

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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SOUTHERN PACIFIC FUNDING CORP

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (date of earliest event reported): June 17, 1999

SOUTHERN PACIFIC FUNDING CORPORATION
(Exact name of registrant as specified in its charter)

California 1-11785 33-0636924
(State or other jurisdiction (Commission File No.) (IRS Employer Identification
of incorporation) No.)

One Centerpointe Drive, Suite 551
Lake Oswego, Oregon 97035
(Address of principal executive offices) (Zip Code)

(503) 684-6316
(Registrant's telephone number, including area code)

Item 5. Other Events.

Southern Pacific Funding Corporation ("SPFC") has entered into a settlement agreement (the "Settlement Agreement") with Norwest Bank Minnesota, National Association ("Norwest"), MBIA Insurance Corporation ("MBIA"), and The Goldman Sachs Group, Inc. ("Goldman"), dated June 17, 1999. A copy of the Settlement Agreement is attached as Exhibit 10 to this report. The Settlement Agreement is subject to Bankruptcy Court approval in SPFC's Chapter 11 case. If one or more objections to the Settlement Agreement are filed on or before July 7, 1999, a hearing will be held on the motion to approve the Settlement Agreement on July 7, 1999.

Norwest serves as trustee and MBIA acts as certificate insurer with respect to several of SPFC's mortgage loan securitization trusts (the "Trusts"). The Trusts were established under the terms of Pooling and Servicing Agreements or Indentures (collectively, the "Pooling and Servicing Agreements") which, under SPFC's proposed plan of reorganization, will be assumed by the reorganized company pursuant to Section 365(b) of the Bankruptcy Code.

Norwest has filed eight proofs of claim in SPFC's bankruptcy case totaling approximately \$2 billion based on alleged breaches of the Pooling and Servicing Agreements due to SPFC's failure to repurchase certain allegedly defective mortgage loans owned by the Trusts. MBIA has also filed a contingent

proof of claim in an estimated amount of \$2.4 billion. SPFC has asserted that its failure to repurchase the mortgage loans at issue is not a breach of the Pooling and

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Servicing Agreements but, at most, constitutes a default under related mortgage loan purchase agreements.

The Settlement Agreement provides that SPFC will purchase those mortgage loans with critical document deficiencies that cannot be cured. SPFC believes that all such deficiencies will be cured, including pursuant to amended document delivery requirements contained in the Settlement Agreement. However, the liquidating trust (the "Liquidating Trust") to be established under SPFC's plan of reorganization will be required to pay approximately \$3.3 million to repurchase certain mortgage loans that were supposed to be, but were not, transferred to the Trusts.

The Settlement Agreement requires that a subservicer acceptable to Norwest and MBIA be appointed for each Trust as to which SPFC acts as master servicer no later than September 30, 1999, with the transfer of servicing to be completed by October 31, 1999. The Settlement Agreement acknowledges that Ocwen Financial Corporation and a related entity are acceptable subservicers.

The Settlement Agreement also provides that SPFC, the Liquidating Trust, and Goldman will release Norwest and MBIA from all claims resulting from SPFC's failure to perform as master servicer. Norwest and MBIA will withdraw all proofs of claim relating to the alleged breaches of the Pooling and Servicing Agreements. SPFC will also be required to compensate the Trusts for damages, if any, arising out of legal proceedings brought by Oceanmark Bank, F.S.B. ("OMB"), in connection with certain mortgage loans held by the Trusts that OMB claims it owns.

SPFC is required to file Monthly Operating Reports with the United States Bankruptcy Court for the District of Oregon pursuant to Bankruptcy Rule 2015 in connection with its Chapter 11 case (Case No. 398-37613-elp11). Attached hereto as Exhibit 99 are the financial statements (omitting certain schedules) included in the Monthly Operating Report for the Month Ending May 1999, filed with the Bankruptcy Court on June 29, 1999.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits:

10 Settlement Agreement dated as of June 17, 1999, by and among Southern Pacific Funding Corporation, Norwest Bank Minnesota, National Association, MBIA Insurance Corporation, and The Goldman Sachs Group, Inc.

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SIGNATURE

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

SOUTHERN PACIFIC FUNDING CORPORATION

Dated: June 30, 1999

By:/s/ Timothy Breedlove

Name: Timothy Breedlove

Title: Chief Financial Officer

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SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (this "Agreement"), dated as of June 17, 1999, by and among Southern Pacific Funding Corporation ("SPFC"), Norwest Bank Minnesota, National Association, solely in its capacity as trustee for the Transactions, as defined below (the "Trustee"), MBIA Insurance Corporation ("MBIA"), and THE Goldman Sachs GROUP, INC. (the "Purchaser"), recites and provides as follows:

W I T N E S S E T H:

WHEREAS, the Trustee serves as trustee and MBIA acts as certificate insurer, with respect to each of the following series of Southern Pacific Secured Assets Corp., Mortgage Asset-Backed Pass-Through Certificates securitization transactions (the "Insured Transactions"): Series 1996-4, Series 1997-1, Series 1997-3, Series 1997-4, Series 1998-1 and Series 1998-2;

WHEREAS, the Trustee serves as trustee with respect to each of the following securitization transactions (the "Non-Insured Transactions", and together with the Insured Transactions, the "Transactions"): Southern Pacific Secured Assets Corp. Mortgage Asset-Backed Pass-Through Certificates, Series 1997-2 and Southern Pacific Home Loan Trust Collateralized Asset-Backed Notes, Series 1998-H1;

WHEREAS, MBIA acts as certificate insurer with respect to the following series of Southern Pacific Secured Assets Corp. Mortgage Asset-Backed Pass-Through Certificates securitization transactions for which the Trustee does not serve as trustee (the "Additional Insured Transactions"): Series 1995-1, Series 1995-2, Series 1996-1, Series 1996-2, and Series 1996-3;

WHEREAS, the trust related to each of the Transactions and each of the Additional Insured Transactions (each, a "Trust") has been established pursuant to the terms of a Pooling and Servicing Agreement or an Indenture and is serviced pursuant to an agreement identified on Schedule 1 hereto (collectively, the "Pooling and Servicing Agreements");

WHEREAS, SPFC commenced a case under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") on October 1, 1998 (the "Chapter 11 Case") in the United States Bankruptcy Court for the District of Oregon (the "Bankruptcy Court");

WHEREAS, on June 3, 1999, SPFC proposed its second amended Chapter 11 plan (the "Plan") that provides for the assumption of the Pooling and Servicing Agreements under Section 365(b) of the Bankruptcy Code and the sale of newly issued common stock of SPFC to the Purchaser (such sale of stock to the Purchaser pursuant to the Plan, the "Acquisition");

WHEREAS, the Trustee and MBIA assert that SPFC has failed to repurchase

certain Mortgage Loans owned by the Trusts as to which various alleged breaches of representations or warranties materially and adversely affecting the value of such mortgage loans have occurred and have not been cured (collectively, the "Breaches"), and the Trustee and MBIA further assert that SPFC has the obligation under Section 365(b) of the Bankruptcy Code to cure such defaults by repurchasing the related Mortgage Loans in accordance with certain of the Pooling and Servicing

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Agreements contemporaneously with the assumption of those the Pooling and Servicing Agreements;

WHEREAS, SPFC has not repurchased the Mortgage Loans affected by the Breaches, but asserts that its failures to repurchase such Mortgage Loans do not constitute defaults under the Pooling and Servicing Agreements, but, at most, constitute defaults under the related mortgage loan purchase agreements identified on Schedule 2 hereto (the "Mortgage Loan Purchase Agreements");

WHEREAS, SPFC intends to reject the Mortgage Loan Purchase Agreements, Insurance Agreements and the indemnification agreements associated with the Insurance Agreements (the "Indemnification Agreements"), and SPFC contends that the Trustee's claims for the repurchase price of the Mortgage Loans affected by the Breaches, as set forth in the proofs of claim filed by the Trustee (collectively, the "Trustee's Proofs of Claim"), constitute no more than general unsecured claims, to the extent such claims are allowed, and should be treated as such under the Plan;

WHEREAS, MBIA and the Trustee assert certain rights and remedies against SPFC in respect of various defaults under the terms of certain of the Insurance Agreements, Mortgage Loan Purchase Agreements and Pooling and Servicing Agreements and various rights of consent to the appointment of any subservicer or successor master servicer; and

WHEREAS, the Parties hereto have agreed to resolve certain issues arising from the proposed assumption of the Pooling and Servicing Agreements under the Plan upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Definitions. Except as otherwise expressly provided herein or

unless the context otherwise requires, capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Pooling and Servicing Agreements. In addition, the following terms shall have the following definitions:

(a) "Closing Date" shall mean the date on which the Acquisition is consummated.

(b) "Confirmation Order" shall mean the order of the bankruptcy court confirming the Plan and approving the settlement contained in this Agreement.

(c) "Final Order" shall mean an order or judgment entered by a court of competent jurisdiction, including without limitation the Bankruptcy Court, that (i) has not been reversed, stayed, modified or amended, (ii) is not the subject of a pending appeal or motion for review or reconsideration, (iii) has not been and may no longer be appealed from or otherwise reviewed or reconsidered, and (iv) is final and non-appealable in accordance with applicable law, including without limitation Rule 8002 of the Federal Rules of Bankruptcy Procedure.

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(d) "Excess Loss" shall mean, with respect to a Trust, any loss, whenever incurred, that would be allocated, in accordance with the applicable Pooling and Servicing Agreement, to any of the Class A Certificates or Notes related to such Trust absent any payment under any Certificate Insurance Policy, which is to say the amount of any loss incurred by a Trust in excess of the amount of available credit support for the related Class A Certificates or Notes (including credit support represented by any related Residual Interests excess cashflow or overcollateralization, but excluding payments and rights to payment under any Certificate Insurance Policy).

(e) "Liquidating Trust" shall mean the liquidating trust created by the Plan for the benefit of SPFC's creditors.

(f) "Reorganized SPFC" shall mean Southern Pacific Funding Corporation on and following the effective date of the Plan, and shall exclude the Liquidating Trust.

(g) "Residual Interests" shall mean, with respect to a Trust, any Class R Certificates, uninsured interest-only securities or any and all other economic interests in the Trust that are uninsured and are subordinated in right of payment to the related Class A Certificates or Notes.

(h) "Series 1998-H1 Servicing Agreement" shall mean the Servicing Agreement dated as of June 1, 1998 between SPFC and Southern Pacific CMN Trust Series 1998-H1.

(i) "SPFC" shall mean Southern Pacific Funding Corporation prior to the effective date of the Plan and shall exclude Reorganized SPFC.

2. Critical Exceptions.

(a) Critical Exception Mortgage Loans. Certain of the Breaches

arise from deficiencies in the contents of the related Mortgage Files that the parties agree are critical to the effective realization of value in the related Mortgage Loans by the Trust (the "Critical Exceptions"). The following constitute Critical Exceptions: (i) missing or incomplete original Mortgage Notes and (ii) missing or incomplete recorded assignments of Mortgages or other security instruments related to the Mortgage Loans to the Trustee. The Mortgage Loans as to which a Critical Exception exists as of the date hereof (collectively, the "Critical Exception Mortgage Loans") are identified on Schedule 3 hereto.

(b) Amendment of Pooling and Servicing Agreements. To address such of the Critical Exceptions as may be cured by such actions, SPFC shall prepare such amendments to the Pooling and Servicing Agreements as may be necessary and appropriate to provide for the following changes to the terms of certain of the Pooling and Servicing Agreements: (i) to permit delivery of a copy of an executed Mortgage Note together with a lost note affidavit in form and substance acceptable to the Trustee in lieu of delivery of the original Mortgage Note and (ii) to allow for delivery of an Opinion of Counsel that recordation of an Assignment Of Mortgage to a Trust is not required under applicable law to protect the Trust's interest in the related Mortgage Loan. Prior to the

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entry of the Confirmation Order, SPFC shall cause such amendments to be prepared and delivered to the Trustee and MBIA for signature along with all legal opinions, consents, confirmations of ratings and any and all other documents necessary to amend each applicable Pooling and Servicing Agreement. The Trustee and MBIA, as applicable, will enter into such amendments, provided the terms of such amendments are satisfactory to the Trustee and MBIA, as applicable, and all conditions to the effectiveness of such amendments have been satisfied. As to each Critical Exception which is to be cured by recordation of an assignment of mortgages to the Trustee, SPFC shall submit the assignment to the applicable recording office prior to the Closing Date.

(c) Repurchase Obligations. On or before the Closing Date, SPFC or the Liquidating Trust, as successor to SPFC, agrees to repurchase each Critical Exception Mortgage Loan for which the related Critical Exception in the reasonable judgment of the Trustee and MBIA, if applicable, has not either been (i) cured as of such date (or, in the judgment of the Trustee, MBIA, and the Purchaser) adequate steps to cure the Critical Exceptions are being taken and, in any event, such cure is completed within six months of the Closing Date); or (ii) effectively avoided by the amendments to the applicable Pooling and Servicing Agreement. If, at any time after the Closing Date, the Trustee and MBIA, on the one hand or Purchaser, on the other hand, conclude, in their reasonable judgment, that a Critical Exception identified for cure on the Closing Date is not likely to be cured

within the six-month period after the Closing Date, SPFC (or the Liquidating Trust as successor) will repurchase the related Critical Exception Mortgage Loan within 10 business days after notice and demand for repurchase. Such repurchase will be effected in accordance with the terms of the applicable Mortgage Loan Purchase Agreement and Pooling and Servicing Agreement by payment to each related Trust of the full amount of the purchase price (as defined by the applicable Mortgage Loan Purchase Agreement or other document related to the Trust) in immediately available funds for each related Critical Exception Mortgage Loan.

3. Non-Critical Exceptions.

(a) Non-Critical Exception Loans. Certain of the Breaches arise from deficiencies in the contents of the related Mortgage Files that do not constitute Critical Exceptions (the "Non-Critical Exceptions"). Reorganized SPFC shall cause the Master Servicer or any Subservicer of the related Trust, in accordance with Accepted Servicing Practices, to cure any and all Non-Critical Exceptions in the ordinary course of the Master Servicer's or the Subservicer's servicing of the related Mortgage Loans.

(b) Exception Losses. If the Master Servicer or any Subservicer fails to cure a Non-Critical Exception and the Master Servicer, the Subservicer, the Trustee or any successor servicer is unable to complete foreclosure proceedings in respect of any Mortgage Loan after the Closing Date as to which a Non-Critical Exception exists, a loss (an "Exception Loss") in the amount of the then outstanding principal balance of the related Mortgage Loan plus accrued interest thereon and any unreimbursed servicing advances will be allocated pursuant to the terms of the related Pooling and Servicing Agreement. If the allocation of any loss pursuant to the terms of any Pooling and Servicing Agreement would result in an Excess Loss, Reorganized SPFC shall deposit to the related Trust, in immediately available funds, the full amount of any such Excess

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Loss; provided, however, that Reorganized SPFC's obligation (the "Exception Loss Coverage Obligation") to cover Excess Losses under this Section with respect to a particular Trust shall not exceed the aggregate amount of Exception Losses actually incurred in respect of such Trust following the Closing Date and provided, further, that the aggregate amount of Reorganized SPFC's Exception Loss Coverage Obligation will not exceed the following: (i) \$5 million with respect to the Insured Transactions or (ii) \$1.7 million with respect to the Non-Insured Transactions.

(c) Exception Loss Reporting. Reorganized SPFC shall assure that the Master Servicer or Subservicer with respect to each Trust shall

provide the Trustee and MBIA with a monthly mortgage loan liquidation report, on a loan-by-loan basis, detailing the amount of any loss incurred in respect of each liquidated Mortgage Loan. Any liquidated Mortgage Loan with a Non-Critical Exception for which no net proceeds are realized as a result of such liquidation will be presumed to have incurred an Exception Loss unless the Master Servicer provides or causes the related Subservicer to provide to the Trustee and MBIA an Officers' Certificate certifying that, in the good faith business judgment of the Master Servicer or (to the extent provided by the Subservicer) the related Subservicer, the loss incurred with respect to such liquidated Mortgage Loan did not result from an inability to complete foreclosure proceedings with respect to such Mortgage Loan and detailing the basis for that determination.

4. Phantom Loans.

(a) Phantom Loan Breaches. Certain of the Breaches (the "Phantom Loan Breaches") arise from Mortgage Loans that SPFC contends were de-funded prior to sale to the Trust, were sold to another person or entity, or otherwise were not effectively transferred to the related Trusts (the "Phantom Loans"). The Phantom Loans are identified on Schedule 4 hereto.

(b) Repurchase of Phantom Loans. On the Closing Date, SPFC (or the Liquidating Trust, as successor) shall deposit to each applicable Trust, in immediately available funds, an amount (the "Phantom Loan Repurchase Amount") with respect to each Phantom Loan equal to the sum of the purchase price and the amount of unreimbursed advances related to such Phantom Loan, each as specified in Schedule 4 hereto. Upon

deposit of the Phantom Loan Repurchase Amount for a Phantom Loan to the related Trust, SPFC, as Master Servicer (or the Liquidating Trust as successor), shall be entitled to reimbursement from the Trust of the amount of unreimbursed advances related to such Phantom Loan, as specified on Schedule 4 hereto. The parties agree that, notwithstanding

the terms of the Pooling and Servicing Agreement or Mortgage Loan Sale Agreement related to the Trust, the obligation of SPFC (or the Liquidating Trust as successor) to deposit the Phantom Loan Repurchase Amount for each Phantom Loan to the related Trust satisfies SPFC's (or the Liquidating Trust's as successor) repurchase obligation with respect to the Phantom Loans, and SPFC (or the Liquidating Trust as successor) shall have no rights of reimbursement for any advances in respect of any Phantom Loan other than the rights under this Section; and Reorganized SPFC shall have no rights of reimbursement for any advances in respect of any Phantom Loan.

5. Oceanmark Loans.

(a) Oceanmark Claims. Certain of the Breaches arise as a result of claims made and issues related to litigation commenced by Oceanmark Bank, F.S.B. ("Oceanmark") in Florida state court styled Oceanmark Bank F.S.B. v. Norwest Bank Minnesota, N.A. and Advanta Mortgage Corp., U.S.A., Case No. 98-20426, and Oceanmark Bank F.S.B. v. Bankers Trust Company of California N.A. and Advanta Mortgage Company, Case No. 98-20427 (together with all pending litigation in the Bankruptcy Court related to the same subject matter, the "Oceanmark Cases"), in which Oceanmark asserts ownership of and/or entitlement to or encumbrances on certain Mortgage Loans identified on Schedule 5 hereto (collectively, the "Oceanmark Loans").

(b) Oceanmark Loans Obligation. In the event that any of the Oceanmark Loans is determined in a Final Order issued by a court of competent jurisdiction to be owned or otherwise encumbered by Oceanmark and (i) such Final Order requires reconveyance to Oceanmark of any such loan, or (ii) such Final Order awards Oceanmark money damages against the Trustee or a Trust in respect of any such loans, Reorganized SPFC shall promptly pay to the Trustee an amount equal to the amount necessary to permit the Trustee to honor such reconveyance obligation and/or the amount of damages set forth in the Final Order, provided that, such amount shall not exceed, with respect to the Oceanmark Loans for which reconveyance and/or damages were awarded, (A) the aggregate principal balances as of the Cut-off Date for the Oceanmark Loans to which the Final Order relates plus any premium as determined from the Final Order, plus (B) interest calculated for each such loan at the related note rate thereon from the Cut-off Date to the date of payment pursuant to the Final Order. In addition, Reorganized SPFC agrees to reimburse directly all out-of-pocket costs and expenses (including reasonable attorneys' fees and expenses) reimbursable to the Trustee or the Trust pursuant to the terms of the related Pooling and Servicing Agreement with respect to the Oceanmark Cases. Upon demand of Trustee, Reorganized SPFC shall remit to the Trustee or deposit to the related Trust any amount payable hereunder in immediately available funds. The Trustee agrees to provide written notice to MBIA and Purchaser of any claim for payment hereunder, which notice shall include the identification of the Oceanmark Loans related to such claim and the amount of the claim. The parties agree, notwithstanding the terms of the Pooling and Servicing Agreement or Mortgage Loan Sale Agreement related to the applicable Trust, the obligation of Reorganized SPFC under this Section 5(b) satisfies Reorganized SPFC's obligations with respect to such Oceanmark Loan and neither the Trustee nor MBIA shall have any further rights against SPFC, Reorganized SPFC, or the Purchaser in respect thereof, except as contemplated by Section 6.

(c) SPFC hereby instructs Purchaser and Reorganized SPFC, that in the event that SPFC (or the Liquidating Trust as successor) shall fail to pay any amount owing to the Trustee pursuant to this Section (after application of amounts paid pursuant to Section 6), Reorganized SPFC shall pay to the Trustee all amounts due to be paid to Liquidating

Trust by Reorganized SPFC pursuant to the Cash Flow Instrument to be issued by Reorganized SPFC to Liquidating Trust as Holder on the Closing Date until all amounts due to the Trustee under this Section have been paid.

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6. Guaranty of Performance; Appointment of Subservicer; Forbearance.

(a) Purchaser Guaranty. Subject to and conditioned upon the closing of the Acquisition, Purchaser hereby guarantees the full and prompt payment of all amounts required to be paid by Reorganized SPFC pursuant to Section 5(b) of this Agreement, excluding any amounts payable with respect to premium, if any. The Purchaser's guaranty hereunder is a guaranty of payment, not of collection, and Purchaser hereby expressly waives any right to require that demand be made (other than the demand for payment contemplated by Section 5(b)) or any action be brought against Reorganized SPFC as a condition to Purchaser's obligation under this guaranty.

(b) Appointment of Subservicer. Reorganized SPFC agrees to use its reasonable best efforts promptly to appoint a Subservicer acceptable to the Trustee and MBIA, in their sole and absolute discretion, as subservicer (the "Subservicer") with respect to each Trust for which Reorganized SPFC acts as Master Servicer. Reorganized SPFC shall enter into a Subservicing Agreement with such Subservicer (the "Subservicing Agreement"), which Subservicing Agreement shall comply with the requirements of the related Pooling and Servicing Agreements and shall provide for the transfer of servicing in respect of all related Mortgage Loans for which Reorganized SPFC acts as Master Servicer. The Subservicing Agreement shall be executed and effective no later than September 30, 1999. In addition, "good-bye letters" notifying borrowers of the transfer of servicing to the Subservicer shall be mailed no later than September 30, 1999, and the transfer of servicing of all related Mortgage Loans to the Subservicer shall be completed no later than October 31, 1999. The Trustee and MBIA agree that Ocwen Financial Corporation ("Ocwen Financial") and Ocwen Federal Bank FSB ("Ocwen Bank") each shall constitute an acceptable Subservicer, and consent to the appointment of either as Subservicer pursuant to the terms of the Pooling and Servicing Agreements. The Trustee and MBIA further consent to the retention by the Master Servicer or any Subservicer of Fannie Mae to provide management and liquidation services with respect to any mortgaged property, ownership of which is acquired by a Trust.

(c) Forbearance. Each of the Parties acknowledges and agrees that one or more Events of Default have occurred and are continuing under Section 7.01(vii), (viii) or (ix) of the Pooling and Servicing Agreements (or Section 6.01(v), in the case of the Series 1998-H1 Servicing Agreement). The Trustee and MBIA hereby agree, upon the satisfaction of all Conditions Precedent under Section 10 of this

Settlement Agreement, to forbear from enforcing their respective rights and remedies against each of SPFC and Reorganized SPFC or any successor, as Master Servicer, with respect to (A) any Events of Default which may have previously occurred or which may occur in the future under Section 7.01(iii) of the Pooling and Servicing Agreements with respect to any breach of a representation or warranty of the Master Servicer contained in Section 3.01(c) or of the Master Servicer's covenants in Sections 5.08, 5.17 and 5.22 of the Pooling and Servicing Agreements, Section 7.01 (vi) (with respect to the Chapter 11 Case), (vii), (viii) or (ix) of the Pooling and Servicing Agreements, or (B) any Servicing Defaults which may have previously occurred or which may occur in the future under Section 6.01(ii) of the Series 1998-H1 Servicing Agreement with respect to any breach of a representation or warranty of the Master Servicer or of the Master Servicer's covenants in Sections 2.03, 3.09, 3.15,

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and 3.16 of the Series 1998-H1 Servicing Agreement or Section 6.01(v) of the Series 1998-H1 Servicing Agreement, for so long as the following conditions are met:

(i) a Subservicer is appointed and performing as provided in this Section;

(ii) Reorganized SPFC, as Master Servicer, is in compliance with all other terms and conditions of the Pooling and Servicing Agreements and SPFC and Reorganized SPFC are in compliance with all terms and conditions of this Settlement Agreement;

(iii) the Subservicer meets certain financial covenants specified by MBIA, in its sole and absolute discretion, for such Subservicer; provided that, if the Subservicer is either Ocwen Financial or Ocwen Bank, the Subservicer meets the following financial covenants: (A) Ocwen Bank maintains at least "adequately capitalized" status at all times, as defined by its banking regulators, for so long as the Purchaser (or an affiliate) continues to have a substantial economic interest in the Residual Interests for the related Transaction, and, otherwise maintains "well capitalized" status at all times as defined by its banking regulators; (B) if the Subservicer is Ocwen Financial, Ocwen Financial provides MBIA with audited financial statements within ninety days after the end of each fiscal year; (C) Ocwen Bank agrees to notify MBIA of the entry of any consent or cease and desist order or similar order or directive issued against Ocwen Bank by any regulator of Ocwen Bank; (D) Ocwen Bank agrees to notify MBIA of any material adverse change in the operations or finances of Ocwen Bank; and (E) if the Subservicer is Ocwen Financial, the performance of all of its obligations as Subservicer are guaranteed by Ocwen Bank;

(iv) on and after the six month anniversary of the Closing Date, the Subservicer meets certain resource and procedural criteria derived from Subservicer's published policy and procedures, which criteria shall be specified by MBIA, in its sole and absolute discretion; provided, however, that if the Subservicer is Ocwen Financial or Ocwen Bank, such criteria shall be those selected by MBIA in its sole and absolute discretion, up to eight such criteria, from the resource and procedural standards contained in Ocwen Financial's or Ocwen Bank's (as applicable) current servicing manual and attached to this Agreement on or prior to the Closing Date, as Exhibit A;

(v) the agreement to forbear with respect to a failure to maintain a fidelity bond under Section 5.08 of the Pooling and Servicing Agreements and Section 3.09 of the Series 1998-H1 Servicing Agreement shall only be effective at such times as the Master Servicer does not collect, process or otherwise handle any monies and the Subservicer does maintain fidelity bonds and errors and omissions policies as required therein; and

(vi) the agreement to forbear with respect to failure to provide annual reports as required by Section 5.17 of the Pooling and Servicing Agreements and Section 3.15 of the Series 1998-H1 Servicing Agreement shall only be effective

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so long as the Subservicer provides the reports required therein with respect to the Subservicer;

provided, however, that the Trustee and MBIA agree that Reorganized SPFC, as Master Servicer, shall be entitled to a period of 30 days following any failure by the Subservicer to meet the conditions contained in subsections (iii) or (iv) above to cure such breach or cause Subservicer to cure such breach. Without limiting the following sentence, the parties agree that time is of the essence in any transition to a successor subservicer, and shall cooperate with each other if the breach is to be cured through the replacement of the Subservicer. In the case of replacement, MBIA and the Trustee agree to forbear from removing Reorganized SPFC as Master Servicer for so long as MBIA is satisfied, in its reasonable business judgment, that Reorganized SPFC is using its reasonable efforts to cause a successor subservicer to be identified and performing in a timely manner and MBIA agrees, in the event it is not so satisfied, to give Reorganized SPFC 30 days' written notice and opportunity to cure in advance of removing Reorganized SPFC as Master Servicer.

(d) Enforcement of Remedies. Upon expiration of the term of any forbearance and any applicable cure period under this Section, (i) each

of the parties hereby agrees that MBIA has the right to terminate all the rights of Reorganized SPFC as Master Servicer under the Pooling and Servicing Agreement for each of the related Transactions and, subject to any rights of certificate holders, to cause all authority and power of Reorganized SPFC as Master Servicer under each such Pooling and Servicing Agreement to pass to and be vested in the Trustee, or its designee approved by MBIA, and (ii) each of the parties (other than the Trustee) agrees not to contest, challenge or object in any way to MBIA's exercise at any time of any such right or remedy.

(e) Acquisition of Additional Master Servicing. The Trustee and MBIA agree to consent to Reorganized SPFC (or any successor) as a successor master servicer under the terms of any Pooling and Servicing Agreement for Transactions for which SPFC is not currently acting as Master Servicer provided (i) Reorganized SPFC (or any successor) is in compliance with the terms of this Agreement and each Pooling and Servicing Agreement under which Reorganized SPFC acts as Master Servicer (otherwise than as contemplated by subsection (c)), (ii) the Subservicer is in compliance with the conditions for forbearance under this Section, (iii) the Subservicer is obligated to subservice the related Mortgage Loans pursuant to the terms of the Subservicing Agreement, and (iv) the Purchaser owns a substantial economic interest (as determined by MBIA) in the Residual Interests for the related Transaction.

7. REMIC Reporting Matters. The Trustee, in its capacity as

administrator of each of the REMICs related to the Trusts, has consented to use certain methodologies, described in Schedule 7 relating to the calculation of the taxable income of the REMICs (the "Methodologies"), and has agreed to sign amended federal income tax returns in respect of certain of the REMICs and future returns for the REMICs (collectively, the "Returns") that reflect the use of the Methodologies. The Trustee, in its capacity as administrator of the REMICs, agrees to sign the Returns upon satisfaction of the following conditions: (a) receipt of an opinion of counsel satisfactory to the Trustee that the Methodologies are permissible under the REMIC Provisions and that the preparation and filing of Returns reflecting the use of the

Methodologies will have no adverse effect on the status of any REMIC as a REMIC and (b) receipt of a written opinion of a nationally-recognized tax and financial accounting firm acceptable to the Trustee that the use of the Methodologies in preparation of the Returns does not constitute a change in accounting method requiring notice to or consent of the Internal Revenue Service. The parties further agree that (unless the Trustee agrees otherwise) all Returns and other required schedules will be prepared for the Trustee's signature by a nationally-recognized tax and financial accounting firm acceptable to the Trustee as a paid preparer of such Returns and other required

schedules. Reorganized SPFC agrees to bear all costs and expenses associated with the preparation of such Returns and other required schedules by the paid preparer.

8. Releases of the Trustee and MBIA; Waiver by Trustee.

(a) Release. SPFC (and the Liquidating Trust as successor), Reorganized SPFC, and the Purchaser hereby jointly and severally irrevocably and absolutely release, remise, acquit, and discharge each of the Trustee and MBIA, their respective affiliates, and each of their respective current and former officers, directors, employees, attorneys, agents, consultants, shareholders, successors and assigns from and of any and all claims, demands, causes of action, actions, liabilities, damages, losses, expenses and costs, of any kind or nature whatsoever, absolute or contingent, matured or unmatured, liquidated or unliquidated, now known or subsequently discovered, that (a) arise out of or in any way relate to the settlement set forth herein and/or the transactions contemplated hereby (other than the performance by the Trustee and MBIA of their obligations under this Agreement), (b) relate to the Trustee's or MBIA's performance (or failure to perform) pursuant to the terms of the Pooling and Servicing Agreements prior to the Closing Date, to the extent resulting from any failure to perform by SPFC as Master Servicer, and/or (c) are identified on Schedule 6 hereto. The parties hereto hereby agree to amend each of the Pooling and Servicing Agreements for the Transactions to require the following: (a) that any subsequent purchaser of any Residual Interests in any Trust provide the foregoing release, mutatis mutandis, and (b) that a restrictive legend regarding the foregoing be placed on any and all certificated Residual Interests. Each of SPFC and the Purchaser hereby represents and warrants that it is not currently aware of any other claims against the Trustee or MBIA.

(b) Waiver. The Trustee hereby waives its rights and any claims it may have under the indemnity covenants in Sections 9.05(d) and 10.03(b) of the Pooling and Servicing Agreements and Section 5.06(b) of the Series 1998-H1 Servicing Agreement with respect to any event occurring prior to the Closing Date.

9. Consent to Assumption and Partial Withdrawal of the Trustee's Proofs

of Claim. Subject to and conditioned upon the full and complete satisfaction of

the Conditions Precedent specified in Section 10, the Trustee shall consent to the assumption of the Pooling and Servicing Agreements for the Transactions and withdraw the Trustee's Proofs of Claim related to the Breaches, and MBIA shall withdraw its proofs of claim. Further, all obligations of SPFC, Reorganized SPFC, and Purchaser arising out of the rejection of the Mortgage Loan Purchase Agreements and the Insurance Agreements and Indemnification Agreements, shall be only as expressly set forth in this Settlement Agreement. The Trustee and MBIA, and their successors in interest, waive and shall be forever estopped from asserting any claim or demand arising out of

such rejections or in any way related to the Breaches, subject to Section 14 and otherwise except as expressly set forth in this Settlement Agreement.

10. Conditions Precedent to the Obligations of the Trustee and MBIA

Hereunder. The obligations of the Trustee and MBIA under this Agreement shall

not arise until each of the following conditions (the "Conditions Precedent") is satisfied (or waived) to the reasonable satisfaction of the Trustee and MBIA, as evidenced by an officer's certificate from each of the Trustee and MBIA to such effect:

(a) The Plan and the related disclosure provide an accurate and adequate summary of the terms of this Settlement Agreement and otherwise are reasonably satisfactory to the Trustee and MBIA;

(b) Notice is provided to each holder of any Class A Certificate or Note and any other holders of interests in the related Trusts of the terms of this Settlement Agreement, and the Bankruptcy Court issues an order approving the terms of this Settlement Agreement, each of which notice and order is in form and substance acceptable to the Trustee and MBIA, in their sole and absolute discretion;

(c) The Confirmation Order is in form and substance acceptable to the Trustee and MBIA in their sole and absolute discretion, and either (i) becomes a Final Order, or (ii) an opinion (satisfactory to the Trustee, MBIA and the Purchaser in form and substance) of counsel for SPFC concluding that consummation of the Plan will effectively moot any appeal from the Confirmation Order has been delivered to the Trustee, MBIA and the Purchaser;

(d) An assumption agreement executed and delivered by the Liquidating Trust in form and substance acceptable to MBIA and the Trustee, pursuant to which the Liquidating Trust assumes its obligations hereunder;

(e) SPFC and/or the Liquidating Trust have repurchased the Critical Exception Mortgage Loans as to which the corresponding Breaches have not been cured in accordance with Section 2 of this Agreement;

(f) The Trustee and MBIA have reviewed and approved, in their sole and absolute discretion, the Subservicer (if other than Ocwen Financial or Ocwen Bank) and the terms of the Subservicing Agreement;

(g) Delivery of Exhibit A described in sub-paragraph 6(c)(iv);

(h) The procedures for transfer of servicing of the Mortgage Loans

to the Subservicer have been presented to MBIA and MBIA has consented to such procedures, which consent shall not unreasonably be withheld; and

(i) SPFC and/or the Purchaser have delivered opinions of counsel regarding the due authorization, execution, delivery and enforceability of this Agreement with respect to each of SPFC, Reorganized SPFC and the Purchaser and an opinion of counsel for the Liquidating Trust regarding the due authorization, execution, delivery and enforceability of the assumption agreement referred to in subparagraph (d).

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11. Opinions of Counsel to Trustee and MBIA. The obligations of SPFC,

Reorganized SPFC and Purchaser hereunder shall not arise until each of the Trustee and MBIA delivers an opinion of counsel regarding the due authorization, execution, delivery and enforceability of this Agreement with respect to such party.

12. Continuing Representations, Warranties and Covenants.

(a) Notwithstanding the rejection of any Insurance Agreement, Reorganized SPFC hereby represents, warrants and covenants as follows:

(i) Upon the request of MBIA, Reorganized SPFC shall furnish, with reasonable promptness, any financial data, financial reports and other data relating to Reorganized SPFC or the Subservicer as MBIA may reasonably request.

(ii) Reorganized SPFC shall, upon the request of MBIA, permit MBIA, or its authorized agent, at reasonable times and upon reasonable notice, to inspect the books and records of Reorganized SPFC and the Subservicer as they may relate to the Class A Certificates, the Mortgage Loans and Reorganized SPFC's obligations under the Transaction Documents and to discuss matters relating to the Class A Certificates, the Mortgage Loans or Reorganized SPFC's obligations under the Transaction Documents with an appropriate authorized officer of Reorganized SPFC.

(iii) Reorganized SPFC shall promptly deliver to MBIA any Notice of Material Event (as defined in the Insurance Agreement).

(iv) Except as permitted in this Agreement or the Pooling and Servicing Agreement, Reorganized SPFC, in its capacity as Master Servicer, shall not take any action, or fail to take any action, if such action or failure to take action will have a material adverse effect on MBIA's ability to enforce its rights under any of the Transaction Documents.

(b) Reorganized SPFC shall either enter into new custodial arrangements for the Mortgage Loans with the same fee schedule as the existing schedule or assume all obligations of SPFC to pay fees and costs related to existing custodial arrangements for the Mortgage Loans. In either event, SPFC will pay all fees due and payable before the Closing Date.

(c) SPFC (or the Liquidating Trust as successor) shall continue to provide to the Trustee all release requests as required under any Pooling and Servicing Agreement for any Mortgage Loans paid off or otherwise subject to release through the Closing Date (and shall pay all fees associated with such releases), assisted as required and as customary by the Trustee.

13. Representations and Warranties. Each of the Parties hereby

represents and warrants that each of the following statements is true and accurate as of the date hereof:

(a) This Agreement has been duly authorized and validly executed and delivered by such party and constitutes such party's legal, valid and binding obligation, enforceable against such party in accordance with its terms;

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(b) Subject, in the case of SPFC, to the authority of the Bankruptcy Court, such party is not subject to any restriction, agreement or law, order, writ, injunction, decree, rule or regulation of any court, administrative agency or other governmental authority that, with or without the giving of notice, the passage of time or both, would prohibit, contravene, be violated by, or be inconsistent with the execution, delivery and performance by such party of this Agreement or the consummation of the transaction effected hereby or contemplated herein; and

(c) There is no action, suit or proceeding pending or, to the best of such party's knowledge and belief, threatened against such party that questions the validity of, in any way legally impairs, or seeks to enjoin or otherwise prevent the execution, delivery and/or performance by such party of this Agreement or, if adversely determined, would have a material adverse effect on such party's ability to perform his or its, as the case may be, obligations hereunder.

14. No Exception Loss; No Other Breaches. SPFC hereby represents and

warrants that to its best knowledge there has not been any loss prior to the date hereof and there will be no loss as of the Closing Date which would be defined as an "Exception Loss" within the meaning of paragraph 3(b) if it occurred after the Closing Date. SPFC hereby represents and warrants to each of

the Trustee and MBIA that SPFC is not aware of any breach of any representation or warranty of SPFC or any affiliate of SPFC under any Pooling and Servicing Agreement or any Mortgage Loan Purchase Agreement other than the Breaches resulting directly from SPFC's bankruptcy, or dealt with in this Agreement. MBIA and the Trustee represent that they are not aware of any such additional breaches. The Trustee and MBIA hereby acknowledge and agree that the representations and warranties contained in this Section are made by SPFC and not by Reorganized SPFC, and that the recourse of the Trustee and MBIA hereunder is limited to a claim against the Liquidating Trust.

15. Transfer of Servicing; No Acquisition. In the event SPFC and

Purchaser fail to consummate the Acquisition, SPFC agrees as follows:

(a) SPFC shall enter into a Subservicing Agreement to be executed and effective no later than September 30, 1999, which Subservicing Agreement shall comply with the requirements of the related Pooling and Servicing Agreements and provide for the transfer of servicing with respect to all related Mortgage Loans for which SPFC acts as Master Servicer.

(b) "Good-bye letters" notifying borrowers of the transfer of servicing to the Subservicer shall be mailed no later than September 30, 1999.

(c) Transfer of servicing of all related Mortgage Loans to the Subservicer shall be completed no later than October 31, 1999.

(d) If SPFC fails to fulfill any of the obligations set forth in subsections (a) through (c) above, (i) each of the parties hereby agrees that MBIA has the right to terminate all the rights of SPFC, or any successor, as Master Servicer under the Pooling and Servicing Agreement for each of the related Transactions or Additional Insured Transactions, as applicable, and, subject to the rights of the certificate holders, to cause

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all authority and power of SPFC, or any successor, as Master Servicer under each such Pooling and Servicing Agreement to pass to and be vested in the Trustee, or its designee approved by MBIA, and (ii) each of the parties (other than the Trustee) agrees (A) not to contest, challenge or object in any way to MBIA's exercise at any time of any such right or remedy, (B) irrevocably and absolutely to waive and cooperate to obtain, at MBIA's expense, any necessary relief from the automatic stay under the Bankruptcy Code or other impediment to exercise of any remedy against SPFC and (C) to join with MBIA and the Trustee, at MBIA's request and expense, in asking any court of competent jurisdiction (including, without limitation, the Bankruptcy Court) to approve any such action at any and all times.

(e) It shall secure an order approving the waiver of the automatic stay of Section 362(a) of the Bankruptcy Code, as set forth in Section 15 hereof, to be entered by the Bankruptcy Court on or before July 7, 1999 and to become a Final Order.

If SPFC and Purchaser fail to consummate the Acquisition, Reorganized SPFC under this Agreement shall mean SPFC and Purchaser shall have no obligation of any nature whatsoever under this Agreement or otherwise with respect to the subject matter of this Agreement.

16. Attorneys' Fees. In the event any litigation, arbitration or other

proceeding is commenced by a party hereto against one or more of the other parties hereto for purposes of enforcing the terms of this Agreement, the prevailing party in such litigation, arbitration or other proceeding shall be entitled to recover its attorneys' fees and expenses from the non-prevailing party or parties in such litigation, arbitration or other proceeding.

17. Consent to Jurisdiction. Each of the parties hereby agrees that all

actions, suits or other proceedings arising out of or relating in any way to this Agreement may, but need not, be brought in the Bankruptcy Court. Each of the parties hereby knowingly, voluntarily, intelligently, absolutely and irrevocably waives and agrees not to assert any objection it may now or hereafter have to the laying of venue of all actions, suits or proceedings arising out of or relating in any way to this Agreement in the Bankruptcy Court and irrevocably submits to the jurisdiction of the Bankruptcy Court for such purposes. Each of the parties hereby knowingly, voluntarily, intelligently, absolutely and irrevocably waives and agrees not to assert in any such action, suit or proceeding that it is not subject to the personal jurisdiction of the Bankruptcy Court or that the action, suit or proceeding should be transferred to a different venue under forum non conveniens principles or statutes embodying such principles.

18. Amendment. This Agreement may be amended from time to time by the

parties hereto pursuant to a written agreement signed by the parties hereto.

19. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN

ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

20. Notices. All demands, notices and communications hereunder shall be

in writing and shall be deemed to have been duly given if personally delivered at or mailed by registered mail, postage prepaid, addressed as follows, or such other address as may be furnished by proper

notice as described herein (facsimile numbers are provided below for convenience of communication and not as an alternative means of delivery of notice):

SPFC: Southern Pacific Funding Corporation
---- One Centerpointe Drive, Suite 551
Lake Oswego, Oregon 97035
Attention: Mr. Kevin D. Padrick
Facsimile No.: (503) 598-0662

Trustee: Norwest Bank Minnesota, National Association
----- 11000 Broken Land Parkway
Columbia, Maryland 21044-3562
Attention: Mr. Brian W. Bartlett
Facsimile No.: (410) 884-2363

MBIA: MBIA Insurance Corporation
---- 113 King Street
Armonk, NY 10504
Attention: Mr. Stephen G. Holliday
Facsimile No.: (914) 765-3810

Purchaser and Reorganized SPFC: The Goldman Sachs Group, Inc.
----- 85 Broad Street
New York, NY 10004
Attention: Mr. Marvin Kabatznick
Facsimile No.: (212) 346-3568
Attention: Jay Strauss, Esq.
Facsimile No.: (212) 902-3876

21. Relationship of Parties. Nothing herein contained shall be deemed

or construed to create a partnership or joint venture between the parties hereto.

22. Counterparts. This Agreement may be executed in one or more

counterparts and by the different parties hereto on separate counterparts, each of which, when so executed, shall be deemed to be an original and such counterparts, together, shall constitute one and the same agreement.

23. Term. The term of this Agreement shall extend until satisfaction of

all obligations of the parties hereunder and until payment in full of any and all amounts required to be paid hereunder or under the terms of any Pooling and Servicing Agreement.

24. Entire Agreement; Amendment. This Agreement constitutes the entire

agreement and understanding between the parties concerning the subject matter hereof and supersedes and terminates all prior written and oral agreements, proposals, promises and representations of the parties respecting the subject matter hereof. No representation or promise hereafter made, nor any modification or amendment of this Agreement, shall be binding upon either party, unless made in writing and signed by the parties hereto.

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25. Assignment; Binding Effect. None of the parties hereto may assign

its rights hereunder or delegate its duties and obligations hereunder without the express prior written consent of each of the Trustee and MBIA. Subject to all terms and conditions hereof, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

[Signature Page Follows]

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IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed and delivered by its duly authorized officer thereunto as of the day and year first above written.

SOUTHERN PACIFIC FUNDING CORPORATION

By: /s/ Kevin D. Padrick

Name: Kevin D. Padrick
Title: President

NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION

By: /s/ E. M. Frere, Jr. 6/18/99

Name: Edward M. Frere, Jr.
Title: Vice President

MBIA INSURANCE CORPORATION

By: /s/ John D. Lohrs

Name: John D. Lohrs
Title: Managing Director

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Robert Christie

Name: Robert Christie
Title: Managing Director

The following schedules have been omitted and will be furnished supplementally to the Commission by the registrant upon request:

Schedule 1	List of Pooling and Servicing Agreements
Schedule 2	List of Mortgage Loan Purchase Agreements
Schedule 3	List of Critical Exception Loans
Schedule 4	List of Phantom Loans
Schedule 5	List of Oceanmark Loans
Schedule 6	List of Claims Against Trustee
Schedule 7	Methodologies re Calculating REMIC Taxable Income

<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT (Page 1 of 2)	February	March	April	May	Filing October 1, 1998 to Date
GROSS SALES					
Interest Income	\$ 128,778	\$ 147,227	\$ 62,432	\$ 119,765	\$ 6,040,319
Servicing Income	766,674	1,601,342	541,539	537,246	5,151,603
Prepayment Penalty Income	659,343	933,755	965,060	912,763	7,293,407
Less: Returns and Allowances					--
NET SALES	1,554,795	2,682,324	1,569,031	1,569,774	18,485,329
COST OF SALES					
BEGINNING INVENTORY					--
Add: PURCHASES					--
Less: ENDING INVENTORY					--
COST OF GOODS SOLD	--	--	--	--	--
GROSS PROFIT	1,554,795	2,682,324	1,569,031	1,569,774	18,485,329
OTHER OPERATING EXPENSES:					
OFFICER SALARIES/DRAWS	214,410	214,465	221,336	227,275	2,493,443
DIRECT LABOR/SALARIES	213,631	196,655	193,403	162,395	2,494,254
BENEFITS/PAYROLL TAXES	53,258	57,025	41,481	41,148	763,160
SUPPLIES	10,529	4,650	3,519	8,229	99,922
INSURANCE	28,427	56,495	18,660	18,660	248,053
RENT	75,159	52,689	53,707	53,492	920,782
GENERAL AND ADMINISTRATIVE	781,433	1,441,127	1,383,423	1,107,088	9,446,477

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<S>	February	March	April	May	Filing October 1, 1998 to Date
DEPRECIATION/AMORTIZATION	160,042	160,042	160,042	160,042	1,973,443
TOTAL OPERATING EXPENSES	1,536,889	2,183,148	2,075,571	1,778,329	18,439,534
NET OPERATING INCOME (LOSS)	17,906	499,176	(506,540)	(208,555)	45,795
ADD: OTHER INCOME (2)	87,303	158,447	6,450	65,455	1,442,951
LESS OTHER EXPENSES:					
INTEREST EXPENSE	(383,113)	(459,305)	(397,562)	(1,820,931)	(8,098,551)
OTHER (3)	(434,491)	(1,276,935)	261,024	-	(5,455,171)
TOTAL OTHER EXPENSES	(712,395)	(1,078,617)	(636,628)	(1,964,031)	(12,064,976)
GAIN/(LOSS) SALE OF ASSETS	(64,328)	(3,433,218)	-	-	(7,000,955)
INCOME (LOSS) BEFORE TAXES	(776,723)	(4,511,835)	(636,628)	(1,964,031)	(19,065,931)
INCOME TAXES	142,025	1,342,484	372,398	815,073	5,648,338
NET INCOME (LOSS)	\$ (634,698)	\$ (3,169,351)	\$ (264,230)	\$ (1,148,958)	\$ (13,417,593)

</TABLE>

- (2) Schedule of Other Income attached
(3) Schedule of Other Expense attached

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RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATIONS

	February	March	April	May	Filing October 1, 1998 to Date
<S>	<C>	<C>	<C>	<C>	<C>
NET INCOME (LOSS)	\$ (634,698)	\$ (3,169,351)	\$ (264,230)	\$ (1,148,958)	\$ (13,417,593)
ADJUSTMENTS TO RECONCILE					
NET INCOME TO NET CASH:					
DEPRECIATION/AMORTIZATION	311,607	311,607	293,639	187,875	2,559,804
(GAIN)LOSS ON SALE OF ASSETS	64,328	75,033	--	--	4,770,012
(INCREASE)DECREASE IN RECEIVABLES	(392,798)	(536,775)	(922,993)	1,403,992	9,403,610
(INCREASE)DECREASE IN INVENTORY (1)	72,371	6,140,449	1,439	123,303	301,839,139
INCREASE (DECREASE) IN PAYABLES	211,909	2,116,117	(1,278,601)	(1,566,012)	(8,626,977)
OTHER, NET (2)	719,480	2,905,517	393,552	(203,446)	9,143,008
NET CASH PROVIDED BY OPERATIONS	352,199	7,842,597	(1,777,194)	(1,203,246)	305,671,003
CASH FLOWS FROM INVESTING/FINANCING					
(PURCHASE OF)FIXED ASSETS					--
CAPITAL CONTRIBUTIONS					--
LOAN PROCEEDS (SCHEDULE F, NUMBER6)					39,086,058
LOAN PRINCIPAL/CAPITAL LEASE (PAYMENTS)	(309,021)	(4,648,449)	(690,976)	(489,759)	(339,155,926)
NET INCREASE (DECREASE) IN CASH	43,178	3,194,148	(2,468,170)	(1,693,005)	5,601,135
BEGINNING CASH	8,455,426	8,498,604	11,692,752	9,224,582	1,930,442
ENDING CASH	\$ 8,498,604	\$ 11,692,752	\$ 9,224,582	\$ 7,531,577	\$ 7,531,577
(1) Mortgage Loans held for Sale					
(2) Accrual of Operations of subsidiaries	\$ 434,491	\$ 1,276,935	\$ (261,024)	\$ -	\$ 5,455,173
Residual Loan Interests	286,874	1,572,764	623,595	742,928	4,888,382
Prepaid expenses and other assets, net	(1,885)	55,818	30,981	(946,374)	(1,200,547)
	\$ 719,480	\$ 2,905,517	\$ 393,552	\$ (203,446)	\$ 9,143,008

</TABLE>

COMPARATIVE BALANCE SHEET (Page 1 of 2)

	AS OF 02/28/99	AS OF 03/31/99	AS OF 04/30/99	AS OF 05/31/99
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current Assets:				
Cash	\$ 8,498,604	\$ 11,692,752	\$ 9,224,582	\$ 7,531,577
Inventory (Mortgage Loans Held for Sale)	6,544,246	403,797	402,358	279,055
Accounts Receivable (net of bad debts)	94,650,427	95,187,202	96,110,195	94,706,203
Notes Receivable				
Other (attach schedule)	2,993,576	2,816,059	2,618,484	1,180,671
Total Current Assets	112,686,853	110,099,810	108,355,619	103,697,506
Fixed Assets:				
Property and Equipment	1,436,040	1,361,007	1,361,007	1,361,007
Less: Accumulated Depreciation	(408,799)	(408,799)	(408,799)	(408,799)
Total Fixed Assets	1,027,241	952,208	952,208	952,208
Other Assets (attach schedule)	316,299,768	313,260,161	312,770,545	314,223,929
TOTAL ASSETS	\$ 430,013,862	\$ 424,312,179	\$ 422,078,372	\$ 418,873,643
LIABILITIES				
Postpetition Liabilities:				
Accounts Payable	\$ 82,481	\$ 145,676	\$ 124,888	\$ 106,824
Notes Payable	38,649,723	34,002,109	33,311,942	32,823,018

Rents and Leases Payable				
Taxes Payable				
Accrued Interest	121,742	-	9,522	37,429
Other	3,419,228	4,072,549	3,403,235	2,601,460
<hr/>				
Total Postpetition Liabilities	42,273,174	38,220,334	36,849,587	35,568,731
Prepetition Liabilities (Noncurrent):				
Unsecured Debt	171,609,871	174,472,863	174,491,473	174,499,576
Notes Payable-Secured	111,948,980	111,948,980	111,948,980	111,980,924
Priority Claims:				
Taxes	76,332	76,332	76,332	76,332
Wages	1,405,267	1,405,267	1,405,225	1,405,337
Deposits				
Other (Deferred Tax Liability)	15,418,183	14,075,699	13,458,301	12,643,227
<hr/>				
Total Prepetition Liabilities	300,458,633	301,979,141	301,380,311	300,605,396
<hr/>				
TOTAL LIABILITIES	342,731,807	340,199,475	338,229,898	336,174,127

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Southern Pacific Funding Corp. Debtor in Possession

Case No. 398-37613-elp11
 RULE 2015 REPORT FOR THE MONTH
 AND YEAR MAY 1999

COMPARATIVE BALANCE SHEET (Page 2 of 2)

	AS OF 02/28/99	AS OF 03/31/99	AS OF 04/30/99	AS OF 05/31/99
OWNER EQUITY (DEFICIT)	87,282,055	84,112,704	83,848,474	82,699,516
TOTAL LIABILITIES AND OWNER EQUITY	\$ 430,013,862	\$ 424,312,179	\$ 422,078,372	\$ 418,873,643

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Southern Pacific Funding Corp. Debtor in Possession

Case No. 398-37613-elp11
 RULE 2015 REPORT FOR THE MONTH
 AND YEAR MAY 1999

SCHEDULE F

STATEMENT OF PERSONNEL, INSURANCE AND OPERATIONS

1. PERSONNEL REPORT (required if more than ten employees)

	Full Time	Part Time
Total number of employees at beginning of period	84	-
Number hired during period	-	-
Number terminated or resigned during period	3	-
<hr/>		
Total number of employees on payroll at period end	81	-
Total Payroll for the period:	\$ 388,752	

Includes payment of severance and retention compensation for terminated employees

2. INSURANCE - Copies of certificates of insurance must accompany first report.

For subsequent months, explain any changes in insurance coverage:

Effective March 26, 1999 the Company renewed the following insurance policies through March 25, 2000; property, general liability, mortgage holders, auto, umbrella and fiduciary liability. The financial institution bond was renewed for a term of 6 months. Coverages were reduced, as appropriate, to reflect lower exposure attributable to the reduced activities of the Company.

3. Subsequent to the filing of the petition have any payments been made on prepetition unsecured debt, except as authorized by the court?

X No.

Yes. Identify amount, who was paid and date paid:

4. Provide a narrative report of significant events which may have an effect on the financial condition of the debtor or any events out of the ordinary course of business, which have occurred since the period covered by this report. Attach separate sheet(s) if necessary.

On June 14, 1999, SPFC sold additional loans to Bayview Financial Trading Group LP and received net proceeds in the amount of \$359,245.45.

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Southern Pacific Funding Corp. Debtor in Possession Case No. 398-37613-elp11
 RULE 2015 REPORT FOR THE MONTH
 AND YEAR MAY 1999

STATEMENT OF PERSONNEL, INSURANCE, AND OPERATIONS - Continued

5. If assets, other than inventory sold in the ordinary course of business, were disposed of during the current month, provide the following information for each asset (attach separate sheet(s), if necessary):

DESCRIPTION OF ASSET	VALUE ON BOOK BASIS	ENTITY TO WHOM	AUTHORIZATION	Terms
		TRANSFERRED (relationship to debtor if any)	(e.g. notice dated ____ or court order dated)	

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Southern Pacific Funding Corp. Debtor in Possession Case No. 398-37613-elp11
 RULE 2015 REPORT FOR THE MONTH
 AND YEAR MAY 1999

STATEMENT OF PERSONNEL, INSURANCE, AND OPERATIONS - Continued

6. For each loan obtained during the current month provide the following information (attach separate sheet(s), if necessary):

LENDER'S NAME (Relationship to debtor, if any)	AMOUNT OF LOAN (describe right to receive future advances, if any)	TERMS OF LOAN (interest rate, maturity, collateral, etc.)	PROCEDURE FOR OBTAINING AUTHORIZATION
--	---	--	---

7. Statement of Disbursements and Fee paid to the U.S. Trustee pursuant to Federal Rule of Bankruptcy Procedure 2015(a)(5):

QUARTER ENDING	TOTAL DISBURSEMENTS	FEE PAID
March 31, 1998		
June 30, 1998		
September 30, 1998		
December 31, 1998	\$ 6,857,519 (1)	\$ 10,000
March 31, 1999	\$ 4,081,434 (1)	\$ 10,000
June 30, 1999	\$ 8,243,779 (1)	\$ -

(1) Excludes servicing disbursements

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<TABLE>
 Southern Pacific Funding Corp. Debtor in Possession

Case No. 398-37613-elp11
 RULE 2015 REPORT FOR THE MONTH

INCOME STATEMENT
SUPPORTING SCHEDULE (2) OTHER INCOME

	February	March	April	May	Filing October 1, 1998 to Date
<S>	<C>	<C>	<C>	<C>	<C>
Insurance Commissions Revenue (Servicing)	\$ 62,373	\$ 121,814	\$ -	\$ 51,419	\$ 286,999
Discount on Early Payoff of Secured Financing					1,000,000
Miscellaneous Refunds Received	24,930	36,633	6,450	14,036	155,952
TOTAL OTHER INCOME	\$ 87,303	\$ 158,447	\$ 6,450	\$ 65,455	\$ 1,442,951

Southern Pacific Funding Corp. Debtor in Possession

Case No. 398-37613-elp11
RULE 2015 REPORT FOR THE MONTH
AND YEAR MAY 1999INCOME STATEMENT
SUPPORTING SCHEDULE (3) OTHER EXPENSE

	February	March	April	May	Filing October 1, 1998 to Date
Equity in Operations (Losses) of Subsidiaries					
Oceanmark Financial Services	\$ 44,856	\$ (13,476)	\$ (2,453)	\$ -	\$ (1,942,973)
Home America Financial Services	(124,513)	(91,500)	20,888		(731,846)
Hallmark America					(7,265)
National Capital Funding, Inc.					(114,156)
Southern Pacific Mortgage Limited	(354,834)	(1,171,959)	242,589		(2,658,933)
TOTAL OTHER EXPENSE	\$ (434,491)	\$ (1,276,935)	\$ 261,024	\$ -	\$ (5,455,173)

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Southern Pacific Funding Corp. Debtor in Possession

Case No. 398-37613-elp11
RULE 2015 REPORT FOR THE MONTH
AND YEAR MAY 1999COMPARATIVE BALANCE SHEET
SUPPORTING SCHEDULES - OTHER ASSETS

	AS OF 02/28/99	AS OF 03/31/99	AS OF 04/30/99	AS OF 05/31/99
<S>	<C>	<C>	<C>	<C>
OTHER CURRENT ASSETS				
Prepaid Expenses	2,845,762	2,694,197	2,495,600	1,057,242
Prepaid Lease Deposit	149,052	120,874	120,874	120,874
Prepaid Maintenance Contracts	701	523	344	165
Miscellaneous Servicing accounts	(1,939)	465	1,666	2,390
TOTAL OTHER CURRENT ASSETS	\$ 2,993,576	\$ 2,816,059	\$ 2,618,484	\$ 1,180,671
OTHER ASSETS				
Residual Loan Interests	301,034,608	299,461,844	298,838,249	298,095,321
Mortgage Servicing Rights	6,863,486	6,703,444	6,543,402	6,383,359
Investment in Subsidiaries	8,372,808	7,095,873	7,356,897	-
Real Estate Owned	28,866	(1,000)	31,997	130,249
Notes Receivable - UK				9,615,000
TOTAL OTHER ASSETS	\$ 316,299,768	\$ 313,260,161	\$ 312,770,545	\$ 314,223,929

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