), as applicable, shall pay to the Swap Counterparty any termination payments owed to the Swap Counterparty under the Swap Agreements by the Issuer as a result of the termination of the Swap Agreements; and provided, further, that if no amounts are due and owing to
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the Note Insurer, all amounts on deposit in Swap Counterparty Reserve Account, if any, and the Interest Rate Floor Agreement shall be transferred or assigned to the Certificateholder or its designee.

(c) If subsequent to the purchase of the Collateral following exercise of a Collateral Purchase Option, the Indenture Trustee receives any payment from the Swap Counterparty, with respect to a Swap Agreement, or from the Interest Rate Floor Provider, with respect to the Interest Rate Floor Agreement, the Indenture Trustee shall forward such sums promptly upon receipt to the party that

purchased the Collateral, in the case of a Swap Agreement payment, or to the Certificateholder, in the case of an Interest Rate Floor Agreement payment.

ARTICLE XI

Miscellaneous

Section 11.01. Compliance Certificates and Opinions, etc. (a) Upon any application or request by the Issuer to the Indenture Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Indenture Trustee and to the Note Insurer (i) an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and (ii) an opinion of counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with;

(4) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with; and

(5) if the signer of such Certificate or opinion is required to be Independent, the Statement required by the definition of the term "Independent".

(b) (i) Prior to the deposit of any Collateral or other property or securities with the Indenture Trustee that is to be made the basis for the release of any property or securities subject to the lien of this Indenture, the Issuer shall, in addition to any obligation imposed in Section 11.01(a) or elsewhere in this Indenture, furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such deposit) to the Issuer of the Collateral or other property or securities to be so deposited.

(ii) Subject to clause (iii), whenever any property or securities are to be released from the lien of this Indenture, the Issuer shall also furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such release) of the property or securities proposed to be released and stating that in the opinion of such person the proposed release will not impair the security under this Indenture in contravention of the provisions hereof.

(iii) Notwithstanding any provision of this Indenture, the Issuer may, without compliance with the requirements of the other provisions of this Section 11.01, (A) collect, sell or otherwise dispose of Mortgage Loans and Properties as and to the extent permitted or required by the Basic Documents or (B) make cash payments out of the Accounts as and to the extent permitted or required by the Basic Documents.

Section 11.02. Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified

by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Authorized Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate of an Authorized Officer or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Servicer, the Issuer, the Seller or the Depositor, stating that the information with respect to such factual matters is in the possession of the Servicer, the Issuer, the Seller or the Depositor, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Section 11.03. Acts of Noteholders. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Noteholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Noteholders in person or by agents duly appointed in writing; and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Noteholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section 11.03.

(b) The fact and date of the execution by any person of any such instrument or writing may be proved in any manner that the Indenture Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Notes shall bind the Holder of every Note issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

Section 11.04. Notices, etc., to Indenture Trustee, Issuer, Note Insurer and Rating Agencies. Any request, demand, authorization, direction, notice,

consent, waiver or Act of Noteholders or other documents provided or permitted by this Indenture shall be in writing and if such request, demand, authorization, direction, notice, consent, waiver or act of Noteholders is to be made upon, given or furnished to or filed with:

(i) the Indenture Trustee by any Noteholder or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Indenture Trustee at the Corporate Trust Office, or

(ii) the Issuer by the Indenture Trustee or by any Noteholder shall be sufficient for every purpose hereunder if in writing and mailed first-class, postage prepaid to the Issuer addressed to: TMA Mortgage Funding Trust I, c/o Wilmington Trust Company, Rodney Square North, Wilmington, Delaware 19890 with a copy to Thornburg Mortgage Asset Corporation, 119 Marcy Street, Suite 201, Santa Fe, New Mexico 87501, Attention of Larry Goldstone, President, or at any other address previously furnished in writing to the Indenture Trustee by the Issuer or the Depositor. The Issuer shall promptly transmit any notice received by it from the Noteholders to the Indenture Trustee, or

(iii) the Note Insurer by the Issuer, the Indenture Trustee or by any Noteholders shall be sufficient for every purpose hereunder to in writing and mailed, first-class postage pre-paid, or personally delivered or telecopied to: Ambac Assurance Corporation, One State Street Plaza, 17th Floor, New York, New York 10004, Attention: Structured Finance - Mortgage-Backed Securities, Telephone: (212) 208-3387, Telecopier: (212) 363-1459.

Notices required to be given to the Rating Agencies by the Issuer, the Indenture Trustee or the Owner Trustee shall be in writing, personally delivered or mailed by certified mail, return receipt requested, to (i) in the case of Moody's, at the following address: Moody's Investors Service, ABS Monitoring Department, 99 Church Street, New York, New York 10007; and (ii) in the case of S& P, at the following address: Standard & Poor's, a division of The McGraw-Hill Companies, Inc., 26 Broadway (15th Floor), New York, New York 10004, Attention of Asset Backed Surveillance Department; or as to each of the foregoing, at such other address as shall be designated by written notice to the other parties.

Section 11.05. Notices to Noteholders; Waiver. Where this Indenture provides
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for notice to Noteholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class, postage prepaid to each Noteholder affected by such event, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Noteholders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Noteholder shall affect the sufficiency of such notice with respect to other Noteholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Noteholders shall be filed with the Indenture Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Noteholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agencies, failure to give such notice shall not affect any other rights or obligations created hereunder, and shall not under any circumstance constitute an Event of Default.

Section 11.06. Alternate Payment and Notice Provisions. Notwithstanding any
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provision of this Indenture or any of the Notes to the contrary, the Issuer may enter into any agreement with any Holder of a Note providing for a method of payment, or notice by the Indenture Trustee or any Paying Agent to such Holder, that is different from the methods provided for in this Indenture for such payments or notices. The Issuer will furnish to the Indenture Trustee a copy of each such agreement and the Indenture Trustee will cause payments to be made and notices to be given in accordance with such agreements.

Section 11.07. Rights of the Note Insurer and the Swap Counterparty. (a) So long as there does not exist a failure by the Note Insurer to make a required payment under either the Note Insurance Policy or the Swap Insurance Policy, the Note Insurer shall have the right to exercise and may exercise, without the consent of the Noteholders, each and every right of the Noteholders granted pursuant to this Indenture and the Noteholders shall not exercise any such rights except upon the prior written consent of the Note Insurer; provided, however, that any right conferred to the Note Insurer hereunder shall be suspended during any period in which the Note Insurer is in default in its payment obligations under either of the Insurance Policies. At such time as the Notes are no longer outstanding, and no amounts owed to the Note Insurer remain unpaid, the Note Insurer's rights hereunder shall terminate.

(b) The rights of the Swap Counterparty under this Indenture shall terminate upon the termination of the last remaining Swap Agreement and the payment to the Swap Counterparty of all amounts due to it under the Swap Agreements.

Section 11.08. Effect of Headings. The Article and Section headings and the Table of Contents herein are for convenience only and shall not affect the construction hereof.

Section 11.09. Successors and Assigns. All covenants and agreements in this Indenture and the Notes by the Issuer shall bind its successors and assigns, whether so expressed or not. All agreements of the Indenture Trustee in this Indenture shall bind its successors, co-trustees and agents.

Section 11.10. Separability. In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 11.11. Benefits of Indenture. Each of the Swap Counterparty and the Note Insurer and their respective successors and assigns shall be a third-party beneficiary to the provisions of this Indenture. Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Noteholders, and any other party secured hereunder, and any other Person with an ownership interest in any part of the Trust Estate, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 11.12. Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Notes or this Indenture) payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 11.13. GOVERNING LAW. THIS INDENTURE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 11.14. Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11.15. Recording of Indenture. If this Indenture is subject to recording in any appropriate public recording offices, such recording is to be effected by the Issuer and at its expense accompanied by an opinion of counsel (which may be counsel to the Indenture Trustee or any other counsel reasonably acceptable to the Indenture Trustee) to the effect that such recording is necessary either for the protection of the Noteholders or any other Person secured hereunder or for the enforcement of any right or remedy granted to the Indenture Trustee under this Indenture.

Section 11.16. Issuer Obligation. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer, the Owner Trustee or the Indenture Trustee on the Notes or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) the Indenture Trustee or the Owner Trustee in its individual capacity, (ii) any owner of a beneficial interest in the Issuer or (iii) any partner, owner, beneficiary, agent, officer, director, employee or agent of the Indenture Trustee or the Owner Trustee in its individual capacity, any holder of a beneficial interest in the Issuer, the Owner Trustee or the Indenture Trustee or of any successor or assign of the Indenture Trustee or the Owner Trustee in its individual capacity, except as any such Person may have expressly agreed (it being understood that the Indenture Trustee and the Owner Trustee have no such obligations in their individual capacity) and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity. For all purposes of this Indenture, in the performance of any duties or obligations of the Issuer hereunder, the Owner Trustee shall be subject to, and entitled to the benefits of, the terms and provisions of Articles VI, VII and VIII of the Trust Agreement.

Section 11.17. No Petition. The Indenture Trustee, by entering into this Indenture, and each Noteholder, by accepting a Note, hereby covenant and agree that they shall not, prior to the date that is one year and one day after the termination of this Indenture institute against the Depositor or the Issuer, or join in any institution against the Depositor or the Issuer of, any bankruptcy, reorganization, arrangement, receivership, insolvency or liquidation proceedings, or other proceedings under any United States Federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, this Indenture or any of the other Basic Documents.

Section 11.18. Inspection. The Issuer agrees that, on reasonable prior notice, it will permit any representative of the Indenture Trustee, during the Issuer's normal business hours, to examine all the books of account, records, reports and other papers of the Issuer, to make copies and extracts therefrom, to cause such books to be audited by Independent certified public accountants, and to discuss the Issuer's affairs, finances and accounts with the Issuer's officers, employees, and Independent certified public accountants, all at such reasonable times and as often as may be reasonably requested. The Indenture Trustee shall and shall cause its representatives to hold in confidence all such information except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Indenture Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder.

IN WITNESS WHEREOF, the Issuer and the Indenture Trustee have caused this Indenture to be duly executed by their respective officers, thereunto duly authorized and duly attested, all as of the day and year first above written.

TMA MORTGAGE FUNDING TRUST I, as Issuer

By: WILMINGTON TRUST COMPANY,

not in its individual capacity
but solely as Owner Trustee

By:_____
Name:
Title:

BANKERS TRUST COMPANY OF CALIFORNIA, N.A.,
as Indenture Trustee, as Note Paying
Agent and as Note Registrar

By:_____
Name:
Title:

STATE OF DELAWARE)

) ss.:

COUNTY OF)

On this 18th day of December, 1998 before me personally appeared Patricia A. Evans, to me known, who being by me duly sworn did depose and say that she is a Financial Services Officer of the Owner Trustee, one of the corporations described in and which executed the above instrument, and that she signed her name thereto by like order.

Notary Public

[Notarial Seal]

STATE OF NEW YORK)

) ss.:

COUNTY OF NEW YORK)

On this 18th day of December, 1998 before me personally appeared David M. Arnold, to me known, who being by me duly sworn did depose and say that he is an Assistant Secretary of Bankers Trust Company of California, N.A., as Indenture Trustee, one of the corporations described in and which executed the above instrument, and that he signed his name thereto by like order.

Notary Public

[Notarial Seal]

EXHIBIT A

[FORM OF CLASS A NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS NOTE AGREES FOR THE BENEFIT OF THE TRUST THAT THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY TO A PERSON WHOM THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR TO AN INSTITUTIONAL ACCREDITED INVESTOR TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON REGULATION D,

AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE REPRESENTS AND AGREES FOR THE BENEFIT OF THE TRUST, THE DEPOSITOR, THE SERVICER, THE INDENTURE TRUSTEE, THE NOTE INSURER, THE OWNER TRUSTEE AND THE INITIAL PURCHASERS THAT IT IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A)(1)-(3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT) OR AN ENTITY IN WHICH ALL THE EQUITY OWNERS COME WITHIN SUCH PARAGRAPHS AND THAT IT IS HOLDING THIS NOTE FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION.

THE HOLDER OF THIS NOTE FURTHER UNDERSTANDS AND AGREES THAT THE NUMBER OF BENEFICIAL OWNERS OF ALL NOTES MAY NOT EXCEED 97 IN NUMBER; THAT TRANSFERS OF THE NOTES WILL BE RESTRICTED ACCORDINGLY; AND THAT THE HOLDER HEREOF WILL NOTIFY THE INDENTURE TRUSTEE IF THE NUMBER OF BENEFICIAL OWNERS OF THIS NOTE WILL CHANGE AS PROVIDED HEREIN AND IN THE INDENTURE.

THIS NOTE MAY NOT BE ACQUIRED DIRECTLY OR INDIRECTLY BY A TRANSFEREE UNLESS THE PROPOSED TRANSFEREE REPRESENTS TO THE TRUST AND THE INDENTURE TRUSTEE, IN FORM AND SUBSTANCE SATISFACTORY TO THE TRUST AND THE INDENTURE TRUSTEE, THAT IT EITHER: (I) IS NOT, AND IS NOT PURCHASING A NOTE, DIRECTLY OR INDIRECTLY, FOR, ON BEHALF OF OR WITH THE ASSETS OF, AN EMPLOYEE BENEFIT PLAN OR OTHER RETIREMENT ARRANGEMENT WHICH IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (II) PTCE 95-60, PTCE 96-23, PTCE 91-38, PTCE 90-1, PTCE 84-14 OR SOME OTHER PROHIBITED TRANSACTION EXEMPTION IS APPLICABLE TO THE PURCHASE AND HOLDING OF A NOTE BY THE TRANSFEREE.

TRANSFER OF THE THIS NOTE IS SUBJECT TO FURTHER RESTRICTIONS AS SET FORTH IN SECTION 4.02 OF THE INDENTURE.

TMA MORTGAGE FUNDING TRUST I

COLLATERALIZED ASSET-BACKED NOTES, SERIES 1998-1, CLASS A

NO. A-___ CUSIP NO. 87257S AA 3

FIRST PAYMENT DATE : DECEMBER 28, 1998 INITIAL CLASS PRINCIPAL BALANCE OF THIS NOTE ("DENOMINATION"): $

INDENTURE TRUSTEE : BANKERS TRUST COMPANY, OF CALIFORNIA, N.A.

NOTE RATE : VARIABLE ORIGINAL CLASS PRINCIPAL BALANCE OF ALL NOTES : $1,144,423,000

MATURITY DATE : JANUARY 25, 2029

THIS CERTIFIES THAT _____ is the registered owner of the COLLATERALIZED ASSET-BACKED NOTES, SERIES 1998-1, CLASS A, issued by TMA MORTGAGE FUNDING TRUST I, a business trust organized and existing under the laws of the State of Delaware (herein referred to as the "Issuer"). The Issuer, for value received, hereby promises to pay to the above named registered owner, or registered assigns, the initial Class Principal Balance of this Note listed above, payable on each Payment Date in an amount equal to the result obtained by multiplying (i) a fraction the numerator of which is the initial Class Principal Balance of this Note and the denominator of which is the original Class Principal Balance of all Notes listed above, by (ii) the aggregate amount, if any, payable from the Trustee Collection Account in respect of principal on the Notes pursuant to Section 3.05 of the Indenture; provided, however, that the entire unpaid principal amount of this Note shall be due and payable on the earlier of the Maturity Date listed above and the Redemption Date, if any, pursuant to Section 10.1 of the Indenture.

The Issuer will pay interest on this Note at the rate per annum equal to the Note Rate (as defined on the reverse hereof), on each Payment Date until the

principal of this Note is paid or made available for payment, on the principal amount of this Note outstanding on the preceding Payment Date (after giving effect to all payments of principal made on the preceding Payment Date). Interest on this Note will accrue for each Payment Date during the period beginning on the immediately preceding Payment Date (or the Closing Date in the case of the first Accrual Period) and ending on the calendar day prior to such Payment Date (each an "Accrual Period") and will be calculated on the basis of the actual number of days in each such period and a 360-day year. Such principal of and interest on this Note shall be paid in the manner specified on the reverse hereof.

The principal of and interest on this Note are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Reference is made to the further provisions of this Note set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Note.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee whose name appears below by manual signature, this Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

Capitalized terms used in this Note but not defined herein are defined in Appendix A to the Indenture, which also contains rules as to usage that shall be applicable herein.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed, manually or in facsimile, by its Authorized Officer as of the date set forth below.

Date: TMA MORTGAGE FUNDING TRUST I

By: WILMINGTON TRUST COMPANY, not in its individual capacity but solely as Owner Trustee under the Trust Agreement,

By:_____

Authorized Signatory

INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Collateralized Asset-Backed Notes, Series 1998-1, Class A, of TMA Mortgage Funding Trust I, designated above and referred to in the within-mentioned Indenture.

Date: BANKERS TRUST COMPANY OF CALIFORNIA, N.A., not in its individual capacity but solely as Indenture Trustee,

By: _____

Authorized Signatory

[REVERSE OF CLASS A NOTE]

This Note is one of a duly authorized issue of Notes of the Issuer, designated as its Collateralized Asset-Backed Notes, Series 1998-1 (herein called the "Notes"), all issued under an Indenture dated as of December 1, 1998 (such indenture, as supplemented or amended, is herein called the "Indenture"), between the Issuer and Bankers Trust Company of California, N.A., as indenture trustee (the "Indenture Trustee", which term includes any successor Indenture Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Indenture Trustee and the Holders of the Notes. The Notes are subject to all terms of the Indenture.

The Notes will be issued in certificated, fully-registered form in minimum denominations of $100,000 and increments of $1,000 in excess thereof, except for one Note which may be issued in a different denomination.

The Notes are and will be equally and ratably secured by the collateral pledged as security therefor as provided in the Indenture.

Principal of the Notes will be payable on each Payment Date in an amount described on the face hereof until the principal balance of the Notes is reduced to zero. "Payment Date" means the 25th day of each month, or, if any such date is not a Business Day, the next succeeding Business Day, commencing in December 1998.

As described on the face hereof, the entire unpaid principal amount of this Note shall be due and payable on the earlier of the Maturity Date and the Redemption Date, if any, pursuant to Section 10.1 of the Indenture. Notwithstanding the foregoing, the entire unpaid principal amount of the Notes shall be due and payable on the date on which (i) an Event of Default shall have occurred and be continuing and (ii) the Note Insurer, or the Indenture Trustee, with the consent of the Note Insurer, or the Holders of the Notes, with the consent of the Note Insurer, representing not less than a majority of the Class Principal Balance of the Notes have declared the Notes to be immediately due and payable in the manner provided in Section 5.02 of the Indenture. All principal payments on the Notes shall be made pro rata to the Noteholders entitled thereto.

AS PROVIDED IN THE TRUST AGREEMENT AND THE INDENTURE, THE NOTES ARE SUBJECT TO PURCHASE PURSUANT TO AN OPTION GRANTED TO THE HOLDER OF THE CERTIFICATES, WHICH MAY BE EXERCISED AT ANY TIME; THE NOTES MAY ALSO BE REDEEMED AT ANY TIME FOLLOWING THE EXERCISE OF CERTAIN COLLATERAL PURCHASE OPTIONS GRANTED TO THE HOLDER OF THE CERTIFICATES AND TO BEAR, STEARNS & CO. INC. IF ANY SUCH OPTION IS EXCERISED THE NOTEHOLDERS WILL BE ENTITLED TO RECEIVE THE OUTSTANDING PRINCIPAL BALANCE OF THE NOTES, PLUS ACCRUED INTEREST THEREON AT THE LIBOR RATE TO THE DATE OF PURCHASE AND ALL UNPAID LIBOR INTEREST CARRYOVER AMOUNTS.

As provided in the Indenture and the Sale and Servicing Agreement, the Notes will be redeemed in whole, but not in part, if the Servicer chooses to exercise its option to purchase the Mortgage Loans, on any Payment Date on or after the date on which the aggregate Loan Balance is five percent or less than the original aggregate Loan Balance.

Payments of interest on this Note due and payable on each Payment Date, together with the installment of principal, if any, to the extent not in full payment of this Note, will be made by check mailed to each Holder of a Note entitled thereto at the address appearing in the Note Register to be maintained in accordance with the provisions of the Indenture without requiring that this Note be submitted for notation of payment or, upon timely receipt by the Indenture Trustee of written instructions from a Noteholder which holds Notes with an aggregate initial principal balance of $1,000,000 or more, by wire transfer to a United States depository institution with appropriate facilities for receiving such a wire transfer; provided, however, that the final distribution in retirement of the Notes will be made only upon presentation and surrender of such Notes at the office or agency of the Indenture Trustee specified in the notice to Noteholders of such final payment. Any reduction in the principal amount of this Note effected by any payments made on any Payment Date shall be

binding upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then remaining unpaid principal amount of this Note on a Payment Date, then the Indenture Trustee, in the name of and on behalf of the Issuer, will notify the Person who was the Holder hereof as of the Record Date preceding such Payment Date by notice mailed prior to such Payment Date and the amount then due and payable shall be payable only upon presentation and surrender of this Note at the Indenture Trustee's principal Corporate Trust Office or at the office of the Indenture Trustee's agent appointed for such purposes located in the City of New York.

On each Payment Date, the Notes will be entitled to receive interest at the applicable Note Rate. During each Accrual Period through the Accrual Period relating to the November 1999 Payment Date, the Notes will accrue interest at a per annum rate equal to the lesser of (a) the London interbank offered rate for one-month U.S. dollar deposits ("LIBOR") determined as described in the Sale and Servicing Agreement plus 0.70%, or (b) the Available Funds Cap Rate, and during each Accrual Period thereafter, at a per annum rate equal to the lesser of (a) LIBOR plus 1.40% or (b) the Available Funds Cap Rate. Any excess of interest at the LIBOR Rate over interest at the Available Funds Cap Rate will, together with interest thereon at the applicable LIBOR Rate be carried forward and will be payable on future Payment Dates to the extent there are funds available therefor.

The payment on each Payment Date of interest on the Notes at the lesser of the LIBOR Rate and the Available Funds Cap Rate and any Principal Shortfall Amount will be guaranteed by Ambac Assurance Corporation (the "Note Insurer") pursuant to the Note Insurance Policy.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this Note may be registered on the Note Register upon surrender of this Note for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by, the Noteholder hereof or his attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in Securities Transfer Agent's Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP (all in accordance with the Securities Exchange Act of 1934, as amended), and such other documents as the Indenture Trustee may require, including either an Institutional Accredited Investor Representation Letter or a Qualified Institutional Buyer Representation Letter, as applicable, from the proposed transferee, substantially in the form of Exhibits E and F, respectively, to the Indenture, and thereupon one or more new Notes of authorized denominations and in the same aggregate principal amount will be issued to the designated transferee or transferees. No service charge will be charged for any registration of transfer or exchange of this Note, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange.

Each Noteholder, by acceptance of a Note, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer, the Owner Trustee or the Indenture Trustee on the Notes or under the Indenture or any certificate or other writing delivered in connection therewith, against (i) the Depositor, the Seller, the Servicer, the Indenture Trustee or the Owner Trustee in its individual capacity, (ii) any owner of a beneficial interest in the Issuer or (iii) any partner, owner, beneficiary, agent, officer, director or employee of the Depositor, the Seller, the Servicer, the Indenture Trustee or the Owner Trustee in its individual capacity, any holder of a beneficial interest in the Issuer, the Depositor, the Seller, the Servicer, the Owner Trustee or the Indenture Trustee or of any successor or assign of the Depositor, the Seller, the Servicer, the Indenture Trustee or the Owner Trustee in its individual capacity, except as any such Person may have expressly agreed (it being understood that the Indenture Trustee and the Owner Trustee have no such obligations in their individual capacity) and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable

law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity.

Each Noteholder, by acceptance of a Note, covenants and agrees that by accepting the benefits of the Indenture that such Noteholder (i) will not prior to one year and one day after the Maturity Date institute against the Depositor or the Issuer, or join in any institution against the Depositor or the Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings, under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, the Indenture or the Basic Documents and (ii) will treat the Note as debt for all federal, state and local income tax purposes.

Prior to the due presentment for registration of transfer of this Note, the Issuer, the Indenture Trustee and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name this Note (as of the day of determination or as of such other date as may be specified in the Indenture) is registered in the Note Register as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Issuer, the Indenture Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Notes under the Indenture at any time by the Issuer with the consent of the Note Insurer and the Holders of Notes representing a majority of the Class Principal Balance of all Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of Notes representing specified percentages of the Class Principal Balance of the Notes, on behalf of the Holders of all the Notes, with the consent of the Note Insurer, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note (or any one of more predecessor Notes) shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this Note. The Indenture also permits the Indenture Trustee, with the consent of the Note Insurer, to amend or waive certain terms and conditions set forth in the Indenture without the consent of Holders of the Notes issued thereunder. In addition, so long as the Note Insurer is not in default under either the Note Insurance Policy or the Swap Insurance Policy, the Note Insurer shall have and may exercise, without the consent of the Noteholders, all of the rights of the Noteholders.

The term "Issuer" as used in this Note includes any successor to the Issuer under the Indenture.

The Issuer is permitted by the Indenture, under certain circumstances, to merge or consolidate, subject to the rights of the Indenture Trustee and the Holders of Notes under the Indenture.

The Notes are issuable only in registered form in denominations as provided in the Indenture, subject to certain limitations therein set forth.

THIS NOTE AND THE INDENTURE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place, and rate, and in the coin or currency herein prescribed.

Anything herein to the contrary notwithstanding, except as expressly provided in the Indenture or the Basic Documents, neither Wilmington Trust Company in its individual capacity, Bankers Trust Company of California, N.A. in its individual capacity, any owner of a beneficial interest in the Issuer, nor any of their respective partners, beneficiaries, agents, officers, directors, employees or successors or assigns shall be personally liable for, nor shall recourse be had to any of them for, the payment of principal of or interest on, or performance

of, or omission to perform, any of the covenants, obligations or indemnifications contained in this Note or the Indenture, it being expressly understood that said covenants, obligations and indemnifications have been made by the Owner Trustee for the sole purposes of binding the interests of the Owner Trustee in the assets of the Issuer. The Holder of this Note by the acceptance hereof agrees that except as expressly provided in the Indenture or the Basic Documents, in the case of an Event of Default under the Indenture, the Holder shall have no claim against any of the foregoing for any deficiency, loss or claim therefrom; provided, however, that nothing contained herein shall be taken to prevent recourse to, and enforcement against, the assets of the Issuer for any and all liabilities, obligations and undertakings contained in the Indenture or in this Note.

ASSIGNMENT

Social Security or taxpayer I. D. or other identifying number of assignee:

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____

(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

_____ */

Signature Guaranteed:

_____ */

*/ NOTICE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatever. Such signature must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Note Registrar, which requirements include membership or participation in STAMP or such other "signature guarantee program" as may be determined by the Note Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

EXHIBIT B

SCHEDULE OF MORTGAGE LOANS

EXHIBIT C

SCHEDULE OF POOLED CERTIFICATES

1. 100% of the First Boston Mortgage Trust 1993-B Subordinated Certificates, Series 1993-B, Class A1, in the original principal amount of $49,819,272.00 and the outstanding principal balance as of the Cut-off Date $40,732,573.86.

2. 100% of the First Boston Mortgage Trust 1993-B Subordinated Certificates, Series 1993-B, Class A2, in the original principal amount of $87,523,493.00 and the outstanding principal balance as of the Cut-off Date $87,523,493.00.

EXHIBIT D

<TABLE>
<CAPTION>

SWAP COUNTERPARTY REFERENCE	ORIGINAL NOTIONAL AMOUNT(1)	ORIGINAL EFFECTIVE DATE	MATURITY DATE	REVISED FIXED RATE (Original Fixed Rate+0.0075%)	INITIAL CALCULATION PERIOD(2)
<C>	<S>	<C>	<C>	<C>	<C>
98DL1475	USD 87, 298,455	10-Jun-98	10-Jun-02	5.9325%	10-Dec-98
98DL1536`	USD 18,000,000	10-Jun-98	10-June-02	6.2075%	10-Dec-98
98DL1716	USD 91,000,000	25-Jun-98	25-Jun-02	5.9175%	25-Nov-98
98DL1719	USD 19,000,000	25-Jun-98	25-Jun-02	6.1775%	25-Nov-98
98DL2169	USD 21,807,000	1-Jul-98	1-Jul-02	5.8035%	1-Dec-98
98DL2197	USD 7,269,000	1-Jul-98	1-Jul-02	6.0975%	1-Dec-98
98DL2359	USD 77,000,000	20-Aug-98	20-Aug-02	5.8125%	20-Nov-98
98DL2367	USD 33,000,000	20-Aug-98	20-Aug-02	6.0725%	20-Nov-98
98DL2620	USD 35,000,000	25-Sep-98	25-Sep-02	5.7475%	25-Nov-98
98DDL2622	USD 15,000,000	25-Sep-98	25-Sep-02	6.0275%	25-Nov-98

<FN>

1. Notional Amounts are subject to amortization in accordance with their attached schedules.
2. From and including the date indicated, to but excluding the same day of the immediately succeeding month.

</TABLE>

EXHIBIT E

Institutional Accredited Investor Representation Letter

_____ Date

Thornburg Mortgage Funding Corporation,
as Depositor
18881 Von Karman Avenue, Suite 1450
Irvine, California 92612
Attention: Rick Story

TMA Mortgage Funding Trust I
c/o Wilmington Trust Company
Rodney Square North
100 Market Street
Wilmington, Delaware 19890

Bankers Trust Company of California, N.A.
as Indenture Trustee
3 Park Plaza; 16th Floor
Irvine, California 92614

Re: Collateralized Asset-Backed Notes,
Series 1998-1, Class A

Ladies and Gentlemen:

In connection with our acquisition of the above Notes we certify that (a) we understand that the Notes are not being registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and are being transferred to us in a transaction that is exempt from the registration requirements of the Securities Act and any such laws, (b) we are an

institutional "accredited investor," as defined in Rule 501 (a) (1), (2), (3) or (7) of Regulation D under the Securities Act or an entity in which all of the equity owners come within such paragraphs , and have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of investments in the Notes, (c) we have received and reviewed a copy of the Confidential Private Placement Memorandum, dated December 17, 1998 relating to the Notes and we have had the opportunity to ask questions of and receive answers from the Depositor concerning the purchase of the Notes and all matters relating thereto or any additional information deemed necessary to our decision to purchase the Notes, (d) either: (i) we are not, and not purchasing a Note, directly or indirectly, for, on behalf of or with the assets of, an employee benefit plan or other retirement arrangement which is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) PTCE 96-23, PTCE 95-60, PTCE 91-38, PTCE 90-1, PTCE 84-14 or some other prohibited transaction exemption is applicable to the purchase and holding of a Note by us, (e) we are acquiring the Notes for investment for our own account and not with a view to any distribution of such Notes (but without prejudice to our right at all times to sell or otherwise dispose of the Notes in accordance with clause (g) below), (f) we have not offered or sold any Notes to, or solicited offers to buy any Notes from, any person, or otherwise approached or negotiated with any person with respect thereto, or taken any other action which would result in a violation of Section 5 of the Securities Act, (g) we will not sell, transfer or otherwise dispose of any Notes unless (1) such sale, transfer or other disposition is made pursuant to an effective registration statement under the Securities Act or is exempt from such registration requirements, and if requested, we will at our expense provide an opinion of counsel satisfactory to the addressees of this Note that such sale, transfer or other disposition may be made pursuant to an exemption from the Securities Act, (2) the purchaser or transferee of such Note has executed and delivered to you a certificate to substantially the same effect as this certificate and (3) the purchaser or transferee has otherwise complied with any conditions for transfer set forth in the Indenture relating to the above Notes; (h) we acknowledge that restrictive legends have been placed on our Notes relating to the foregoing and we not in violation thereof; and (i) we understand the above addressees and others are relying on our acknowledgments, representations, warranties or agreements in this letter and agree to promptly notify such addressees if any of the acknowledgments, representations, warranties or agreements made or deemed to have been made by us in connection with our purchase of the Notes are no longer accurate.

We [are] [are not] a corporation purchasing the Notes in the State of California, and, if so, we have a net worth of at least $14,000,000 according to our most recent audited financial statements.

For purposes of the Investment Company Act of 1940, as amended, the number of beneficial owners of the Notes we are purchasing is _____.

Very truly yours,

_____
Print Name of Transferee

By:_____
Authorized Officer

EXHIBIT F
Qualified Institutional Buyer Representation Letter

Date_____

Thornburg Mortgage Funding Corporation,
as Depositor
18881 Von Karman Avenue, Suite 1450
Irvine, California 92612
Attention: Rick Story

TMA Mortgage Funding Trust I
c/o Wilmington Trust Company

Rodney Square North
100 Market Street
Wilmington, Delaware 19890

Bankers Trust Company of California, N.A.
as Indenture Trustee
3 Park Plaza; 16th Floor
Irvine, California 92614

Re: Collateralized Asset-Backed Notes,
Series 1998-1, Class A

Ladies and Gentlemen:

In connection with our acquisition of the above Notes we certify that (a) we understand that the Notes are not being registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and are being transferred to us in a transaction that is exempt from the registration requirements of the Securities Act and any such laws, (b) we have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of investments in the Notes, (c) we have received and reviewed a copy of the Confidential Private Placement Memorandum, dated December 17, 1998 relating to the Notes, and we have had the opportunity to ask questions of and receive answers from the Depositor concerning the purchase of the Notes and all matters relating thereto or any additional information deemed necessary to our decision to purchase the Notes, (d) either: (i) we are not, and not purchasing a Note, directly or indirectly, for, on behalf of or with the assets of, an employee benefit plan or other retirement arrangement which is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) PTCE 96-23, PTCE 95-60, PTCE 91-38, PTCE 90-1, PTCE 84-14 or some other prohibited transaction exemption is applicable to the purchase and holding of a Note by us, (e) we have not, nor has anyone acting on our behalf offered, transferred, pledged, sold or otherwise disposed of the Notes, any interest in the Notes or any other similar security to, or solicited any offer to buy or accept a transfer, pledge or other disposition of the Notes, any interest in the Notes or any other similar security from, or otherwise approached or negotiated with respect to the Notes, any interest in the Notes or any other similar security with, any person in any manner, or made any general solicitation by means of general advertising or in any other manner, or taken any other action, that would constitute a distribution of the Notes under the Securities Act or that would render the disposition of the Notes a violation of Section 5 of the Securities Act or require registration pursuant thereto, nor will act, nor has authorized or will authorize any person to act, in such manner with respect to the Notes, (f) we are a "qualified institutional buyer" as that term is defined in Rule 144A under the Securities Act ("Rule 144A") and have completed either of the forms of certification to that effect attached hereto as Annex 1 or Annex 2. We are aware that the sale to us is being made in reliance on Rule 144A. We are acquiring the Notes for our own account or for resale pursuant to Rule 144A and further understand that such Notes may be resold, pledged or transferred only (i) to a person reasonably believed to be a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A, or (ii) pursuant to another exemption from registration under the Securities Act.

We acknowledge that restrictive legends have been placed on our Notes relating to the foregoing and we not in violation thereof; and we understand the above addressees and others are relying on our acknowledgments, representations, warranties or agreements in this letter and agree to promptly notify such addressees if any of the acknowledgments, representations, warranties or agreements made or deemed to have been made by us in connection with our purchase of the Notes are no longer accurate.

For purposes of the Investment Company Act of 1940, as amended, the number of beneficial owners of the Notes we are purchasing is _____.

Very truly yours,

_____
Print Name of Transferee

By:_____
Authorized Officer

ANNEX 1

QUALIFIED INSTITUTIONAL BUYER STATUS UNDER SEC RULE 144A

[For Transferees Other Than Registered Investment Companies]

The undersigned (the "Buyer") hereby certifies as follows to the parties listed in the Rule 144A Transferee Certificate to which this certification relates with respect to the Notes described therein:

1. As indicated below, the undersigned is the President, Chief Financial Officer, Senior Vice President or other executive officer of the Buyer.

2. In connection with purchases by the Buyer, the Buyer is a "qualified institutional buyer" as that term is defined in Rule 144A under the Securities Act of 1933, as amended ("Rule 144A") because (i) the Buyer owned and/or invested on a discretionary basis $_____(3) in securities (except for the excluded securities referred to below) as of the end of the Buyer's most recent fiscal year (such amount being calculated in accordance with Rule 144A and (ii) the Buyer satisfies the criteria in the category marked below.

___ Corporation, etc. The Buyer is a corporation (other than a bank, savings and loan association or similar institution), Massachusetts or similar business trust, partnership, or charitable organization described in Section 501(c) (3) of the Internal Revenue Code of 1986, as amended.

___ Bank. The Buyer (a) is a national bank or banking institution organized under the laws of any State, territory or the District of Columbia, the business of which is substantially confined to banking and is supervised by the State or territorial banking commission or similar official or is a foreign bank or equivalent institution, and (b) has an audited net worth of at least $25,000,000 as demonstrated in its latest annual financial statements, a copy of which is attached hereto.

(3) Buyer must own and/or invest on a discretionary basis at least $100,000,000 in securities unless Buyer is a dealer, and, in that case, Buyer must own and/or invest on a discretionary basis at least $10,000,000 in securities.

___ Savings and Loan. The Buyer (a) is a savings and loan association, building and loan association, cooperative bank, homestead association or similar institution, which is supervised and examined by a State or Federal authority having supervision over any such institutions or is a foreign savings and loan association or equivalent institution, and (b) has an audited net worth of at least $25,000,000 as demonstrated in its latest annual financial statements, a copy of which is attached hereto.

___ Broker-dealer. The Buyer is a dealer registered pursuant to

Section 15 of the Securities Exchange Act of 1934.

___ Insurance Company. The Buyer is an insurance company whose primary and predominant business activity is the writing of insurance or the reinsuring of risks underwritten by insurance companies and which is subject to supervision by the insurance commissioner or a similar official or agency of a State, territory or the District of Columbia.

___ State or Local Plan. The Buyer is a plan established and maintained by a State, its political subdivisions, or any agency or instrumentality of the State or its political subdivisions, for the benefit of its employees.

___ ERISA Plan. The Buyer is an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974.

___ Investment Advisor. The Buyer is an investment advisor registered under the Investment Advisors Act of 1940.

___ Small Business Investment Company. Buyer is a small business investment company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958.

___ Business Development Company. Buyer is a business development company as defined in Section 202(a) (22) of the Investment Advisors Act of 1940.

3. The term "securities" as used herein does not include (i) securities of issuers that are affiliated with the Buyer; (ii) securities that are part of an unsold allotment to or subscription by the Buyer, if the Buyer is a dealer; (iii) securities issued or guaranteed by the U.S. or any instrumentality thereof; (iv) bank deposit notes and certificates of deposit; (v) loan participations; (vi) repurchase agreements; (vii) securities owned but subject to a repurchase agreement; and (viii) currency, interest rate and commodity swaps.

4. For purposes of determining the aggregate amount of securities owned and/or invested on a discretionary basis by the Buyer, the Buyer used the cost of such securities to the Buyer and did not include any of the securities referred to in the preceding paragraph, except (i) where the Buyer reports its securities holdings in its financial statements on the basis of their market value, and (ii) no current information with respect to the cost of those securities has been published. If clause (ii) in the preceding sentence applies, the securities may be valued at market. Further, in determining such aggregate amount, the Buyer may have included securities owned by subsidiaries of the Buyer, but only if such subsidiaries are consolidated with the Buyer in its financial statements prepared in accordance with generally accepted accounting principles and if the investments of such subsidiaries are managed under the Buyer's direction. However, such securities were not included if the Buyer is a majority-owned, consolidated subsidiary of another enterprise and the Buyer is not itself a reporting company under the Securities Exchange Act of 1934, as amended.

5. The Buyer acknowledges that it is familiar with Rule 144A and understands that the seller to it and other parties related to the Notes are relying and will continue to rely on the statements made herein because one or more sales to the Buyer may be in reliance on Rule 144A.

6. Until the date of purchase of the Rule 144A Securities, the Buyer will notify each of the parties to which this certification is made of any changes in the information and conclusions herein. Until such notice is given, the Buyer's purchase of the Notes will constitute a reaffirmation of this certification as of the date of such purchase. In addition, if the Buyer is a

bank or savings and loan is provided above, the Buyer agrees that it will furnish to such parties updated annual financial statements promptly after they become available.

_____
Print Name of Buyer

By:

_____
Name:
Title:

Date:

_____

ANNEX 2

QUALIFIED INSTITUTIONAL BUYER STATUS UNDER SEC RULE 144A

[For Transferees That are Registered Investment Companies]

The undersigned (the "Buyer") hereby certifies as follows to the parties listed in the Rule 144A Transferee Certificate to which this certification relates with respect to the Notes described therein:

1. As indicated below, the undersigned is the President, Chief Financial Officer or Senior Vice President of the Buyer or, if the Buyer is a "qualified institutional buyer" as that term is defined in Rule 144A under the Securities Act of 1933, as amended ("Rule 144A") because Buyer is part of a Family of Investment Companies (as defined below), is such an officer of the Adviser.

2. In connection with purchases by Buyer, the Buyer is a "qualified institutional buyer" as defined in SEC Rule 144A because (i) the Buyer is an investment company registered under the Investment Company Act of 1940, as amended, and (ii) as marked below, the Buyer alone, or the Buyer's Family of Investment Companies, owned at least $100,000,000 in securities (other than the excluded securities referred to below) as of the end of the Buyer's most recent fiscal year. For purposes of determining the amount of securities owned by the Buyer or the Buyer's Family of Investment Companies, the cost of such securities was used, except (i) where the Buyer or the Buyer's Family of Investment Companies reports its securities holdings in its financial statements on the basis of their market value, and (ii) no current information with respect to the cost of those securities has been published. If clause (ii) in the preceding sentence applies, the securities may be valued at market.

___ The Buyer owned $_____ in securities (other than the excluded securities referred to below) as of the end of the Buyer's most recent fiscal year (such amount being calculated in accordance with Rule 144A).

___ The Buyer is part of a Family of Investment Companies which owned in the aggregate $_____ in securities (other than the excluded securities referred to below) as of the end of the Buyer's most recent fiscal year (such amount being calculated in accordance with Rule 144A).

3. The term "Family of Investment Companies" as used herein means
---
two or more registered investment companies (or series thereof) that have the same investment adviser or investment advisers that are affiliated (by virtue of being majority owned subsidiaries of the same parent or because one investment adviser is a majority owned subsidiary of the other).

4. The term "securities" as used herein does not include (i)
---
securities of issuers that are affiliated with the Buyer or are part of the

Buyer's Family of Investment Companies; (ii) securities issued or guaranteed by the U.S. or any instrumentality thereof; (iii) bank deposit notes and certificates of deposit; (iv) loan participations; (v) repurchase agreements; (vi) securities owned but subject to a repurchase agreement; and (vii) currency, interest rate and commodity swaps.

5. The Buyer is familiar with Rule 144A and understands that the parties listed in the Rule 144A Transferee Certificate to which this certification relates are relying and will continue to rely on the statements made herein because one or more sales to the Buyer will be in reliance on Rule 144A. In addition, the Buyer will only purchase for the Buyer's own account.

6. Until the date of purchase of the Notes, the undersigned will notify the parties listed in the Rule 144A Transferee Certificate to which this certification relates of any changes in the information and conclusions herein. Until such notice is given, the Buyer's purchase of the Notes will constitute a reaffirmation of this certification by the undersigned as of the date of such purchase.

_____
Print Name of Buyer or Adviser

By:

_____
Name:
Title:

IF AN ADVISER:

_____
Print Name of Buyer

Date:

_____

EXHIBIT G

<TABLE>
<CAPTION>

FORM OF NOTICE OF EXERCISE OF
NOTE PURCHASE OPTION

Date_____

<S>	<C>
TMA Mortgage Funding Trust I c/o Wilmington Trust Company, Owner Trustee Rodney Square North 1100 Market Street Wilmington, Delaware 19890	Bankers Trust Company of California, N.A. as Indenture Trustee 3 Park Plaza; 16th Floor Irvine, California 92614 Attention: Corporate Trust - TMA Mortgage Funding Trust I
Bear, Stearns & Co. Inc. 245 Park Avenue New York, NY 10167 Attention: Mortgage-Backed Securities	Moody's Investors Service 99 Church Street New York, NY 10007 Attention: ABS Monitoring Department
Ambac Assurance Corporation One State Street Plaza, 17th Floor New York, NY 10004 Attention: Structured Finance- Mortgage-Backed Securities	Standard & Poors Corporation 26 Broadway, 12th Floor New York, NY 10281 Attention: Asset-Backed Surveillance Department
PNC Mortgage Securities Corp.	

75 North Fairway Drive
Vernon Hills, IL 60061
Attention: General Counsel
(with copy to the Master Servicing
Department)
</TABLE>

Re: TMA Mortgage Funding Trust I,
Collateralized Asset-Backed Notes, Series 1998-1, Class A

Ladies and Gentlemen:

We are the Holder of 100% of the outstanding Certificates and the Note Purchase Option. Pursuant to the terms of the Indenture (the "Indenture"), dated as of December 1, 1998, between TMA Mortgage Funding Trust I (the "Issuer") and Bankers Trust Company of California, N.A., as indenture trustee (the "Indenture Trustee"), we hereby give notice of our exercise of the Note Purchase Option. We intend to purchase the Notes on the Payment Date in _____, [199_] [20__], which will be the Note Purchase Date. On the Note Purchase Date we will deposit the Note Purchase Price plus all other required sums with the Indenture Trustee. Capitalized terms used herein shall have the meanings ascribed to such terms in the Indenture.

Very truly yours,

_____
Print Name of Certificateholder

By:_____
Authorized Officer

EXHIBIT H

EXHIBIT H

<TABLE>
<CAPTION>

FORM OF NOTICE OF EXERCISE OF
[CERTIFICATEHOLDER] [BEAR STEARNS]
COLLATERAL PURCHASE OPTION

Date_____

<S>
TMA Mortgage Funding Trust I
c/o Wilmington Trust Company,
Owner Trustee
Rodney Square North
1100 Market Street
Wilmington, Delaware 19890

[NAME AND ADDRESS OF
CERTIFICATEHOLDER OR
Bear Stearns & Co. Inc.
245 Park Avenue
New York, NY 10167
Attention: Mortgage-Backed Securities]

Ambac Assurance Corporation
One State Street Plaza, 17th Floor
New York, NY 10004
Attention: Structured Finance-
Mortgage-Backed Securities

<C>
Bankers Trust Company of California, N.A.
as Indenture Trustee
3 Park Plaza; 16th Floor
Irvine, California 92614
Attention: Corporate Trust - TMA
Mortgage Funding Trust I

Moody's Investors Service
99 Church Street
New York, NY 10007
Attention: ABS Monitoring Department

Standard & Poors Corporation
26 Broadway, 12th Floor
New York, NY 10281
Attention: Asset-Backed Surveillance Department

PNC Mortgage Securities Corp.
75 North Fairway Drive

Vernon Hills, IL 60061
Attention: General Counsel
(with a copy to the Master Servicing Department)

</TABLE>

Re: TMA Mortgage Funding Trust I,
Collateralized Asset-Backed Notes, Series 1998-1, Class A

Ladies and Gentlemen:

[We are the Holder of 100% of the outstanding Certificates and the Collateral Purchase Option.] [We are the holder of the Bear Stearns Collateral Purchase Option.] Pursuant to the terms of the Indenture (the "Indenture"), dated as of December 1, 1998, between TMA Mortgage Funding Trust I (the "Issuer") and Bankers Trust Company of California, N.A., as indenture trustee (the "Indenture Trustee"), we hereby give notice of our exercise of the [Certificateholder] [Bear Stearns] Collateral Purchase Option. We intend to purchase the Collateral on the Payment Date in _____, [199_] [20__], which will be the Redemption Date. On the Redemption Date we will deposit the applicable Collateral Purchase Price plus all other required sums with the Indenture Trustee. Capitalized terms used herein shall have the meanings ascribed to such terms in the Indenture.

Very truly yours,

_____
[Print Name of Certificateholder
or BEAR, STEARNS & CO. INC.]

By:_____
Authorized Officer

EXHIBIT 10.7

EXECUTION COPY

TMA MORTGAGE FUNDING TRUST I,
as Issuer,

THORNBURG MORTGAGE FUNDING CORPORATION,
as Depositor,

PNC MORTGAGE SECURITIES CORP.,
as Servicer,

and

BANKERS TRUST COMPANY OF CALIFORNIA, N.A.,
as Indenture Trustee

SALE AND SERVICING AGREEMENT
Dated as of December 1, 1998

COLLATERALIZED ASSET-BACKED NOTES,

Series 1998-1

<TABLE>
<CAPTION>

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</TABLE>

THIS SALE AND SERVICING AGREEMENT (this "Agreement") is made and entered into as of December 1, 1998, by and among TMA Mortgage Funding Trust I, a statutory business trust formed under the laws of the State of Delaware, as issuer (the "Issuer"), Thornburg Mortgage Funding Corporation, a Delaware corporation, as depositor (the "Depositor"), PNC Mortgage Securities Corp., a Delaware corporation, as servicer (the "Servicer"), and Bankers Trust Company of California, N.A., a national banking association (in its capacity as indenture trustee under the Indenture referred to below, the "Indenture Trustee").

PRELIMINARY STATEMENT

The Issuer was formed for the purpose of issuing asset backed notes secured by mortgage collateral and asset backed certificates. The Issuer has entered into a trust indenture, dated as of December 1, 1998 (the "Indenture"), between the Issuer and the Indenture Trustee, pursuant to which the Issuer intends to issue its Collateralized Asset-Backed Notes, Series 1998-1, in the aggregate initial principal amount of $1,144,423,000 (the "Notes"). Pursuant to the Indenture, as security for the indebtedness represented by such Notes, the

Issuer is and will be pledging to the Indenture Trustee, or granting the Indenture Trustee a security interest in, the Trust Estate, including, among other things, certain Mortgage Loans and Pooled Certificates and its rights under this Agreement.

The parties desire to enter into this Agreement to provide, among other things, for the sale by the Depositor of certain assets, including the Mortgage Loans and the Pooled Certificates, to the Issuer and the servicing of the Mortgage Loans by the Servicer. The Servicer acknowledges that, in order further to secure the Notes, the Issuer is and will be granting to the Indenture Trustee a security interest in, among other things, its rights under this Agreement. For its services hereunder, the Servicer will receive a Servicing Fee and the Subservicers will receive Subservicing Fees (each as defined herein) with respect to each Mortgage Loan serviced hereunder.

The Depositor agrees that all covenants and agreements made or assigned by the Depositor herein with respect to the Mortgage Loans or otherwise shall also be for the benefit and security of the Indenture Trustee, the Owners, the Note Insurer and the Swap Counterparty.

ARTICLE I

Definitions

Section 1.1. Definitions For all purposes of this Agreement, capitalized terms used herein shall have the meanings set forth in Appendix A, unless the context clearly indicates otherwise.

Section 1.2. Use of Words and Phrases. "Herein", "hereby", "hereunder", "hereof", "hereinbefore", "hereinafter" and other equivalent words refer to this Agreement as a whole and not solely to the particular section of this Agreement in which any such word is used. The definitions set forth in Section 1.1 hereof include both the singular and the plural. Whenever used in this Agreement, any pronoun shall be deemed to include both singular and plural and to cover all genders.

Section 1.3. Captions; Table of Contents The captions or headings in this Agreement are for convenience only and in no way define, limit or describe the scope and intent of any provisions of this Agreement.

ARTICLE II

Conveyance of Mortgage Loans, Pooled Certificates and Other Assets

Section 2.1. Conveyance

(a) As of the Cut-off Date, the Depositor hereby sells, transfers, assigns, sets over and conveys, without recourse, to the Issuer for the benefit of the Owners, the Certificateholders and the Note Insurer, subject to the terms of this Agreement, all of the Depositor's right, title and interest in and to the Trust Estate, including the Mortgage Loans and the Pooled Certificates and all principal and interest due on each such Mortgage Loan and Pooled Certificate after the respective Cut-off Date; provided, however, that the Depositor reserves and retains all of its right, title and interest in and to principal and interest due on each such Mortgage Loan and Pooled Certificate and all prepayments collected on each Mortgage Loan on or prior to the respective Cut-off Date. In connection with such purchase, sale, transfer and assignment (i) pursuant to Section 2.1 of the Collateral Sale Agreement, the Depositor hereby assigns to the Issuer all of the Depositor's right, title and interest in its rights and benefits, but none of its obligations or burdens, under the Collateral Sale Agreement, including without limitation, the delivery requirements, representations, warranties and the cure, repurchase or substitution obligations of the Seller under the Collateral Sale Agreement (including, all rights of the Depositor in and to the agreements listed in Exhibit E thereto) and the rights to enforce the representations and warrantees of sellers of the Mortgage Loans to the Seller, to the extent assignable and (ii) the Depositor hereby sells, transfers, assigns, sets over and conveys to the Issuer all of the Depositor's rights, title and interest in its rights and benefits, but subject to the obligations and burdens, under the Swap Agreements. It is the express intent of the parties hereto that the conveyance of the Trust Estate to the Issuer by the Depositor as provided in this Section 2.1 be, and be construed as, an absolute sale of the Trust Estate. It is, further, not the intention of the parties that such conveyance be deemed a pledge of the Trust Estate by the Depositor to the Issuer to secure a debt or other obligation of the Depositor. However, in the event that, notwithstanding the intent of the parties, the Trust Estate is held to be the property of the Depositor, or if for any other reason this Agreement is held or deemed to create a security interest

in the Trust Estate, then (w) this Agreement shall also be deemed to be a security agreement within the meaning of Articles 8 and 9 of the UCC as in effect in the State of New York; (x) the transfer of the assets provided for herein shall be deemed to be a grant by the Depositor to the Issuer of a security interest in all of the Depositor's right, title and interest in and to the Trust Estate and all amounts payable on the Trust Estate in accordance with the terms thereof and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, instruments, securities or other property; (y) the possession by the Issuer, the Indenture Trustee or their respective agents of the Mortgage Notes, Pooled Certificates and Swap Agreements and such other items of property as constitute instruments, money, negotiable documents or chattel paper shall be deemed to be "possession by the secured party" for purposes of perfecting the security interest pursuant to Section 9-305 of the UCC as in effect in the State of New York and the UCC of any other applicable jurisdiction; and (z) notifications to persons holding such property, and acknowledgments, receipts or confirmations from persons holding such property, shall be deemed notifications to, or acknowledgments, receipts or confirmations from, securities intermediaries, bailees or agents (as applicable) of the Issuer or the Indenture Trustee, as applicable, for the purpose of perfecting such security interest under applicable law. Any assignment of the interest of the Issuer to the Indenture Trustee pursuant to any provision hereof shall also be deemed to be an assignment of any security interest created hereby. The Depositor and the Issuer shall, to the extent consistent with this Agreement, take such actions as may be necessary to ensure that, if this Agreement were deemed to create a security interest in the Trust Estate, such security interest would be deemed to be a perfected security interest of first priority under applicable law and will be maintained as such throughout the term of this Agreement.

The Depositor and the Indenture Trustee at the direction and expense of the Depositor shall, to the extent consistent with this Agreement, take such actions as may be necessary to ensure that, if this Agreement were deemed to create a security interest in the Trust Estate, such security interest would be deemed to be a perfected security interest of first priority under applicable law and will be maintained as such throughout the term of the Agreement. In connection herewith, the Indenture Trustee shall have all of the rights and remedies of a secured party and creditor under the UCC as in force in the relevant jurisdiction.

(b) Pursuant to Section 2.1(c) of the Collateral Sale Agreement, the Seller has agreed to take the actions specified in Part I of Exhibit D attached hereto.

(c) The actions required pursuant to Part I of Exhibit D hereto are not, and shall not be construed to be, conditions subsequent; the parties hereto declaring that the sale of the Mortgage Loans and Pooled Certificates to be made hereunder on the Closing Date shall be a completed, absolute and final sale.

Section 2.2. Acceptance by Indenture Trustee; Certain Substitutions of Mortgage Loans; Certification by Indenture Trustee

(a) The Indenture Trustee, on behalf of the Issuer and as Indenture Trustee, agrees to execute and deliver on the Closing Date an acknowledgment of receipt of the items specified in Part I of Exhibit D and delivered by or at the direction of the Issuer with respect to the Trust in the form attached as Exhibit B hereto, and declares that it will hold such documents and any amendments, replacements or supplements thereto, as well as any other assets included in the definition of the Trust Estate and delivered to the Indenture Trustee, as Indenture Trustee upon and subject to the conditions set forth herein and in the Indenture for the benefit of the Owners, the Certificateholders and the Note Insurer. The Indenture Trustee agrees, for the benefit of the Owners, the Certificateholders and the Note Insurer, to review such items with respect to the Issuer delivered to it (i) within 45 days after the Closing Date and (ii) within 180 days after the Closing Date with respect to each Mortgage Loan as to which the assignment is required to be recorded (or, with respect to any document delivered after the Closing Date pursuant to Part I of Exhibit D, within 45 days of receipt and with respect to any Qualified Replacement Mortgage, within 45 days after the related Replacement Cut-off Date) and to deliver to the Depositor, the Seller and the Note Insurer a pool certification (the "Pool Certification") in the form attached hereto as Exhibit C to the effect that, as to each Mortgage Loan listed in the Schedule of Mortgage Loans (other than any Mortgage Loan paid in full or any Mortgage Loan specifically identified in such Pool Certification as not covered by such Pool Certification), (i) all documents required to be delivered to it pursuant to Part I of Exhibit D are in its possession, (ii) such documents have been reviewed by it and have not been mutilated, damaged, torn or otherwise physically altered and relate to such Mortgage Loan and (iii) based on its examination and only as to the foregoing documents, the information set forth on the Schedule of Mortgage Loans as to loan number, address (including state) of the Property, the Original Principal Balance, whether such Mortgage Loan is an

ARM or a 5/1 ARM Mortgage Loan, for each 5/1 ARM Mortgage Loan, the Coupon Rate, and for each ARM and for each 5/1 ARM, the Index, the Gross Margin, the Periodic Rate Cap, the Lifetime Cap, the Lifetime Floor, and the maturity date, accurately reflects the information set forth in the related File. The Indenture Trustee shall be under no duty or obligation to inspect, review or examine any such documents, instruments, certificates or other papers to determine that they are genuine, valid, recordable, sufficient, suitable, insurable, collectable, enforceable, or appropriate for the represented purpose or that they are other than what they purport to be on their face, nor shall the Indenture Trustee be under any duty to determine independently whether there are any intervening assignments or assumption or modification agreements with respect to any Mortgage Loan.

(b) If the Indenture Trustee during such 45-day or 180 day period finds any document constituting a part of a File which is not executed, has not been received, or is unrelated to the Mortgage Loans identified in the Schedule of Mortgage Loans or that any Mortgage Loan does not conform in a material respect to the description thereof as set forth in the Schedule of Mortgage Loans as set forth in Section 2.2(a)(iii) above, the Indenture Trustee shall promptly so notify the Depositor, the Seller and the Note Insurer. In the event any Pool Certification delivered after the 180 day period reflects any exceptions, the Indenture Trustee shall deliver Pool Certifications on each subsequent Payment Date to the Note Insurer, the Depositor, and the Seller until all such exceptions have been cured (or waived by the Note Insurer) or the related Mortgage Loans have been repurchased. In performing any such review, the Indenture Trustee may conclusively rely on the purported genuineness of any such document and any signature thereon. It is understood that the scope of the Indenture Trustee's review of the items delivered by or on behalf of the Depositor pursuant to Part I of Exhibit D is limited solely to confirming that the documents listed in Part I of Exhibit D have been executed and received, where required to be original documents are originals, relate to the Files identified in the Schedule of Mortgage Loans and conform materially to the description thereof in the Schedule of Mortgage Loans as set forth in Section 2.2(a)(iii) above. The Seller has agreed, pursuant to the Collateral Sale Agreement, to use reasonable efforts to remedy a material defect in a document constituting part of a File of which it is so notified by the Indenture Trustee or the Note Insurer. If, however, within 90 days after the Indenture Trustee's or the Note Insurer's notice to the Seller respecting such defect, the Seller has not remedied, or caused to be remedied, the defect and the defect materially and adversely affects the interest of the Owners or the Note Insurer in the related Mortgage Loan, the Depositor, at the Depositor's option, will (or will cause the Seller to) on the next succeeding Remittance Date either (i) if within two years of the Closing Date, substitute in lieu of such Mortgage Loan a Qualified Replacement Mortgage and deliver any Substitution Adjustment Amount applicable thereto to the Servicer for deposit in the Servicer Collection Account or (ii) purchase such Mortgage Loan at a purchase price equal to the Loan Purchase Price thereof, which purchase price shall be delivered to the Servicer for deposit in the Servicer Collection Account, and provided, in either case, that an opinion of counsel, acceptable to the Indenture Trustee, to the effect that such substitution or purchase will not have a material adverse tax consequence to the Noteholders or the Note Insurer, is delivered in connection therewith. Notwithstanding the foregoing, if any exception described in the Indenture Trustee's 45-day or 180-day review relates solely to the inability of the Seller to deliver the original security instrument, or intervening assignments thereof that are required to be recorded, or a certified copy, because the originals of such documents, or a certified copy, have not been returned by the applicable jurisdiction, the Seller shall not be required to purchase such Mortgage Loan if the Seller delivers such original documents or certified copy promptly upon receipt, but in no event later than 360 days after the Closing Date.

(c) Notwithstanding any requirement to the contrary herein, at any time the Indenture Trustee discovers that with respect to any file any of the documents required to be delivered pursuant to Part I of Exhibit D (i) have not been executed or received, (ii) are not original documents where required to be original documents, or (iii) fail to conform materially to the description thereof in the Schedule of Mortgage Loans as set forth in Section 2.2(a)(iii) hereof, the Indenture Trustee shall be permitted to seek the remedies described in Section 2.2(b).

Section 2.3. Cooperation Procedures

(a) The Depositor shall or shall cause the Seller to, in connection with the delivery of each Qualified Replacement Mortgage, provide the Indenture Trustee with the information as of the Replacement Cut-Off Date set forth in the Schedule of Mortgage Loans with respect to such Qualified Replacement Mortgage.

(b) The Depositor, the Servicer, the Issuer, and the Indenture Trustee covenant to provide each other and the Note Insurer with all data and information required to be provided by them hereunder at the times required

hereunder, and additionally covenant to reasonably cooperate with each other and with the Note Insurer in providing any additional information required by any of them in connection with their respective duties hereunder. The Depositor covenants to cause the Seller to provide such information and reasonable cooperation.

ARTICLE III

Representations, Warranties and Covenants

Section 3.1. Representations and Warranties of the Depositor.

(a) The Depositor hereby represents, warrants and covenants to the Issuer, the Servicer, the Indenture Trustee, and the Note Insurer as of the Closing Date as follows:

(i) The Depositor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Depositor has all requisite corporate power and authority to own and operate its properties, to carry out its business as presently conducted and as proposed to be conducted, to enter into and discharge its obligations under this Agreement. The Depositor is duly qualified to do business and is in good standing in each jurisdiction necessary to perform its obligations under this Agreement.

(ii) The execution and delivery of this Agreement by the Depositor and its performance and compliance with the terms of this Agreement have been duly authorized by all necessary corporate action on the part of the Depositor and will not violate the Depositor's Certificate of Incorporation or Bylaws or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default), under, or result in a breach of, any material contract, agreement or other instrument to which the Depositor is a party or by which the Depositor is bound or violate any statute or any order, rule or regulation of any court, governmental agency or body or other tribunal having jurisdiction over the Depositor or any of its properties.

(iii) Assuming due authorization, execution and delivery by the other parties hereto, this Agreement constitutes a valid, legal and binding obligation of the Depositor, enforceable against it in accordance with the terms hereof, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (whether considered in a proceeding or action in equity or at law).

(iv) The Depositor is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or governmental agency, which is likely to have consequences that would materially and adversely affect the condition (financial or other) or operations of the Depositor or its properties or is likely to have consequences that would materially and adversely affect its performance hereunder.

(v) No litigation is pending or, to the best of the Depositor's knowledge, threatened against the Depositor the consequences of which would (A) prohibit its entering into this Agreement or that would materially and adversely affect the condition (financial or otherwise) or operations of the Depositor or its properties, (B) materially and adversely affect its performance hereunder or thereunder, or (C) draw into question the validity of the Mortgage Loans, the Pooled Certificates, the Swap Agreements or the Collateral Sale Agreement or of any action taken or to be taken in connection with the obligations of the Depositor contemplated herein.

(vi) All actions, approvals, consents, waivers, exemptions, variances, franchises, orders, permits, authorizations, rights and licenses required to be taken, given or obtained, as the case may be, by or from any federal, state or other governmental authority or agency (other than any such actions, approvals, etc., under any state securities laws, real estate syndication or "Blue Sky" statutes, as to which the Depositor makes no such representation or warranty), that are necessary or advisable in connection with the sale of the Mortgage Loans, the Pooled Certificates and the other assets being sold hereunder and the execution and delivery by the Depositor of this Agreement, have been duly taken, given or obtained, as the case may be, are in full force and effect on the date hereof, are not subject to any pending proceeding or appeals (administrative, judicial or otherwise) and either the time within which any appeal therefrom may be taken or review thereof may be obtained has expired or no review thereof may be obtained or appeal therefrom taken, and are adequate to authorize this Agreement and the performance by the Depositor of its obligations hereunder.

(vii) No certificate of an officer, statement furnished in writing, report or electronic tape delivered pursuant to the terms hereof by the Depositor contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the certificate, statement or report not misleading.

(viii) Immediately prior to the transfer and assignment contemplated by this Agreement, the Depositor was the sole owner of each Mortgage Loan and each Pooled Certificate, subject to no liens, charges, mortgages, encumbrances or rights of others except liens which will be released simultaneously with such transfer or assignment; and immediately upon the transfer and assignment contemplated by this Agreement, the Indenture Trustee will hold good and indefeasible title to, and will be the sole owner of, each Mortgage Loan and each Pooled Certificate subject to no liens, charges, mortgages, encumbrances or rights of others.

(b) It is understood and agreed that the representations and warranties set forth in this Section 3.1 shall survive delivery of the Mortgage Loans and Pooled Certificates to the Indenture Trustee. Upon discovery by the Issuer, the Servicer, the Depositor, any Subservicer, the Note Insurer or the Indenture Trustee of a breach of any of the representations and warranties set forth in this Section 3.1 which materially and adversely affects the interests of the Owners or of the Note Insurer, the party discovering such breach shall give prompt written notice to the other Persons listed in this sentence.

Section 3.2. Representations and Warranties of the Servicer.

(a) The Servicer hereby represents, warrants and covenants to the Issuer, the Depositor, and the Indenture Trustee, as of the Closing Date, that:

(i) The Servicer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all licenses necessary to carry out its business as now being conducted, and is licensed and qualified to transact business in and is in good standing under the laws of each state in which any Property is located or is otherwise exempt under applicable law from such licensing or qualification or is otherwise not required under applicable law to effect such licensing or qualification and no demand for such licensing or qualification has been made upon the Servicer by any such state, and in any event the Servicer is in compliance with the laws of any such state to the extent necessary to ensure the enforceability of each Mortgage Loan and the servicing of the Mortgage Loans in accordance with the terms of this Agreement.

(ii) The Servicer has the full power and authority and legal right to enter into and consummate all transactions contemplated by this Agreement and to conduct its business as presently conducted, has duly authorized the execution, delivery and performance of this Agreement and any agreements contemplated hereby, has duly executed and delivered this Agreement, and any agreements contemplated hereby, and, assuming the due authorization, execution and delivery of this Agreement by the other parties hereto, this Agreement constitutes a legal, valid and binding obligation of the Servicer, enforceable against it in accordance with its terms, and all requisite corporate action has been taken by the Servicer to make this Agreement and all agreements contemplated hereby valid and binding upon the Servicer in accordance with their terms.

(iii) None of the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, or the fulfillment of or compliance with the terms and conditions of this Agreement will conflict with any of the terms, conditions or provisions of the Servicer's charter or by-laws or materially conflict with or result in a material breach of any of the terms, conditions or provisions of any legal restriction or any agreement or instrument to which the Servicer is now a party or by which it is bound, or constitute a default or result in an acceleration under any of the foregoing, or result in the material violation of any law, rule, regulation, order, judgment or decree to which the Servicer or its property is subject or impair the ability of the Issuer or the Indenture Trustee, as the case may be, to realize on the Mortgage Loans or impair the value of the Mortgage Loans.

(iv) There is no litigation, suit, proceeding or investigation pending or threatened, or any order or decree outstanding, with respect to the Servicer that is reasonably likely to have a material adverse effect on the sale or servicing of the Mortgage Loans, the execution, delivery, performance or enforceability of this Agreement, or which is reasonably likely to have a material adverse effect on the financial condition of the Servicer.

(v) No consent, approval, authorization or order of any court or

governmental agency or body is required for the execution, delivery and performance by the Servicer of or compliance by the Servicer with this Agreement, except for consents, approvals, authorizations and orders that have been obtained.

(vi) The Servicer is an approved servicer of residential mortgage loans for Fannie Mae and Freddie Mac, with such facilities, procedures and personnel necessary for the sound servicing of such mortgage loans. The Servicer is duly qualified, licensed, registered and otherwise authorized under all applicable federal, state and local laws, and regulations, if applicable, meets the minimum capital requirements set forth by the Office of the Comptroller of the Currency, and is in good standing to sell mortgage loans to and service mortgage loans for Fannie Mae or Freddie Mac and no event has occurred that would make Servicer unable to comply with eligibility requirements or that would require notification to either Fannie Mae or Freddie Mac.

(vii) The Servicer does not believe, nor does it have any cause or reason to believe, that it cannot perform each and every covenant contained in this Agreement.

(viii) The Servicer acknowledges and agrees that the Servicing Fee represents reasonable compensation for performing such services as are required of it as master servicer and that the Subservicing Fee represents reasonable compensation to a Subservicer for performing the servicing of the Mortgage Loans under this Agreement and that the entire Servicing Fee (and, to the extent received by the Servicer, the Subservicing Fee) shall be treated by the Servicer, for accounting and tax purposes, as compensation for the master servicing and administration of the Mortgage Loans pursuant to this Agreement (or the servicing and administration of the Mortgage Loans, as the case may be).

(b) It is understood and agreed that the representations and warranties set forth in this Section 3.2 shall survive the Closing Date. Upon discovery by any of the Issuer, the Servicer, the Depositor, the Note Insurer or the Indenture Trustee of a breach of any of the representations and warranties set forth in this Section 3.2 which materially and adversely affects the interest of the Owners or of the Note Insurer, the party discovering such breach shall give prompt written notice to the other parties. Within 30 days of its discovery or its receipt of notice of breach, the Servicer shall cure such breach in all material respects and, upon the Servicer's continued failure to cure such breach, the Servicer may thereafter be removed by the Indenture Trustee pursuant to Section 7.1 hereof; provided, however, that if the Servicer can demonstrate to the reasonable satisfaction of the Note Insurer that it is diligently pursuing remedial action, then the cure period shall be extended for up to an additional 30 days.

Section 3.3. Covenants of the Depositor. (a) Pursuant to Section 2.1 hereof, the Depositor has conveyed to the Issuer all of the Depositor's (i) right, title and interest in its rights and benefits, but none of its obligations or burdens, under the Collateral Sale Agreement, including without limitation, the benefit of the representations, warranties and covenants and cure, repurchase or substitution obligations of the Seller thereunder, and (ii) right, title and interest, subject to its obligations and burdens, under the Swap Agreements. The Depositor hereby represents and warrants to the Issuer, the Indenture Trustee for the benefit of the Owners, the Certificateholders and the Note Insurer that such assignment is valid, enforceable and effective to permit the Indenture Trustee to enforce the obligations of the Seller under the Collateral Sale Agreement and of the Swap Counterparty under the Swap Agreements. The Seller has made the representations and warranties regarding the Mortgage Loans and the Pooled Certificates as set forth in Part II of Exhibit D hereto and in Section 3.1 of the Collateral Sale Agreement, and has agreed to take certain actions as specified in Part III of Exhibit D hereto and in Section 3.2 of the Collateral Sale Agreement.

(b) It is understood and agreed that the representations and warranties set forth in Part II of Exhibit D and in Section 3.1 of the Collateral Sale Agreement and the covenants set forth in Part III of Exhibit D and in Section 3.2 of the Collateral Sale Agreement shall survive delivery of the respective Mortgage Loans (including Qualified Replacement Mortgages) and the Pooled Certificates to the Issuer and the grant thereof to the Indenture Trustee.

(c) Neither the Seller nor any Affiliate has made any representations or warranties, whether express or implied, to the Issuer, the Depositor or to the Indenture Trustee as to the collectability of the Mortgage Loans or the Pooled Certificates or the solvency of the Mortgagors, or any guarantor(s), endorser(s), co-maker(s), assuming party(ies) or the sufficiency or value, as of the date of this Agreement, of any Property, or the yield to maturity of the Pooled Certificates, except as specifically listed in Part II of Exhibit D and in Section 3.2 of the Collateral Sale Agreement.

Section 3.4. Representations and Warranties of the Issuer.

(a) The Issuer hereby represents, warrants and covenants to the Depositor, the Servicer, the Indenture Trustee, and the Note Insurer as of the Closing Date as follows:

(i) The Issuer is a statutory business trust duly organized, validly existing and in good standing under the laws of the State of Delaware. The Issuer has all requisite power and authority to own and operate its properties, to carry out its business as presently conducted and as proposed to be conducted and to enter into and discharge its obligations under this Agreement. The Issuer is duly qualified to do business and is in good standing in each jurisdiction necessary to perform its obligations under this Agreement.

(ii) The execution and delivery of this Agreement by the Issuer and its performance and compliance with the terms of this Agreement have been duly authorized by all necessary action on the part of the Issuer and will not violate the Trust Agreement or Certificate of Trust or constitute a default (or an event which, with notice of lapse of time, or both, would constitute a default), under, or result in a breach of, any material contract, agreement or other instrument to which the Issuer is a party or by which the Issuer is bound or violate any statute or any order, rule or regulation of any court, governmental agency or body or other tribunal having jurisdiction over the Issuer or any of its properties.

(iii) Assuming due authorization, execution and delivery by the other parties hereto, this Agreement constitutes a valid, legal and binding obligation of the Issuer, enforceable against it in accordance with the terms hereof, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditor's rights generally and by general principles of equity (whether considered in a proceeding or action in equity or at law).

(iv) The Issuer is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or governmental agency, which is likely to have consequences that would materially and adversely affect the condition (financial or other) or operations of the Issuer or its properties or is likely to have consequences that would materially and adversely affect its performance hereunder.

(v) No litigation is pending or, to the best of the Issuer's knowledge, threatened against the Issuer the consequences of which would prohibit its entering into this Agreement or that would materially and adversely affect the condition (financial or otherwise) or operations of the Issuer or its properties or the consequences of which would materially and adversely affect its performance hereunder.

(vi) All actions, approvals, consents, waivers, exemptions, variances, franchises, orders, permits, authorizations, rights and licenses required to be taken, given or obtained, as the case may be, by or from any federal, state or other governmental authority or agency (other than any such actions, approvals, etc., under any state securities laws, real estate syndication or "Blue Sky" statutes, as to which the Issuer makes no such representation or warranty), that are necessary or advisable in connection with the purchase of the Mortgage Loans, the Pooled Certificates and the other assets being purchased hereunder and the execution and delivery by the Issuer of this Agreement have been duly taken, given or obtained, as the case may be, are in full force and effect on the date hereof, are not subject to any pending proceeding or appeals (administrative, judicial or otherwise) and either the time within which any appeal therefrom may be taken or review thereof may be obtained has expired or no review thereof may be obtained or appeal therefrom taken, and are adequate to authorize this Agreement and the performance by the Issuer of its obligations hereunder.

(b) It is understood and agreed that the representations and warranties set forth in this Section 3.4 shall survive delivery of the Mortgage Loans and Pooled Certificates to the Indenture Trustee. Upon discovery by the Issuer, the Servicer, the Depositor, any Subservicer, the Note Insurer or the Indenture Trustee of a breach of any of the representations and warranties set forth in this Section 3.4 which materially and adversely affects the interests of the Owners or of the Note Insurer, the party discovering such breach shall give prompt written notice to the Persons listed in this sentence.

ARTICLE IV

Servicing and Administration of Mortgage Loans

Section 4.1. General Servicing Procedures. (a) The Servicer shall master service and administer the various agreements with the Subservicers to service the Mortgage Loans on behalf of the Issuer and for the benefit of the Indenture Trustee, the Note Insurer, Certificateholders and Noteholders in accordance with the terms hereof and in the same manner in which, and with the same care, skill, prudence and diligence with which, it master services and administers similar servicing agreements for mortgage loans for other portfolios, and shall have full power and authority to do or cause to be done any and all things in connection with such master servicing and administration which it may deem necessary or desirable, including, without limitation, the power and authority to bring actions and defend the Trust Estate on behalf of the Issuer in order to enforce the terms of the Mortgage Notes and such servicing agreements. The Servicer may perform its master servicing responsibilities through agents or independent contractors, but shall not thereby be released from any of its responsibilities hereunder, and the Servicer shall diligently pursue all of its rights against such agents or independent contractors.

(b) The Servicer shall make reasonable efforts to collect or cause to be collected all payments called for under the terms and provisions of the Mortgage Loans and shall, to the extent such procedures shall be consistent with this Agreement and the terms and provisions of the Note Insurance Policy, any FHA insurance policy or VA guaranty, any hazard insurance policy, and federal flood insurance, cause to be followed such collection procedures as are followed with respect to mortgage loans comparable to the Mortgage Loans and held in portfolios of responsible mortgage lenders in the local areas where each Property is located. The Servicer shall enforce "due-on-sale" clauses with respect to the related Mortgage Loans, to the extent permitted by law, subject to the provisions set forth in Section 4.12.

(c) Consistent with the foregoing, the Servicer may in its discretion (i) waive or cause to be waived any assumption fee or late payment charge in connection with the prepayment of any Mortgage Loan and (ii) only upon determining that the coverage of any applicable Insurance Policy or guaranty related to a Mortgage Loan will not be materially adversely affected, arrange a schedule, running for no more than 180 days after the first delinquent Due Date, for payment of any delinquent installment on any Mortgage Note or for the liquidation of delinquent items (provided that coverage of applicable Insurance Policies will not be materially adversely affected).

(d) Consistent with the terms of this Section 4.1, the Servicer may waive, modify or vary any term of any Mortgage Loan or consent to the postponement of strict compliance with any such term or in any manner grant indulgence to any Mortgagor if it has determined, exercising its good faith business judgment in the same manner as it would if it were the owner of the related Mortgage Loan, that the security for, and the timely and full collectability of, such Mortgage Loan would not be adversely affected by such waiver, modification, postponement or indulgence; provided, however, that (unless the Mortgagor is in default with respect to the Mortgage Loan or in the reasonable judgment of the Servicer such default is imminent) the Servicer shall not permit any modification with respect to any Mortgage Loan that would (i) change the applicable Coupon Rate, defer or forgive the payment of any principal or interest, reduce the outstanding principal balance (except for actual payments of principal) or extend the final maturity date with respect to such Mortgage Loan, or (ii) be inconsistent with the terms of the Note Insurance Policy, and any applicable FHA insurance policy or VA guaranty, hazard insurance policy or federal flood insurance policy. Notwithstanding the foregoing, the Servicer shall not permit any modification with respect to any Mortgage Loan that would both constitute a sale or exchange of such Mortgage Loan within the meaning of Section 1001 of the Code (including any proposed, temporary or final regulations promulgated thereunder) (other than in connection with a proposed conveyance or assumption of such Mortgage Loan that is treated as a Prepayment or in a default situation or upon receipt of advice of counsel that such a sale or exchange would not have an adverse tax effect on the Issuer, the Noteholders and the Certificateholders).

(e) The Servicer is hereby authorized and empowered by the Issuer and the Indenture Trustee to execute and deliver or cause to be executed and delivered on behalf of the Noteholders, and the Issuer or any of them, any and all instruments of satisfaction or cancellation, or of partial or full release, discharge or modification, assignments of Mortgages and endorsements of Mortgage Notes in connection with refinancings (in jurisdictions where such assignments are the customary and usual standard of practice of mortgage lenders) and all other comparable instruments, with respect to the Mortgage Loans and with respect to the Properties. The Indenture Trustee shall execute and furnish to the Servicer, at the Servicer's direction, any powers of attorney and other documents prepared by the Servicer and determined by the Servicer to be necessary or appropriate to enable the Servicer to carry out its supervisory, servicing and administrative duties under this Agreement.

(f) The Servicer shall, and shall cause each Subservicer to, obtain (to the extent generally commercially available from time to time) and maintain fidelity bond and errors and omissions coverage acceptable to Fannie Mae or Freddie Mac with respect to their obligations under this Agreement and the applicable Subservicing Agreement, respectively. The Servicer or each Subservicer, as applicable, shall establish escrow accounts for, or pay when due (by means of an advance), any tax liens in connection with the Properties that are not paid by the Mortgagors when due to the extent that any such payment would not constitute a Nonrecoverable Advance when made. Notwithstanding the foregoing, the Servicer shall not permit any modification with respect to any Mortgage Loan that would both constitute a sale or exchange of such Mortgage Loan within the meaning of Section 1001 of the Code (including any proposed, temporary or final regulations promulgated thereunder) (other than in connection with a proposed conveyance or assumption of such Mortgage Loan that is treated as a Principal Prepayment or in a default situation or upon receipt of advice of counsel that such a sale or exchange would not have an adverse tax effect on the Issuer, the Noteholders and the Certificateholders). The Servicer shall be entitled to approve a request from a Mortgagor for a partial release of the related Property, the granting of an easement thereon in favor of another Person, any alteration or demolition of the related Property or other similar matters if it has determined, exercising its good faith business judgment in the same manner as it would if it were the owner of the related Mortgage Loan, that the security for, and the timely and full collectability of, such Mortgage Loan would not be adversely affected thereby.

(g) In connection with the servicing and administering of each Mortgage Loan, the Servicer and any affiliate of the Servicer (i) may perform services such as appraisals, default management and brokerage services that are not customarily provided by servicers of mortgage loans, and shall be entitled to reasonable compensation therefor and (ii) may, at its own discretion and on behalf of the Issuer, obtain credit information in the form of a "credit score" from a credit repository.

Section 4.2 [Reserved].

Section 4.3 Subservicing Agreements Between Servicer and Subservicers. The
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Servicer may directly or indirectly enter into Subservicing Agreements for any servicing and administration of Mortgage Loans (to the extent permitted in any applicable agreement governing the servicing of Mortgage Loans) with any institution which is in compliance with the laws of each state necessary to enable it to perform its obligations under such Subservicing Agreement and (x)(i) has been designated an approved seller-servicer by Freddie Mac or Fannie Mae for first mortgage loans and (ii) has equity of at least $15,000,000, as determined in accordance with generally accepted accounting principles by a firm of certified public accountants of national reputation or (y) is a Servicer Affiliate or (z) is approved by the Note Insurer. The Servicer shall give notice to the Depositor, the Indenture Trustee, the Owner Trustee, the Rating Agencies and the Note Insurer of the appointment of any Subservicer. For purposes of this Agreement, the Servicer shall be deemed to have received payments on Mortgage Loans when any such Subservicer has received such payments. Any such Subservicing Agreement shall be consistent with and not violate the provisions of this Agreement. The Subservicers as of the Closing Date and the Mortgage Loans which they subservice are identified on the Schedule of Mortgage Loans.

Section 4.4 Successor Subservicers. The Servicer shall be entitled to
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terminate any Subservicing Agreement on any agreement between a Subservicer and the Issuer in accordance with the terms and conditions of such Subservicing Agreement and to either itself directly service the related Mortgage Loans or enter into a Subservicing Agreement with a successor Subservicer which qualifies under Section 4.3.

Section 4.5 [Reserved].

Section 4.6 [Reserved].

Section 4.7 Assumption or Termination of Subservicing Agreement by
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Indenture Trustee. In the event the Servicer, or any successor Servicer, shall
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for any reason no longer be the Servicer (including by reason of a Servicer Termination Event), the Indenture Trustee as Indenture Trustee hereunder or its designee shall thereupon assume all of the rights and obligations of the Servicer under the Subservicing Agreements with respect to the related Mortgage Loans unless the Indenture Trustee elects to terminate the Subservicing Agreements with respect to such Mortgage Loans in accordance with the terms thereof. The Indenture Trustee, its designee or the successor Subservicer for the Indenture Trustee shall be deemed to have assumed all of the Servicer's interest therein with respect to the related Mortgage Loans and to have replaced

the Servicer as a party to the Subservicing Agreements to the same extent as if the rights and duties under the Subservicing Agreements relating to such Mortgage Loans had been assigned to the assuming party, except that the Servicer shall not thereby be relieved of any liability or obligations under the Subservicing Agreements with respect to the Servicer's duties to be performed prior to its termination hereunder.

The Servicer at its expense shall, upon request of the Indenture Trustee, deliver to the assuming party all documents and records relating to the Subservicing Agreements and the Mortgage Loans then being master serviced by the Servicer and an accounting of amounts collected and held by the Servicer and otherwise use its best efforts to effect the orderly and efficient transfer of the rights and duties under the related Subservicing Agreements relating to such Mortgage Loans to the assuming party.

Section 4.8 Principal and Interest Accounts.

(a) (i) The Servicer shall cause to be established and maintained by each Subservicer under the Servicer's supervision at Designated Depository Institutions one or more separate accounts, each a Principal and Interest Account, and shall deposit or cause to be deposited therein daily collections other than amounts escrowed for taxes and insurance related to the Mortgage Loans required by the Subservicing Agreement to be so deposited no later than the first Business Day after receipt. Proceeds received with respect to individual Mortgage Loans from any title, hazard, or FHA insurance policy, VA guaranty, primary mortgage guaranty insurance policy, or other Insurance Policy covering such Mortgage Loans shall be deposited first into one or more separate escrow accounts to be held at Designated Depository Institutions if required for the restoration or repair of the related Property. Proceeds from such Insurance Policies not so applied shall be deposited in the related Principal and Interest Account, and shall be applied to the balances of the related Mortgage Loans as payments of interest and principal.

(b) The Servicer is hereby authorized to make withdrawals from and to issue drafts against the Principal and Interest Accounts for the purposes required or permitted by this Agreement. Each Principal and Interest Account shall bear a designation clearly showing the respective interests of the applicable Subservicer, the Indenture Trustee, and the Servicer, in substantially the following forms:

(i) [Subservicer's Name], as agent for Indenture Trustee and/or bailee of principal and interest custodial account for PNC Mortgage Securities Corp., its successors and assigns, for various owners of interests in TMA Mortgage Funding Trust I mortgage-backed pools; or

(ii) [Subservicer's Name] in trust for PNC Mortgage Securities Corp.;

(c) The Servicer hereby undertakes to assure remittance to the Servicer Collection Account of all amounts relating to the Mortgage Loans that have been collected by any Subservicer and are due to the Servicer Collection Account pursuant to Section 4.8A of this Agreement.

(d) Investment earnings on funds held in the Principal and Interest Accounts are for the account of the Subservicers or the Servicer, as applicable.

Section 4.8A. The Servicer Collection Account; Eligible Investments.

(a) The Servicer shall establish and maintain at one or more Designated Depository Institutions an account (the "Servicer Collection Account") in the name of the Trust, which shall be a segregated account held in trust for the benefit of the Owners of the Notes and the Note Insurer.

(b) Not later than the Subservicer Remittance Date, the Servicer shall withdraw or direct the withdrawal of funds in the Principal and Interest Accounts, for deposit in the Servicer Collection Account, in an amount representing:

(i) Scheduled installments of principal and interest on the Mortgage Loans received or advanced by the applicable Subservicers which were due on the Due Date prior to such Subservicer Remittance Date, net of Subservicing Fees due the applicable Subservicers and less any amounts to be withdrawn later by the applicable Subservicers from the applicable Principal and Interest Accounts; and

(ii) Prepayments and the proceeds of other types of liquidations of the Mortgage Loans received by the applicable Subservicer for such Mortgage Loans during the applicable Remittance Period, with interest to the date of Prepayment or liquidation less any amounts to be withdrawn later by the applicable Subservicers.

(c) At its option, the Servicer may invest funds on deposit in the Servicer Collection Account during any period prior to the Subservicer Remittances Date only as set forth in Section 4.8A(d). The Servicer shall bear any and all losses incurred on any investments made with such funds and shall be entitled to retain all gains realized on such investments as additional servicing compensation. Not later than the Remittance Date, the Servicer shall remit such funds, net of any gains earned thereon to the Indenture Trustee for deposit, in the Trustee Collection Account.

(d) Funds held in the Servicer Collection Account shall be invested in (i) one or more Eligible Investments which shall in no event mature later than the Business Day prior to the related Remittance Date (except if such Eligible Investments are obligations of the Indenture Trustee, such Eligible Investments may mature on the Remittance Date), or (ii) such other instruments as shall be required to maintain the ratings of the Notes, without regard to the Note Insurance Policy, and acceptable to the Note Insurer.

Section 4.9. Delinquency Advances and Servicing Advances.

(a) To the extent described below, the Servicer is obligated to advance its own funds to the Servicer Collection Account to cover any shortfall between (i) payments scheduled to be received in respect of Mortgage Loans, and (ii) the amounts actually deposited in the Servicer Collection Account on account of such payments; the Servicer's obligation to make any advance or advances described in this Section 4.9 is effective only to the extent that such advance is, in the good faith judgment of the Servicer made on or before the Remittance Date, reimbursable from Insurance Proceeds or Liquidation Proceeds of the related Mortgage Loans or recoverable as late Monthly Payments with respect to the related Mortgage Loans or otherwise. Such amounts so advanced are "Delinquency Advances."

(b) On or before each Remittance Date, the Servicer shall determine whether or not it will make a Delinquency Advance on the related Remittance Date (in the event that the applicable Subservicer fails to make such advances) and shall furnish a written statement to the Certificateholder, the Indenture Trustee, the Paying Agent, if different than the Indenture Trustee, and to any Noteholder requesting the same, setting forth the aggregate amount to be remitted on such Remittance Date on account of principal and interest in respect of the Mortgage Loans, stated separately. In the event that full scheduled amounts of principal and interest in respect of the Mortgage Loans shall not have been received by or on behalf of the Servicer prior to such Remittance Date and the Servicer shall have determined that a Delinquency Advance shall be made in accordance with this Section 4.9, the Servicer shall so specify and shall specify the aggregate amount of such advance.

(c) If the amount on deposit in a Subservicer's Principal and Interest Account as of any Subservicer Remittance Date is less than the collections from Mortgage Loans with respect to the related Remittance Period, the Servicer shall cause the Subservicer to deposit to such Subservicer's Principal and Interest Account a sufficient amount of such Subservicer's own funds to make such amount equal to the related Subservicer Monthly Remittance for such Subservicer Remittance Date. Such amounts of the Subservicer's own funds so deposited are also Delinquency Advances.

(d) The Servicer will pay all reasonable and customary "out-of-pocket" costs and expenses (including reasonable legal fees) incurred in the performance of its servicing obligations including, but not limited to, the cost of (i) advancing Preservation Expenses, (ii) any enforcement or judicial proceedings, including foreclosures, (iii) the management and liquidation of REO Property (including, without limitation, advancing realtors' commissions) and (iv) advancing taxes, insurance and other charges against the Property. Each such expenditure will constitute a "Servicing Advance." The Servicer may recover Servicing Advances from the Mortgagors to the extent permitted by the Mortgage Loans or, if not theretofore recovered from the Mortgagor on whose behalf such Servicing Advance was made, from Liquidation Proceeds realized upon the liquidation of the related Mortgage Loan. Delinquency Advances shall be reimbursed as provided in Section 4.10A.

(e) In the event that the Servicer shall be required to make a Delinquency Advance, it shall on the Remittance Date either (i) deposit in the Servicer Collection Account an amount equal to such Delinquency Advance, (ii) make an appropriate entry in the records of the Servicer Collection Account that funds in such account being held for future distribution or withdrawal have been, as permitted by this Section 4.9, used by the Servicer to make such Delinquency Advance, or (iii) make advances in the form of any combination of (i) and (ii) aggregating the amount of such Delinquency Advance. Any funds being held for future distribution to Noteholders and so used shall be replaced by the Servicer by deposit in the Servicer Collection Account on the Subservicer Remittance Date to the extent that funds in the Servicer Collection Account on such Subservicer Remittance Date with respect to the Mortgage Loans shall be less than payments

to Noteholders required to be made on such date with respect to the Mortgage Loans. Under each Subservicing Agreement, the Servicer is entitled to receive from the Principal and Interest Accounts established by the Subservicers amounts received by the applicable Subservicers on particular Mortgage Loans as late payments of principal and interest or as Liquidation Proceeds or Insurance Proceeds and respecting which the Servicer has made an unreimbursed Delinquency Advance. The Servicer is also entitled to receive other amounts from the related Principal and Interest Accounts established by the Subservicers to reimburse itself for prior Nonrecoverable Advances respecting Mortgage Loans serviced by such Subservicers. The Servicer shall deposit these amounts in the Servicer Collection Account prior to withdrawal pursuant to Section 4.8A. In accordance with Section 4.9A, Delinquency Advances are reimbursable to the Servicer from cash in the Servicer Collection Account to the extent that the Servicer shall determine that any such advances previously made are Nonrecoverable Advances pursuant to Sections 4.9 and 4.9A.

Section 4.9A Nonrecoverable Advances. Any advance previously made by a Subservicer pursuant to its Subservicing Agreement with respect to a Mortgage Loan or by the Servicer that the Servicer shall determine in its good faith judgment not to be ultimately recoverable from Insurance Proceeds or Liquidation Proceeds or otherwise with respect to such Mortgage Loan or recoverable as late Monthly Payments with respect to such Mortgage Loan, shall be a "Nonrecoverable Advance." The determination by the Servicer that it or the applicable Subservicer has made a Nonrecoverable Advance or that any advance would constitute a Nonrecoverable Advance, shall be evidenced by an Officer's Certificate of the Servicer delivered to the Indenture Trustee and the Note Insurer on the Subservicer Remittance Date and shall detail the reasons for such determination. Notwithstanding any other provision of this Agreement, any insurance policy relating to the Mortgage Loans, or any other agreement relating to the Mortgage Loans to which the Servicer is a party, (a) the Servicer, and each Subservicer shall not be obligated to, and shall not, make any advance that, after reasonable inquiry and in its sole discretion, the Servicer, or such Subservicer shall determine would be a Nonrecoverable Advance, and (b) the Servicer, and each Subservicer shall be entitled to reimbursement for any advance as provided in Section 4.9 of this Agreement.

Section 4.10. Compensating Interest. A full month's interest at a rate equal to the applicable Coupon Rate with respect to each Mortgage Loan less the sum of

(i) the Monthly Servicing Fee and (ii) Subservicing Fee, is due to the Indenture Trustee on the Loan Balance of each Mortgage Loan as of the beginning of each Remittance Period. If a Prepayment of a Mortgage Loan occurs during any calendar month, any difference between the interest collected from the Mortgagor during such calendar month and the full month's interest at the applicable Coupon Rate less the Subservicing Fee ("Compensating Interest") shall be deposited by each Subservicer prior to the Subservicer Remittance Date to the Principal and Interest Account and shall be included in the related Subservicer Monthly Remittance to be remitted to, or drafted by, the Servicer on the Subservicer Remittance Date; provided, however, that the Subservicer shall not be required to deposit Compensating Interest in respect of Prepayments in an amount that exceeds the Subservicing Fee received by such Subservicer for the prior calendar month with respect to the Mortgage Loan subserviced by it. If a Subservicer fails to make some or all of a required Compensating Interest payment, the Servicer will pay, up to the amount of its Servicing Fee with respect to all Mortgage Loans being subserviced by such Subservicer, plus investment income in the Servicer Collection Account relating to all Mortgage Loans being subserviced by such Subservicer, the Compensating Interest payment that should have been made by such Subservicer, but was not, by depositing such Compensating Interest into the Servicer Collection Account on the Remittance Date. Neither the Subservicers nor the Servicer shall be entitled to reimbursement for Compensating Interest payments.

Section 4.10A Permitted Withdrawals from the Servicer Collection Account and Principal and Interest Accounts.

(a) The Servicer is authorized to make withdrawals, from time to time, from the Servicer Collection Account or the Principal and Interest Accounts established by the Subservicers of amounts deposited therein in respect of the Mortgage Loans, as follows:

(i) To reimburse itself or the applicable Subservicer for Delinquency Advances made pursuant to Section 4.9 of this Agreement or a Subservicing Agreement, such right to reimbursement pursuant to this paragraph (i) being limited to amounts received on particular Mortgage Loans (including, for

this purpose, Insurance Proceeds and Liquidation Proceeds) which represent late recoveries of principal and/or interest respecting which any such Delinquency Advance was made;

(ii) To reimburse itself or the applicable Subservicer for amounts expended by or for the account of the Servicer pursuant to Section 4.9 or amounts expended by such Subservicer pursuant to the Subservicing Agreement or an agreement between a Subservicer and the Issuer in connection with the restoration of property damaged by an uninsured cause or in connection with the liquidation of a Mortgage Loan;

(iii) To pay to itself, with respect to the related Mortgage Loans, the Servicing Fee as to which no prior withdrawals from funds deposited by the Servicer have been made;

(iv) To reimburse itself or the applicable Subservicer for advances made with respect to related Mortgage Loans which the Servicer has determined to be Nonrecoverable Advances;

(v) To pay to itself reinvestment earnings deposited or earned in the Servicer Collection Account to which it is entitled and to reimburse itself for expenses incurred by and reimbursable to it pursuant to Sections 4.9, 4.24 and 6.3;

(vi) To remit to the Indenture Trustee for deposit in the Trustee Collection Account, not later than the related Remittance Date, the amounts specified in Section 5.2(a);

(vii) To withdraw amounts that have been deposited in error; and

(viii) After making or providing for the above withdrawals, to clear and terminate the Servicer Collection Account and the Principal and Interest Accounts following termination of this Agreement pursuant to Section 8.1. Since, in connection with withdrawals pursuant to paragraphs (i) and (ii), the Servicer's entitlement thereto is limited to collections or other recoveries on the related Mortgage Loan, the Servicer or the applicable Subservicer shall keep and maintain separate accounting for each Mortgage Loan, for the purpose of justifying any such withdrawals.

(b) The Servicer is authorized to make withdrawals from time to time from the Servicer Collection Account to reimburse itself for advances it has made pursuant to Section 4.9 hereof that it has determined to be Nonrecoverable Advances.

Section 4.11. Maintenance of Insurance; Collections Thereunder.

(a) The Servicer shall use commercially reasonable efforts to keep, and to cause the Subservicers to keep, in full force and effect each primary mortgage guaranty insurance policy required with respect to a Mortgage Loan, in the manner set forth in the applicable Subservicing Agreement, until no longer required. Notwithstanding the foregoing, the Servicer shall have no obligation to maintain such primary mortgage guaranty insurance policy for a Mortgage Loan for which the outstanding Principal Balance thereof at any time subsequent to origination was 80% or less of the sum of (i) the value of the related Property (as determined by the appraisal obtained at the time of origination and (ii) the value of any Additional Collateral (as determined at the time of origination)), unless required by applicable law.

(b) Unless required by applicable law, the Servicer shall not cancel or refuse to renew, or allow any Subservicer under its supervision to cancel or refuse to renew, any such primary mortgage guaranty insurance policy in effect at the date of the initial issuance of the Notes that is required to be kept in force hereunder; provided, however, that neither the Servicer nor any Subservicer shall advance funds for the payment of any premium due under any primary mortgage guaranty insurance if it shall determine that such an advance would be a Nonrecoverable Advance.

(c) The Servicer shall cause to be maintained for each Mortgage Loan (other than a Cooperative Loan) fire and hazard insurance with extended coverage in an amount which is not less than the original principal balance of such Mortgage Loan, except in cases approved by the Servicer in which such amount exceeds the value of the improvements to the Property. The Servicer shall also require fire and hazard insurance with extended coverage in a comparable amount on property acquired upon foreclosure, or deed in lieu of foreclosure, of any Mortgage Loan (other than a Cooperative Loan). Any amounts collected under any such policies (other than amounts to be applied to the restoration or repair of the related Property) shall be deposited into the Principal and Interest Account, subject to withdrawal pursuant to the applicable Subservicing Agreement and pursuant to Sections 4.8, 4.8A and 4.10A hereof.

(d) Where any part of any improvement to the Property (other than with respect to a Cooperative Loan) is located in a federally designated special flood hazard area and in a community which participates in the National Flood Insurance Program at the time of origination of the related Mortgage Loan, the Servicer shall cause flood insurance to be provided. The hazard insurance coverage required by this Section 4.11 may be met with blanket policies providing protection equivalent to individual policies otherwise required. The Servicer or the applicable Subservicer shall be responsible for paying any deductible amount on any such blanket policy. The Servicer agrees to present, or cause to be presented, on behalf of and for the benefit of the Indenture Trustee, the Noteholders, the Note Insurer, and the Swap Counterparty, claims under the hazard insurance policy respecting any Mortgage Loan, and in this regard to take such reasonable actions as shall be necessary to permit recovery under such policy.

(e) Any unreimbursed costs incurred in maintaining any insurance described in this Section 4.11 shall be recoverable as an advance by the Servicer from the Servicer Collection Account. Such insurance shall be with insurers approved by the Servicer and Fannie Mae or Freddie Mac. Other additional insurance may be required of a Mortgagor, in addition to that required pursuant to such applicable laws and regulations as shall at any time be in force and as shall require such additional insurance.

Section 4.12. Due-on-Sale Clauses; Assumption and Substitution Agreements.

When any Property has been or is about to be conveyed by the Mortgagor, the Servicer shall, to the extent it has knowledge of such prospective conveyance and prior to the time of the consummation of such conveyance and to the extent permitted in the applicable Subservicing Agreement or other agreement between such Subservicer and the Issuer, exercise rights to accelerate the maturity of such Mortgage Loan, to the extent that such acceleration is permitted by the terms of the related Mortgage Note, under any "due-on-sale" clause applicable thereto; provided, however, that the Servicer shall not exercise any such right if the due-on-sale clause, in the reasonable belief of the Servicer, is not enforceable under applicable law or if such exercise would result in non-coverage of any resulting loss that would otherwise be covered under any insurance policy. In the event the Servicer is prohibited from exercising such right, the Servicer is authorized to take or enter into an assumption and modification agreement from or with the Person to whom a Property has been or is about to be conveyed, pursuant to which such Person becomes liable under the Mortgage Note and, unless prohibited by applicable state law or unless the Mortgage Note contains a provision allowing a qualified borrower to assume the Mortgage Note, the Mortgagor remains liable thereon; provided that the Mortgage Loan shall continue to be covered (if so covered before the Servicer enters such agreement) by any related primary mortgage guaranty insurance policy. The Servicer is also authorized to enter into a substitution of liability agreement with such Person, pursuant to which the original Mortgagor is released from liability and such Person is substituted as Mortgagor and becomes liable under the Mortgage Note. The Servicer will cause the Subservicer not to enter into any substitution or assumption with respect to a Mortgage Loan unless permitted by applicable law and if such substitution or assumption shall constitute a "significant modification" effecting an exchange or reissuance of such Mortgage Loan under the Code (or Treasury regulations promulgated thereunder in the absence of advice of counsel that a significant modification of a Mortgage Loan would not have a material adverse effect on the Noteholders, the Issuer or the Certificateholders). The Servicer shall notify the Indenture Trustee that any such substitution or assumption agreement has been completed by forwarding to the Indenture Trustee the original copy of such substitution or assumption agreement and other documents and instruments constituting a part thereof. In connection with any such assumption or substitution agreement, the terms of the related Mortgage Note shall not be changed. Any fee collected by the applicable Subservicer for entering into an assumption or substitution of liability agreement shall be retained by such Subservicer as additional servicing compensation.

Notwithstanding the foregoing paragraph or any other provision of this Agreement, the Servicer shall not be deemed to be in default, breach or any other violation of its obligations hereunder by reason of any assumption of a Mortgage Loan by operation of law or any assumption which the Servicer or the Subservicer may be restricted by law from preventing, for any reason whatsoever.

Section 4.13. Realization Upon Defaulted Mortgage Loans.

(a) The Servicer shall foreclose upon or otherwise comparably convert, or cause to be foreclosed upon or comparably converted, the ownership of any Property securing a Mortgage Loan which comes into and continues in default and as to which no satisfactory arrangements can be made for collection of delinquent payments pursuant to Section 4.1. In lieu of such foreclosure or other conversion, and taking into consideration the desirability of maximizing net Liquidation Proceeds after taking into account the effect of Insurance

Proceeds upon Liquidation Proceeds, the Servicer may, to the extent consistent with prudent mortgage loan servicing practices, accept a payment of less than the outstanding Loan Balance of a delinquent Mortgage Loan in full satisfaction of the indebtedness evidenced by the related Mortgage Note and release the lien of the related Mortgage upon receipt of such payment. The Servicer shall not foreclose upon or otherwise comparably convert a Property if the Servicer is aware of evidence of toxic waste, other hazardous substances or other evidence of environmental contamination thereon and the Servicer determines that it would be imprudent to do so. In connection with such foreclosure or other conversion, the Servicer shall cause to be followed such practices and procedures as it shall deem necessary or advisable and as shall be normal and usual in general mortgage servicing activities. The foregoing is subject to the provision that, in the case of damage to a Property from an uninsured cause, the Servicer shall not be required to advance its own funds towards the restoration of the property unless it shall be determined in the sole judgment of the Servicer, (i) that such restoration will increase the proceeds of liquidation of the Mortgage Loan after reimbursement to itself for such expenses, and (ii) that such expenses will be recoverable to it through Liquidation Proceeds. The Servicer shall be responsible for all other costs and expenses incurred by it in any such proceedings; provided, however, that it shall be entitled to reimbursement thereof (as well as its normal servicing compensation) as an advance. The Servicer shall maintain information required for tax reporting purposes regarding any Property which is abandoned or which has been foreclosed or otherwise comparably converted. The Servicer shall report such information to the Internal Revenue Service and the Mortgagor in the manner required by applicable law.

(b) Notwithstanding any other provision of this Agreement, the Servicer and the Indenture Trustee, as applicable, shall comply with all federal withholding requirements with respect to payments to Noteholders of interest or original issue discount that the Servicer or the Indenture Trustee reasonably believes are applicable under the Code. The consent of Noteholders shall not be required for any such withholding. Without limiting the foregoing, the Servicer agrees that it will not withhold with respect to payments of interest or original issue discount in the case of a Noteholder that has furnished or caused to be furnished an effective Form W-8 or an acceptable substitute form or a successor form and who is not a "10 percent shareholder" within the meaning of Code Section 871(h)(3)(B) or a "controlled foreign corporation" described in Code Section 881(c)(3)(C) with respect to the Depositor. In the event the Indenture Trustee withholds any amount from interest or original issue discount payments or advances thereof to any Noteholder pursuant to federal withholding requirements, the Indenture Trustee shall indicate the amount withheld to such Noteholder.

Section 4.14. Indenture Trustee to Cooperate; Release of Mortgage Files.

Upon the Prepayment in full or scheduled maturity of any Mortgage Loan, the Servicer shall cause such final payment to be immediately deposited in the related Principal and Interest Account or the Servicer Collection Account. Upon notice thereof, the Servicer shall promptly notify the Indenture Trustee and the Certificateholder by an Officer's Certificate (which certification shall include a statement to the effect that all amounts received in connection with such payment which are required to be deposited in either such account have been so deposited) and shall request delivery to it of the File. Upon receipt of such properly completed certification and request, the Indenture Trustee shall, not later than the fifth succeeding Business Day, release the related File to the Servicer or the applicable Subservicer indicated in such request. With any such Prepayment in full or other final payment, the Servicer is authorized to prepare for and procure from the Indenture Trustee or mortgagee under the Mortgage which secured the Mortgage Note a deed of full reconveyance or other form of satisfaction or assignment of Mortgage and endorsement of Mortgage Note in connection with a refinancing covering the Property, which satisfaction, endorsed Mortgage Note or assigning document shall be delivered by the Servicer to the person or persons entitled thereto. No expenses incurred in connection with such satisfaction or assignment shall be payable to the Servicer by the Indenture Trustee or from the Servicer Collection Account, or the related Principal and Interest Account. From time to time as appropriate for the servicing or foreclosure of any Mortgage Loan, including, for this purpose, collection under any primary mortgage guaranty insurance, the Indenture Trustee shall, upon request of the Servicer and delivery to it of a Servicer's Trust Receipt in the form of Exhibit G signed by an authorized Officer of the Servicer, release not later than the fifth Business Day following the date of receipt of such request the related File to the Servicer or the related Subservicer as indicated by the Servicer and shall execute such documents as shall be necessary to the prosecution of any such proceedings. Such Servicer's Trust Receipt shall obligate the Servicer to return the File to the Indenture Trustee when the need therefor by the Servicer no longer exists, unless the Mortgage Loan shall be liquidated, in which case, upon receipt of a Officer's Certificate similar to that herein above specified.

Section 4.15. Compensation to the Servicer and the Subservicers.

(a) As compensation for its activities hereunder, the Servicer shall be entitled, without duplication, to receive from the Servicer Collection Account the Servicing Fee. The Servicer shall be required to pay all expenses incurred by it in connection with its activities hereunder and shall not be entitled to reimbursement therefor, except as specifically provided herein.

(b) As compensation for its activities under the applicable Subservicing Agreement, the applicable Subservicer shall be entitled to withhold or withdraw from the related Principal and Interest Account the amounts provided for in such Subservicing Agreement. Each Subservicer is required to pay all expenses incurred by it in connection with its servicing activities under its Subservicing Agreement (including payment of premiums for primary mortgage guaranty insurance policies, if required) and shall not be entitled to reimbursement therefor except as specifically provided in such Subservicing Agreement and not inconsistent with this Agreement.

(c) Additional servicing compensation in the form of prepayment charges, release fees and similar items, to the extent collected from Mortgagors, may be retained by the applicable subservicer.

Section 4.16. Annual Statement as to Compliance. The Servicer, at its own expense, shall deliver to the Issuer, the Indenture Trustee, the Certificateholder, the Rating Agencies and the Note Insurer, on or before April 30 of each year, beginning with April 30, 2000, an Officer's Certificate stating as to the signer thereof, that (i) a review of the activities of the Servicer during the preceding calendar year and performance under this Agreement has been made under such officer's supervision, and (ii) to the best of such officer's knowledge, based on such review, the Servicer has fulfilled all its obligations under this Agreement throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to such officer and the nature and status thereof. Copies of such statement shall be provided by the Servicer to Noteholders upon request or by the Indenture Trustee (solely to the extent that such copies are available to the Indenture Trustee) at the expense of the Servicer, should the Servicer fail to so provide such copies.

Section 4.17. Annual Independent Public Accountants' Servicing Report. On or before April 30 of each year, beginning with April 30, 2000, the Servicer, at its expense, shall cause a firm of independent public accountants reasonably acceptable to the Note Insurer to furnish a statement to the Indenture Trustee, the Certificateholder, the Note Insurer and the Rating Agencies to the effect that on the basis of the examination by such firm conducted substantially in compliance with the Uniform Single Attestation Program for Mortgage Bankers or the Audit Guide for Audits of HUD Approved Title II Nonsupervised Mortgagees and Loan Correspondents Program, the servicing by or on behalf of the Servicer of the Mortgage Loans was conducted in compliance with the Sale and Servicing Agreement, except for any significant exceptions or errors in records that, in the opinion of the firm, the Uniform Single Attestation Program for Mortgage Bankers or the Audit Guide for Audits of HUD Approved Title II Nonsupervised Mortgagees and Loan Correspondents Program requires it to report. Copies of the annual accountants' statement and the officer's statement may be obtained by Noteholders without charge upon written request to the Servicer.

Section 4.18. Access to Certain Documentation and Information Regarding the Mortgage Loans. In the event that the Notes are legal for investment by federally-insured savings associations, the Servicer shall provide to the OTS, the FDIC and the supervisory agents and examiners of the OTS and the FDIC access to the documentation regarding the related Mortgage Loans required by applicable regulations of the OTS or the FDIC, as applicable, and shall in any event provide such access to the documentation regarding such Mortgage Loans to the Indenture Trustee and its representatives, such access being afforded without charge, but only upon reasonable request and during normal business hours at the offices of the Servicer designated by it.

Section 4.19. Assignment of Agreement. The Servicer may not assign its obligations under this Agreement, in whole or in part, unless (i) it shall have first obtained the written consent of the Indenture Trustee, the Issuer and the Note Insurer, and (ii) the Indenture Trustee, the Issuer and the Note Insurer shall have received a confirmation letter from each Rating Agency confirming that no downgrade in the rating of the Notes will occur, without taking the Note Insurance Policy into account; provided, however, that any assignee must meet the eligibility requirements set forth in Section 7.1 hereof for a successor servicer.

Section 4.20. ARMs. The Servicer shall enforce each ARM and 5/1 ARM Mortgage Loan in accordance with its terms and shall or shall cause the applicable Subservicers to timely calculate, record, report and apply all interest rate adjustments in accordance with the related Mortgage Note. The Servicer's records shall, at all times, reflect the then Coupon Rate and monthly payment and the Servicer shall or shall cause the applicable Subservicers to timely notify the Mortgagor of any changes to the Coupon Rate or the Mortgagor's monthly payment.

Section 4.21. Inspections by Note Insurer and Account Parties. At any reasonable time and from time to time upon reasonable notice, the Note Insurer, the Indenture Trustee, the Issuer or any agents or representatives thereof may inspect the Servicer's and each Subservicer's servicing operations and discuss the servicing operations of the Servicer and each Subservicer with any of its officers or directors. The costs and expenses incurred by the Servicer and each Subservicer or its agents or representatives in connection with any such examinations or discussions shall be paid by the Servicer or the applicable Subservicer.

Section 4.22. Reports to the Indenture Trustee; Servicer Collection Account Statement.

(a) Not later than each Remittance Date, the Servicer shall forward a statement to the Indenture Trustee, the Certificateholder and the Note Insurer setting forth the status of the Servicer Collection Account as of the close of business on the related Subservicer Remittance Date and showing, for the period covered by such statement, the aggregate of deposits into and withdrawals from the Servicer Collection Account for each category of deposit specified in Sections 4.1, 4.8 and 4.8A and each category of withdrawal specified in Section 4.9 and 4.9A, and stating that all distributions required by this Agreement have been made (or if any required distribution has not been made, specifying the nature and amount thereof).

(b) On or before each Subservicer Remittance Date, the Servicer shall calculate the portion of any Principal Shortfall Amount allocable to Realized Losses on the Mortgage Loans and shall advise the Indenture Trustee and the Note Insurer of such Principal Shortfall Amount in its report.

(c) No later than each Subservicer Remittance Date, the Servicer shall prepare and provide a report to the Indenture Trustee, the Certificateholder and the Note Insurer listing separately the interest and principal components of the related Monthly Remittance.

(d) Based upon such report and the related Remittance Report regarding the Pooled Certificates, the Indenture Trustee no later than the Business Day prior to the Payment Date shall calculate the Available Interest Amount and the Available Principal Amount for such Payment Date.

(e) The Indenture Trustee shall also calculate the Note Rate, the Certificate Rate, the Excess Interest, the LIBOR Interest Carryover Amount, and amounts payable to the Swap Counterparty pursuant to Section 5.2.

Section 4.23. Designated Depository Institutions. The Servicer shall give the Issuer, the Indenture Trustee and the Note Insurer (a) at least thirty days' prior written notice of any anticipated change of Designated Depository Institution and (b) written notice of any change in the ratings of a Designated Depository Institution of which the Servicer is aware, within two Business Days after discovery.

Section 4.24. Appointment of Custodian. If the Servicer determines that the Indenture Trustee is unable to deliver Files to the Servicer as required pursuant to Section 4.14 hereof, the Servicer shall so notify the Depositor, the Issuer, the Note Insurer, the Rating Agencies and the Indenture Trustee, and make request that a custodian acceptable to the Servicer and the Note Insurer, be appointed to retain custody of the Files on behalf of the Indenture Trustee. The Indenture Trustee, the Issuer and the Depositor agree to co-operate reasonably with the Servicer in connection with the appointment of such custodian. The Servicer shall pay, and be reimbursed pursuant to Section 4.10A(a) hereof for, all expenses incurred by the Indenture Trustee in connection with the transfer of the Files to such custodian.

Section 4.25. [Reserved]

Section 4.26. Year 2000 Compliance. The Servicer represents, warrants and

covenants that (1) it is in the process of identifying circumstances under which its computer applications may not be able to properly perform date-sensitive functions after December 31, 1999 and (2) it will implement, on a timely basis, corrective action to prevent any such application from interfering in any material respect, due to inability to properly perform such functions, with the performance of its duties under this Agreement. The Servicer will, upon request of the Note Insurer, the Certificateholder or the Indenture Trustee, on or before June 30, 1999, promptly provide an Officer's Certificate to the effect that the Servicer has implemented corrective action to prevent its computer applications from interfering, in any material respect, due to inability to perform date-sensitive functions, with the performance of the Servicer's duties under this Agreement.

Section 4.27. Performance of Obligations; Indenture. The Issuer appoints
he Servicer and the Servicer agrees to perform such obligations and duties of the Issuer pursuant to the Indenture as the Issuer may request, including, but not limited to the duties and obligations of the Issuer pursuant to Section 3.09(b) of the Indenture.

Section 4.28. Data.

(a) Within a reasonable period of time after the Closing Date, the Servicer will provide to the Note Insurer a computer tape or electronic transmission (a "Data Tape"), in a format and containing such of the servicing data maintained by the Servicer with respect to the Mortgage Loans as of the Cut-off Date as shall be mutually agreed to by the Servicer and the Note Insurer (but in any event the Data Tape shall contain the Servicer's Monthly Remittance Report and such other information as the Note Insurer may reasonably request), together with a written explanation (the "Data Dictionary") of each of the data fields included in such Data Tape. Thereafter, on a monthly basis, the Servicer will provide to the Note Insurer a Data Tape as of the end of the preceding Remittance Period together with a written explanation of any revisions made to the Data Dictionary during the preceding Remittance Period. The Note Insurer shall have no duty or obligation with respect to the accuracy of the information contained in any Data Tape or in the Data Dictionary.

(b) Each Data Tape and Data Dictionary furnished by the Servicer pursuant to this Agreement shall be deemed confidential and of proprietary nature, and shall not be copied or distributed to any other Person. No Person entitled to receive copies of such tapes shall use the information therein for the purpose of soliciting the Mortgagors or for any other purpose except as set forth in this Agreement.

(c) Upon request by a Certificateholder, the Servicer shall provide data, in a mutually agreeable form, to such Certificateholder. If such Certificateholder is the Owner of 100% of the Certificates, the Servicer shall furnish such data without additional charge, and, if mutually acceptable to the Servicer and such Certificateholder, on a monthly basis.

ARTICLE V

Accounts; Payments; Statements to Certificateholders and Noteholders

Section 5.1 Establishment of Accounts.

(a) The Issuer hereby directs the Indenture Trustee to establish and maintain the Trustee Collection Account, the Insured Amounts Account, the Reserve Account, the Swap Counterparty Reserve Account and the Swap Counterparty Floor Account. Each such Account shall be maintained as a segregated account at a Designated Depository Institution to be held in the name of the Indenture Trustee for the benefit of the related Owners and the Note Insurer, unless otherwise specified below.

(b) The Indenture Trustee shall establish and maintain the Insured Amounts Account to receive deposits from the Note Insurer; the Insured Amounts Account shall be entitled "Bankers Trust Company of California, N.A. as Indenture Trustee for Thornburg Mortgage Funding Trust I, Insured Amounts Account."

(c) The Issuer hereby directs the Indenture Trustee to establish the Trustee Collection Account to be maintained as a segregated account entitled "Bankers Trust Company of California, N.A. as Indenture Trustee for Thornburg Mortgage Funding Trust I, Trustee Collection Account." On the Closing Date, the Depositor is remitting the amount of $1,220,971.34 in immediately available funds representing the November 1998 distribution on the Pooled Certificates to the Indenture Trustee for deposit into the Trustee Collection Account, and the Indenture Trustee hereby acknowledges receipt of $1,220,971.34 for deposit into the Trustee Collection Account. The Depositor shall (or shall cause the

Servicer to) remit any and all distributions received by the Depositor or Seller on the Pooled Certificates on any Pooled Certificate Remittance Date after the Closing Date to the Indenture Trustee in immediately available funds on the Business Day after such Pooled Certificate Remittance Date for deposit into the Trustee Collection Account.

(d) The Issuer hereby directs the Indenture Trustee to establish and maintain the Reserve Account entitled "Bankers Trust Company of California, N.A. as Indenture Trustee for Thornburg Mortgage Funding Trust I, Reserve Account." Excess Interest will be deposited in the Reserve Account to be held for the benefit of the Noteholders and the Certificateholders. On the Closing Date, the Depositor is remitting or causing to be remitted to the Indenture Trustee, and the Indenture Trustee hereby acknowledges receipt of $150,000 in immediately available funds for deposit into the Reserve Account.

(e) The Indenture Trustee shall establish and maintain, for the benefit of the Note Insurer, the Swap Counterparty Reserve Account entitled "Bankers Trust Company of California, N.A. as Indenture Trustee for TMA Mortgage Funding Trust I, Swap Counterparty Reserve Account." On the Closing Date, the Depositor will remit or cause to be remitted to the Indenture Trustee, and the Indenture Trustee hereby acknowledges receipt of $800,000 in immediately available funds for deposit into the Swap Counterparty Reserve Fund.

(f) The Indenture Trustee shall establish and maintain, for the benefit of the Note Insurer, the Swap Counterparty Floor Account entitled "Bankers Trust Company of California, N.A. as Indenture Trustee for TMA Mortgage Trust I, Swap Counterparty Floor Account."

Section 5.2 Flow of Funds. (a) Upon receipt, the Indenture Trustee
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shall deposit (i) into the Trustee Collection Account (A) the Monthly Remittance remitted by the Servicer, plus (B) any related Substitution Adjustment Amounts and any related Loan Purchase Prices, plus (C) any amounts received from the Swap Counterparty under the Swap Agreements, plus (D) all distributions on the Pooled Certificates received by the Indenture Trustee pursuant to the terms hereof, (ii) into the Reserve Account, the Excess Interest, if any, including on the Closing Date, the initial deposit referred to in Section 5.1(d), (iii) into the Insured Amounts Account, the amount of any Insured Amounts (other than Insured Amounts in respect of amounts described in clause (iii) of the definition of Insured Amounts) (iv) into the Trustee Collection Account, the proceeds of any liquidation or termination pursuant to Article VIII hereof and Article X of the Indenture, (v) into the Swap Counterparty Floor Account, any amounts received on the Interest Rate Floor Agreement and (vi) into the Swap Counterparty Reserve Account, the initial deposit referred to in Section 5.1(e). Insured Amounts in respect of amounts described in clause (iii) of the definition of Insured Amounts shall be paid by the Note Insurer to the Indenture Trustee for payment to the Owners of the Notes who have complied with the provisions of Section 5.2(j), in the same manner as payments with respect to the Notes.

(b) The Indenture Trustee shall calculate the amount of Excess Interest, the LIBOR Interest Carryover Amount, the amount to be transferred to the Reserve Account and any amount on deposit in the Reserve Account to be distributed as provided in Section 5.7 hereof.

(c) If the Indenture Trustee determines that a draw on the Note Insurance Policy is necessary, the Indenture Trustee will take such actions as are required under the Note Insurance Policy to inform the Note Insurer that a payment will be required under the Note Insurance Policy and the amount thereof in sufficient time to have funds available for payment to the Noteholders on the applicable Payment Date. Amounts received from the Note Insurer shall be deposited in the Insured Amounts Account.

(d) On each Payment Date, the Indenture Trustee will withdraw any amount to be transferred from the Reserve Account pursuant to Section 5.7 hereof and any amount paid by the Note Insurer which has been deposited in the Insured Amounts Account pursuant to Section 5.2(c) hereof and deposit such amounts in the Trustee Collection Account.

(e) On each Payment Date after the transfers and payments pursuant to Section 5.2(d), the Indenture Trustee shall make the following transfers and distributions in the priority indicated from the funds then on deposit in the Trustee Collection Account (other than investment earnings):

(i) From the Available Interest Amount, in the following order of priority and in each case to the extent of any remaining Available Interest Amount after making the prior payments; provided that funds transferred from (x)
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the Insured Amounts Account will be used only to pay Interest Shortfall Amounts, and (y) the Reserve Account will be used only to pay LIBOR Interest Carryover Amounts under clause (G):

(A) to the Swap Counterparty, any net regularly scheduled monthly amounts due the Swap Counterparty on such Payment Date under the Swap Agreements;

(B) to the Note Insurer, all premiums due to the Note Insurer on such Payment Date pursuant to the Insurance Agreement;

(C) to the Indenture Trustee, all amounts due as its monthly Indenture Trustee's Fee and Custodian's Fee and any other amounts due it pursuant to Section 6.07 of the Indenture;

(D) to the Owner Trustee, all amounts due purusant to Section 8.01 of the Trust Agreement, including the monthly Owner Trustee's Fee;

(E) to the Owners, Current Interest at the Note Rate;

(F) to the Note Insurer for reimbursement for any payments made (i) under the Note Insurance Policy with respect to its guarantee of interest at the Note Rate to the Noteholders or under the Swap Insurance Policy and (ii) any other amounts owed to the Note Insurer under the Insurance Agreement (other than with respect to Principal Shortfall Amounts) to the extent not reimbursed from payments from the Available Principal Amount;

(G) to the Owners, any LIBOR Interest Carryover Amount;

(H) to the Certificate Distribution Account maintained by the Paying Agent for distribution to the Certificateholders, Current Interest at the Certificate Rate; and,

(I) any remainder to the Reserve Account until, on and after the Reserve Account Limit Date, the Reserve Account Limit is reached, and thereafter to the Certificate Distribution Account for distribution to the Certificateholders as Additional Certificate Interest.

(ii) From the Available Principal Amount, in the following order of priority:

(A) to the Owners, until the outstanding principal balance of the Notes has been reduced to zero;

(B) to the Note Insurer for reimbursement for any payments made under the Note Insurance Policy with respect to Principal Shortfall Amounts and not previously repaid to the Note Insurer, and any other amounts owed the Note Insurer under the Insurance Agreement (other than amounts owed to the Note Insurer under Section 5.2(e)(i)(F) from the Available Interest Amount); and

(C) to the Certificate Distribution Account for distribution to the Certificateholders as principal until the Certificate Balance of the Certificates has been reduced to zero and then as Additional Certificate Interest.

(f) If on any Payment Date there are insufficient Available Interest Amounts to pay the amounts due to the Swap Counterparty for net regularly scheduled monthly amounts under the Swap Agreement pursuant to Section 5.2(e)(i)(A), the Indenture Trustee shall draw an amount up to such deficiency, first from amounts, if any, received under the Interest Rate Floor Agreement and on deposit in the Swap Counterparty Floor Account and second from the Swap Counterparty Reserve Account and shall add such amounts to the payment being made under Section 5.2(e)(i)(A). If funds are received under the Interest Rate Floor Agreement and not used as aforesaid, they shall be deposited in the Certificate Distribution Account for distribution to the Certificateholders as Additional Certificate Interest.

(g) Any amounts properly distributed to the Holders of the Certificates pursuant to the terms of this Agreement shall be distributed free of the lien of the Indenture, and any such amounts shall in no event be required to be returned to the Indenture Trustee or paid over to the Owners.

(h) On each Payment Date, the Paying Agent shall distribute the amounts on deposit in the Certificate Distribution Account as provided in Article V of the Trust Agreement.

(i) The Indenture Trustee shall (i) receive as attorney-in-fact of the Owners any Insured Amounts from the Note Insurer, (ii) shall deposit the Insured Amounts to the Insured Amounts Account and (iii) shall disburse the same from such Insured Amounts Account to the Trustee Collection Account and the Owners as set forth in Section 5.2(e)(i)(E) and 5.2(e)(ii)(A) hereof. Insured Amounts disbursed by the Indenture Trustee from proceeds of the Note Insurance Policy

shall not be considered payment by the Trust with respect to the applicable Notes and the Note Insurer shall become the owner of such unpaid amounts due from the Trust in respect of Insured Amounts as the deemed assignee of such Notes, as hereinafter provided. The Indenture Trustee, on behalf of each Noteholder, hereby agrees for the benefit of the Note Insurer that it recognizes that to the extent the Note Insurer pays Insured Amounts, either directly or indirectly (as by paying through the Indenture Trustee), to the applicable Insured Amounts Account, the Note Insurer (x) will be subrogated to the rights of the Owners of the applicable Notes, with respect to such Insured Amounts, (y) shall be deemed to the extent of the payments so made to be an owner of such Notes and (z) shall receive future payments from Available Interest Amounts and Available Principal Amounts until all such Insured Payments by the Note Insurer have been fully reimbursed, as described in the following paragraph. The Note Insurer shall not acquire any voting rights hereunder as a result of such subrogation, except as otherwise described herein.

It is understood and agreed that the intention of the parties is that the Note Insurer shall not be entitled to reimbursement from Available Interest Amounts on any Payment Date for amounts previously paid by it unless on such Payment Date the Owners shall also have received the full amount of the related Current Interest or from Available Principal Amounts on any Payment Date for amounts previously paid by it unless on such Payment Date the Outstanding principal balance of the Notes has been reduced to zero.

(j) Subject to the terms and conditions of the Note Insurance Policy, the Note Insurer will pay any Insured Amount that is a Preference Amount (as defined below) on the Payment Date following receipt on a Business Day by the Note Insurer of (i) a certified copy of the order requiring the return of the preference payment, (ii) an opinion of counsel satisfactory to the Note Insurer that such order is final and not subject to appeal, (iii) an assignment in such form as is reasonably required by the Note Insurer, irrevocably assigning to the Note Insurer all rights and claims of the Owner relating to or arising under the applicable Notes against the debtor which made such preference payment or otherwise with respect to such preference payment and (iv) appropriate instruments to effect the appointment of the Note Insurer as agent for such Owner in any legal proceeding related to such preference payment, such instruments being in a form satisfactory to the Note Insurer, provided that if such documents are received after 2:00 pm New York City time on such Business Day, they will be deemed to be received on the following Business Day. Such payments shall be disbursed to the receiver or trustee in bankruptcy named in the final order of the court exercising jurisdiction on behalf of the Owner and not to any Owner directly unless such Owner has returned principal or interest paid on the Notes to such receiver or trustee in bankruptcy, in which case such payment shall be paid to the Indenture Trustee for disbursement to such Owner.

"Preference Amount" means any amount previously distributed to an Owner of a Note that is recoverable and sought to be recovered as a voidable preference by a trustee in bankruptcy pursuant to the United States Bankruptcy Code (11 U.S.C.), as amended from time to time in accordance with a final nonappealable order of a court having competent jurisdiction.

In no event shall the Note Insurer pay more than one Insured Amount in respect of any Preference Amount. Consequently, a Noteholder shall not be entitled to reimbursement with respect to any final order relating to the Noteholder's receipt of funds representing Insured Amounts paid by the Note Insurer.

Each Noteholder, by its purchase of a Note, the Servicer, the Indenture Trustee and the Issuer hereby agree that the Note Insurer may, after making payment of the Preference Amounts or acknowledging to Noteholders its obligation to make payment of any Preference Amounts, at any time thereafter during the continuation of any proceeding relating to a preference claim direct all matters relating to such preference claim, including, without limitation, the direction of any appeal of any order relating to such preference claim and the posting of any surety, supersedeas or performance bond pending any such appeal. In addition and without limitation of the foregoing, the Note Insurer, after making payment of the Preference Amounts, shall be subrogated to the rights of the Servicer, the Indenture Trustee, the Issuer and each Owner in the conduct of any such preference claim, including, without limitation, all rights of any party to an adversary proceeding action with respect to any court order issued in connection with any such preference claim. Any expenses incurred in complying with the direction of the Note Insurer shall be borne solely by the Note Insurer.

(k) With respect to the Swap Agreements, if and so long as the aggregate Principal Balance of the Mortgage Loans falls below 1.5 times the aggregate notional amount of the Swap Agreements, the selection of the respective amortization rates by the Depositor, as provided in the Swap Agreements, shall be subject to the approval of the Note Insurer.

Section 5.3 Investment of Accounts.

(a) Any amounts in any Account permitted or required to be invested by the Indenture Trustee pursuant to this Section 5.3 shall be invested in Eligible Investments;

(b) no such Eligible Investments shall mature later than the Business Day immediately preceding the related Payment Date; provided that Eligible Investments which are obligations of the financial institution serving as Indenture Trustee may mature on the related Payment Date;

(c) every Eligible Investment made pursuant to this Section 5.3 shall be held until maturity;

(d) amounts on deposit in the Insured Amounts Account shall not be invested;

(e) the Indenture Trustee shall invest amounts on deposit in the Certificate Distribution Account for the benefit of the Certificateholders at the written direction of the Depositor;

(f) the Indenture Trustee shall invest amounts on deposit in the Trustee Collection Account for the benefit of the Certificateholders at the written direction of the Depositor;

(g) the Indenture Trustee shall invest amounts on deposit in the Reserve Account for the benefit of the Certificateholders at the written direction of the Depositor;

(h) the Indenture Trustee shall invest amounts on deposit in the Swap Counterparty Reserve Account for the benefit of the Certificateholders at the written direction of the Depositor;

(i) the Indenture Trustee shall invest amounts on deposit in the Swap Counterparty Floor Account for the benefit of the Certificateholders at the written direction of Depositor;

(j) on each Payment Date, all investment income earned on each Account listed in clauses (e) through (i) above during such Accural Period shall be deposited by the Indenture Trustee into the Certificate Distribution Account and distributed to the Certificateholders as Additional Certificate Interest;

(k) all income or gain from investments in any Account held by the Indenture Trustee shall be deposited into such Account immediately upon receipt, and any loss resulting from such investments shall be the responsibility of the party directing the Indenture Trustee to make such Investment;

(l) the Indenture Trustee shall not in any way be held liable by reason of any loss or any insufficiency in any Account held by the Indenture Trustee resulting from any loss on any Eligible Investment included therein (except to the extent that the financial institution serving as Indenture Trustee is the obligor thereon); and

(m) if the Indenture Trustee has not received any written direction as contemplated in Sections 5.3(e)-(i) above, the amount on deposit in the respective accounts shall be invested in Eligible Investments listed in Clause

(h) of the definition of Eligible Investments.

Section 5.4 Reports by Indenture Trustee to Owners and Depositor.

On each Payment Date the Indenture Trustee shall report in writing to each Noteholder of record, to each Paying Agent, if different than the Indenture Trustee, to the Owner Trustee, to each Certificateholder of record, and to the Depositor with a copy to the Note Insurer and the Rating Agencies:

(1) (A) the aggregate amount of funds available for payment on the Notes on such Payment Date, (B) the amount of interest to be paid to the Notes and the annualized rate of interest being paid on the Notes (based on the original principal amount of the Notes minus all principal distributions previously paid thereon), (C) whether such interest payment is based upon the LIBOR Rate or the Available Funds Cap Rate and whether the Note Insurer provided a portion of such interest payment, and (D) the amount of principal being paid to the Notes on such Payment Date in the aggregate and per $1,000 initial aggregate outstanding principal balance of Notes;

(2) the amount of any Realized Losses being charged against the Certificates, and/or the Notes (and whether the Note Insurer will be concurrently providing a payment under the Note Insurance Policy to cover such applied Realized Loss);

(3) the percentage of the initial principal balance of the Notes that remains outstanding on such Payment Date, after giving effect to the payments and Realized Loss charge-offs to be made on such Payment Date;

(4) the outstanding principal balance of the Notes after giving effect to the payments and Realized Loss charge-offs to be made on such Payment Date;

(5) (A) the amount of interest and Certificate Rate paid to the Certificates on such Payment Date (separately stating any Additional Certificate Interest not included in the calculation of the Certificate Rate), (B) the amount of Realized Losses applied against the Certificate Balance of the Certificates and (C) the current Certificate Balance of the Certificates after any payments and write-downs on such Payment Date;

(6) the amount of interest paid to the Swap Counterparty (and whether any portion thereof was paid by the Note Insurer under the Swap Insurance Policy) and the amount of interest received from the Swap Counterparty on such Payment Date;

(7) the amount deposited into the Reserve Account, amounts withdrawn from the Reserve Account (and applications thereof) and balance of the Reserve Account as of such Payment Date;

(8) the amounts reimbursed to the Note Insurer, if any, relating to its payments under the Note Insurance Policy and the Swap Insurance Policy or otherwise owed to the Note Insurer under the Insurance Agreement and the amounts under each remaining unreimbursed.

(9) the LIBOR Rate for the Accrual Period beginning on such Payment Date;

(10) the weighted average Coupon Rate of the Mortgage Loans as of the last day of the preceding calendar month;

(11) the weighted average of the remaining term of the Mortgage Loans as of the last day of the preceding calendar month;

(12) The number and aggregate Principal Balance of the Mortgage Loans delinquent one, two and three months or more;

(13) The (i) number and aggregate Principal Balance of Mortgage Loans with respect to which foreclosure proceedings have been initiated, and (ii) the number and aggregate book value of Properties acquired through foreclosure, deed in lieu of foreclosure or other exercise of rights respecting the Indenture Trustee's security interest in the Mortgage Loans;

(14) The amount of Realized Losses incurred allocable to the Notes on the related Payment Date and the cumulative amount of Realized Losses incurred allocated to the Notes since the Cut-Off Date; and

(15) The aggregate Principal Balance of all outstanding Mortgage Loans.

In addition, the Indenture Trustee will provide to each such Person, a copy of the Remittance Report for the Pooled Certificates. The obligations of the Indenture Trustee under this Section are conditioned upon such information being received from the Servicer pursuant to Section 4.22 hereof.

In addition to the foregoing, the Indenture Trustee will also provide a monthly report to the Issuer, the Certificateholders and the Note Insurer containing (i) the balance in the Swap Counterparty Reserve Account and the amount of any withdrawals therefrom as of such Payment Date, and (ii) the amount of any receipts with respect to the Interest Rate Floor Agreement.

In addition to the foregoing, for so long as TMA Acceptance Corp. or any Affiliate thereof is the sole Holder of the Certificates, the Servicer shall provide to the Certificateholder a monthly report substantially in the form of Exhibit I attached hereto.

Upon request by any Noteholder, the Indenture Trustee, as soon as reasonably practicable, shall provide the requesting Noteholder with such information as is necessary and appropriate, in the Indenture Trustee's sole discretion, for purposes of satisfying applicable information requirements under Rule 144A of the Securities Act.

Section 5.5 Drawings under the Policy and Reports by Indenture Trustee.

(a) By 11:00 A.M. California Time on the Business Day preceding each Payment Date, the Indenture Trustee shall determine whether a claim is to be made under

the Note Insurance Policy for an Insured Amount. If the Indenture Trustee determines that a Claim should be made for an Insured Amount, the Indenture Trustee shall furnish the Note Insurer and the Issuer with a completed Notice in the form set forth as Exhibit A to the Note Insurance Policy. The Notice shall specify the amount of Insured Amount and shall constitute a claim for an Insured Amount pursuant to the Note Insurance Policy.

(b) Without limiting the generality of the foregoing, the Indenture Trustee shall, at the request of the Note Insurer transmit promptly to the Note Insurer copies of all accountings of receipts in respect of the Mortgage Loans furnished to it by the Servicer.

(c) From time to time, the Indenture Trustee shall promptly report to the Issuer and to the Note Insurer with respect to its actual knowledge, without independent investigation, of any inaccuracies of any of the statements set forth in Part II of Exhibit D hereto.

Section 5.6 Allocation of Realized Losses. Any Realized Losses with respect to the Mortgage Loans or the Pooled Certificates will, on the related Payment Date, be allocated as follows, separately in the following order:

(i) to the Certificates in reduction of their Certificate Balances until such Certificate Balances have been reduced to zero; and

(ii) to the extent not covered by the Note Insurance Policy, to the Notes in reduction of their Class Principal Balances until such Class Principal Balances have been reduced to zero.

Section 5.7 The Reserve Account and the Swap Counterparty Reserve Account.

(a) On the initial Payment Date, all Excess Interest received by the Indenture Trustee shall be distributed to the Certificateholder. On each Payment Date after the initial Payment Date, until the Reserve Account Limit Date, all Excess Interest received by the Indenture Trustee shall be deposited in the Reserve Account. Thereafter, Excess Interest will be so deposited only to maintain an amount equal to the Reserve Account Limit. Any amounts on deposit in the Reserve Account and any Excess Interest received after the Reserve Account Limit Date in excess of the Reserve Account Limit, and all investment income on amounts in the Reserve Account both before and after the Reserve Account Limit Date will be paid to the Certificateholders as Additional Certificate Interest.

(b) The Note Insurer, on any Payment Date and in its sole discretion, may direct the Indenture Trustee to release all or any part of the Swap Counterparty Reserve Account to the Certificateholders and/or transfer ownership of the Interest Rate Floor Agreement to the Certificateholders or their designees. The Indenture Trustee and the Issuer will cooperate in the execution of any documents required by the Interest Rate Floor Provider to evidence and effect such transfer; provided, however that if the Swap Insurance Policy is no longer in effect, the Indenture Trustee shall act upon the instructions of the Certificateholders without obtaining the consent of the Note Insurer.

Section 5.8 Calculation of LIBOR. Until the Class Principal Balance of the Notes has been reduced to zero, the Indenture Trustee will determine LIBOR for each Accrual Period in accordance with the definition thereof.

The establishment of LIBOR and the Note Rate by the Indenture Trustee shall (in the absence of manifest error) be final, conclusive and binding upon each Holder of a Note, the Issuer, the Depositor, the Servicer and the Note Insurer. Each such rate of interest may be obtained by telephoning the Indenture Trustee at (800) 735-7777.

ARTICLE VI

The Servicer

Section 6.1 Liabilities of the Servicer. The Servicer shall be liable in accordance herewith only to the extent of the obligations specifically imposed upon and undertaken by the Servicer, as applicable.

Section 6.2 Merger or Consolidation of the Servicer. Any corporation into which or the Servicer may be merged or consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Servicer shall be a party (a "Business Combination"), or any corporation succeeding to the business of the Servicer, shall be the successor of the Servicer hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding; provided that such Person is qualified to sell mortgage loans to, and service

mortgage loans on behalf of, Fannie Mae or Freddie Mac and further provided that such Business Combination does not adversely affect the then current ratings of the Notes by the Rating Agencies without regard to the Note Insurance Policy. Notwithstanding the foregoing, the Servicer may provide 90 days advance written notice to the Indenture Trustee, the Note Insurer and Certificateholders of its intention to resign in connection with a Business Combination that does not meet the foregoing requirements, in which case, the Indenture Trustee shall appoint a successor Servicer acceptable to the Issuer and the Note Insurer. The resigning Servicer will in a commercially reasonable manner facilitate the transfer of servicing to the replacement Servicer prior to the expiration of such notice period. No removal or resignation of the Servicer will become effective until the Indenture Trustee or a successor Servicer has assumed the Servicer's responsibilities and delegations in accordance herewith.

Section 6.3 Limitation on Liability of the Servicer and Others. Neither the Servicer nor any of the directors, officers, employees or agents of the Servicer shall be under any liability to the Issuer or the Noteholders for any action taken by such Person or by a Subservicer or for such Person's or Subservicer's refraining from the taking of any action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect the Servicer or any such Person against any breach of representation or warranties made by it herein or protect the Servicer or any such Person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of duties and obligations hereunder. The Servicer and any director, officer, employee or agent of the Company or the Servicer may rely in good faith on any document of any kind properly executed and submitted by any Person respecting any matters arising hereunder. The Servicer and any director, officer, employee or agent of the Servicer shall be indemnified by the Trust Estate and held harmless against any loss, liability or expense incurred in connection with any legal action relating to this Agreement or the Notes, other than any loss, liability or expense relating to any Mortgage Loan (other than as otherwise permitted in this Agreement) or incurred by reason of willful misfeasance, bad faith or gross negligence in the performance of duties hereunder or by reason of reckless disregard of obligations and duties hereunder. The Servicer shall not be under any obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service the Mortgage Loans in accordance with this Agreement and which in its opinion may involve it in any expense or liability; provided, however, that the Servicer may in its discretion undertake any such action which it may deem necessary or desirable with respect to the Mortgage Loans, this Agreement, the Notes or the rights and duties of the parties hereto and the interests of the Noteholders hereunder. In such event, the legal expenses and costs of such action and any liability resulting therefrom shall be expenses, costs and liabilities of the Trust Estate and the Servicer shall be entitled to be reimbursed therefor out of the Servicer Collection Account, as provided by Section 4.8A.

Section 6.4. The Servicer not to Resign. The Servicer shall not resign from the obligations and duties hereby imposed on it except upon appointment of a successor and receipt by the Indenture Trustee and the Issuer of a letter from each Rating Agency that such resignation and appointment will not result in a downgrading of the Notes without regard to the Note Insurance Policy or upon a determination that its duties thereunder are no longer permissible under applicable law. Any such determination permitting the resignation of the Servicer shall be evidenced by an opinion of counsel to such effect which shall be delivered to the Indenture Trustee, the Issuer, the Depositor and the Note Insurer.

ARTICLE VII

Removal of Servicer

Section 7.1 Removal of Servicer; Resignation of Servicer.

(a) The Indenture Trustee (or the Owners acting on behalf of the Indenture Trustee), with the consent of the Note Insurer or the Note Insurer may remove the Servicer upon the occurrence of any of the following events (each, a "Servicer Termination Event"):

(i) The Servicer shall (a) apply for or consent to the appointment of a receiver, trustee in bankruptcy, liquidator or custodian or similar entity in any bankruptcy, insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings of or relating to the Servicer or relating to all or substantially all of its property, (b) admit in writing its inability to pay its debts generally as they become due, (c) make an assignment for the benefit of its creditors, (d) be adjudicated a bankrupt or insolvent, (e) commence a voluntary case under the federal

bankruptcy laws of the United States of America or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding or (f) cause corporate action to be taken by it for the purpose of effecting any of the foregoing; or

(ii) If without the application, approval or consent of the Servicer, a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of the Servicer an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, or a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or similar entity with respect to the Servicer or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Servicer in good faith, the same shall (a) result in the entry of an order for relief or any such adjudication or appointment or (b) continue undismissed or pending and unstayed for any period of 60 consecutive days; or

(iii) The Servicer shall fail to perform in any material respect any one or more of its obligations under this Agreement (other than its obligations referenced in clause (vi) below) and shall continue in default thereof for a period of 30 days after receipt by the Servicer of a written notice from the Indenture Trustee, the Trust, any Noteholder, the Depositor or the Note Insurer of said failure; provided, however, that if the Servicer demonstrates to the reasonable satisfaction of the Note Insurer that it is diligently pursuing corrective action, the cure period may be extended for up to an additional 30 days; or

(iv) The Servicer shall fail to cure any breach of any of its representations and warranties set forth in this Agreement which materially and adversely affects the interests of the Noteholders or the Note Insurer for a period of 30 days after receipt by the Servicer of a written notice from the Indenture Trustee, the Trust, any Noteholder, the Depositor or the Note Insurer of such breach; provided, however, that if the Servicer demonstrates to the reasonable satisfaction of the Note Insurer that it is diligently pursuing corrective action, the cure period shall be extended for up to an additional 30 days; or

(v) The failure by the Servicer to make when due any required Servicing Advance for a period of 30 days following receipt by the Servicer of a written notice from the Indenture Trustee, the Trust, any Noteholder, the Depositor or the Note Insurer of such failure; or

(vi) The failure by the Servicer to make any required Delinquency Advance or to pay any Compensating Interest or to pay over the Monthly Remittance, Loan Purchase Prices and Substitution Adjustment Amounts; then, and in each and every such case, so long as an Event of Default shall not have been remedied, the Note Insurer or, with the consent of the Note Insurer, the Indenture Trustee (or a majority in interest of the Noteholders acting on behalf of the Indenture Trustee) may remove the Servicer upon the occurrence of any Servicer Termination Event. Whereupon all of the rights (other than its rights to reimburse for advances) and obligations, including its rights to the Servicing Fee, shall terminate. In addition, the Note Insurer, or the majority in interest of the Certificateholders with the consent of the Note Insurer, shall have the right to direct the Servicer to remove any Subservicer as permitted under the related subservicing agreement. Such termination shall be final and binding. On or after the receipt by the Servicer of such written notice, all authority and power of the Servicer under this Agreement, whether with respect to the Notes or the Mortgage Loans or otherwise, shall pass to and be vested in the Indenture Trustee pursuant to and under this Section 7.1(a); and, without limitation, the Indenture Trustee is hereby authorized and empowered to execute and deliver, on behalf of the Servicer, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such notice of termination, whether to complete the transfer and endorsement or assignment of the Mortgage Loans and related documents, or otherwise. The Servicer agrees to cooperate with the Indenture Trustee in effecting the termination of the Servicer's responsibilities and rights hereunder, including, without limitation, the transfer to the Indenture Trustee for administration by it of all cash amounts which shall at the time be credited by the Servicer to the Servicer Collection Account or thereafter be received with respect to the Mortgage Loans.

(b) Notwithstanding the foregoing, if a Servicer Termination Event

described in clause (vi) of Section 7.1(a) shall occur, the Indenture Trustee shall, by notice in writing to the Servicer, which may be delivered by telecopy, immediately suspend all of the rights and obligations of the Servicer thereafter arising under this Agreement, but without prejudice to any rights it may have as a Noteholder or to reimbursement of Delinquency Advances and other advances of its own funds, and the Indenture Trustee shall act as provided in Section 7.1(c) to carry out the duties of the Servicer, including the obligation to make any Delinquency Advance the nonpayment of which was a Servicer Termination Event described in clause (vi) of Section 7.1(a). Any such action taken by the Indenture Trustee must be prior to the related Payment Date. If the Servicer shall within two Business Days following such suspension remit to the Indenture Trustee the amount of any Delinquency Advance the nonpayment of which by the Servicer was a Servicer Termination Event described in clause (vi) of this Section 7.1(a), the Indenture Trustee shall permit the Servicer to resume its rights and obligations as Servicer hereunder. The Servicer agrees that it will reimburse the Indenture Trustee for actual, necessary and reasonable costs incurred by the Indenture Trustee because of action taken pursuant to clause (vi) Section 7.1(a). The Servicer agrees that if a Servicer Termination Event as described in clause (vi) Section 7.1(a) shall occur more than two times in any twelve-month period, the Indenture Trustee shall be under no obligation to permit the Servicer to resume its rights and obligations as Servicer hereunder.

(c) On and after the time the Servicer receives a notice of termination pursuant to Section 7.1, the Indenture Trustee shall be the successor in all respects to the Servicer under this Agreement and under the Subservicing Agreements with respect to the Mortgage Loans and with respect to the transactions set forth or provided for herein and shall have all the rights and powers and be subject to all the responsibilities, duties and liabilities relating thereto arising after the Servicer receives such notice of termination placed on the Servicer by the terms and provisions hereof and thereof, and shall have the same limitations on liability herein granted to the Servicer; provided, that the Indenture Trustee shall not under any circumstances be responsible for any representations and warranties or any liability incurred by the Servicer at or prior to the time the Servicer was terminated as Servicer and the Indenture Trustee shall not be obligated to make a Delinquency Advance if it is prohibited by law from so doing. As compensation therefor, the Indenture Trustee shall be entitled to all funds relating to the Mortgage Loans which the Servicer would have been entitled to retain or to withdraw from the Servicer Collection Account if the Servicer had continued to act hereunder, except for those amounts due to the Servicer as reimbursement for advances previously made or amounts previously expended and that are otherwise reimbursable hereunder. Notwithstanding the above, the Indenture Trustee may, if it shall be unwilling to so act, or shall if it is unable to so act, appoint, or petition a court of competent jurisdiction to appoint, any established housing and home finance institution having a net worth of not less than $10,000,000 as the successor to the Servicer hereunder in the assumption of all or any part of the responsibilities, duties or liabilities of the Servicer hereunder and under any Subservicing Agreements. Pending any such appointment, the Indenture Trustee is obligated to act in such capacity. In connection with such appointment and assumption, the Indenture Trustee may make such arrangements for the compensation of such successor out of payments on Mortgage Loans as it and such successor shall agree; provided, however, that no such compensation shall, together with the compensation to the Indenture Trustee, be in excess of that permitted the Servicer hereunder. The Indenture Trustee and such successor shall take such actions, consistent with this Agreement, as shall be necessary to effectuate any such succession.

Section 7.2. Notification to Certificateholders. Upon any such termination
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or appointment of a successor to the Servicer, the Indenture Trustee shall give prompt written notice thereof to Certificateholders at their respective addresses appearing in the Register.

ARTICLE VIII

Termination

Section 8.1 Termination of Agreement. All obligations created by this
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Agreement will terminate upon the earlier of the payment to the Note Insurer, the Owners and Certificateholders of all amounts held by the Indenture Trustee and required to be paid to the Note Insurer, such Owners and/or Certificateholders pursuant to this Agreement upon the later to occur of (a) the final payment or other liquidation (or any advance made with respect thereto) of the last Mortgage Loan in the Trust or (b) the disposition of all property acquired in respect of any Mortgage Loan remaining in the Trust; provided, however, that in no event shall the trusts created hereby continue beyond the expiration of 21 years from the death of the survivor of the issue of Joseph P. Kennedy, the late ambassador of the United States to the Court of St. James, living on the date hereof.

Section 8.2 Termination Upon Exercise of Collateral Purchase Options and

Servicer's Optional Termination Right.

(a) On the Payment Date as to which the Certificateholders Collateral Purchase Option, the Bear Stearns Collateral Purchase Option or the Optional Termination Right has been exercised and upon receipt of the Certificateholder Purchase Price, the Bear Stearns Purchase Price, or the Optional Termination Price, as applicable, and payment to the Note Insurer, Noteholders and Certificateholders of all amounts due them, this Agreement shall terminate.

(b) Promptly following any such purchase, the Indenture Trustee will release the Files for the related Mortgage Loans with appropriate endorsements and transfer documents, to the Certificateholder, Bear Stearns or the Servicer (or the Depositor in accordance with Section 8.4), or otherwise upon its respective order.

Section 8.3 Disposition of Proceeds. The Indenture Trustee shall, upon receipt thereof, deposit the proceeds of any liquidation or termination of the Trust pursuant to this Article VIII to the Trustee Collection Account. All such proceeds on deposit in the Trustee Collection Account shall be paid as provided in Section 5.2 hereof. The Indenture Trustee shall withdraw from the Reserve Account an amount equal to the funds on deposit therein and if the Certificateholder Collateral Purchase Option or the Bear Stearns Collateral Purchase Option is exercised apply such amounts against the Certificateholder Purchase Price or the Bear Stearns Purchase Price, as applicable, and otherwise, shall pay such amounts to the Certificate Distribution Account.

Section 8.4 Optional Termination. (a) On any Payment Date on or after the date on which the outstanding aggregate Loan Balance of the Mortgage Loans is equal to or less than 5% of the Original Aggregate Loan Balance (the "Optional Termination Date") and provided that the Swap Agreements are no longer outstanding, the Servicer may purchase from the Trust all (but not fewer than all) of the Mortgage Loans, the Pooled Certificates, and all Property theretofore acquired in respect of any Mortgage by foreclosure, deed in lieu of foreclosure, or otherwise then remaining in the Trust (the "Optional Termination Right") at a price (the "Optional Termination Price") equal to the sum of (i) 100% of the aggregate Loan Balances of the Mortgage Loans as of the day of purchase minus amounts remitted from the Servicer Collection Account to the Trustee Collection Account, representing collections of principal on the Mortgage Loans during the current Remittance Period, (ii) one month's interest on such amount computed at the LIBOR Rate less the portion of Available Interest Amounts available to pay interest on the Notes on such Payment Date, (iii) the outstanding principal balance of the Pooled Certificates, the unpaid amounts due and owing to the Note Insurer under the Insurance Agreement and reimbursement of any draws under the Note Insurance Policy, (iv) the aggregate amount of any related unreimbursed Delinquency Advances and Servicing Advances and (v) any LIBOR Interest Carryover Amount. In connection with such purchase, the Servicer shall remit to the Indenture Trustee all amounts then on deposit in Servicer Collection Account for deposit to the Trustee Collection Account, which deposit shall be deemed to have occurred immediately preceding such purchase.

(b) Promptly following any such purchase, the Indenture Trustee will release the Files for the related Mortgage Loans with appropriate endorsements and transfer documents, to the extent provided by the Servicer, to the Servicer or otherwise upon its order, and deliver the Pooled Certificates together with executed bond powers in favor of the Servicer or its designee.

(c) Notwithstanding the foregoing, the Servicer shall provide the Depositor with 30 days' prior written notice of its intention to purchase the Mortgage Loans, Pooled Certificates and such other Property and the Depositor may, at its option, by notice to the Servicer and the Indenture Trustee to be given not less than 10 Business Days prior to the next succeeding Payment Date, receive a preferential right in lieu of the Servicer to exercise the Optional Termination Right to purchase such Mortgage Loans, Pooled Certificates and other property on the such Payment Date, at a price equal to Optional Termination Price. If the Depositor deposits the Optional Termination Price with the Indenture Trustee on such Payment Date, the Indenture Trustee will release the Files for the related Mortgage Loans with appropriate endorsements and transfer documents, to the Depositor or otherwise upon its order, and deliver the Pooled Certificates together with executed bond powers in favor of the Depositor or its designee.

ARTICLE IX

Miscellaneous Provisions

Section 9.1 Amendment. This Agreement may be amended by the Issuer, the Depositor, the Servicer and the Indenture Trustee, with the consent of the Note

Insurer (which consent may not be unreasonably withheld), but without the consent of any of the Noteholders or the Certificateholders, to cure any ambiguity or defect, to correct or supplement any provisions in this Agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions in this Agreement or of modifying in any manner the rights of the Noteholders or the Certificateholders; provided, however, that such action shall not, as evidenced by an opinion of counsel delivered to the Indenture Trustee and the Note Insurer, adversely affect in any material respect the interests of the Note Insurer, any Noteholder or Certificateholder; provided further, that no such opinion of counsel shall be required if the Person requesting such amendment furnishes the Issuer, the Note Insurer and the Indenture Trustee with a letter from each Rating Agency to the effect that such amendment will not cause such Rating Agency to reduce or withdraw its rating of the Notes without giving effect to the Note Insurance Policy.

This Agreement may also be amended from time to time by the Issuer, the Depositor, the Servicer and the Indenture Trustee, with the consent of the Note Insurer, the consent of the Holders of Notes evidencing not less than a majority of the principal balance of each class of Notes and the consent of the Holders of Certificates evidencing not less than a majority of the Certificate Balance of the Certificates (if such Holders are adversely affected thereby), for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of modifying in any manner the rights of the Noteholders or the Certificateholders; provided, however, that no such amendment shall (a) increase or reduce in any manner the amount of, or accelerate or delay the timing of, distributions that shall be required to be made for the benefit of the Noteholders or the Certificateholders or (b) reduce the aforesaid percentages of the Notes and the Certificates, the Holders of which are required to consent to any such amendment, without the consent of the Holders of all the outstanding Notes and/or the Holders of all the outstanding Certificates affected thereby.

Promptly after its execution of any amendment pursuant to the preceding paragraph, the Indenture Trustee shall furnish written notification of the substance of such amendment or consent to each Rating Agency and each Certificateholder.

It shall not be necessary for the consent of the Certificateholders or Noteholders pursuant to this Section to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

Section 9.2. Notices and Copies to Rating Agencies and the Note Insurer.

(a) The Indenture Trustee shall notify the Rating Agencies, the Certificateholder and the Note Insurer of the occurrence of any of the following events, in the manner provided in Section 9.3:

(i) the occurrence of a Servicer Termination Event pursuant to Section 7.1; and

(ii) the appointment of a successor Servicer pursuant to Section 7.2.

(b) The Servicer shall notify the Rating Agencies and the Note Insurer of the occurrence of any of the following events, or in the case of clauses (iii), (v) and (vi) promptly upon receiving notice thereof, in the manner provided in Section 9.3:

(i) any amendment of this Agreement pursuant to Section 9.1;

(ii) the appointment of a successor Indenture Trustee pursuant to the Indenture;

(iii) any change in the location of the Servicer Collection Account or any Principal and Interest Account;

(iv) [RESERVED];

(v) the repurchase of any Mortgage Loan pursuant to Sections 2.2 or under Exhibit D, or the repurchase of the outstanding Mortgage Loans pursuant to Section 8.4;

(vi) the occurrence of the final Payment Date or the termination of the trust pursuant to Article VIII;

(vii) the failure of the Servicer to make a Delinquency Advance in lieu of the related Subservicer following a determination that such Delinquency Advance would not be a Nonrecoverable Advance pursuant to Section 4.9A; and

(viii) the failure of the Servicer to make a determination on or before the Remittance Date regarding whether it will make a Delinquency Advance in lieu of the related Subservicer when a shortfall exists between (x) payments scheduled to be received in respect of the related Mortgage Loans and (y) the amounts actually deposited in the Servicer Collection Account on account of such payments, pursuant to Section 4.9A.

The Servicer shall provide copies of any other statements or reports to the Rating Agencies and the Note Insurer in such time and manner that such statements or determinations are required to be provided to Noteholders.

Section 9.3 Notices. All notices hereunder shall be given as follows, until any superseding instructions are given to all other Persons listed below:

The Indenture Trustee: Bankers Trust Company of California, N.A.
3 Park Plaza; 16th Floor
Irvine, California 92614
Attention: Corporate Trust - TMA Mortgage Funding Trust I
Tel: (949) 253-7575
Fax: (949) 253-7577

The Depositor: Thornburg Mortgage Funding Corporation
18881 Von Karman Avenue, Suite 1450
Irvine, CA 92612
Attention: Richard P. Story
Tel: (949) 660-0012
Fax: (949) 660-7799

The Servicer: PNC Mortgage Securities Corp.
75 N. Fairway Dr.
Vernon Hills, IL 60061
(or such other address as may hereafter be furnished to the Indenture Trustee in writing by the Servicer)
Attention: General Counsel, with a copy to the Master Servicing Department
Tel: (847) 549-2315
Fax: (847) 549-2967

Note Insurer: Ambac Assurance Corporation
One State Street Plaza, 17th Floor
New York, NY 10004
Attention: Structured Finance-Mortgage-Backed Securities
Tel: (212) 208-3387
Fax: (212) 363-1459

The Issuer: TMA Mortgage Funding Trust I
c/o Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890
Tel: (302) 651-1000
Fax: (302) 651-1576

Moody's: Moody's Investors Service
99 Church Street
New York, New York 10007
Attention: ABS Monitoring Department

S&P: Standard & Poor's
26 Broadway
15th Floor
New York, New York 10004
Attention: ABS Surveillance Dept.

Section 9.4 Limitations on Rights of Others. Nothing in this Agreement or in any Note, expressed or implied, shall give to any Person, other than the parties hereto and their respective successors hereunder, the Note Insurer and the Noteholders, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 9.5 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 9.6 Separate Counterparts. This Agreement may be executed by the

parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 9.7 Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 9.8 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO ITS CONFLICT OF LAWS PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 9.9 Assignment to Indenture Trustee. The Depositor hereby acknowledges and consents to any mortgage, pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee pursuant to the Indenture for the benefit of the Noteholders, the Certificateholders, the Note Insurer and the Swap Counterparty of all right, title and interest of the Issuer in, to and under the Trust Estate, including among other things, the Mortgage Loans and the Pooled Certificates and/or the assignment of any or all of the Issuer's rights and obligations hereunder, under the Collateral Sale Agreement and under the Swap Agreements to the Indenture Trustee.

Section 9.10 Limitation of Liability of Owner Trustee and Indenture Trustee.

(a) Notwithstanding anything contained herein to the contrary, this Agreement has been executed by Wilmington Trust Company, not in its individual capacity but solely in its capacity as Owner Trustee of the Issuer, and in no event shall Wilmington Trust Company, in its individual capacity, or, except as expressly provided in the Trust Agreement, as Owner Trustee, have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or under any of the certificates, notices or agreements delivered pursuant hereto, as to all of which recourse shall be had solely to the assets of the Issuer. For all purposes of this Agreement, in the performance of its duties or obligations hereunder or in the performance of any duties or obligations of the Issuer hereunder, the Owner Trustee shall be subject to, and entitled to the benefits of, the terms and provisions of Articles VI, VII and VIII of the Trust Agreement.

(b) Notwithstanding anything contained herein to the contrary, this Agreement has been executed by Bankers Trust Company of California, N.A. not in its individual capacity but solely as Indenture Trustee and Paying Agent and in no event shall Bankers Trust Company of California, N.A. have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or in any of the certificates, notices or agreements delivered pursuant hereto, as to all of which recourse shall be had solely to the assets of the Issuer.

Section 9.11 Independence of the Servicer. For all purposes of this Agreement, the Servicer shall be an independent contractor and shall not be subject to the supervision of the Issuer or the Indenture Trustee with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Servicer shall have no authority to act for or represent the Issuer or the Indenture Trustee in any way and shall not otherwise be deemed an agent of the Issuer or the Indenture Trustee.

Section 9.12 No Joint Venture. Nothing contained in this Agreement (i) shall constitute the Servicer and either of the Issuer or the Indenture Trustee as members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (ii) shall be construed to impose any liability as such on any of them or (iii) shall be deemed to confer on any of them any express, implied or apparent authority to incur any obligation or liability on behalf of the others.

Section 9.13 Note Insurer. Any right conferred on the Note Insurer herein shall not arise until the issuance by the Note Insurer of its Note Insurance Policy and may be suspended or terminated as provided in Section 9.14 below (except that subrogation rights which have previously arisen shall not be so suspended). During the period of any such suspension, all such rights of the Note Insurer shall vest in the Owners, and may be exercised by the Owners of a

majority of the Class Principal Balance of the Notes.

Section 9.14 Rights of the Note Insurer. So long as there does not exist a failure by the Note Insurer to make a required payment under either the Note Insurance Policy or the Swap Insurance Policy, the Note Insurer shall have the right to exercise and may exercise, without the consent of the Noteholders or the Certificateholders, each and every right of the Noteholders granted pursuant to this Indenture and the Noteholders shall not exercise any such rights except upon the prior written consent of the Note Insurer hereunder; provided, however, that any right conferred on the Note Insurer hereunder shall be suspended during any period in which the Note Insurer is in default in its payment obligations under either the Note Insurance Policy or the Swap Insurance Policy. At such time as the Notes are no longer outstanding, and no amounts owed to the Note Insurer remain unpaid, the Note Insurer's rights hereunder shall terminate.

Section 9.15 Exhibits. The Exhibits referred to herein are incorporated herein as an integral part hereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

TMA MORTGAGE FUNDING TRUST I,
Issuer
By: WILMINGTON TRUST COMPANY,
not in its individual capacity but solely as
Owner Trustee

By:_____
Name:
Title:

THORNBURG MORTGAGE FUNDING CORPORATION, Depositor

By:_____
Name:
Title:

PNC MORTGAGE SECURITIES CORP., Servicer

By:_____
Name:
Title:

BANKERS TRUST COMPANY OF CALIFORNIA, N.A., as
Indenture Trustee

By:_____
Name:
Title:

APPENDIX A

Definitions

EXHIBIT A

[Reserved]

EXHIBIT B

INDENTURE TRUSTEE'S ACKNOWLEDGMENT OF RECEIPT

Bankers Trust Company of California, N.A., a national banking corporation, in its capacity as Indenture Trustee (the "Indenture Trustee") under that certain Sale and Servicing Agreement dated as of December 1, 1998 (the "Sale and Servicing Agreement") among TMA Mortgage Funding Trust I, as issuer (the "Issuer"), Thornburg Mortgage Funding Corporation, as depositor (the "Depositor"), PNC Mortgage Securities Corp., as master servicer (the "Servicer"), and the Indenture Trustee, hereby acknowledges receipt of the items required to be delivered to it pursuant to Section 2.2 of the Sale and Servicing

Agreement with respect to the Mortgage Loans, the Pooled Certificates and the Swap Agreements.

The Schedules of Mortgage Loans, Pooled Certificates and Swap Agreements are attached to this Receipt.

The Indenture Trustee hereby additionally acknowledges that it shall review such items as required by Section 2.2 of the Sale and Servicing Agreement.

BANKERS TRUST COMPANY OF CALIFORNIA, N.A., as Indenture Trustee

By:_____
Name:_____
Title:_____

Dated: December __, 1998

EXHIBIT C

POOL CERTIFICATION

WHEREAS, the undersigned is an Authorized Officer of Bankers Trust Company of California, N.A., a national banking corporation, acting in its capacity as indenture trustee (the "Indenture Trustee") of a pool of mortgage loans (the "Mortgage Loans") heretofore conveyed in trust to the Indenture Trustee, pursuant to that certain Sale and Servicing Agreement dated as of December 1, 1998 (the "Sale and Servicing Agreement") among TMA Mortgage Funding Trust I, as issuer (the "Issuer"), Thornburg Mortgage Funding Corporation, as depositor (the "Depositor"), PNC Mortgage Securities Corp., as master servicer (the "Servicer"), and the Indenture Trustee; and

WHEREAS, the Indenture Trustee is required, pursuant to Section 2.2 of the Sale and Servicing Agreement, to review the Files relating to the Mortgage Loans within a specified period following the Closing Date and to notify the Depositor, the Seller and the Note Insurer promptly of any defects with respect to the Mortgage Loans, and the Depositor or the Seller is required to remedy such defects or take certain other action, all as set forth in Section 2.2 of the Sale and Servicing Agreement; and

WHEREAS, Section 2.2 of the Sale and Servicing Agreement requires the Indenture Trustee to deliver this Pool Certification upon the satisfaction of certain conditions set forth therein.

NOW, THEREFORE, the Indenture Trustee hereby certifies that, except as provided in the attached exception report, it has determined that all required documents (or certified copies of documents listed in Section 2.2 of the Sale and Servicing Agreement) have been executed or received, and that such documents relate to the Mortgage Loans identified in the Schedule of Mortgage Loans pursuant to Section 2.2 of the Sale and Servicing Agreement. The Indenture Trustee makes no representation or certification hereby, however, (i) that any such document is genuine, valid, recordable, sufficient, suitable, insurable, collectable, enforceable, or appropriate for the represented purpose or that they are other than what they purport to be on their face and (ii) with respect to any intervening assignments or assumption and modification agreements.

By:_____
Name:_____
Title:_____

Dated: _____, 199_

EXHIBIT D

Part I. Delivery Requirements

(a) On or prior to the Closing Date, the Seller shall deliver to the Indenture Trustee, as designee of the Purchaser, the following documents with respect to each of the Mortgage Loans sold by it on the Closing Date:

(i) the original Mortgage Note, endorsed without recourse, to the order of the Indenture Trustee, as designee of the Purchaser, or in blank and showing an unbroken chain of endorsements from the original payee thereof to the person endorsing it to the Indenture Trustee, as designee of the purchaser; provided however, that with respect to three Mortgage Notes with an aggregate outstanding principal balance of $525,019 as of the Cut-off Date with respect to the Mortgage Loans, the Seller will not provide the original Mortgage Notes. In lieu thereof the Seller will provide lost note affidavits;

(ii) either (1) the original Mortgage with evidence of recording thereon, (2) a copy of the Mortgage certified as a true copy by the related Originator, a third party seller, a title closer or a settlement agent or an attorney where the original Mortgage has been transmitted for recording until such time as the original or certified copy is returned by the public recording office or (3) a copy of the Mortgage certified by the public recording office in those instances where the original recorded Mortgage has been retained by the public recording office or has been lost;

(iii) a copy of an assignment of the Mortgage to the Indenture Trustee, as designee of the Purchaser, or in blank, in a form for recording or filing, as may be appropriate in the state where the Property is located;

(iv) a copy of each title insurance policy or, if such policy has not yet been issued, a commitment or binder therefor;

(v) originals of each intervening assignment with evidence of recording thereon showing a complete chain of title from the originator to the Seller, or if the original of any such intervening assignment is unavailable, a copy certified as a true copy by the related Originator, a third party seller, a title closer or a settlement agent or an attorney until such time as the original or a copy certified by the public recording office is returned;

(vi) originals of all assumptions and modification agreements, if any;

(vii) with respect to each Mortgage Loan secured by Additional Collateral, the original assignment of the related pledge agreement concerning such Additional Collateral, together with a copy of such related pledge agreement; a copy of each related UCC-1 filing statement, and an original UCC-3 filing statement, where applicable, together with a copy of all applicable and executed notices of assignment; and an original assignment of all related servicing agreements, mortgages, guarantees and other documents executed and delivered to the Seller in connection with such Additional Collateral; and

(viii) with respect to each Cooperative Loan, the related Cooperative Note, the original security agreement, the proprietary lease or occupancy agreement, the related stock certificate and blank stock power and a copy of the original filed financing statement together with assignments to the Indenture Trustee in a form sufficient for filing;

provided, however, that the documents listed in clauses (ii)-(vii) above may, but need not be delivered on the Closing Date and if not so delivered shall be delivered within 30 days after the Closing Date.

(b) Within 30 days after the Closing Date, the Seller, at its sole cost and expense, shall cause assignments of the Mortgages from the Seller to the Indenture Trustee, as designee of the Purchaser, promptly to be submitted for recording in the appropriate jurisdictions; provided, however, that the Seller is not required to submit an assignment for any Mortgage with respect to which the original recording information is lacking or in states where, in the opinion of counsel acceptable to the Purchaser, the Note Insurer and the Indenture Trustee, such filing or recording is not required to protect the Purchaser's and the Indenture Trustee's interest in the Mortgage Loan against sale, further assignment, satisfaction or discharge by the Purchaser, the Trust, the Servicer, the related Subservicer or the Seller.

(c) The Seller shall deliver the original or certified copies of the Mortgages, as the case may be, and any such recorded assignments or certified copies thereof, together with originals or duly certified copies of any and all prior recorded assignments, to the Indenture Trustee within 30 days of receipt thereof by the Seller (but in any event within one year after the Closing Date).

(d) Notwithstanding anything to the contrary contained in this Part I, in those instances where the public recording office retains the original Mortgage, the assignment of a Mortgage or the intervening assignments of the Mortgage after it has been recorded, the Seller shall be deemed to have satisfied its obligations hereunder upon delivery to the Indenture Trustee, as the designee of the Purchaser, of a true and correct copy of such Mortgage, such assignment or assignments of Mortgage, duly certified by the applicable recorder's office.

(e) The Seller covenants and agrees with respect to the Mortgage Loans (i) to maintain (or cause to be maintained by the applicable Subservicer) on microfiche (or other permanent storage media) a copy of each original title insurance policy and to furnish a copy thereof to the Note Insurer upon its request or to the Indenture Trustee, as designee of the Purchaser, or the Servicer if necessary in order to present claims under such policy, (ii) to provide to the Indenture Trustee, as designee of the Purchaser, or the Servicer

a certified copy of any Mortgage or intervening assignment which was not delivered on the Closing Date and has not been subsequently delivered as provided in (c) above if necessary to permit the Servicer to take actions with respect to the related Mortgage Loan and (iii) to take all action necessary under applicable state law to transfer the benefits of the lien and security interest in the related Property to the Indenture Trustee, as the designee of the Purchaser.

(f) In the case of any Mortgage Loan which has been prepaid in full after the Cut-off Date with respect to the Mortgage Loans and prior to the Closing Date, the Seller, in lieu of the foregoing, will cause the Servicer to deliver within 15 days after the Closing Date to the Indenture Trustee and to the Purchaser a certification of an Authorized Officer in the form set forth as Exhibit G hereto.

(g) At the direction of the Indenture Trustee, as designee of the Purchaser, the Seller shall (or shall cause an Affiliate to) sell, transfer, assign, set over and otherwise convey without recourse, to the Indenture Trustee, as designee of the Purchaser, all right, title and interest of the Seller (or of such Affiliate) in and to any Qualified Replacement Mortgage delivered to the Indenture Trustee by the Seller (or such Affiliate) pursuant to Section 3.1 of the Collateral Sale Agreement (and Part III of this Exhibit D) and all its right, title and interest to principal collected and interest accrued on such Qualified Replacement Mortgage on and after the applicable Replacement Cut-off Date; provided, however, that the Seller (or such Affiliate) shall reserve and retain all right, title and interest in and to payments of principal collected and interest accrued on such Qualified Replacement Mortgage prior to the applicable Replacement Cut-off Date.

(h) As to each Mortgage Loan reconveyed by the Indenture Trustee in connection with the conveyance of a Qualified Replacement Mortgage therefor or a required repurchase thereof, the Purchaser shall, or shall cause the Indenture Trustee to, sell, transfer, assign, set over and otherwise convey without recourse, on the Seller's order, all of its right, title and interest in and to such conveyed Mortgage Loan and all the Purchaser's or the Indenture Trustee's right, title and interest to principal collected and interest accrued on such released Mortgage Loan after the applicable Replacement Cut-off Date; provided, however, that the Purchaser or the Indenture Trustee shall reserve and retain all right, title and interest in and to payments of principal collected and interest accrued on such conveyed Mortgage Loan on or prior to the applicable Replacement Cut-off Date.

(i) In connection with any transfer and assignment of a Qualified Replacement Mortgage to the Indenture Trustee, as designee of the Purchaser, the Seller agrees with respect to each Qualified Replacement Mortgage transferred and assigned by it to (i) deliver or cause to be delivered without recourse to the Indenture Trustee as designee of the Purchaser, on the date of delivery of such Qualified Replacement Mortgage all documents required by Part I of this Exhibit D, (ii) in instances required by paragraph (b) above, cause promptly to be recorded an assignment in the appropriate jurisdiction to the Indenture Trustee, and (iii) deliver or cause to be delivered the original Qualified Replacement Mortgage and such recorded assignment or certified copies of each, together with original or duly certified copies of any and all prior recorded assignments, to the Indenture Trustee, as designee of the Purchaser, within 30 days of receipt thereof by the Seller (but in any event within one year after the date of conveyance of such Qualified Replacement Mortgage).

(j) As to each Mortgage Loan reconveyed by the Purchaser or the Indenture Trustee in connection with the conveyance of a Qualified Replacement Mortgage or a required repurchase of such Mortgage Loan, the Purchaser shall or shall cause the Indenture Trustee to deliver on the date of conveyance of such Qualified Replacement Mortgage and on the order of the Seller (i) the original Note relating thereto, endorsed without recourse, to the Seller (or to such other party as the Seller directs) (ii) the original Mortgage so released and all recorded assignments relating thereto, (iii) an assignment from the Indenture Trustee to the Seller (or to such other party as the Seller directs) executed by the Indenture Trustee in the same form as the assignment referred to in clause (iii) of clause (a) above of this Part I, and (iv) such other documents as constituted the File with respect thereto.

(k) If a Mortgage assignment is lost during the process of recording, or is returned from the recorder's office unrecorded due to a defect therein, the Seller shall prepare a substitute assignment or cure such defect, as the case may be, and thereafter cause each such assignment to be duly recorded.

(l) If the Seller receives notice from the Indenture Trustee, the Purchaser, the Servicer or the Note Insurer pursuant to Section 2.2 of the Sale and Servicing Agreement that any required item has not been received, and such

item materially and adversely affects the interest of the Noteholders or of the Note Insurer in the related Mortgage Loan, the Seller agrees to use reasonable efforts to remedy a material defect in a document constituting part of a File of which it is so notified. If, however, within 90 days after notice to it respecting such defect the Seller has not remedied, or caused to be remedied, the defect and the defect materially and adversely affects the interest of the Noteholders and the Note Insurer in the related Mortgage Loan, the Seller will on the next succeeding Remittance Date (i) substitute in lieu of such Mortgage Loan a Qualified Replacement Mortgage and deliver the Substitution Adjustment Amount related thereto directly to the Servicer for deposit in the Servicer Collection Account or (ii) purchase such Mortgage Loan at a purchase price equal to the Loan Purchase Price thereof, which purchase price shall be delivered directly to the Servicer for deposit in the Servicer Collection Account.

(m) On or prior to the Closing Date, the Seller shall deliver to the Indenture Trustee, as designee of the Purchaser the Pooled Certificates together with bond powers executed in favor of "BANKERS TRUST COMPANY OF CALIFORNIA, N.A., AS INDENTURE TRUSTEE FOR THORNBURG MORTGAGE FUNDING TRUST I, SERIES 1998-1" together with any transferor documents and opinions of counsel required by the Trust Agreement, dated as of October 29, 1993 between CS First Boston Mortgage Securities Corp., as seller, and First Trust National Association, as trustee, regarding the Pooled Certificates sufficient to enable the Indenture Trustee to effect the record transfer to its name.

(n) On the Closing Date, the Seller shall deliver to the Purchaser and the Indenture Trustee a Confirmation of Assignment of the Swap Agreements, executed by the Swap Counterparty, the Seller and the Trust, and dated as of the Closing Date.

Part II. Representations and Warranties of the Seller Concerning the Mortgage Loans

The Seller hereby represents and warrants to the Purchaser as of the Closing Date or such other date as may be specified below with respect to each Mortgage Loan being sold by it:

(a) The information set forth in the Schedule of Mortgage Loans is true, complete and correct in all material respects as of the Mortgage Loan Cut-off Date;

(b) [Reserved].

(c) As of the Mortgage Loan Cut-off Date, no Mortgage Loan is delinquent in payment more than 89 days, no more than 1 Mortgage Loan with an aggregate outstanding principal balance of $112,799 as of the Mortgage Loan Cut-Off Date is 60 to 89 days delinquent and no more than 51 Mortgage Loans with an aggregate outstanding principal balance of $22,470,003 as of the Mortgage Loan Cut-Off Date are 30 to 59 days delinquent and no Mortgage Loan has been dishonored; other than such payment delinquencies, there are no defaults under the terms of the Mortgage Loan; and the Seller has not advanced funds, or induced, solicited or knowingly received any advance of funds from a party other than the owner of the Property subject to the Mortgage, directly or indirectly, for the payment of any amount required by the Mortgage Loan;

(d) Except for those delinquent loans referenced in (c) above, there are no delinquent taxes, ground rents, assessments or other outstanding charges and with respect to Cooperative Loans, no delinquent maintenance charges, affecting the lien priority of the related Property;

(e) The Mortgage Note and the Mortgage are not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the Mortgage Note and the Mortgage, or the exercise of any right thereunder, render the Mortgage Note or Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto;

(f) As of the Closing Date, the Mortgage has not been satisfied, canceled or subordinated, in whole or in part, or rescinded, and the Property has not been released from the lien of the Mortgage, in whole or in part, except with respect to certain releases in part that do not materially affect the value of the Property, nor has any instrument been executed that would effect any such satisfaction, release, cancellation, subordination or rescission;

(g) Immediately prior to the transfer and assignment to the Purchaser, the Mortgage Note and the Mortgage were not subject to an assignment or pledge, and the Seller had good and marketable title to and was the sole owner thereof and had full right to transfer and sell the Mortgage Loan to the Purchaser free and clear of any encumbrance, equity, lien, pledge, charge, claim or security

interest;

(h) Except for those delinquent Mortgage Loans referred to in (c) above, there is no default, breach, violation or event of acceleration existing under the Mortgage or the related Mortgage Note and no event, which, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event permitting acceleration; and neither the Seller nor any prior mortgagee has waived any default, breach, violation or event permitting acceleration;

(i) There are no mechanics, or similar liens or claims which have been filed for work, labor or material affecting the related Property which are or may be liens prior to or equal to the lien of the related Mortgage;

(j) All improvements subject to the Mortgage lie wholly within the boundaries and building restriction lines of the Property (and wholly within the project with respect to a condominium unit) except for de minimus encroachments
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permitted by the Fannie Mae Guide (MBS Special Servicing Option) and which has been noted on the appraisal, and no improvements on adjoining properties encroach upon the Property except those which are insured against by a title insurance policy and all improvements on the property comply with all applicable zoning and subdivision laws and ordinances;

(k) The Property (and in the case of a Cooperative Loan, the Cooperative Unit related thereto) currently is free of damage and waste or any such damage and waste is adequately covered by an insurance policy, and there currently is, no proceeding pending for the total or partial condemnation thereof;

(l) Except with respect to nine Mortgage Loans aggregating $4,077,764.75 as of the Mortgage Loan Cut-off Date as to which primary mortgage insurance was subsequently purchased and which will be maintained until the Loan-to-Value Ratio of such Mortgage Loans is reduced to 80.00%, the original Loan-to-Value Ratio of each Mortgage Loan either was not more than 95.00% or the excess over 80.00% is insured as to payments defaults by a Primary Mortgage Insurance Policy issued by a primary mortgage insurer acceptable to Fannie Mae and Freddie Mac until the Loan-to-Value Ratio of such Mortgage Loan is reduced to 80.00%;

(m) (I) With respect to each Mortgage Loan other than a Cooperative Loan, the Mortgage is a valid and enforceable first lien on the property securing the related Mortgage Note. Where the Property consists of residential real estate, the lien includes all buildings on the Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or annexed to such building, and all additions, alterations, and replacements made at any time with respect to the foregoing. Each Property is owned by the Mortgagor in fee simple (except with respect to common areas in the case of condominiums, PUDs and de minimis PUDs) or by leasehold for a term longer than
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the term of the related Mortgage, subject only to (i) the lien of current real property taxes and assessments, (ii) covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording of such Mortgage, such exceptions being acceptable to mortgage lending institutions generally or specifically reflected in the appraisal obtained in connection with the origination of the related Mortgage Loan or referred to in the lender's title insurance policy delivered to the originator of the related Mortgage Loan and (iii) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by such Mortgage. Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan and Additional Collateral establishes and creates a valid, subsisting and enforceable first lien and first priority security interest on the Property and any Additional Collateral for the Mortgage Loan and the Seller has full right to sell and assign the same to the Purchaser; and (II) with respect to each Cooperative Loan, the Mortgage creates a first lien or first priority interest on the property securing the related Mortgage Note, free and clear of all adverse claims, liens and encumbrances having priority over the first lien of the Mortgage, subject only to (1) the lien of the related Cooperative housing corporation for unpaid assessments, (2) the related proprietary lease being subordinated or otherwise subject to the mortgage on the related Cooperative building, and (3) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage or the value or marketability of the related Property;

(n) The terms of the Mortgage Note and the Mortgage have not been impaired, waived, altered or modified in any respect, except by written instruments which have been recorded to the extent any such recordation is required by applicable law, and copies of which written instruments are included in the File. No other instrument of waiver, alteration or modification has been executed, and no Mortgage has been released, in whole or in part, from the terms thereof except in connection with an assumption agreement, which assumption agreement is part

of the File and the terms of which are reflected in the Schedule of Mortgage Loans;

(o) All buildings upon the Property are insured by a generally acceptable insurer pursuant to standard hazard policies conforming to the requirements of the Sale and Servicing Agreement. All such standard hazard policies are in effect and on the date of origination contained a standard mortgagee clause naming the related originator or the Seller, as the case may be, and their respective successors in interest as loss payee and such clause is still in effect and all premiums due thereon have been paid. If the Property is located in an area identified by the Federal Emergency Management Agency as having special flood hazards under the Flood Disaster Protection Act of 1973, as amended, such Property is covered by flood insurance as set forth in Section 4.11(d) of the Sale and Servicing Agreement. The Mortgage obligates the Mortgagor thereunder to maintain all such insurance at the Mortgagor's cost and expense, and on the Mortgagor's failure to do so, authorizes the holder of the Mortgage to maintain such insurance at the Mortgagor's cost and expense and to seek reimbursement therefor from the Mortgagor;

(p) Any and all requirements of any federal, state or local law including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity or disclosure laws applicable to the Mortgage Loan have been complied with in all material respects;

(q) [Reserved].

(r) The Mortgage Note and the related Mortgage are original and genuine (including in the case of a Cooperative Loan, the Cooperative Shares, the related proprietary lease and recognition agreement) and each is the legal, valid and binding obligation of the maker thereof, enforceable in all respects in accordance with its terms subject to bankruptcy, insolvency and other laws of general application affecting the rights of creditors, and the Seller has taken all action necessary to transfer such rights of enforceability to the Purchaser. All parties to the Mortgage Note and the Mortgage had the legal capacity to enter into the Mortgage Loan and to execute and deliver the Mortgage Note and the Mortgage, and with respect to a Cooperative Loan, the related proprietary lease and recognition agreement. The Mortgage Note and the Mortgage have been duly and properly executed by such parties. The proceeds of the Mortgage Loan have been fully disbursed and there is no requirement for future advances thereunder, and any and all requirements as to completion of any on-site or off-site improvements and as to disbursements of any escrow funds therefor have been complied with;

(s) The Mortgage Loan is covered by an ALTA lender's title insurance policy or other generally acceptable form of policy of insurance, issued by a title insurer qualified to do business in the jurisdiction where the Property is located, insuring (subject to the exceptions contained in (m)(i) (1), (2) and (3) or (ii)(1), (2) and (3) above) the related Originator or the Seller, as applicable, and their respective successors and assigns, as to the first priority lien of the Mortgage in the original principal amount of the Mortgage Loan. The related Originator or the Seller, as applicable, and their respective successors and assigns, is the sole insured of such lender's title insurance policy, such lender's title insurance policy is in full force and effect and will be in full force and effect upon the consummation of the transactions contemplated by the Sale and Servicing Agreement and this Agreement and will inure to the benefit of the Purchaser and its successors and assigns without any further act. No claims have been made under such lender's title insurance policy, and no prior holder of the related Mortgage has done, by act or omission, anything which would impair the coverage of such lender's title insurance policy;

(t) Each Mortgage Loan was originated by or for an Originator and purchased by the Seller. Each Mortgage Loan complies in all material respects with all the terms, conditions and requirements of such Originator's underwriting standards in effect at the time of origination of such Mortgage Loan; provided, that certain Mortgage Loans may have characteristics outside of such underwriting guidelines where compensating factors are present acceptable to the mortgage banking industry. The Mortgage Notes and Mortgages are on uniform Fannie Mae/Freddie Mac instruments or are on forms acceptable to Fannie Mae or Freddie Mac. The Mortgage Loan bears interest at a the rate as set forth in the Schedule of Mortgage Loans, and monthly payments under the related Mortgage Note are due and payable on the first day of each month. The Mortgage Loan contains the usual and enforceable provisions of the Originator at the time of origination for the acceleration of the payment of the unpaid principal amount if the related Property is sold without the prior consent of the mortgagee thereunder;

(u) The related Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Property of the benefits of the security provided thereby, including, (1) in the case of a Mortgage designated as a deed of trust,

by trustee's sale, and (2) otherwise by judicial foreclosure. There is no homestead or other exemption available to the Mortgagor which would interfere with the right to sell the Property at a trustee's sale or the right to foreclose the Mortgage;

(v) If the Mortgage constitutes a deed of trust, a trustee, duly qualified if required under applicable law to act as such, has been properly designated and currently so serves and is named in the Mortgage, and no fees or expenses are or will become payable by the Purchaser to the trustee under the deed of trust, except in connection with a trustees sale or attempted sale after default by the Mortgagor;

(w) The File contains an appraisal of the related Property made and signed prior to the final approval of the mortgage loan application by a qualified appraiser, approved by the originator of the related Mortgage Loan. The appraisal is in a form generally acceptable to Fannie Mae or Freddie Mac;

(x) The related Mortgage Note is not and has not been secured by any collateral except the lien of the corresponding Mortgage, any related Additional Collateral, and the security interest of any applicable security agreement or chattel mortgage referred to above and such collateral does not serve as security for any other obligation;

(y) The related Mortgagor has received all disclosure materials required by applicable law with respect to the making of such mortgage loans;

(z) [Reserved];

(aa) Each Mortgage Loan has an original term to maturity of not more than 30 years with interest payable in arrears on the first day of each month. No Mortgage Loan contains terms or provisions which would result in negative amortization;

(bb) Each of the Mortgaged Properties consists of a single parcel of real property with a single-family residence erected thereon, or a two- to four-family dwelling, or an individual condominium unit in a condominium project or an individual unit in a planned unit development or a single parcel of real property with a cooperative housing development erected thereon;

(cc) The Mortgage Loans were originated with full, alternative or reduced documentation;

(dd) The Assignment of Mortgage is in recordable form and is acceptable for recording under the laws of the jurisdiction in which the Property is located;

(ee) Each Mortgage Loan was originated by, (i) a savings and loan association, savings bank, commercial bank, credit union, insurance company or similar institution which is supervised and examined by a federal or State authority, (ii) a mortgagee approved by the Secretary of Housing and Urban Development pursuant to Section 203 and 211 of the National Housing Act or (iii) a mortgage banker or broker licensed or authorized to do business in the jurisdiction in which the related Property is located, applying the same standards and procedures used by the applicable seller in originating Mortgage Loans directly;

(ff) Except for 18 Mortgage Loans with an aggregate outstanding principal balance as of the Cut-off Date of $5,847,863, no Mortgage Loan is secured by a leasehold estate, and with respect to each Mortgage Loan secured by a leasehold estate, the term of the leasehold exceeds the term of the related mortgage by not less than 24 months;

(gg) The Coupon Rate on each ARM, and each 5/1 ARM Mortgage Loan which has reached its Change Date, has been adjusted in accordance with the terms of the related Mortgage Note;

(hh) No Mortgage Loan has been selected in a manner adverse to the interests of the Noteholders or the Note Insurer;

(ii) Any escrow agreements with respect to each Mortgage Loan comply with applicable law and the terms of the related Mortgage Note;

(jj) With respect to each Cooperative Loan (i) there is no provision in the related proprietary lease which requires the Mortgagor to offer for sale the shares owned by such Mortgagor first to the Cooperative for a price less than the outstanding amount of the Cooperative Loan, and (ii) there is no prohibition in the related proprietary lease against pledging such shares or assigning the proprietary lease that has been violated in connection with the origination of the Cooperative Loan;

(kk) With respect to each Cooperative Loan, as of the closing of such Cooperative Loan, the related Subservicer, obtained evidence that, if the

Cooperative Building is in a federally designated flood area, a flood insurance policy has been obtained in an amount equal to at least that required by applicable law, which insurance the Cooperative is obligated to maintain at the Cooperative's cost and expense;

(ll) With respect to each Cooperative Loan, as of the Mortgage Loan Closing Date, such Cooperative Loan is secured by shares held by a "tenant-stockholder" of a corporation that qualifies as a "cooperative housing corporation" as such terms are defined in section 216 (b) (1) of the Internal Revenue Code of 1986, as amended, and to the best of the Seller's knowledge, no Cooperative is subject to proceedings which would, if adversely determined, result in such Cooperative losing its status as a "cooperative housing corporation" under Section 216 (b) (1) of the Internal Revenue Code of 1986, as amended; and

(mm) With respect to each Cooperative Loan, the related Mortgage creates a first-priority security interest in the stock in the Cooperative and the related proprietary lease of the related Cooperative Unit which were pledged to secure such Cooperative Loan, and the Cooperative owns the Cooperative Building as an estate in fee simple in real property or pursuant to a leasehold acceptable to Fannie Mae.

Part III. Certain Covenants.

(a) Upon the discovery by the Seller, the Indenture Trustee, the Purchaser, the Servicer or the Note Insurer that any statement set forth in Part II of Exhibit D was untrue (disregarding any qualification with respect to knowledge) as of the Closing Date, with the result that the interests of the Noteholders or the Note Insurer are materially and adversely affected, the party discovering such breach shall give prompt written notice to the other parties and the Note Insurer. Upon the earliest to occur of the Seller's discovery, its receipt of notice of breach, or such time as a situation resulting from an existing statement which is untrue materially and adversely affects the interests of the Noteholders or the Note Insurer, the Seller hereby covenants and warrants that it shall promptly cure such breach in all material respects or, unless otherwise directed by the Indenture Trustee, as designee of the Purchaser, it shall (or shall cause an Affiliate of the Seller to) on the second Remittance Date next succeeding such discovery, receipt of notice or such time (i) substitute in lieu of each Mortgage Loan which has given rise to the requirement for action by the Seller, a Qualified Replacement Mortgage and deliver the Substitution Adjustment Amount applicable thereto to the Indenture Trustee for deposit in the Trustee Collection Account or (ii) purchase such Mortgage Loan from the Indenture Trustee at a purchase price equal the Loan Purchase Price thereof, which purchase price shall be delivered to the Indenture Trustee for deposit in the Trustee Collection Account. It is understood and agreed that the obligation of the Seller so to cure, substitute or purchase any Mortgage Loan as to which such a representation or warranty contained in Part II of this Exhibit D is untrue in any material respect and has not been remedied shall constitute the sole remedy respecting a discovery of any such statement which is untrue in any material respect in Part II of this Exhibit D available to the Purchaser or the Indenture Trustee, as designee of the Purchaser.

(b) In the event that any Qualified Replacement Mortgage is delivered by the Seller to the Indenture Trustee pursuant to Section 2.1 or Section 3.1 of the Collateral Sale Agreement, the Seller shall be obligated to take the actions described in clause (a) of Part III of Exhibit D with respect to such Qualified Replacement Mortgage upon the discovery by the Seller, the Purchaser, the Depositor or the Note Insurer that any statement set forth in Part II of Exhibit D is untrue (disregarding any qualification with respect to knowledge) on the date such Qualified Replacement Mortgage is conveyed to the Indenture Trustee such that the interests of Noteholders or the Note Insurer in the related Qualified Replacement Mortgage are materially and adversely affected; provided, however, that for the purposes of this subsection (b) the
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statements in Part II of Exhibit D referring to items "as of the Cut-off Date" or "as of the Closing Date" shall be deemed to refer to such items as of the date such a Qualified Replacement Mortgage is conveyed to the Indenture Trustee.

EXHIBIT E
[Reserved]

EXHIBIT F
CERTIFICATE RE: PREPAID LOANS

I, _____, _____ of PNC Mortgage Securities Corp. as Servicer, hereby certify that between the "Cut-Off Date" (as defined in the Sale and Servicing Agreement dated as of December 1, 1998 among PNC Mortgage Securities Corp., as Servicer, TMA Mortgage Funding Trust I, as Issuer, Thornburg Mortgage Funding Corporation, as Depositor, and Bankers Trust Company of California, N.A., as Indenture Trustee (the "Sale and Servicing Agreement")), and the Closing Date (as defined in the Sale and Servicing Agreement) the following schedule of Mortgage Loans (as defined in the Sale and Servicing

Agreement) have been prepaid in full.

Dated: December __, 1998

By:_____
Name:
Title:

EXHIBIT G

FORM OF SERVICER'S TRUST RECEIPT

To: Bankers Trust Company of California, N.A.
3 Park Plaza; 16th Floor
Irvine, California 92614

Attn.: Corporate Trust - TMA Mortgage Funding Trust I, Series 1998-1

Date:

In connection with the administration of the Mortgage Loans serviced by PNC Mortgage Securities Corp. (the "Servicer") pursuant to a Sale and Servicing Agreement dated as of December 1, 1998 (the "Sale and Servicing Agreement"), among the Servicer, you, as Indenture Trustee, and Thornburg Mortgage Funding Trust I, as Issuer, the Servicer hereby requests a release of the File held by you as Indenture Trustee with respect to the following described Mortgage Loan for the reason indicated below.

Mortgagor's Name:

Loan No.:

Reason for requesting file:

_____ 1. Mortgage Loan paid in full.

(The Servicer hereby certifies that all amounts received in connection with the loan and required to be remitted to the Indenture Trustee have been or will be remitted to the Indenture Trustee pursuant to the Sale and Servicing Agreement.)

_____ 2. The Mortgage Loan is being foreclosed.

_____ 3. Other. (Describe)

The undersigned acknowledges that the above File will be held by the undersigned in accordance with the provisions of the Sale and Servicing Agreement and will be returned to you, except if the Mortgage Loan has been paid in full (in which case the File will be retained by us permanently) and except if the Mortgage Loan is being foreclosed (in which case the File will be returned when no longer required by us for such purpose).

Capitalized terms used herein shall have the meanings ascribed to them in the Sale and Servicing Agreement.

PNC MORTGAGE SECURITIES CORP.

By:_____
Name:
Title:

EXHIBIT H

NOTICE OF CHARGE-OFFS/LIQUIDATION LOAN REPORT

I, , hereby certify that I am the duly elected of PNC Mortgage Securities Corp. (the "Servicer") acting as servicer pursuant to a Sale and Servicing Agreement dated as of December 1, 1998 among the Servicer, Thornburg Mortgage Funding Corporation, as Depositor, TMA Mortgage Funding Trust I, as Issuer, and Bankers Trust Company of California, N.A., as Indenture Trustee, and further certify, to the best of my knowledge and after due inquiry that the following is a summary of the facts and circumstances surrounding the "charge-off" of any Mortgage Loans during the Remittance Period from _____ through _____;

Insert the following information for each "charged-off" Mortgage Loan:

Loan #
Borrower Name
Property Address
Date of "charge-off"/onset of foreclosure proceedings and date of foreclosure sale
Original Mortgage Loan Principal Balance
Outstanding Mortgage Loan Principal Balance
Coupon Rate
Accrued Interest at time of "charge off" or foreclosure sale
Unreimbursed Servicing Advances at time of "charge off" or foreclosure sale
Unreimbursed Delinquency Advances at time of "charge off" or foreclosure sale
days in default at time of "charge off" or foreclosure sale
Original appraised value
Current appraised value based upon "drive by"
Estimate of Foreclosure Costs/Actual Foreclosure Costs
Broker Fees
Legal Fees
Repair and Miscellaneous Expenses
Projected Marketing Period/Actual Marketing Period
Estimate of Loss on Foreclosure and Liquidation

Capitalized terms not otherwise defined herein have the meanings set forth in the Sale and Servicing Agreement.

IN WITNESS WHEREOF, I have certified the foregoing to the best of the knowledge of the Servicer.

Dated: By:_____
Name:
Title:

EXHIBIT I

FORM OF MONTHLY REPORT TO THE CERTIFICATE HOLDER

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This schedule contains summary financial information extracted from the December 31, 1997 Form 10-K and is qualified in its entirety by reference to such financial statements.
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