

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 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: 001-13417

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

MARYLAND 13-3950486
(State or other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

90 WEST STREET, SUITE 1508, NEW YORK, NY 10006
(Address of principal executive offices) (Zip Code)

(212) 732-5086
(Registrant's telephone number, including area code)

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
--- ---

The registrant had 6,467,979 shares of common stock outstanding as of May 4, 1998.

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.
FORM 10-Q
For the Quarter Ended March 31, 1998

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March 31, 1998 and December 31, 1997

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

CONDENSED BALANCE SHEETS

(in thousands, except as noted)

ASSETS	MARCH 31, 1998 ----	DECEMBER 31, 1997 ----
	(unaudited)	
Mortgage loans, held for sale	\$ 419,627	\$ 160,970
Mortgage securities, available for sale	312,390	348,131
Cash and cash equivalents	24,989	4,022
Accrued interest receivable	7,346	3,597
Equity investment	94	100
Notes receivable from related parties	1,383	482
Prepaid expenses and other assets	995	241
	-----	-----
TOTAL ASSETS	\$ 766,824	\$ 517,543
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Reverse repurchase agreements	\$ 644,020	\$ 435,138
Purchased mortgage loans payable	36,058	--
Accrued interest payable	3,942	2,250
Dividends payable	1,358	1,035
Due to related party	51	540
Accrued expenses and other liabilities	4,226	482
	-----	-----
Total liabilities	689,655	439,445
	-----	-----

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock, par value \$.01 authorized, 10 million shares, issued and outstanding, -0- shares		
Common stock, par value \$.01 authorized, 90 million shares, issued and outstanding 6,466,677 shares	65	65
Additional paid-in-capital	79,422	79,411
Available for sale securities:		
Unrealized (loss) on investments available for sale	(1,672)	(842)
Retained earnings (deficit)	(646)	(536)
	-----	-----
Total stockholders' equity	77,169	78,098
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 766,824	\$ 517,543
	=====	=====

See accompanying notes to financial statements

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

CONDENSED STATEMENT OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 1998 ----
REVENUES:	
Interest income	\$ 9,332
Interest expense	7,173

Net interest income	2,159
Loan loss provision	51

Net interest income after loan loss provision	2,108

Total revenues	2,108

EXPENSES:	
General and administrative expenses	
Personnel	189
Management and administrative	161
Due diligence	175
Commissions	125
Legal and professional	141
Other	63

Total expenses	854

Operating income	1,254
Equity in (loss) of unconsolidated subsidiary	(6)

NET INCOME	\$ 1,248
	=====
BASIC EARNINGS PER SHARE	\$ 0.19
	=====
DILUTED EARNINGS PER SHARE	\$ 0.17
	=====

See accompanying notes to financial statements

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HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

CONDENSED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

Three Months
Ended March 31, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 1,248
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of net premium - mortgage securities	903
Amortization of net premium - mortgage loans	133
Loan loss provision	51
Equity in loss of unconsolidated subsidiary	6
(Increase) in accrued interest receivable	(3,749)
(Increase) in loans to related parties	(901)
(Increase) in prepaid expenses and other assets	(754)
Increase in accrued interest payable	1,692
(Decrease) in due to related party	(489)
Increase in accrued expenses and other liabilities	3,754

Net cash provided by operating activities	1,894

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of mortgage loans	(232,587)
Purchase of mortgage securities	(4,333)
Principal payments on mortgage securities	38,340
Principal payments on mortgage loans	9,806

Net cash (used in) investing activities	(188,774)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net borrowings from reverse repurchase agreements	208,882
Payment of dividends	(1,035)

Net cash provided by investing activities	207,847

NET INCREASE IN CASH AND CASH EQUIVALENTS 20,967

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD 4,022

CASH AND CASH EQUIVALENTS, END OF PERIOD \$ 24,989

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES

Operating activity- increase in dividends payable (\$1,358) relating to the

declaration of dividends in March 1998.

Investing activity and financing activity- funds for the purchase of \$36,058 of mortgage loans were not disbursed until April 1998.

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for:

Income taxes	\$ 1
	=====
Interest	\$ 5,190
	=====

See accompanying notes to financial statements.

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HANOVER CAPITAL MORTGAGE HOLDINGS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

GENERAL

Hanover Capital Mortgage Holdings, Inc. (the "Company") was incorporated in Maryland on June 10, 1997. The Company is a real estate investment trust ("REIT"), formed to operate as a specialty finance company. The principal business strategy of the Company is to (i) acquire primarily single-family mortgage loans that are at least twelve months old or that were intended to be of certain credit quality but that do not meet the originally intended market parameters due to errors or credit deterioration, (ii) securitize the mortgage loans and retain interests therein, (iii) originate, hold, sell and service multifamily loans and commercial loans and (iv) acquire multifamily loans. The Company's principal business objective is to generate increasing earnings and dividends for distribution to its stockholders. The Company acquires single-family mortgage loans through a network of sales representatives targeting financial institutions throughout the United States. The Company may also acquire multifamily mortgage loans from a taxable subsidiary of the Company.

CAPITALIZATION

In September 1997, the Company raised net proceeds of approximately \$79 million in its initial public offering (the "IPO"). In the IPO, the Company sold 5,750,000 units (each unit consists of one share of common stock, par value \$.01 and one stock warrant) at \$15.00 per unit including 750,000 units sold pursuant to the underwriters' overallotment option, which was exercised in full. Each warrant entitles the holder to purchase one share of common stock at the original issue price - \$15.00. The warrants became exercisable on March 19, 1998 and remain exercisable until September 15, 2000. The Company utilizes substantially all of the net proceeds of the IPO to fund leveraged purchases of mortgage loans.

In connection with the closing of the IPO the Company acquired a 97% ownership interest (representing a 100% ownership of the non-voting preferred stock) in Hanover Capital Partners Ltd. and its wholly-owned subsidiaries: Hanover Capital Mortgage Corporation and Hanover Capital Securities, Inc., in exchange for 716,667 shares of the Company's common stock. Hanover Capital Partners Ltd. and its wholly-owned subsidiaries offer due diligence services to buyers, sellers and holders of mortgage loans and originate, sell and service multifamily mortgage loans and commercial loans.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by the management of the Company in accordance with generally accepted accounting principles for interim financial information and in conformity with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 1998 are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the audited financial statements and footnotes included in the Company's Form 10-K for the period from June 10, 1997 (inception) to December 31, 1997.

Because the Company was incorporated on June 10, 1997, there is no comparable statement of operations.

METHOD OF ACCOUNTING

The condensed financial statements of the Company are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. 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 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.

INCOME TAXES

The Company has elected to be taxed as a real estate investment trust ("REIT") and intends to comply 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 to the extent of its distributions to stockholders as long as certain asset, income and stock ownership tests are met.

EARNINGS PER SHARE

In 1997 the Company adopted Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128"). Under SFAS 128 basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock that then shared in earnings. Shares issued during the period and shares reacquired during the period are weighted for the period they were outstanding.

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Calculations for earnings per share are shown below (dollars in thousands, except per share data):

Basic earnings per share:

Net income (numerator)	\$ 1,248 =====
Average common shares outstanding (denominator)	6,466,677 =====
Per share	\$ 0.19 =====

Diluted earnings per share:

Net income (numerator)	\$ 1,248 =====
------------------------	-------------------

Average common shares outstanding	6,466,677
Add: Incremental shares from assumed conversion of warrants	767,059
Dilutive potential common shares	767,059
Adjusted weighted average shares (denominator)	7,233,736
Per share	\$ 0.17

3. MORTGAGE LOANS

The Company's policy is to classify each of its mortgage loans as held for sale as they are purchased and each asset is monitored for a period of time, generally four to nine months, prior to making a determination as to whether the asset will be classified as held-to-maturity. At March 31, 1998 management has made the determination that all mortgage loans are held for sale. All mortgage loans designated as held for sale are reported at the lower of cost or market, with unrealized losses reported as a charge to earnings in the current period.

Premiums and discounts associated with the purchase of mortgage loans are amortized into interest income over the lives of the mortgage loans using the effective yield method adjusted for the effects of estimated prepayments. Mortgage loan transactions are recorded on the date the mortgage loans are purchased or sold. Purchases of new mortgage loans are recorded when all significant uncertainties regarding the characteristics of the mortgage loans are removed, generally on or shortly before settlement date. Realized gains and losses on mortgage loan transactions are determined on the specific identification basis.

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The following table summarizes the Company's single-family mortgage loan pools, which are carried at the lower of cost or market (dollars in thousands):

	March 31, 1998		December 31, 1997	
	Cost	Mix	Cost	Mix
Mortgage Loans				
Fixed rate	\$297,382	72.3%	\$106,397	67.1%
Adjustable rate	113,932	27.7%	52,392	32.9%
Subtotal	411,314	100.0%	158,789	100.0%
Net deferred loan fees, premiums and discounts	8,382		2,199	
Loan loss reserve	(69)		(18)	
Carrying value	\$419,627		\$160,970	

An analysis of the change in the loan loss reserve for the three months ended March 31, 1998 is as follows (dollars in thousands):

Balance beginning of period	\$18
Loan loss provision	51

Balance at March 31, 1998	\$69
	===

The following table summarizes certain characteristics of the Company's single-family fixed rate and adjustable rate mortgage loan portfolio (dollars in thousands):

March 31, 1998				
	Carrying Value of Mortgage Loans	Principal Amount of Mortgage Loans	Weighted Average Net Coupon	Weighted Average Maturity (1)
Fixed Rate	\$304,595	\$297,382	8.829%	229
Adjustable Rate	115,032	113,932	8.054%	273
	-----	-----	-----	-----
	\$419,627	\$411,314	8.615%	241
	=====	=====	=====	=====

December 31, 1997				
	Carrying Value of Mortgage Loans	Principal Amount of Mortgage Loans	Weighted Average Net Coupon	Weighted Average Maturity (1)
Fixed Rate	\$107,953	\$106,424	8.265%	242
Adjustable Rate	53,017	52,365	7.925%	319
	-----	-----	-----	-----
	\$160,970	\$158,789	8.153%	267
	=====	=====	=====	=====

(1) weighted average maturity reflects the number of months remaining until maturity

The average effective yield for the three months ended March 31, 1998 on the mortgage loan portfolio, including the amortization of the net premiums paid for the mortgage loans, was 7.410%.

4. MORTGAGE SECURITIES

The Company's policy is to classify its mortgage securities as available-for-sale as they are purchased and each asset is monitored for a period of time, generally three to six months, prior to making a determination whether the asset will be classified as held-to-maturity. All mortgage securities designated as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Premiums and discounts associated with the purchase of mortgage securities are amortized into interest income over the lives of the securities using the effective yield method adjusted for the effects of estimated prepayments. Mortgage securities transactions are recorded on the date the mortgage securities are purchased or sold. Purchases of new issue mortgage securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally on or shortly before settlement date. Realized gains and losses on mortgage securities transactions are determined on the specific identification basis.

The following table summarizes the Company's amortized cost basis and fair value of mortgage securities available for sale (dollars in thousands):

March 31, 1998		December 31, 1997	
Available for Sale	Mix	Available for Sale	Mix
-----	---	-----	---

Mortgage Securities				
Adjustable - rate				
FNMA certificate	\$180,968	57.6%	\$207,898	59.6%
FHLMC certificates	128,764	41.0%	141,075	40.4%
	-----	-----	-----	-----
	309,732	98.6%	348,973	100.0%
Fixed rate				
FNMA certificate	4,330	1.4%	--	--
	-----	-----	-----	-----
Total amortized cost	314,062	100.0%	348,973	100.0%
	-----	=====	-----	=====
Gross unrealized (losses)	(1,672)		(842)	
	-----		-----	
Fair value	\$312,390		\$348,131	
	=====		=====	

5. REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements are accounted for as collateralized financing transactions and recorded at their contractual amounts, plus accrued interest.

In March 1998, the Company entered into a third master repurchase agreement with a lender in an amount up to \$100 million for a period of one year. Any borrowings under this facility will be secured by mortgage loans, or other securities, and will bear interest at the comparable LIBOR plus a spread of 0.70% to 1.25%.

At March 31, 1998 the Company had a total of \$500 million of mortgage loan reverse repurchase agreement financing available pursuant to master repurchase agreements with three lenders. At March 31, 1998 the Company had outstanding borrowings of \$330,062,000 under the above mentioned reverse repurchase agreements with a weighted average borrowing rate of 6.318% for the first quarter of 1998 and a weighted average remaining maturity of less than three months. The reverse repurchase agreements at March 31, 1998 were collateralized by mortgage loans with a cost basis of \$345,585,000 (which approximates market value).

As of March 31, 1998, the Company had outstanding mortgage securities reverse repurchase agreements of \$313,958,000 with a weighted average borrowing rate of 5.597% and a weighted average remaining maturity of less than one month.

Information concerning the reverse repurchase agreements and the pledged collateral at March 31, 1998 is summarized as follows (dollars in thousands):

Reverse Repurchase Agreements	Mortgage Securities	Mortgage Loans
	-----	-----
Average balance during the period (1)	\$324,305	\$166,881
Average interest rate during period (1)	5.597%	6.318%
Maximum month-end balance during the period	\$331,793	\$330,062
Collateral Underlying the Agreements		
Carrying balance	\$314,062	\$345,585

(1) above table reflects the period beginning January 1, 1998 through March 31, 1998.

6. PURCHASED MORTGAGE LOANS PAYABLE

At March 31, 1998 the Company held back approximately \$36,058,000 from the original purchase price of \$54,016,000 from mortgage pools purchased in February and March 1998 due to documentation and logistical problems. Substantially all of the holdback amounts were paid in April 1998.

7. AFFILIATED PARTY TRANSACTIONS

The Company has engaged HCP pursuant to a Management Agreement to render among other things, due diligence, asset management and administrative services. The statement of operations of the Company includes management and administrative expenses of \$161,000, due diligence expenses of \$175,000 and commission expenses of \$125,000 relating to billings from HCP. At March 31, 1998 the balance sheet of the Company included an amount due HCP of \$51,000. During the first three months of 1998 the Company recorded a loss from its investment in HCP and Subsidiaries of \$6,000 (generated from revenues of \$1,791,000 and expenses of \$1,797,000).

In connection with the original formation transactions in September 1997, the Company agreed to lend (a maximum of) \$1,750,000 collectively, to four officer/stockholders (collectively referred to as the "Principals") to enable the Principals to pay personal income taxes on the gains they must recognize upon contributing their HCP preferred stock to the Company for shares of the Company's common stock. The loans are secured solely by 116,667 shares of the Company's common stock owned by the Principals, collectively. The loans bear interest at the lowest applicable federal tax rate during the month the loans are made. At March 31, 1998 loans outstanding to three of the Principals totaled \$482,000. The loans bear interest at 6.02%.

In February 1998 the Company advanced \$900,000 to HCP pursuant to an unsecured loan agreement. The loan to HCP bears interest at 1.00% below the prime rate. At March 31, 1998 the loans outstanding to HCP totaled \$900,000.

8. COMMITMENTS AND CONTINGENCIES

At March 31, 1998 the Company had committed to purchase approximately \$104,051,000 of fixed and adjustable rate mortgage loans.

9. ADOPTION OF FINANCIAL ACCOUNTING STANDARDS

In June 1997 the Financial Accounting Standards Board issued Statement of Financial Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). Effective January 1, 1998 the Company adopted SFAS No. 130 which established disclosure standards for reporting comprehensive income in a full set of general purpose financial statements. Comprehensive income for three months ended March 31, 1998 was \$418,000, which included an unrealized loss on investments available for sale of \$830,000.

10. SUBSEQUENT EVENTS

On April 7, 1998 the Company issued approximately \$103 million in Real Estate Mortgage Investment Conduit (REMIC) interests in a private placement offering that was structured as a financing transaction. The Company will retain interests in the REMIC, including the non-rated credit support interests, which totaled approximately \$513,000.

On April 13, 1998 a \$0.21 cash dividend previously declared by the Board of Directors was paid to stockholders of record as of March 31, 1998.

In April 1998 the Company loaned \$1,268,000 to the Principals resulting in total loans to the Principals of \$1,750,000, the maximum loan amount permitted pursuant to the original formation transaction.

Pursuant to the Registration Rights Agreement by and between the Company and the Principals, the Principals have the right to request on any one occasion on or after January 1, 1998 that the

Company file one registration statement with the Securities and Exchange Commission, at the Company's expense, with respect to a maximum of 100,000 shares of common stock owned by the Principals in order to pay tax on gains the principals must recognize relating to the Company's original formation transaction. In March 1998 the Board of Directors agreed to lend up to an additional \$1,500,000 in unsecured loans to the Principals, in lieu of incurring the costs and expenses associated with the registration of 100,000 shares of the Company's common stock owned by the Principals. The Company loaned the Principals an additional \$1,298,000 in April 1998. These additional loans are due and payable on March 31, 1999 and bear interest of 5.51%. No additional loans are expected to be made to the Principals.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Hanover Capital Mortgage Holdings, Inc. (the "Company") was incorporated in Maryland on June 10, 1997. The Company is a real estate investment trust ("REIT"), formed to operate as a specialty finance company. The principal business strategy of the company is to (i) acquire primarily single-family mortgage loans that are at least twelve months old or that were intended to be of certain credit quality but that do not meet the originally intended market parameters due to errors or credit deterioration, (ii) securitize the mortgage loans and retain interests therein, (iii) originate, hold, sell and service multifamily loans and commercial loans and (iv) acquire multifamily loans. The Company's principal business objective is to generate increasing earnings and dividends for distribution to its stockholders. The Company acquires single-family mortgage loans through a network of sales representatives targeting financial institutions throughout the United States. The Company may also acquire multifamily mortgage loans through a taxable subsidiary of the Company.

The Company's principal source of earnings is net interest income generated by the Company's investment portfolio. As of March 31, 1998 the Company's investment portfolio consisted of single-family mortgage loans held for sale and mortgage securities (available for sale). The Company funds its portfolio investments with both borrowings and cash raised from the issuance of equity. For the portion of the portfolio investments funded with borrowings, the Company generates net interest income to the extent that there is a positive spread between the yield on the interest-earnings assets and the cost of borrowed funds. In addition, the Company earns net interest income from the yield generated by the portion of the investment portfolio that is funded solely with equity. The cost of the Company's borrowings may increase or decrease through the use of interest rate swaps, caps or floor agreements.

The Company's generation of net income is dependent upon (i) the spread between interest earned on its investment portfolio, and the cost of borrowed funds to finance the investment portfolio; and (ii) the aggregate amount of the investment portfolio on the Company's balance sheet. The Company strives to create a diversified portfolio of investments that in the aggregate generates increasing net income in a variety of interest rate and prepayment rate environments and preserves the equity base of the Company. The Company's strategy for its mortgage loan investment portfolio entails (1) efficient (pricing) acquisition of mortgage loans, (2) financing in the short term by reverse repurchase agreements or lines of credit, (3) hedging in the short term to offset potential adverse effects of changes in interest rates, (4) stratifying and segregating mortgage loans in securitizations to replace short term financing with collateralized mortgage obligation (CMO), real estate mortgage conduit investment (REMIC) or other types of long term debt financing, thereby eliminating the majority of refinancing and interest rate risk and (5) retaining certain residual interests of the securitization resulting in increased yields .

The Company's operating strategy for its mortgage securities investment entails (1) the efficient acquisition of mortgage securities on a temporary basis to effectively (a) deploy capital and (b) meet certain REIT requirements, (2) financing through reverse repurchase agreements and (3) identifying the appropriate times to sell the mortgage securitization to optimize the investment yield to the Company and to free additional capital to fund additional mortgage loan acquisitions.

RESULTS OF OPERATIONS

(dollars in thousands, except per share data)

Three Months
Ended
March 31, 1998

Net interest income	\$2,159
Loan loss provision	(51)
General and administrative expenses	(854)
Equity in (loss) of unconsolidated subsidiary	(6)

Net income	\$1,248
	=====
Basic earnings per share	\$0.19
	=====
Dividends declared per share	\$0.21
	=====

Net interest income for the three month ended March 31, 1998 totaled \$2,159,000. The majority of the net interest income was generated by the Company's investment in mortgage loans (63.5%) and mortgage securities (26.9%). The balance of net interest income was generated from overnight agency paper investments, cash collateral on deposit with certain mortgage security lenders, a savings account, loans to certain Principals and a loan to HCP. Management anticipates that the net interest income generated by mortgage loans will continue to reflect an increasing percentage of total net interest income as the Company continues to grow its mortgage loan investment portfolio. The Company's mortgage loans increased from \$160,970,000 at December 31, 1997 to \$419,627,000 at March 31, 1998.

The following table reflects the average balances for the Company's investment portfolio as well as the Company's interest bearing liabilities with the corresponding effective rate of interest annualized for the period January 1, 1998 through March 31, 1998 (dollars in thousands):

	Average Balance	Effective Interest Rate

Interest Earning Assets		
Mortgage loans (1)	\$216,275	7.410%
Mortgage securities	334,722	6.116%

	\$550,997	6.624%
	=====	
Interest Bearing Liabilities		
Reverse repurchase borrowings on mortgage loans	\$166,881	6.318%
Reverse repurchase borrowings on mortgage securities	324,305	5.597%

	\$491,186	5.842%
	=====	
Net Interest Earning Assets	\$59,811	
	=====	
Net Interest Spread		0.782%

Yield on Net Interest Earning Assets (2)

=====
13.046%
=====

- (1) Loan loss provisions are excluded in the above calculations.
- (2) Yield on Net Interest Earning Assets is computed by dividing the applicable net interest income by the average daily balance of Net Interest Earning Assets.

The effective rate for interest earning assets has been adjusted to reflect amortization of premiums paid or discounts received on the acquisition of mortgage loans and mortgage securities. By engaging HCP to perform due diligence on mortgage loans the Company acquires, management believes that premium amounts paid for the purchase of mortgage loan are less than if they were acquired in the market. Net unamortized premiums on the Company's mortgage loans, and mortgage securities were \$6,905,000 and \$11,519,000 at March 31, 1998 or approximately 1.68% and 3.81% of the respective par value investments in mortgage loans and mortgage securities.

The Company's largest expense is the interest cost on borrowed funds. Funds to finance the investment portfolio in the first quarter of 1998 were borrowed in the form of reverse repurchase agreements, which is indexed to LIBOR. The Company may also use interest rate swaps, caps and financial futures to manage its interest rate risk. The net cost of those instruments will be included in the cost of funds as a component of interest expense for the period to which it relates.

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At March 31, 1998 the Company's mortgage loan investment portfolio comprised 54.7% of total assets in the following types of single family mortgage loans:

Mortgage Loan Summary

Fixed Rate Mortgage Loans

- - - - -

Face or principal amount	\$297,382,000
Carrying value	\$304,595,000
Weighted average net coupon	8.83%
Weighted average maturity (in months)	229
Number of loans	9,891
Average loan size	\$ 30,071

Adjustable Rate Mortgage (Arm) Loans

- - - - -

Face or principal amount	\$113,932,000
Carrying value	\$115,032,000
Weighted average net coupon	8.05%
Weighted average maturity (in months)	273
Number of loans	1,359
Average loan size	\$ 83,792

At March 31, 1998 the Company's mortgage securities investment portfolio comprised 40.7% of total assets in the following categories (dollars in thousands):

Federal National Mortgage Association

 (FNMA) Securities

	Adjustable Rate ----	Fixed Rate ----	Total -----
Par value at purchase date	\$200,524	\$4,122	\$204,646
March 31, 1998 adjusted principal	\$174,141	\$4,122	\$178,263
Amortized cost basis	\$180,968	\$4,330	\$185,298
Market Value	\$180,093	\$4,322	\$184,415
Weighted average net coupon	7.73%	9.47%	7.77%
Weighted average maturity (in months)	285	303	285

Federal Home Loan Mortgage Corp

 (FHLMC) Securities

	Adjustable Rate ----	Fixed Rate ----	Total -----
Par value at purchase date	\$136,237	--	\$136,237
March 31, 1998 adjusted principal	\$124,280	--	\$124,280
Amortized cost basis	\$128,764	--	\$128,764
Market Value	\$127,975	--	\$127,975
Weighted average net coupon	7.88%		7.88%
Weighted average maturity (in months)	300		300

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General and administrative expenses (G & A expenses) amounted to \$854,000 for the first quarter of 1998. G & A expenses consist substantially of expenses relating to the acquisition of and managing the Company's investment portfolio, as well as various other corporate expenses. Most of the G & A expenses will remain relatively stable on a quarterly basis with the possible exception of the following: (1) due diligence, (2) commissions and (3) legal and professional. The due diligence acquisitions will vary based upon various factors, including but not limited to the number of loans purchased, complexity of documentation problems encountered, type of mortgage loans, ease of converting data to the Company's proprietary software system, geographic location, and creditworthiness of the borrower. Commission expense is also directly related to mortgage loans acquired. Commissions are paid on all mortgage loan acquisitions initiated by HCP's sales representatives. However, certain mortgage loan acquisitions are also initiated by the Principals. No commission expense is recorded when the mortgage loan acquisitions are originated by the Principals. Legal and professional fees will also vary based on the usage of various professional firms from time to time.

The Company recorded a loss from its investment in Hanover Capital Partners and Subsidiaries of \$6,000 for the period January 1, 1998 through March 31, 1998. Summarized operating results for Hanover Capital Partners and Subsidiaries is shown in the table below (dollars in thousands):

Revenues	\$1,791
Expenses	1,797

Net Loss	6
	=====

The Company's net income for the period January 1, 1998 through March 31, 1998 was \$1,248,000 or a 6.39% annualized return on equity. The table below highlights the Company's brief historical trends and components of annualized return on average equity.

COMPONENTS OF ANNUALIZED RETURN ON AVERAGE EQUITY (1)

For the Quarter Ended -----	Net Interest Income/ Equity -----	Gain on Sale of Securities Equity -----	G & A Expense/ Equity -----	Equity in Earnings (Loss) of Subsidiary/ Equity -----	Annualized Return on Equity -----
-----------------------------------	--	---	--------------------------------------	---	--

June 30, 1997 (2)	0.00%	0.00%	0.00%	0.00%	0.00%
September 30, 1997 (3)	4.85%	0.00%	3.59%	0.97%	2.23%
December 31, 1997	7.71%	0.18%	4.26%	(1.41%)	2.22%
March 31, 1998	10.78%	0.00%	4.37%	(0.03%)	6.38%

- (1) Average equity excludes unrealized loss on investments available for sale.
- (2) The Company was organized on June 10, 1997, but did not begin operations until September 19, 1997.
- (3) Average equity is based on equity balances at September 19, 1997 (IPO date), and equity balances at September 30, 1997, excluding unrealized loss on investments available for sale.

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LIQUIDITY AND CAPITAL RESOURCES

The Company expects to meet its short-term and long-term liquidity requirements generally from its existing working capital, cash flow provided by operations, reverse repurchase agreements, and other possible sources of financing, including CMO's and REMICs, additional equity generated by the exercise of some or all of the Company's outstanding stock warrants and additional equity offerings. The Company considers its ability to generate cash to be adequate to meet operating requirements both in the short-term and long-term. However, if a significant decline in the market value of the Company's investment portfolio should occur, the Company's available liquidity from these other borrowings may be reduced. As a result of such a reduction in liquidity, the Company may be forced to sell certain investments in order to maintain liquidity. If required, these sales could be made at prices lower than the carrying value of such assets, which could result in losses.

Net cash provided by operating activities for the first quarter of 1998 was \$1,894,000. Cash flows from operating activities were generated by net income of \$1,248,000, adjusted for certain non-cash expenses (\$1,093,000) and normal recurring changes in other assets and liabilities (\$453,000) and reduced by a loan to HCP of \$900,000.

Net cash used in investing activities amounted to \$188,774,000 during the period January 1, 1998 through March 31, 1998. The majority of the cash used in investing activities related to the purchase of assets for the Company's investment portfolio. Mortgage loans were purchased at an average price of 102.25% of par and mortgage securities were purchased at an average price of 101.12% of par during the first quarter of 1998.

Cash flows from financing activities generated \$207,847,000 for the period January 1, 1998 through March 31, 1998. The cash flows from financing activities resulted from net borrowing on reverse repurchase agreements (\$208,882,000) reduced by dividends paid in January 1998 (\$1,035,000).

Management anticipates that the Company will continue to purchase single-family mortgage loan pools and will finance the purchase of the mortgage loan pools through existing equity, reverse repurchase agreements, and other sources of financing including CMO's and REMICs. The Company may also realize additional liquidity if the Company's stock warrants are exercised. In order to grow its equity base, the Company may also issue additional capital stock. Management strives to issue such additional shares when it believes existing shareholders are likely to benefit from such offerings through higher earnings and dividends per share than as compared to the level of earnings and dividends the Company would likely generate without such offerings.

OTHER MATTERS

The Company calculated its Qualified REIT Assets at March 31, 1998, as defined in the Internal Revenue Code ("Code"), to be 97.3% of the value of its total assets, as compared to the federal tax requirement that at least 75% of the value of its total assets must be Qualified REIT Assets. The Company also estimates that 98.0% of its 1998 revenue will qualify for the 75% source of income test and 99.0% of its revenue will qualify for the 95% source of income test under the REIT rules.

The Company believes that it was in full compliance with the REIT tax rules as of March 31, 1998 and intends to remain in compliance with all REIT tax rules and to 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. If the Company were to become regulated as an investment company, then 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 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. As of March 31, 1998, the Company calculates that it is in compliance with this requirement.

IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The preceding section, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other sections of this Quarterly Report contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company's expectations or beliefs concerning future events, including, without limitation, statements containing the words "believes," "anticipates," "expects" and words of similar import; and also including, without limitation, the following: statements regarding the Company's continuing ability to target and acquire mortgage loans; expected availability of the master repurchase agreements; the sufficiency of the Company's working capital, cash flow and financing to support the Company's future operating and capital requirements; results of operations and overall financial performance; the expected dividend distribution rate; and the expected tax treatment of the Company's operations. Such forward-looking statements relate to future events and the future financial performance of the Company and the industry and involve known and unknown risks, uncertainties and other important factors which could cause actual results, performance or achievements of the Company or industry to differ materially from the future results, performance or achievements expressed or implied by such forward-looking statements.

Investors should carefully consider the various factors identified in the preceding section, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Quarterly Report that could cause actual results to differ materially from the results predicted in the forward-looking statements. Further, the Company specifically cautions investors to consider the following important factors in conjunction with the forward-looking statements: the possible decline in the Company's ability to locate and acquire mortgage loans; the possible adverse effect of changing economic conditions, including interest rate movements and changes in the real estate market both locally and nationally; the effect of severe weather or natural disasters; the effect of competitive pressures from other financial institutions, including mortgage REITs; and the possible changes, if any, in the Code REIT rules. Because of the foregoing factors, the actual results achieved by the Company in the future may differ materially from the expected results described in the forward-looking statements.

PART II OTHER INFORMATION

- Item 1. Legal Proceedings
 During the first quarter of 1998, there have been no material developments with respect to legal proceedings to which the Company or any of its affiliates have been a party.
- Item 2. Changes in Securities
 Not applicable
- Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibits filed with this Form 10-Q

Master Loan and Security Agreement by and
between Greenwich Capital Financial Products, Inc.
and Hanover Capital Mortgage Holdings, Inc., dated March 30, 1998

(b) Reports on Form 8-K
None

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SIGNATURES

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.

Dated: _____, 1998

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.
By: /s/ John A Burchett

Dated: _____, 1998

John A. Burchett
Chairman of the Board of Directors
By: /s/ Ralph F. Laughlin

Ralph F. Laughlin
Chief Financial Officer and
Principal Accounting Officer

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MASTER LOAN AND SECURITY AGREEMENT

DATED AS OF MARCH 30, 1998

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.
AS BORROWER

AND

GREENWICH CAPITAL FINANCIAL PRODUCTS, INC.
AS LENDER

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EXHIBIT F	Form of Blocked Account Agreement
EXHIBIT G	Form of Mortgage Loan Tape
EXHIBIT H	Form of Borrowing Base Certificate
EXHIBIT I	Form of Remittance Report
EXHIBIT J	Form of Instruction Letter
EXHIBIT K-1	Form of Lost Instrument Affidavit
EXHIBIT K-2	Form of Lost Note Affidavit
EXHIBIT L	Form of Notice of Extension of Interest Period

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MASTER LOAN AND SECURITY AGREEMENT

MASTER LOAN AND SECURITY AGREEMENT, dated as of March 30, 1998, between HANOVER CAPITAL MORTGAGE HOLDINGS, INC., a Maryland corporation (the "BORROWER"), and GREENWICH CAPITAL FINANCIAL PRODUCTS, INC., a Delaware corporation (the "LENDER").

RECITALS

The Borrower wishes to obtain financing from time to time to provide interim funding for (i) certain Eligible Bonds (as defined herein), (ii) certain Participation Certificates (as defined herein), and (iii) the acquisition of certain Mortgage Loans (as defined herein), which Mortgage Loans are to be sold or contributed by the Borrower to one or more trusts or other entities to be sponsored by the Borrower or an Affiliate (as defined herein) thereof, or to third-parties, and which Eligible Bonds, Participation Certificates and Mortgage Loans shall secure Advances (as defined herein) to be made by the Lender hereunder.

The Lender has agreed, subject to the terms and conditions of this Loan Agreement (as defined herein), to provide such financing to the Borrower, with a portion of the proceeds of the sale of all (i) mortgage-backed securities issued by any such trust or other entity, together with a portion of the proceeds of any whole loan sales, (ii) such subordinated bonds, and (iii) such Participation Certificates together with other funds of the Borrower, if necessary, being used to repay any Advances made hereunder as more particularly described herein.

Accordingly, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as

follows:

SECTION 1 DEFINITIONS AND ACCOUNTING MATTERS.

1.01 CERTAIN DEFINED TERMS. As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Loan Agreement in the singular to have the same meanings when used in the plural and VICE VERSA):

"ACCEPTED SERVICING PRACTICES" shall have the meaning assigned thereto in Section 11.15(a) hereof.

"ADVANCE" shall have the meaning provided in Section 2.01 hereof.

"AFFILIATE" means, with respect to any Person, any other Person which, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" (together with the correlative meanings of "controlled by" and "under common control with") means possession, directly or indirectly, of the power (a) to vote 10% or more of the securities (on a fully diluted basis) having ordinary voting power for the directors or managing general partners (or their equivalent) of such Person, or (b) to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract, or otherwise.

"APPLICABLE COLLATERAL PERCENTAGE" shall mean, with respect to all Eligible Mortgage Loans (other than Delinquent Mortgage Loans, 97%; with respect to all Eligible Bonds, 60%; with respect to Thirty-Day Delinquent Mortgage Loans, 90%; with respect to Sixty-Day Delinquent

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Mortgage Loans, 85%; and with respect to Participation Certificates, 97% multiplied by the Ownership Percentage.

"APPLICABLE MARGIN" shall mean, with respect to Advances that are Tranche A Advances, Tranche B Advances, and Tranche C Advances, respectively, the applicable rate per annum set forth below:

Tranche A Advances70%
Tranche B Advances	1.00%
Tranche C Advances	1.25%

"APPLICABLE NOTICE DOCUMENTS" shall have the meaning provided in Section 2.03(a) hereof.

"APPRAISED VALUE" shall mean the value set forth in an appraisal made in connection with the origination or acquisition of the related Mortgage Loan as the value of the Mortgaged Property.

"ASSET DOCUMENTS" shall mean (i) with respect to each Eligible Mortgage Loan, the documents comprising the related Mortgage File, (ii) with respect to each Eligible Bond, the documents comprising the related Bond File, and (iii) with respect to Participation Certificates, the documents comprising the Participation Certificate File.

"ASSET FILE" shall mean the Bond File, the Mortgage File or the Participation Certificate File, as applicable.

"BANKRUPTCY CODE" shall mean the United States Bankruptcy Code of 1978, as amended from time to time.

"BLOCKED ACCOUNT AGREEMENT" shall mean an agreement between the Borrower, the Collection Bank, and the Lender, substantially in the form of EXHIBIT F hereto, as the same may be amended, supplemented or otherwise modified from time to time, in which the Borrower and Collection Bank acknowledges the Lender's lien on the Collection Account, and grants to the Lender exclusive dominion and control over the distribution of all monies in the account.

"BOND/PC CUSTODIAL AGREEMENT" shall mean that certain agreement between the Lender and the Bond/PC Custodian setting forth (i) the procedures for delivery and maintenance of the Eligible Bonds, Bond Files, Participation Certificates, and Participation Certificate Files, and (ii) governing the establishment and maintenance of the Lender's "securities account" (as defined in Section 8-501(a) of the UCC) and identifying the Bond/PC Custodian as "securities intermediary" (as defined in Section 8-102(a)(14) of the UCC and 31 C.F.R. Section 357.2).

"BOND/PC CUSTODIAN" shall mean either (i) the Lender, (ii) Chase Manhattan Bank or (iii) any other Person designated by the Lender, as custodian of the Eligible Bonds, Bond Files, Participation Certificates, and Participation Certificate Files.

"BOND FILE" shall have the meaning provided in Section 5.02(g)(vi) hereof.

"BOND SUMMARY" shall mean a written summary for each Eligible Bond to be delivered by the Borrower to the Lender pursuant to Section 2.03(a) hereof, which shall include the following

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information and documentation: (i) the name of the issuer, (ii) the original principal amount, (iii) the current principal amount, (iv) the applicable interest rate, (v) for each bond which is publicly offered, the cusip, (vi) the name and class of the bond, (vii) such other information as shall be mutually agreed upon by the Borrower and the Lender, and (viii) with respect to each certificated bond, a copy of the related certificate attached thereto.

"BORROWER" shall have the meaning provided in the heading hereof.

"BORROWING BASE" shall mean the aggregate Collateral Value of all Eligible Assets that have been, and remain, pledged to the Lender hereunder.

"BORROWING BASE DEFICIENCY" shall have the meaning provided in Section 2.06 hereof.

"BUSINESS DAY" shall mean any day other than (i) a Saturday or Sunday or (ii) a day on which the New York Stock Exchange, the Federal Reserve Bank of New York or the Mortgage Custodian is authorized or obligated by law or executive order to be closed.

"CASH EQUIVALENTS" shall mean (a) securities with maturities of 90 days or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof, (b) certificates of deposit and eurodollar time deposits with maturities of 90 days or less from the date of acquisition and overnight bank deposits of any commercial bank having capital and surplus in excess of \$500,000,000, (c) repurchase obligations of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than seven days with respect to securities issued or fully guaranteed or insured by the United States Government, (d) commercial paper of a domestic issuer rated at least A-1 or the equivalent thereof by Standard and Poor's Ratings Group ("S&P") or P-1 or the equivalent thereof by Moody's Investors Service, Inc. ("MOODY'S") and in either case maturing within 90 days after the day of acquisition, (e) securities with maturities of 90 days or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's, (f) securities with maturities of 90 days or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the requirements of clause (b) of this definition or (g) shares of money market mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition.

"CERTIFICATE REGISTRAR" shall mean the Person who carries on its books and records the identity of the holder of a Participation Certificate.

"CHANGE OF CONTROL" shall mean either (i) any one of the following three individuals leaves the employ of the Borrower: John Burchett, Irma Tavares, or Joyce Mizerak, or (ii) there occurs a change of "control" of the Borrower as such term is defined in the Securities Exchange Act of 1934, as amended.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" shall have the meaning provided in Section 4.01(b) hereof.

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"COLLATERAL VALUE" shall mean, (a) with respect to each Eligible Mortgage Loan or Eligible Bond, the Applicable Collateral Percentage of the lesser of (i) the Market Value of such Eligible Mortgage Loan or Eligible Bond and (ii) the Purchase Price Percentage of such Eligible Mortgage Loan or Eligible Bond multiplied by the outstanding principal balance of such Eligible Mortgage Loan or Eligible Bond; and (b) with respect to each Participation Certificate, the Applicable Collateral Percentage of the lesser of (a) the Market Value of the Underlying Mortgage Loans subject to such Participation Certificate, and (b) the Purchase Price Percentage of such Participation Certificate multiplied by the outstanding principal balance of the Underlying Mortgage Loans subject to such Participation Certificate; provided that the following additional limitations on Collateral Value shall apply:

(i) subject to (vi)(A) below, the aggregate Collateral Value of all Thirty-Day Delinquent Mortgage Loans may not at any one time exceed the lesser of (a) \$5,000,000 or (b) 5% of the aggregate outstanding principal balance of all Advances;

(ii) subject to (vi)(A) below, the aggregate Collateral Value of all Sixty-Day Delinquent Mortgage Loans may not at any one time exceed the lesser of (a) \$3,000,000 or (b) 3% of the aggregate outstanding principal balance of all Advances;

(iii) the aggregate Collateral Value of Non-Investment Grade Bonds shall not at any one time exceed \$15,000,000; and

(iv) the aggregate Collateral Value for all Document Deficient Assets shall not at any time exceed the lesser of (a) \$10,000,000 or (b) 10% of the aggregate outstanding principal balance of all Advances; provided, however, that in no event shall Type I Document Deficient Assets and Type III Document Deficient Assets (taking into account Underlying Mortgage Loans subject to Participation Certificates), taken in the aggregate, at any time exceed the lesser of (x) \$1,000,000 or (y) 1% of the aggregate outstanding principal balance of all Advances.

(v) the Collateral Value shall be ZERO for each Eligible Asset or for each Underlying Mortgage Loan securing such Eligible Asset, as applicable:

(A) which is thirty (30) days or more delinquent in respect of the first Scheduled Payment;

(B) other than Thirty-Day Delinquent Mortgage Loans subject to subsection (i) above, which is thirty (30) days or more delinquent in respect of any Scheduled Payment as of the date of determination;

(C) other than Sixty-Day Delinquent Mortgage Loans subject to subsection (ii) above, which is sixty (60) days or more delinquent in respect of any Scheduled Payment;

(D) in respect of which the Maximum Pledge Period has passed;

(E) which is an Eligible Mortgage Loan and which has been released from the possession of the Mortgage Custodian under Section 5(a) of the Mortgage Custodial Agreement to any Person other than the Lender or its bailee for a period in excess of

ten (10) days (or if such tenth day is not a Business Day, the next succeeding Business Day);

(F) which is an Eligible Mortgage Loan and which has been released from the possession of the Mortgage Custodian under Section 5(b) of the Mortgage Custodial Agreement under any Transmittal Letter in excess of the time period stated in such Transmittal Letter for release;

(G) which is an Eligible Mortgage Loan or Underlying Mortgage Loan and in respect of which (1) the related Mortgaged Property is the subject of a foreclosure proceeding or (2) the related Mortgage Note has been extinguished under relevant state law in connection with a judgment of foreclosure or foreclosure sale or otherwise;

(H) which is an Eligible Mortgage Loan or Underlying Mortgage Loan and as to which (i) the related Mortgage Note or the related Mortgage is not genuine or is not the legal, valid, binding and enforceable obligation of the maker thereof, subject to no right of rescission, set-off, counterclaim or defense, or (ii) such Mortgage, is not a valid, subsisting, enforceable and perfected first lien on the Mortgaged Property;

(I) which the Lender determines, in its reasonable discretion, is not eligible for sale in the secondary market or for securitization without unreasonable credit enhancement;

(J) which has a Material Exception with respect thereto;

(K) which is an Eligible Mortgage Loan or Underlying Mortgage Loan and in respect of which the related Mortgagor is the subject of a bankruptcy proceeding;

(L) which is an Eligible Mortgage Loan or Underlying Mortgage Loan which is ninety (90) days or more delinquent in respect of any Scheduled Payment;

(M) which is a Type II Document Deficient Asset for which the Mortgage Custodian or the Bond/PC Custodian, as applicable, has failed to receive, pursuant to Section 2(I)(e) of the Mortgage Custodial Agreement, (a) with respect to intervening assignments, either (i) the related intervening assignment within 120 days from the date such Mortgage Loan was pledged to the Lender or (ii) proof that the last intervening assignment was recorded, which such proof shall be in the form of (A) the original title policy or a copy of the same certified by the Borrower as a true, correct, and complete copy thereof or (B) a certified copy of the last intervening assignment with evidence of recording indicated thereon; or, (b) with respect to the title policy, either (i) the original title policy or a copy of the same certified by the Borrower as a true, correct and complete copy thereof within 120 days from the date such Mortgage Loan was pledged to the Lender, or (ii) any other evidence of such title policy acceptable to the Lender in its sole discretion, including, without limitation, any preliminary title report, binder, or commitment to provide such title policy;

(N) which is an Eligible Bond and in respect to which there is a breach of any of the representations or warranties in Schedule 1 hereto; and

(O) which is a Type III Document Deficient Asset for which the Bond/PC Custodian has failed to receive, an original Participation Certificate within 21 days from the date such Participation Certificate was pledged to the Lender.

"COLLECTION ACCOUNT" shall mean the segregated account established by the Borrower, maintained in the name of the Lender, controlled by the Lender and subject to a security interest in favor of the Lender into which all Collections received by the Master Servicer, a Subservicer, or a Trustee shall be remitted by such Master Servicer, Subservicer or Trustee pursuant to an Instruction Letter.

"COLLECTION BANK" shall mean Fleet Bank.

"COLLECTIONS" shall mean, collectively, (i) with respect to Mortgage Loans, all collections and proceeds on or in respect of the Mortgage Loans, excluding collections required to be paid to the Subservicer or a mortgagor on the Mortgage Loans, (ii) with respect to Eligible Bonds and Participation Certificates, all cash dividends or distributions or any monies distributed on account of such Eligible Bonds or Participation Certificates, as applicable.

"COMMITMENT FEE" shall have the meaning assigned thereto in Section 3.03 hereof.

"COMMONLY CONTROLLED ENTITY" shall mean an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"CONTRACTUAL OBLIGATION" shall mean as to any Person, any provision of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound or any provision of any security issued by such Person.

"DEFAULT" shall mean an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

"DELINQUENT MORTGAGE LOAN" shall mean either a Thirty-Day Delinquent Mortgage Loan or a Sixty-Day Delinquent Mortgage Loan; provided that in no event shall a Mortgage Loan or Underlying Mortgage Loan that is ninety (90) days or more delinquent have a Collateral Value in excess of zero.

"DOCUMENT DEFICIENT ASSETS" shall be the collective reference to Type I Document Deficient Assets, Type II Document Deficient Mortgage Loans and Type III Document Deficient Mortgage Loans.

"DOLLARS" and "\$" shall mean lawful money of the United States of America.

"DUE DILIGENCE PACKAGE" shall mean with respect to each Mortgage Loan or Underlying Mortgage Loan to be pledged to the Lender hereunder (a) all materials in the possession or under the control of the Borrower, which materials shall include, without limitation, (i) the Borrower's analysis of the seller and the Subservicer, (ii) the results of the Borrower's underwriting and due diligence review of all documents related to such Mortgage Loan or Underlying Mortgage Loan, and (b) any certificates, remittance reports, Servicing Agreements, and purchase agreements governing such Mortgage Loans or Underlying Mortgage Loan.

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"DUE DILIGENCE REVIEW" shall mean the performance by the Lender of any or all of the reviews permitted under Section 11.16 hereof with respect to any or all of the Eligible Assets of the Borrower or related parties, as desired by the Lender from time to time.

"EFFECTIVE DATE" shall mean the date upon which the conditions precedent set forth in Section 5.01 shall have been satisfied.

"ELIGIBLE ASSETS" shall mean Eligible Mortgage Loans, Eligible Bonds,

and Participation Certificates (or the Underlying Mortgage Loans related thereto) as to which the representations and warranties set forth on Schedule 1 hereof are true and correct.

"ELIGIBLE BOND" shall mean either an Investment Grade Bond or a Non-Investment Grade Bond for which (i) the Borrower or one of its Affiliates was the issuer, (ii) the Borrower is the current owner, and (iii) Greenwich Capital Markets, Inc. was the underwriter or placement agent.

"ELIGIBLE MORTGAGE LOAN" shall mean either a Prime Mortgage Loan or a Scratch and Dent Mortgage Loan which was acquired by the Borrower and which conforms to the Borrower's Underwriting Guidelines.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA AFFILIATE" shall mean any corporation or trade or business that is a member of any group of organizations (i) described in Section 414(b) or (c) of the Code of which the Borrower is a member and (ii) solely for purposes of potential liability under Section 302(c)(11) of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which the Borrower is a member.

"EVENT OF DEFAULT" shall have the meaning provided in Section 8 hereof.

"EXCEPTION" shall have the meaning assigned thereto in the Mortgage Custodial Agreement.

"EXCEPTION REPORT" shall mean the exception report prepared by the Mortgage Custodian pursuant to the Mortgage Custodial Agreement.

"FEDERAL FUNDS RATE" shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Lender from three federal funds brokers of recognized standing selected by it.

"FUNDING DATE" shall mean the date on which an Advance is made hereunder.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States of America.

"GOVERNING AGREEMENTS" shall mean the agreement or agreements which govern the issuance and the payment of the Eligible Bonds or Participation Certificates, as applicable.

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"GOVERNMENTAL AUTHORITY" shall mean any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any court or arbitrator having jurisdiction over the Borrower, any of its Subsidiaries or any of their properties.

"GUARANTEE OBLIGATION" as to any Person (the "GUARANTEEING PERSON"), shall mean any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) with respect to which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "PRIMARY OBLIGATIONS") of any other third Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, including, without limitation, any obligation of such guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or

indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; PROVIDED, HOWEVER, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The terms "GUARANTEE" and "GUARANTEED" used as a verb shall have a correlative meaning. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

"HEDGING AGREEMENT" shall mean, with respect to any or all of the Eligible Assets, any interest rate swap, cap or collar agreement or similar arrangements providing for protection against fluctuations in interest rates or other market risks commonly hedged or the exchange of nominal interest obligations, either generally or under specific contingencies, entered into by the Borrower and reasonably acceptable to the Lender.

"HUD" shall mean the Department of Housing and Urban Development, or any federal agency or official thereof which may from time to time succeed to the functions thereof.

"INDEBTEDNESS" shall mean, of any Person at any date, without duplication, (a) all indebtedness of such Person for borrowed money (whether by loan or the issuance and sale of debt securities) or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) all obligations of such Person under financing leases, (d) all obligations of such Person in respect of letters of credit, acceptances or similar instruments issued or created for the account of such Person and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

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"INDEMNIFIED PARTY" shall have the meaning provided in Section 11.03 hereof.

"INSTRUCTION LETTER" shall mean a letter agreement between the Borrower and each Trustee, Certificate Registrar and/or Subservicer, as applicable, substantially in the form of EXHIBIT J attached hereto, in which such Persons acknowledge the Lender's security interest in the Eligible Assets, and agrees to remit Collections either directly into the Collection Account or in any other way the Lender may so direct from time to time.

"INTEREST PERIOD" shall mean, with respect to any Advance, (i) initially, the period commencing on the Funding Date with respect to such Advance and ending on the calendar day prior to the Payment Date following one month, two months, three months, or six months thereafter (the "RESET DATE"), as the Borrower may select as provided in Section 3.04 hereof, and (ii) thereafter, each period commencing on the Payment Date and ending on the applicable Reset Date. Notwithstanding the foregoing, no Interest Period may end after the Termination Date.

"INVESTMENT COMPANY ACT" shall mean the Investment Company Act of 1940, as amended.

"INVESTMENT GRADE" shall mean a credit rating of BBB- or better, as determined by Standard & Poor's Ratings Group ("S&P"), or a credit rating of Baa2 or better, as determined by Moody's Investors Service, Inc. ("MOODY'S").

"INVESTMENT GRADE BOND" shall mean a certificated or uncertificated subordinate bond with an Investment Grade credit rating as of any date of determination; PROVIDED, that, in the event such bond is downgraded to below an Investment Grade credit rating, such bond will be treated as a Non-Investment Grade Bond hereunder and shall be included in the sublimit set forth in clause (iii) of the definition of Collateral Value.

"LENDER" shall have the meaning provided in the heading hereof.

"LIBOR" shall mean for any Advance, with respect to each day during each Interest Period pertaining to such Advance, the rate per annum equal to the rate appearing on Bloomberg on the first day of such Interest Period, for the one-month, three-month, or six-month term, as applicable, corresponding to such Interest Period, or if such rate shall not be so quoted then the applicable rate appearing at page 3750 of the Telerate Screen on the first day of such Interest Period, or if neither such rate shall be so quoted, the rate per annum at which the Lender is offered Dollar deposits at or about 11:00 a.m., New York City time, on such date by prime banks in the interbank eurodollar market where the eurodollar and foreign currency exchange operations in respect of its Advances are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein, and in an amount comparable to the amount of the Advances to be outstanding on such day.

"LIEN" shall mean any mortgage, lien, pledge, charge, security interest or similar encumbrance.

"LOAN AGREEMENT" shall mean this Master Loan and Security Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

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"LOAN DOCUMENTS" shall mean, collectively, this Loan Agreement, the Note, the Mortgage Custodial Agreement, the Bond/PC Custodial Agreement, the Blocked Account Agreement, and the Instruction Letters.

"LOAN-TO-VALUE RATIO" or "LTV" shall mean with respect to any Mortgage Loan, the ratio of (a) the Par Amount of the Mortgage Loan as of the date of origination (unless otherwise indicated) to (b) the Appraised Value of the Mortgaged Property or if the Mortgage Loan was made in connection with the purchase of the related Mortgaged Property, the lesser of the Appraised Value and the sales price of such property.

"LOST INSTRUMENT AFFIDAVIT" shall mean an affidavit, substantially in the form of EXHIBIT K-1 or otherwise acceptable to the Lender in its sole discretion, executed by the Borrower or other Person acceptable to the Lender in its sole discretion, which Lost Instrument Affidavit shall (i) attach a copy of the original Participation Certificate certified by the Borrower as a true, complete, and correct copy thereof, (ii) indemnify the Lender, and (iii) remain effective for all successors and assigns of the Borrower and the Lender.

"LOST NOTE AFFIDAVIT" shall mean an affidavit, substantially in the form of EXHIBIT K-2 or otherwise acceptable to the Lender in its sole discretion, executed by the the Borrower or other Person acceptable to the Lender in its sole discretion, which states that the Mortgage Custodian is not in possession of the original Mortgage Note, which Lost Note Affidavit shall (i) attach a copy of the original Mortgage Note certified by the Borrower as a true, complete, and correct copy thereof, (ii) indemnify the Lender, and (iii) remain effective for all successors and assigns of the Borrower and the Lender.

"MARKET VALUE" shall mean, with respect to any Eligible Asset, the price at which such Eligible Asset could be sold to a third-party, as determined by the Lender in its sole discretion (exercised in good faith), taking into account customary factors, including, but not limited to: (a) the historical

experience for collateral with similar characteristics to the Eligible Asset, such as prepayment speeds, expected default rates and loss severity; (b) market factors; (c) the creditworthiness of the issuer thereof, if applicable, and (d) appropriate discount rates; PROVIDED that in all events such Market Value may be determined to be zero. The Lender's determination of Market Value shall be final and binding on the parties.

"MASTER SERVICER" shall mean Hanover Capital Mortgage Holdings, Inc.

"MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on (a) the business, assets, property, business, condition (financial or otherwise) or prospects of the Borrower, (b) the ability of the Borrower to perform its obligations under any of the Loan Documents to which it is a party, (c) the validity or enforceability of any of the Loan Documents, (d) the rights and remedies of the Lender under any of the Loan Documents, (e) the timely payment of the principal of or interest on the Advances or other amounts payable in connection therewith or (f) the Collateral.

"MATERIAL EXCEPTION" shall mean, (a) (i) with respect to any Mortgage Loan, any Exception listed on the Exception Report consisting of the absence from the Mortgage File, or deficiency in respect of, any of the Mortgage Loan Documents set forth in Section 2(I)(a), 2(I)(c), 2(I)(d), 2(I)(e), or 2(I)(g) (other than with respect to Document Deficient Assets), or (ii) for which the information set forth in Section I of Annex 1 to the Mortgage Custodial Agreement is incomplete, (b) with respect to any Eligible Bond, any deviation from the document requirements set forth in Section

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5.02(g) hereof, and (c) with respect to any Participation Certificate, any deviation from the document requirements set forth in Section 5.02(f) or the absence from the Participation Certificate File of any document or information required therein.

"MAXIMUM CREDIT" shall mean \$100,000,000.

"MAXIMUM PLEDGE PERIOD" shall mean the first 180 days that an Eligible Asset has been pledged to the Lender hereunder, or such other period as determined in accordance with Section 2.11 hereof.

"MORTGAGE" shall mean the mortgage, deed of trust or other instrument securing a Mortgage Note, which creates a first lien on the fee simple in real property securing the Mortgage Note.

"MORTGAGE CUSTODIAL AGREEMENT" shall mean the Mortgage Custodial Agreement, dated as of the date hereof, among the Borrower, the Mortgage Custodian and the Lender, substantially in the form of EXHIBIT B hereto, as the same shall be modified and supplemented and in effect from time to time.

"MORTGAGE CUSTODIAN" shall mean First Chicago National Processing Corporation, as custodian pursuant to the Mortgage Custodial Agreement for all Mortgage Loans pledged hereunder, and its successors and permitted assigns thereunder.

"MORTGAGE FILE" shall have the meaning assigned thereto in the Mortgage Custodial Agreement.

"MORTGAGE INTEREST RATE" means the annual rate of interest borne on a Mortgage Note, which shall be adjusted from time to time with respect to adjustable rate Mortgage Loans.

"MORTGAGE LOAN" shall mean a Prime Mortgage Loan or Scratch and Dent Mortgage Loan which the Mortgage Custodian has been instructed to hold for the Lender pursuant to the Mortgage Custodial Agreement, and which mortgage loan includes, without limitation (i) a Mortgage Note and related Mortgage and (ii) all right, title and interest of the Borrower in and to the Mortgaged Property covered by such Mortgage.

"MORTGAGE LOAN SCHEDULE" shall mean a schedule of Eligible

Mortgage Loans containing the following information with respect to each Eligible Mortgage Loan to be delivered by the Borrower to the Lender pursuant to Section 2.03(a) or 7.08 hereof, as applicable: (i) the applicable Borrower's Mortgage Loan number; (ii) the Mortgagor's name and the street address; (iii) the current principal balance as of the date specified therein (which date shall be no earlier than forty-five (45) days prior to the date such Mortgage Loan Schedule is required to be delivered to the Lender or such other date mutually agreed upon by the Borrower and Lender), (iv) the original principal balance as of the date of origination; (v) the LTV as of the date of origination of the related Mortgage Loan; (vi) the LTV of the related Mortgage Loan as of the date of acquisition by the applicable Borrower; (vii) the paid through date; (viii) the mortgage interest rate; (ix) the final maturity date under the Mortgage Note; (x) the Scheduled Payment; (xi) the name of the Subservicer; (xii) delinquency status (reported as current, 30-59, 60-89, 90+, etc.), (xiii) the current FICO score for such Mortgage Loan, (xiv) the Purchase Price Percentage, (xv) whether such Mortgage Loan is subject to graduated payments, (xvi) whether it is a fixed or adjustable rate Mortgage Loan, (xvii) with respect to adjustable rate Mortgage Loans, the

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interest rate adjustment date, (xviii) with respect to adjustable rate Mortgage Loans, the interest rate margin and (xix) such other information as shall be mutually agreed upon by the Borrower and Lender.

"MORTGAGE LOAN TAPE" shall mean the computer-readable magnetic tape required to be delivered by the Borrower to the Lender pursuant to Section 2.03(a) hereof (the format of which shall be substantially in the form of EXHIBIT G attached hereto) which contains the information, with respect to each Mortgage Loan, required to be contained in the Mortgage Loan Schedule.

"MORTGAGE NOTE" shall mean the original executed promissory note or other evidence of the indebtedness of a mortgagor/borrower with respect to a Mortgage Loan.

"MORTGAGED PROPERTY" shall mean the real property (including all improvements, buildings, fixtures, building equipment and personal property thereon and all additions, alterations and replacements made at any time with respect to the foregoing) and all other collateral securing repayment of the debt evidenced by a Mortgage Note.

"MORTGAGOR" shall mean the obligor on a Mortgage Note.

"MULTIEMPLOYER PLAN" shall mean a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NET WORTH" shall mean, with respect to any Person, the excess of total assets of such Person, over total liabilities of such Person, determined in accordance with GAAP.

"NON-INVESTMENT GRADE BOND" shall mean a certificated or uncertificated subordinate bond which is either unrated or has a credit rating below Investment Grade as of the date of the pledge of such bond to the Lender hereunder or at any date thereafter.

"NOTE" shall mean the promissory note provided for by Section 2.02(a) hereof for Advances and any promissory note delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"NOTICE OF BORROWING AND PLEDGE" shall have the meaning provided in Section 2.03(a) hereof.

"OWNERSHIP PERCENTAGE" shall mean the undivided ownership interest of the holder of each Participation Certificate in each Underlying Mortgage Loan subject to such Participation Certificate as evidenced by the related Participation Certificate.

"PAR AMOUNT" shall mean, in respect of a Mortgage Loan at any time, the outstanding principal balance of such Mortgage Loan at such time.

"PARTICIPANTS" shall have the meaning set forth in Section 11.14(b) hereof.

"PARTICIPATION CERTIFICATE" shall mean a certificate, delivered to the Lender or its designee on each Funding Date in a form suitable for registration in the name of the Lender, representing the Borrower's Ownership Percentage in certain Eligible Mortgage Loans, which Eligible Mortgage Loans are held by the Participation Custodian for the benefit of the holder of such Participation Certificate.

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"PARTICIPATION CERTIFICATE FILE" shall mean, with respect to each Participation Certificate pledged to the Lender hereunder: (i) the original certificate or a Lost Instrument Affidavit in lieu thereof, subject to the sublimit in clauses (iv) and (v)(O) of the definition of Collateral Value and Section 7.25 hereof, (ii) the related Governing Agreements, (iii) the related Instruction Letter, (iv) an assignment executed by the registered holder in such Participation Certificate in blank for the benefit of an assignee and acceptable to the Lender in form and substance and sufficient to transfer the Participation Certificates pursuant to the Governing Agreements, (v) the name of the Certificate Registrar (if any) with contact information and (vi) any other documents which the Lender may request.

"PARTICIPATION CERTIFICATE SCHEDULE" shall mean a schedule of information related to each Participation Certificate and the related Underlying Mortgage Loan required to be delivered by the Borrower to the Lender pursuant to Section 2.03(a) hereof, which schedule shall contain the following information: (a) with respect to each Participation Certificate, (i) the name of the issuer, and (ii) the Ownership Percentage and, (b) with respect to each Underlying Mortgage Loan, (i) the applicable Borrower's Mortgage Loan number; (ii) the Underlying Mortgagor's name and the street address; (iii) the current principal balance as of the date specified therein; (iv) the original balance as of the date specified therein; (v) the LTV as of the date of the origination of the related Underlying Mortgage Loan; (vi) the paid-through date; (vii) the mortgage interest rate; (viii) the final maturity date under the Underlying Mortgage Note; (ix) the Scheduled Payment; (x) the name of the servicer; (xi) the delinquency status (reported as current, 30-59, 60-89, 90+, etc.); (xii) the Purchase Price Percentage; (xiii) whether it is a fixed or adjustable rate Underlying Mortgage Loan; (xiv) with respect to any adjustable rate Underlying Mortgage Loans, the interest rate adjustment date; (xv) with respect to any adjustable rate Underlying Mortgage Loan, the interest rate margin; and (xvi) such other information as shall be mutually agreed upon by the Borrower and Lender.

"PARTICIPATION CERTIFICATE TAPE" shall mean the computer-readable magnetic tape required to be delivered by the Borrower to the Lender pursuant to Section 2.03(a) hereof (the format of which shall be substantially in the form of the Mortgage Loan Tape with the addition of a field to set forth the Borrower's Ownership Percentage) which contains the information, with respect to each Participation Certificate, required to be contained in the Participation Certificate Schedule.

"PARTICIPATION CUSTODIAN" shall mean the custodian holding the Underlying Mortgage Loan and all documents related thereto for the holders of the related Participation Certificate.

"PARTICIPATION SERVICER" shall mean the servicer of an Underlying Mortgage Loan subject to a Participation Certificate.

"PAYMENT DATE" shall mean the eighth day of each calendar month, or if such day is not a Business Day, the next succeeding Business Day.

"PAYOFF" shall mean, with respect to any Mortgage Loan, repayment by the applicable Mortgagor of all outstanding principal thereunder together with all interest accrued thereon to the date of such repayment and any penalty or premium thereon.

"PAYOFF PROCEEDS" shall mean, with respect to any Mortgage Loan, all funds received from the applicable Mortgagor in connection with a Payoff.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

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"PERMITTED EXCEPTIONS" shall mean the exceptions to lien priority including but not limited to: (i) the lien of current real property taxes and assessments not yet due and payable; (ii) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to mortgage lending institutions generally and specifically referred to in the lender's title insurance policy delivered to the originator of the Mortgage Loan and (A) referred to or to otherwise considered in the appraisal (if any) made for the originator of the Mortgage Loan or (B) which do not adversely affect the appraised value of the Mortgaged Property set forth in such appraisal; 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 the Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property.

"PERSON" shall mean any individual, corporation, company, voluntary association, partnership, joint venture, limited liability company, trust, unincorporated association, government (or any agency, instrumentality or political subdivision thereof) or any other entity of whatever nature.

"PLAN" shall mean at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"POST-DEFAULT RATE" shall mean, in respect of any principal of any Advance or any other amount under this Loan Agreement, the Note or any other Loan Document that is not paid when due to the Lender (whether at stated maturity, by acceleration, by optional or mandatory prepayment or otherwise), a rate per annum during the period from and including the due date to but excluding the date on which such amount is paid in full equal to 2% per annum PLUS (a) the interest rate otherwise applicable to such Advance or other amount, or (b) if no interest rate is otherwise applicable, then LIBOR.

"PRIME MORTGAGE LOAN" shall mean an "A" Credit Mortgage Loan (as defined in the Underwriting Guidelines) secured by a first mortgage lien on a one to four family residential property as to which the representations and warranties set forth on Schedule 1 hereof are true and correct.

"PROPERTY" shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"PURCHASE PRICE PERCENTAGE" shall mean, with respect to any Eligible Asset, the dollar price paid by the Borrower for such Eligible Asset divided by the outstanding principal balance of such Eligible Asset as of the cut-off date of acquisition.

"REGULATIONS G, T, U AND X" shall mean Regulations G, T, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"RELEVANT SYSTEM" shall mean (i) The Depository Trust Company in New York, New York, or (ii) such other clearing organization or book-entry system as is designated in writing by Lender.

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"REPORTABLE EVENT" shall mean any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .13, .14, .16, .18, .19 or .20 of PBGC Reg. ss. 2615.

"REQUIREMENT OF LAW" shall mean as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"RESPONSIBLE OFFICER" shall mean, as to any Person, the chief executive officer or, with respect to financial matters, the chief financial officer of such Person; PROVIDED, that in the event any such officer is unavailable at any time he or she is required to take any action hereunder, Responsible Officer shall mean any officer authorized to act on such officer's behalf as demonstrated to the Lender to its reasonable satisfaction.

"RESTRICTED PAYMENTS" shall mean with respect to any Person, collectively, all dividends or other distributions of any nature (cash, securities, assets or otherwise), and all payments, by virtue of redemption or otherwise, on any class of equity securities (including, without limitation, warrants, options or rights therefor) issued by such Person, whether such securities are now or may hereafter be authorized or outstanding and any distribution in respect of any of the foregoing, whether directly or indirectly.

"SCHEDULED PAYMENT" shall mean, for any Eligible Asset, the scheduled payment of principal and/or interest due thereunder.

"SCRATCH AND DENT MORTGAGE LOAN" shall mean a Mortgage Loan secured by a first mortgage lien on a one to four family residential property intended by the originator to conform with FNMA, FHLMC or other conduit standards but which was subsequently discovered did not meet the originally intended market parameters due to errors in relevant documentation or credit deterioration of the obligor and as to which the representations and warranties set forth on Schedule 1 hereof are true and correct.

"SECURED OBLIGATIONS" shall mean the unpaid principal amount of, and interest on the Advances, and all other obligations and liabilities of the Borrower to the Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of or in connection with this Loan Agreement, the Note, any other Loan Document and any other document made, delivered or given in connection herewith or therewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all fees and disbursements of counsel to the Lender that are required to be paid by the Borrower pursuant to the terms hereof or thereof) or otherwise. For purposes hereof, "interest" shall include, without limitation, interest accruing after the maturity of the Advances and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding.

"SERVICING AGREEMENT" shall have the meaning provided in Section 11.15(c) hereof.

"SERVICING RECORDS" shall have the meaning provided in Section 11.15(b) hereof.

"SIDE LETTER" shall mean that certain letter agreement, dated as of the date hereof, between the Lender and Borrower.

"SINGLE EMPLOYER PLAN" shall mean any Plan which is covered by Title

IV of ERISA, but which is not a Multiemployer Plan.

"SIXTY-DAY DELINQUENT MORTGAGE LOAN" shall mean a Mortgage Loan or Underlying Mortgage Loan as to which a Scheduled Payment is more than 59 days, but less than or equal to 89 days delinquent.

"SUBSIDIARY" shall mean, with respect to any Person, any other Person of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

"SUBSERVICER" shall have the meaning provided in Section 11.15(c) hereof.

"TAKE-OUT COMMITMENTS" shall be the collective reference to valid, binding and enforceable commitments in form and substance acceptable to the Lender to purchase one or more Eligible Assets, in each case as amended, supplemented or otherwise modified in accordance with the terms thereof and in effect from time to time.

"TANGIBLE NET WORTH" shall mean, with respect to any Person, as of any date of determination, the consolidated Net Worth of such Person and its Subsidiaries, less the consolidated net book value of all assets of such Person and its Subsidiaries (to the extent reflected as an asset in the balance sheet of such Person or any Subsidiary at such date) which will be treated as intangibles under GAAP, including, without limitation, such items as deferred financing expenses, net leasehold improvements, good will, trademarks, trade names, service marks, copyrights, patents, licenses and unamortized debt discount and expense.

"TERMINATION DATE" shall mean March 28, 1999 or such earlier date on which this Loan Agreement shall terminate in accordance with the provisions hereof or by operation of law, as same may be extended in accordance with Section 2.10 hereof.

"THIRTY-DAY DELINQUENT MORTGAGE LOAN" shall mean a Mortgage Loan or Underlying Mortgage Loan as to which a Scheduled Payment is more than 29 days, but less than or equal to 59 days delinquent.

"TRANCHE A ADVANCES" shall mean Advances so long as, and to the extent that, they are secured by Prime Mortgage Loans, Scratch and Dent Mortgage Loans, or Participation Certificates.

"TRANCHE B ADVANCES" shall mean Advances so long as, and to the extent that, they are secured by Investment-Grade Bonds.

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"TRANCHE C ADVANCES" shall mean Advances so long as, and to the extent that, they are secured by Non-Investment Grade Bonds.

"TRANSFER DOCUMENTS" shall mean all documents required to re-register the Eligible Bonds in the name of the Lender or the Bond/PC Custodian, or otherwise to effect a delivery thereof in accordance with Section 5.02(g)(i) through (iii) hereof, including without limitation, with respect to certificated securities, the original certificate.

"TRANSMITTAL LETTER" shall have the meaning assigned to such term in the Mortgage Custodial Agreement.

"TRUSTEE" shall mean, with respect to Eligible Bonds and Participation Certificates, if applicable, the person under the applicable Governing Agreement responsible for administering such Eligible Bonds or Participation Certificates.

"TRUST RECEIPT" shall have the meaning assigned to such term in the Mortgage Custodial Agreement.

"TYPE I DOCUMENT DEFICIENT ASSET" shall mean an Eligible Mortgage Loan for which the Mortgage Custodian has received a Lost Note Affidavit in lieu of the original Mortgage Note.

"TYPE II DOCUMENT DEFICIENT ASSET" shall mean an Eligible Mortgage Loan for which the Mortgage Custodian has failed to receive (i) any intervening assignment, or (ii) the original title policy or a copy of the same certified by the Borrower as a true, correct and complete copy thereof.

"TYPE III DOCUMENT DEFICIENT ASSET" shall mean a Participation Certificate for which the Bond/PC Custodian has failed to receive an original Participation Certificate but has received a Lost Instrument Affidavit in lieu thereof.

"UNDERLYING MORTGAGE LOAN" shall mean a Mortgage Loan for which the Participation Certificate evidences the Lender's ownership interest therein.

"UNDERLYING MORTGAGOR" shall mean the obligor on an Underlying Mortgage Note.

"UNDERLYING MORTGAGE NOTE" shall mean the original executed promissory note or other evidence of the indebtedness of a mortgagor/borrower with respect to a Underlying Mortgage Loan.

"UNDERWRITING GUIDELINES" shall mean Hanover Capital Mortgage Holdings, Inc.'s Credit & Risk Management Policies and Procedures Manual, attached as EXHIBIT E hereto, as amended from time to time in accordance with Section 7.14.

"UNIFORM COMMERCIAL CODE" shall mean the Uniform Commercial Code as in effect on the date hereof in the State of New York; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than New York, "Uniform Commercial Code" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection.

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1.02 ACCOUNTING TERMS AND DETERMINATIONS. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lender hereunder shall be prepared, in accordance with GAAP.

SECTION 2 ADVANCES, NOTE AND PREPAYMENTS.

2.01 ADVANCES.

Subject to the terms and conditions of this Loan Agreement, the Lender agrees to make loans (individually, an "ADVANCE"; collectively, the "ADVANCES") to the Borrower, from time to time on any Business Day from and including the Effective Date to but excluding the Termination Date, in an aggregate principal amount at any one time outstanding up to but not exceeding the lesser of (i) the Maximum Credit, and (ii) the Borrowing Base at such time. Subject to the terms and conditions of this Loan Agreement, the Borrower may borrow, repay and reborrow hereunder.

2.02 NOTES.

(a) The Advances made by the Lender shall be evidenced by a single promissory note of the Borrower substantially in the form of EXHIBIT A hereto (the "NOTE"), dated the date hereof, payable to the Lender in a principal amount equal to the amount of the Maximum Credit and otherwise duly completed. The

Lender shall have the right to have its Note subdivided, by exchange for promissory notes of lesser denominations or otherwise.

(b) The date, amount and interest rate of each Advance made by the Lender to the Borrower, and each payment made on account of the principal and interest thereof, shall be recorded by the Lender on its books and, prior to any transfer of the Note, endorsed by the Lender on the schedule attached to the Note or any continuation thereof; PROVIDED that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing hereunder or under the Note in respect of the Advances.

2.03 PROCEDURE FOR BORROWING.

(a) The Borrower may request a borrowing hereunder, on any Business Day during the period from and including the Effective Date to and including the Termination Date, by delivering to the Lender, with a copy to the Mortgage Custodian, a Mortgage Loan Tape and Mortgage Loan Schedule, or to the Bond/PC Custodian, a Participation Certificate Tape and Participation Certificate Schedule, or a Bond Summary, as applicable (the "APPLICABLE NOTICE DOCUMENTS"), and an irrevocable written notice of borrowing and pledge substantially in the form of EXHIBIT D-1, EXHIBIT D-2 or EXHIBIT D-3 attached hereto, as applicable, (each a "NOTICE OF BORROWING AND PLEDGE"), appropriately completed, which such Notice of Borrowing and Pledge and the related Applicable Notice Documents must be received by the Lender prior to 10:00 a.m., New York City time, at least three (3) Business Days prior to the requested Funding Date; provided that the Lender shall be under no obligation to make an Advance more than once daily. Such Notice of Borrowing and Pledge shall (i) include the Applicable Notice Documents in respect of the Eligible Assets that the Borrower proposes to pledge to the Lender and be included in the Borrowing Base in connection with such Advance, (ii) contain the amount of the requested Advance, which shall in all events be at least equal to \$3,000,000, to be made on such Funding Date (setting forth the amount of the Advance allocable to each Eligible Asset set forth on the attached Mortgage Loan Schedule, Participation Certificate Schedule or the Bond

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Summary, as applicable), (iii) specify the requested Funding Date, which shall be not earlier than the third Business Day following the date of such Notice of Borrowing and Pledge, (iv) contain (by attachment) such other information reasonably requested by the Lender from time to time and (v) the applicable agreement evidencing the Purchase Price Percentage as reflected in the Mortgage Loan Schedule or Participation Certificate Schedule, as applicable.

(b) (i) With respect to Mortgage Loans, the Borrower shall deliver (or cause to be delivered) and release to the Mortgage Custodian, no later than 10:00 a.m. New York City time, three (3) Business Days prior to the requested Funding Date, a complete Mortgage File pertaining to each Mortgage Loan to be pledged to the Lender and included in the Borrowing Base on such requested Funding Date, in accordance with the terms and conditions of the Mortgage Custodial Agreement, (ii) with respect to Participation Certificates, the Borrower shall deliver (or cause to be delivered) and release to the Lender, no later than 10:00 a.m. New York City time, three (3) Business Days prior to the requested Funding Date, a complete Participation Certificate File (with a copy of the Participation Certificate in lieu of the original) pertaining to each Participation Certificate to be pledged to the Lender and included in the Borrowing Base on such requested Funding Date, and (iii) with respect to Eligible Bonds, the Borrower shall deliver (or cause to be delivered) and release to the Lender, no later than 10:00 a.m. three days prior to the requested Funding Date, copies of all documents composing the Bond File pertaining to each Eligible Bond to be pledged to the Lender and included in the Borrowing Base on such requested Funding Date.

(c) In addition to the foregoing, the Borrower shall deliver (or cause to be delivered) and release to the Lender no later than 10:00 a.m. New York City time, three (3) Business Days prior to the requested Funding Date, a Due Diligence Package for each Mortgage Loan and Underlying Mortgage Loan to be pledged to the Lender and included in the Borrowing Base on such requested

Funding Date.

(d) (i) With respect to Eligible Mortgage Loans, pursuant to the Mortgage Custodial Agreement, the Mortgage Custodian shall deliver to the Lender and the Borrower, no later than 11:00 a.m., New York City time, on a Funding Date, a Trust Receipt in respect of all Eligible Mortgage Loans pledged to the Lender on such Funding Date and an Exception Report in respect of all Eligible Mortgage Loans so pledged to the Lender, and (ii) with respect to Eligible Bonds and Participation Certificates, the Borrower shall deliver to the Bond/PC Custodian, with copies to the Lender, the Eligible Bonds and related Bond Files and the original Participation Certificates and Participation Certificate Files. The Bond/PC Custodian shall inform the Lender of its receipt of these documents in a form and manner acceptable to the Lender in its sole discretion. Subject to Section 5 hereof, such Advance will then be made available to the Borrower by the Lender transferring, via wire transfer (pursuant to wire transfer instructions provided by the Borrower on or prior to such Funding Date) the aggregate amount of such Advance in immediately available funds.

2.04 REPAYMENT OF ADVANCES; INTEREST.

(a) The Borrower hereby promises to repay in full on the Termination Date the then aggregate outstanding principal amount of the Advances.

(b) The Borrower hereby promises to pay to the Lender interest on the unpaid principal amount of each Advance for the period from and including the Funding Date of such Advance to but excluding the date such Advance shall be paid in full, at a rate per annum equal to LIBOR PLUS the Applicable Margin. Notwithstanding the foregoing, the Borrower hereby promises to pay to the

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Lender interest at the applicable Post-Default Rate on any principal of any Advance and on any other amount payable by the Borrower hereunder or under the Note that shall not be paid in full when due (whether at stated maturity, by acceleration or by mandatory prepayment or otherwise) for the period from and including the due date thereof to but excluding the date the same is paid in full. Accrued interest on each Advance shall be payable at the end of each Interest Period unless the Borrower has been otherwise notified by the Lender. In the event the Lender requests payment of accrued interest on a day other than on the Payment Date immediately following the applicable Reset Date, the Borrower shall pay such accrued interest no later than one (1) Business Day following receipt of such notice by the Lender; PROVIDED, however, that the Borrower shall not be obligated to pay accrued interest more frequently than once a month. Notwithstanding the foregoing, interest accruing at the Post-Default Rate shall be payable to the Lender on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Lender shall give notice thereof to the Borrower.

2.05 LIMITATION ON TYPES OF ADVANCES; ILLEGALITY. Anything herein to the contrary notwithstanding, if, on or prior to the determination of any LIBOR:

(a) the Lender determines, which determination shall be conclusive, that quotations of interest rates for the relevant deposits referred to in the definition of "LIBOR" in Section 1.01 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for Advances as provided herein; or

(b) the Lender determines, which determination shall be conclusive, that the relevant rate of interest referred to in the definition of "LIBOR" in Section 1.01 hereof upon the basis of which the rate of interest for Advances is to be determined is not likely adequately to cover the cost to the Lender of making or maintaining Advances; or

(c) it becomes unlawful for the Lender to honor its obligation to make or maintain Advances hereunder using a LIBOR;

then the Lender shall give the Borrower prompt notice thereof and, so long as such condition remains in effect, the Lender shall be under no obligation to make additional Advances, and the Borrower shall, at its option, either prepay all such Advances as may be outstanding or pay interest on such Advances at a

rate per annum equal to the Federal Funds Rate PLUS the Applicable Margin.

2.06 DETERMINATION OF BORROWING BASE; MANDATORY PREPAYMENTS OR PLEDGE.

(a) If at any time the aggregate outstanding principal amount of all Advances exceeds the Borrowing Base of Eligible Assets pledged to secure the Advances (a "BORROWING BASE DEFICIENCY"), as determined by the Lender and notified to the Borrower on any Business Day, the Borrower shall no later than one (1) Business Day after receipt of such notice, at the option of the Borrower, either prepay the Advances in part or in whole or pledge additional Eligible Assets to the Lender (which shall be in all respects acceptable to the Lender), such that after giving effect to such prepayment or pledge the aggregate outstanding principal amount of the Advances does not exceed the Borrowing Base.

(b) On the fifth day of each month (or if such day is not a Business Day, the next succeeding Business Day), the Lender (or the Borrower if the Borrower and the Lender shall mutually agree) shall calculate and deliver a Borrowing Base Certificate in the form attached hereto as EXHIBIT H, such certificate to be based on the principal balance of the Eligible Assets as of the last calendar day

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of the prior month or such other calendar day as applicable for the related Subservicer or Trustee and acceptable to the Lender. In the event that such Borrowing Base Certificate indicates that a Borrowing Base Deficiency exists, the Borrower shall on the immediately following Payment Date either prepay the Advances in part or in whole or pledge additional Eligible Assets to the Lender (which shall be in all respects acceptable to the Lender), such that after giving effect to such prepayment or pledge the aggregate outstanding principal amount of the Advances does not exceed the Borrowing Base.

2.07 OPTIONAL PREPAYMENTS. The Advances are prepayable without premium or penalty, in whole or in part at any time. Any amounts prepaid shall be applied to repay the outstanding principal amount of any Advances (together with interest thereon) until paid in full. Amounts repaid may be reborrowed in accordance with the terms of this Loan Agreement. If the Borrower intends to prepay a Advance in whole or in part from any source, the Borrower shall give two (2) Business Days' prior written notice thereof to the Lender. If such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to such date on the amount prepaid. Partial prepayments shall be in an aggregate principal amount of at least \$100,000.

2.08 REQUIREMENTS OF LAW.

(a) If any Requirement of Law (other than with respect to any amendment made to the Lender's certificate of incorporation and by-laws or other organizational or governing documents) or any change in the interpretation or application thereof or compliance by the Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject the Lender to any tax of any kind whatsoever with respect to this Loan Agreement, the Note or any Advance made by it (excluding net income taxes) or change the basis of taxation of payments to the Lender in respect thereof;

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory Advance or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, Advances or other extensions of credit by, or any other acquisition of funds by, any office of the Lender which is not otherwise included in the determination of the LIBOR hereunder;

(iii) shall impose on the Lender any other condition;

and the result of any of the foregoing is to increase the cost to the Lender, by

an amount which the Lender deems to be material, of making, continuing or maintaining any Advance or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall (i) promptly pay the Lender such additional amount or amounts as will compensate the Lender for such increased cost or reduced amount receivable; provided that, notwithstanding the foregoing, within 30 days following receipt of notice from the Lender that any amount or amounts are due pursuant to this Section 2.08, the Borrower shall have the option to pay in full all Secured Obligations (including, without limitation, any additional payments required pursuant to this Section 2.08) and terminate this Loan Agreement.

(b) If the Lender shall have determined that the adoption of or any change in any Requirement of Law (other than with respect to any amendment made to the Lender's certificate of

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incorporation and by-laws or other organizational or governing documents) regarding capital adequacy or in the interpretation or application thereof or compliance by the Lender or any corporation controlling the Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on the Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which the Lender or such corporation (taking into consideration the Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by the Lender to be material, then from time to time, the Borrower shall promptly pay to the Lender such additional amount or amounts as will compensate the Lender for such reduction.

(c) If the Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify the Borrower of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection submitted by the Lender to the Borrower shall be conclusive in the absence of manifest error.

2.09 PURPOSE OF ADVANCES. Each Advance shall be used to finance the acquisition of Eligible Assets identified to the Lender in writing on each Mortgage Loan Schedule, Participation Certificate Schedule, or Bond Summary, as applicable, as such Mortgage Loan Schedule, Participation Certificate Schedule, or Bond Summary may be amended from time to time.

2.10 EXTENSION OF TERMINATION DATE. At the request of the Borrower, which request must be made at least thirty (30) days prior to the then current Termination Date, the Lender may in its sole discretion extend the Termination Date for a period of 364 days by giving written notice of such extension to the Borrower no later than twenty (20) days, but in no event earlier than thirty (30) days, prior to the then current Termination Date.

2.11 EXTENSION OF MAXIMUM PLEDGE PERIOD. At the request of the Borrower, which request must be made at least thirty (30) days prior to the expiration of the Maximum Pledge Period, the Lender may in its sole discretion extend such Maximum Pledge Period for any longer time period as determined by the Lender in its sole discretion.

SECTION 3 PAYMENTS; COMPUTATIONS; ETC.; COMMITMENT FEE.

3.01 PAYMENTS.

(a) Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by the Borrower under this Loan Agreement and the Note, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to the Lender at the following account maintained by the Lender: Chase Manhattan Bank, N.A., Account # 140095961, ABA # 021000021, for the A/C of Greenwich Capital Financial Products, Inc. (Hanover), Attn: Jim Glover, not later than 3:00 p.m., New York City time, on the date on which such payment shall become due (and each such payment made after such time on such due date shall be deemed to have been made on the next succeeding Business Day). The Borrower acknowledges that it has no

rights of withdrawal from the foregoing account.

(b) Except to the extent otherwise expressly provided herein, if the due date of any payment under this Loan Agreement or the Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension.

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3.02 COMPUTATIONS. Interest on the Advances shall be computed on the basis of a 360-day year for the actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

3.03 COMMITMENT FEE. The Borrower agrees to pay to the Lender, on the Payment Dates in April, July, October and January and on the Termination Date (each a "COMMITMENT FEE PAYMENT DATE"), a commitment fee equal to (a) 12.5 basis points (0.125%) multiplied by (b) (i) the number of days from and including the date of the Loan Agreement or the previous Commitment Fee Payment Date up to but not including the related Commitment Fee Payment Date or the Termination Date, as applicable, divided by (ii) 360 multiplied by (c) the Maximum Credit (the "COMMITMENT FEE"), such payment to be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to the Lender commencing on April 8, 1998. The Lender may, in its sole discretion, net such Commitment Fee from the proceeds of any Advance made to the Borrower.

3.04 SELECTION OF INTEREST PERIOD. The Borrower's selection of the duration of Interest Period shall be irrevocable and shall be effective only if noted on the applicable Notice of Borrowing and Pledge. Prior to the termination of the Interest Period selected pursuant to this Section 3.04, the Borrower may elect an Interest Period by delivering written notice, substantially in the form of Annex L attached hereto, to the Lender indicating the desired Interest Period, which such notice must be received no later than two (2) Business Day(s) prior to the date on which the then current Interest Period is scheduled to end. In the event no such written notice is received by the Lender, the applicable Interest Rate shall be one month.

SECTION 4 COLLATERAL SECURITY.

4.01 COLLATERAL; SECURITY INTEREST.

With respect to Eligible Mortgage Loans, the Mortgage Custodian shall, pursuant to the Mortgage Custodial Agreement: (i) hold the related Mortgage Loan Documents as exclusive bailee and agent for the Lender and (ii) deliver Trust Receipts to the Lender each to the effect that it has reviewed the related Mortgage Loan Documents in the manner and to the extent required by the Mortgage Custodial Agreement and identifying any Exceptions in such Mortgage Loan Documents as so reviewed in the Exception Reports.

With respect to Eligible Bonds, the Bond/PC Custodian shall, pursuant to the Bond/PC Custodial Agreement, hold such Eligible Bonds and the related Bond Files, either directly or through the facilities of a Relevant System, as "securities intermediary" (as defined in Section 8-102(a)(14) of the UCC and 31 C.F.R. Section 357.2) and credit them to the "securities account" of the Lender.

With respect to Participation Certificates, the Bond/PC Custodian shall, pursuant to the Bond/PC Custodial Agreement, hold such Participation Certificates and the related Participation Certificate Files as exclusive bailee and agent for the Lender and (ii) shall review such Participation Certificate File in the manner and to the extent required by the Bond/PC Custodial Agreement.

(b) Each of the following items of property is hereinafter referred to as the "COLLATERAL":

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(i) all Eligible Assets identified on a Notice of Borrowing and Pledge delivered by the Borrower to the Lender and the Bond/PC Custodian or the Mortgage Custodian, as applicable, from time to time;

(ii) all Asset Documents, including without limitation all promissory notes, and all Servicing Records, Servicing Agreements, servicing rights, all Transfer Documents, all Governing Agreements, all original certificates related to the Eligible Bonds and Participation Certificates and any other collateral pledged or otherwise relating to such Eligible Assets, together with all files, documents, instruments, surveys, certificates, correspondence, appraisals, computer storage media, accounting records and other books and records relating thereto;

(iii) all mortgage guaranties and insurance relating to such Mortgage Loans (issued by governmental agencies or otherwise) and any mortgage insurance certificate or other document evidencing such mortgage guaranties or insurance relating to such Mortgage Loans and all claims and payments thereunder;

(iv) all other insurance policies and insurance proceeds relating to any Mortgage Loan or the related Mortgaged Property;

(v) all purchase or Take-Out Commitments relating to or constituting any or all of the foregoing;

(vi) all Hedging Agreements relating to such Eligible Assets;

(vii) the Collection Account and the balance from time to time standing to the credit of the Collection Account and all rights with respect thereto;

(viii) all "securities accounts" (as defined in Section 8-501(a) of the UCC);

(ix) all purchase agreements relating to such Eligible Assets;

(x) all collateral, however defined, under any other agreement between the Borrower or any of its Affiliates on the one hand and the Lender or any of its Affiliates on the other hand;

(xi) all "accounts", "chattel paper" and "general intangibles" as defined in the Uniform Commercial Code relating to or constituting any and all of the foregoing; and

(xii) any and all replacements, substitutions, distributions on or proceeds of any and all of the foregoing.

(c) The Borrower hereby pledges to the Lender, and grants a security interest in favor of the Lender in, all of the Borrower's right, title and interest in, to and under the Collateral, whether now owned or hereafter acquired, now existing or hereafter created and wherever located, to secure the Secured Obligations. The Borrower agrees to mark its computer records and tapes to evidence the interests granted to the Lender hereunder.

(d) RE-REGISTRATION; RIGHTS OF LENDER. The Lender shall have the right to register or cause to be registered in the name of the Lender or the Bond/PC Custodian or other designee, all

Eligible Bonds or Participation Certificates pledged to the Lender hereunder and the Lender or its other designee shall have all rights of conversions, exchange, subscription and any other rights, privileges and options pertaining to such Eligible Bonds or Participation Certificates as if it were the owner thereof, and in connection therewith, the right to deposit and deliver any and all of the Eligible Bonds or the Participation Certificates with any committee, depository

transfer, agent, register or other designated agency upon such terms and conditions as the Lender may determine.

(e) CASH DIVIDENDS. The Lender, as "entitlement holder" (as defined in Section 8-102(a) of the UCC) with respect to the Eligible Bonds, shall be entitled to receive all cash dividends and distributions paid in respect thereof. Any such dividends or distributions received by the Borrower shall be promptly remitted to the Collection Account.

4.02 FURTHER DOCUMENTATION. At any time and from time to time, upon the written request of the Lender, and at the sole expense of the Borrower, the Borrower will promptly and duly execute and deliver, or will promptly cause to be executed and delivered, such further instruments and documents and take such further action as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Loan Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Liens created hereby. The Borrower also hereby authorizes the Lender to file any such financing or continuation statement without the signature of the Borrower to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Loan Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

4.03 CHANGES IN LOCATIONS, NAME, ETC. The Borrower shall not (i) change the location of its chief executive office/chief place of business from that specified in Section 6 hereof or (ii) change its name, identity or corporate structure (or the equivalent) or change the location where it maintains its records with respect to the Collateral unless it shall have given the Lender at least 30 days prior written notice thereof and shall have delivered to the Lender all Uniform Commercial Code financing statements and amendments thereto as the Lender shall request and taken all other actions deemed necessary by the Lender to continue its perfected status in the Collateral with the same or better priority.

4.04 LENDER'S APPOINTMENT AS ATTORNEY-IN-FACT.

(a) The Borrower hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower and in the name of the Borrower or in its own name, from time to time in the Lender's discretion, for the purpose of carrying out the terms of this Loan Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Loan Agreement, and, without limiting the generality of the foregoing, the Borrower hereby gives the Lender the power and right, on behalf of the Borrower, without assent by, but with notice to, the Borrower, if an Event of Default shall have occurred and be continuing, to do the following:

(i) in the name of the Borrower or its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any mortgage insurance or with respect to any other Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or

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otherwise deemed appropriate by the Lender for the purpose of collecting any and all such monies due under any such mortgage insurance or with respect to any other Collateral whenever payable;

(ii) to pay or discharge taxes and Liens levied or placed on or threatened against the Collateral; and

(iii) (A) to direct any party liable for any payment under any Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (B) to ask

or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Borrower with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Lender may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Lender were the absolute owner thereof for all purposes, and to do, at the Lender's option and the Borrower's expense, at any time, and from time to time, all acts and things which the Lender deems necessary to protect, preserve or realize upon the Collateral and the Lender's Liens thereon and to effect the intent of this Loan Agreement, all as fully and effectively as the Borrower might do.

The Borrower hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) The Borrower also authorizes the Lender, at any time and from time to time, to execute, in connection with any sale provided for in Section 4.07 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) The powers conferred on the Lender are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither the Lender nor any of its officers, directors, or employees shall be responsible to the Borrower for any act or failure to act hereunder, except for its own gross negligence or willful misconduct.

4.05 PERFORMANCE BY LENDER OF BORROWER'S OBLIGATIONS. If the Borrower fails to perform or comply with any of agreements contained in the Loan Documents and the Lender itself performs or complies, or otherwise causes performance or compliance, with such agreement, the expenses of the Lender incurred in connection with such performance or compliance, together with interest thereon at a rate per annum equal to the Post-Default Rate, shall be payable by the Borrower to the Lender on demand and shall constitute Secured Obligations.

4.06 PROCEEDS. If an Event of Default shall occur and be continuing, (a) all proceeds of Collateral received by the Borrower consisting of cash, checks and other near-cash items

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shall be held by the Borrower in trust for the Lender, segregated from other funds of the Borrower, and shall forthwith upon receipt by the Borrower be turned over to the Lender in the exact form received by the Borrower (duly endorsed by the Borrower to the Lender, if required) and (b) any and all such proceeds received by the Lender (whether from the Borrower or otherwise) may, in the sole discretion of the Lender, be held by the Lender as collateral security for, and/or then or at any time thereafter may be applied by the Lender against, the Secured Obligations (whether matured or unmatured), such application to be in such order as the Lender shall elect. Any balance of such proceeds remaining after the Secured Obligations shall have been paid in full and this Loan Agreement shall have been terminated shall be paid over to the Borrower or to whomsoever may be lawfully entitled to receive the same. For purposes hereof, proceeds shall include, but not be limited to, all principal and interest payments, all prepayments and payoffs, insurance claims, condemnation awards, sale proceeds, real estate owned rents and any other income and all other amounts received with respect to the Collateral.

4.07 REMEDIES. If an Event of Default shall occur and be continuing, the Lender may exercise, in addition to all other rights and remedies granted to it in this Loan Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the Uniform Commercial Code. Without limiting the generality of the foregoing, the Lender without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Borrower or any other Person (each and all of which demands, presentments, protests, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell (on a servicing released basis with respect to Collateral serviced by the Borrower or an Affiliate of the Borrower, at the Lender's option), lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels or as an entirety at public or private sale or sales, at any exchange, broker's board or office of the Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Borrower, which right or equity is hereby waived or released. The Borrower further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at the Borrower's premises or elsewhere. The Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Lender hereunder, including without limitation reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Secured Obligations, in such order as the Lender may elect, and only after such application and after the payment by the Lender of any other amount required or permitted by any provision of law, including without limitation Section 9-504(1)(c) of the Uniform Commercial Code, need the Lender account for the surplus, if any, to the Borrower. To the extent permitted by applicable law, the Borrower waives all claims, damages and demands it may acquire against the Lender arising out of the exercise by the Lender of any of its rights hereunder, other than those claims, damages and demands arising from the gross negligence or willful misconduct of the Lender. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. The Borrower shall remain liable for any deficiency (plus accrued interest thereon as contemplated pursuant to Section 2.04(b) hereof) if the proceeds of any sale

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or other disposition of the Collateral are insufficient to pay the Secured Obligations and the fees and disbursements of any attorneys employed by the Lender to collect such deficiency. Because the Borrower recognizes that it may not be possible to purchase or sell all of the Collateral on a particular Business Day, or in a transaction with the same purchaser, or in the same manner because the market for such Collateral may not be liquid, the Borrower agrees that liquidation of the Collateral does not require a public purchase or sale and that a good faith private purchase or sale shall be deemed to have been made in a commercially reasonable manner. Accordingly, the Lender may elect, in its sole discretion, the time and manner of liquidating any Collateral and nothing contained herein shall (A) obligate the Lender to liquidate any Collateral on the occurrence of an Event of Default or to liquidate all Collateral in the same manner or on the same Business Day or (B) constitute a waiver of any of the Lender's rights or remedies.

4.08 LIMITATION ON DUTIES REGARDING PRESENTATION OF COLLATERAL. The Lender's duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Uniform Commercial Code or otherwise, shall be to deal with it in the same manner as the

Lender deals with similar property for its own account. Neither the Lender nor any of its directors, officers or employees shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Borrower or otherwise.

4.09 POWERS COUPLED WITH AN INTEREST. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

4.10 RELEASE OF SECURITY INTEREST. Upon termination of this Loan Agreement and repayment to the Lender of all Secured Obligations and the performance of all obligations under the Loan Documents, the Lender shall release its security interest in any remaining Collateral; PROVIDED that, if any payment, or any part thereof, of any of the Secured Obligations is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or a trustee or similar officer for, the Borrower or any substantial part of its Property, or otherwise, this Loan Agreement, all rights hereunder and the Liens created hereby shall continue to be effective, or be reinstated, as though such payments had not been made.

4.11 ESTABLISHMENT OF THE COLLECTION ACCOUNT.

(a) The Borrower shall establish and maintain the Collection Account at Fleet Bank Providence, Rhode Island, which shall be entitled "Greenwich Capital Financial Products, Inc.". The Borrower shall not change the name of the account without the prior written consent of the Lender. Such Collection Account shall be subject to a Blocked Account Agreement.

(b) The Borrower shall cause each Subservicer and Trustee to deposit all Collections in the Collection Account in accordance with the applicable Servicing Agreement or Governing Agreement and as required in the related Instruction Letter.

SECTION 5 CONDITIONS PRECEDENT.

5.01 INITIAL ADVANCE. The agreement of the Lender to make the initial Advance requested to be made by it hereunder is subject to the satisfaction, immediately prior to or concurrently with the making of such Advance, of the following conditions precedent:

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(a) LOAN AGREEMENT. The Lender shall have received this Loan Agreement, executed and delivered by a duly authorized officer of the Borrower.

(b) NOTE. The Lender shall have received the Note, conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

(c) MORTGAGE CUSTODIAL AGREEMENT. The Lender shall have received the Mortgage Custodial Agreement, conforming to the requirements hereof and executed by a duly authorized officer of the Borrower and the Mortgage Custodian.

(d) BLOCKED ACCOUNT AGREEMENT. The Lender shall have received a Blocked Account Agreement substantially in the form of EXHIBIT F hereof executed by duly authorized officers of the Borrower and the Collection Bank.

(e) ESTABLISHMENT OF COLLECTION ACCOUNT. The Borrower shall have established the Collection Account as defined herein.

(f) FILINGS, REGISTRATIONS, RECORDINGS. Any documents (including, without limitation, financing statements) required to be filed,

registered or recorded in order to create, in favor of the Lender, a perfected, first-priority security interest in the Collateral, subject to no Liens other than those created hereunder, shall have been properly prepared and executed for filing (including the applicable county(ies) if the Lender determines such filings are necessary in its sole discretion), registration or recording in each office in each jurisdiction in which such filings, registrations and recordings are required to perfect such first-priority security interest.

(g) CORPORATE PROCEEDINGS. The Lender shall have received a certificate of the Secretary or Assistant Secretary of the Borrower, dated as of the date hereof, and certifying (A) that attached thereto is a true, complete and correct copy of (i) the articles of incorporation of the Borrower, (ii) the by-laws of the Borrower, and (iii) resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Loan Agreement, the Notes and the other Loan Documents to which it is a party, and the borrowings contemplated hereunder, and that such resolutions have not been amended, modified, revoked or rescinded, and (B) as to the incumbency and specimen signature of each officer executing any Loan Documents on behalf of the Borrower and authorized to execute any Notice of Borrowing, and such certificate and the resolutions attached thereto shall be in form and substance satisfactory to the Lender.

(h) GOOD STANDING CERTIFICATES. The Lender shall have received copies of certificates evidencing the good standing of the Borrower, dated as of a recent date, from the Secretary of State (or other appropriate authority) of the State of Maryland and of each other jurisdiction where the ownership, lease or operation of property, or the conduct of business, requires the Borrower to qualify as a foreign corporation, except where the failure to qualify would not have a Material Adverse Effect.

(i) LEGAL OPINIONS. The Lender shall have received the executed legal opinions of Piper & Marbury and Sidley & Austin, special counsel to the Borrower, addressing the matters set forth in the form attached hereto as EXHIBIT C, dated the initial Funding Date and otherwise

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in form and substance acceptable to the Lender and covering such other matters incident to the transactions contemplated by this Loan Agreement as the Lender shall reasonably request.

(j) FEES AND EXPENSES. The Lender shall have received all fees and expenses required to be paid by the Borrower on or prior to the initial Funding Date pursuant to Section 11.03(b).

(k) FINANCIAL STATEMENTS. The Lender shall have received the financial statements referenced in Section 6.01(a).

(l) UNDERWRITING GUIDELINES. The Lender and the Borrower shall have agreed upon the Borrower's current Underwriting Guidelines for Mortgage Loans and the Lender shall have received a certified copy thereof.

(m) CONSENTS, LICENSES, APPROVALS, ETC. The Lender shall have received copies certified by the Borrower of all consents, licenses and approvals, if any, required in connection with the execution, delivery and performance by the Borrower of, and the validity and enforceability of, the Loan Documents, which consents, licenses and approvals shall be in full force and effect.

(n) INSURANCE. The Lender shall have received evidence in form and substance satisfactory to the Lender showing compliance by the Borrower as of such initial Funding Date with Section 7.03 hereof.

(o) SIDE LETTER. The Side Letter, duly executed and delivered by

the Borrower.

(p) OTHER DOCUMENTS. The Lender shall have received such other documents as the Lender or its counsel may reasonably request.

5.02 INITIAL AND SUBSEQUENT ADVANCES. The making of each Advance to the Borrower (including the initial Advance) on any Business Day is subject to the satisfaction of the following further conditions precedent, both immediately prior to the making of such Advance and also after giving effect thereto and to the intended use thereof:

(a) NO DEFAULT. No Default or Event of Default shall have occurred and be continuing.

(b) REPRESENTATIONS AND WARRANTIES. Each representation and warranty made by the Borrower in Section 6 hereof and elsewhere in each of the Loan Documents, shall be true and correct on and as of the date of the making of such Advance (in the case of the representations and warranties in Schedule 1, solely with respect to Eligible Assets, included in the Borrowing Base on such date) with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date). The Borrower shall also be in compliance with all governmental licenses and authorizations and qualified to do business and in good standing in all required jurisdictions where the failure to be so qualified should reasonably be expected to have a Material Adverse Effect.

(c) BORROWING BASE. The aggregate outstanding principal amount of the Advances shall not exceed the Borrowing Base.

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(d) NOTICE OF BORROWING AND PLEDGE. The Lender shall have received a Notice of Borrowing and Pledge and the related Applicable Notice Documents (with any certificates attached thereto), in accordance with Section 2.03(a) hereof, appropriately completed.

(e) TRUST RECEIPT; EXCEPTION REPORT. The Lender shall have received (i) from the Mortgage Custodian, with respect to Eligible Mortgage Loans, a Trust Receipt in respect of all Mortgage Loans to be pledged hereunder on such Business Day and a corresponding Exception Report, with Exceptions (as defined in the Mortgage Custodial Agreement) in respect of such Mortgage Loans and (ii) from the Bond/PC Custodian, with respect to Participation Certificates and Eligible Bonds, the appropriate documentation as required pursuant to Section 5.02(f) or (g), as applicable; PROVIDED, that in all cases the documentation required pursuant to clauses (i) and (ii) above shall be acceptable to the Lender in its sole discretion.

(f) DELIVERY OF PARTICIPATION CERTIFICATES. With respect to each Participation Certificate being pledged to the Lender: (i) such Participation Certificate shall have been delivered to the Lender or its designee, shall be in suitable form for registration in the name of the Lender, shall conform to the requirements hereof and shall otherwise be in form and substance satisfactory to the Lender, (ii) the Participation Servicer, and the Certificate Registrar, if any, shall have executed and delivered an Instruction Letter as defined herein and (iii) the Participation Custodian shall have acknowledged the Lender's interest in the Underlying Mortgage Loans.

(g) DELIVERY OF ELIGIBLE BONDS.

(i) With respect to Eligible Bonds that shall be delivered or held in definitive, certificated form, the Borrower shall deliver to the Bond/PC Custodian the original of the relevant certificate in form suitable for transfer, with accompanying, duly executed instruments of transfer or appropriate instruments of assignment executed in blank or in the name of the Lender or, the Bond/PC Custodian, transfer tax

stamps, and any other documents or instruments necessary in the reasonable opinion of the Lender to effect and perfect a legally valid delivery of such security or other item of investment property to the Lender, the Bond/PC Custodian. Unless otherwise instructed by Lender, any delivery of a security or other item of investment property in definitive, certificated form shall be made to Chase Manhattan Bank, N.A., 4 New York Plaza, New York, New York 10004-247, Attention: Outsourcing Department, Jennifer John.

(ii) With respect to Eligible Bonds that shall be delivered or held in uncertificated form and the ownership of which is registered on books maintained by the issuer thereof or its transfer agent, the Borrower shall cause the registration of such security or other item of investment property in the name of Lender, the Bond/PC Custodian and at the request of the Lender, shall take such other and further steps, and shall execute and deliver such documents or instruments necessary in the opinion of the Lender, to effect and perfect a legally valid delivery of the relevant interest granted therein to Lender hereunder.

(iii) With respect to Eligible Bonds that shall be delivered through a Relevant System in book-entry form and credited to or otherwise held in an account, the Borrower shall cause the giving of written instructions to the relevant financial institution or other entity, and shall provide a copy thereof to the Lender, sufficient if complied with to effect and perfect a legally valid delivery of the relevant interest granted therein to Lender hereunder. In

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connection with any account to which the Eligible Bonds are credited or otherwise held, the Borrower shall execute and deliver such other and further documents or instruments necessary, in the reasonable opinion of the Lender, to effect and perfect a legally valid delivery of the relevant interest granted therein to Lender hereunder. Any account to which the Eligible Bonds are credited or otherwise shall be designated "Greenwich Capital Financial Products, Inc. Account" or such variation thereon as the Lender may direct.

(iv) Any delivery of an Eligible Bond in accordance with clauses (i) through (iii) above, or any other method acceptable to the Lender, shall be sufficient to cause the Lender to have a perfected, first priority security interest in, and to be the "entitlement holder" (as defined in Section 8-102(a)(7) of the Uniform Commercial Code of the State of the New York (the "UCC")) with respect to the Eligible Bonds.

(v) No Eligible Bonds, whether certificated or uncertificated, shall remain in the name, or possession, of the Borrower or any of its agents or in any account in the name of the Borrower or any of its agents.

(vi) In addition to the foregoing, and as a condition to the Lender's performance on each Funding Date, the Borrower shall (a) deliver to the Lender no later than 10:00 a.m. three (3) days prior to the requested Funding Date, copies of the documents listed below, and (b) deliver the originals (unless copies are specified) of such documents no later than 11:00 a.m. on such Funding Date. The documents to be delivered as a condition to the Lender's performance include without limitation (collectively, the "BOND FILE"): (A) a copy of the executed Governing Agreements governing the Eligible Bonds and/or any supplements thereto, and the offering documents related to the Eligible Bonds, each certified by the Borrower or the Bond/PC Custodian as a true, correct and complete copy of the original, and all ancillary documents required to be delivered to the certificateholders under the Governing Agreements, (B) an officer's certificate as may be requested by Lender, (C) opinions of counsel in form and substance satisfactory to the Lender, (D) the Eligible Bonds in accordance with this Section 5.02(g), (E) an Instruction Letter executed by the Borrower and the relevant Trustee, (F) for all

Eligible Bonds in uncertificated form, evidence that such Eligible Bonds have been registered in the name of the Bond/PC Custodian or the Lender on the books of the issuer itself or its transfer agent, (G) all Transfer Documents, (H) copies of distribution statements delivered to the Bond/PC Custodian for two months prior to the month in which the related Funding Date occurs, if any, certified by the applicable Trustee as true and correct, (I) any other documents or instruments necessary in the reasonable opinion of the Lender to effect and perfect a legally valid transfer of the relevant interest granted therein to the Lender under the Loan Documents, (J) any other documents required under this Section 5.02(g). Nothing set forth herein shall be deemed a waiver of any of the Borrower's obligations hereunder.

(h) ADDITIONAL MATTERS. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Loan Agreement and the other Loan Documents shall be reasonably satisfactory in form and substance to the Lender, and the Lender shall have received such other documents and legal opinions in respect of any aspect or consequence of the transactions contemplated hereby or thereby as it shall reasonably request.

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(i) NO MATERIAL ADVERSE EFFECT. There shall not have occurred one or more events that, in the reasonable judgment of the Lender, constitutes or should reasonably be expected to constitute a Material Adverse Effect.

(j) DUE DILIGENCE PACKAGE. The Lender shall have received a Due Diligence Package with respect to each Mortgage Loan or Underlying Mortgage Loan at least three (3) Business Days prior to the related Funding Date.

(k) DUE DILIGENCE REVIEW. Subject to the Lender's right to perform one or more Due Diligence Reviews pursuant to Section 11.16 hereof, the Lender shall have completed its due diligence review of the Asset Documents, and the Due Diligence Package for each Advance and such other documents, records, agreements, instruments, mortgaged properties or information relating to such Advances as the Lender in its sole discretion deems appropriate to review and such review shall be satisfactory to the Lender in its sole discretion.

(l) SERVICING AGREEMENT(S); INSTRUCTION LETTERS. With respect to Mortgage Loans pledged to the Lender, the Lender shall have received, no later than 10:00 a.m. three (3) days prior to the requested Funding Date, an Instruction Letter acknowledged by each Subservicer or Trustee, with the related Servicing Agreement or Governing Agreement attached thereto, which such Servicing Agreement or Governing Agreement shall be in form and substance acceptable to Lender. With respect to the Master Servicer or a Subservicer of the Borrower which is an Affiliate of the Borrower and which is servicing Mortgage Loans or Participation Certificates, such Subservicer or Master Servicer consents to terminate the related Servicing Agreement upon notification by the Lender of an occurrence of an Event of Default.

SECTION 6 REPRESENTATIONS AND WARRANTIES. As of the Effective Date and each Funding Date, Borrower represents and warrants to the Lender that:

6.01 FINANCIAL CONDITION.

(a) The unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at December 31, 1997, reported thereon by Deloitte & Touche, a copy of which has heretofore been furnished to the Lender, is complete and correct and presents fairly the consolidated financial condition of the Borrower and its consolidated Subsidiaries as at such dates and the consolidated results of their operations and their consolidated cash flows for the fiscal year then ended.

(b) Such financial statement, including the related schedules and notes thereto, has been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by such accountants or Responsible Officer, as the case may be, and as disclosed therein).

(c) Neither the Borrower nor any of its consolidated Subsidiaries had, at the date of the financial statement referred to above, any material Guarantee Obligation, contingent liability or liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, or other financial derivative, which is not reflected in the foregoing statements or in the notes thereto.

6.02 NO CHANGE. Since September 31, 1997, there has been no development or event nor any prospective development or event which has had or should reasonably be expected to have a Material Adverse Effect.

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6.03 CORPORATE EXISTENCE; COMPLIANCE WITH LAW. The Borrower (a) is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland, (b) has the corporate power and authority, and has all governmental licenses, authorizations, consents and approvals necessary, to own and operate its property, to lease the property it operates as lessee and to carry on its business as now being or as proposed to be conducted, (c) is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify should be reasonably expected (either individually or in the aggregate) to have a Material Adverse Effect, and (d) is in compliance in all material respects with all Requirements of Law.

6.04 CORPORATE POWER; AUTHORIZATION; ENFORCEABLE OBLIGATIONS.

(a) The Borrower has the corporate power and authority, and the legal right, to make, deliver and perform this Loan Agreement, the Note, and each other Loan Document, and to borrow and to grant Liens hereunder, and has taken all necessary corporate action to authorize the borrowings and the granting of Liens on the terms and conditions of this Loan Agreement, the Note, and each other Loan Document to which it is a party, and the execution, delivery and performance of this Loan Agreement, the Note, and each other Loan Document.

(b) No consent or authorization of, approval by, notice to, filing with or other act by or in respect of, any Governmental Authority or any other Person is required or necessary in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Loan Agreement or the Note or any other Loan Document, except (i) for filings and recordings in respect of the Liens created pursuant to this Loan Agreement, and (ii) as previously obtained and currently in full force and effect.

(c) Each Loan Document has been duly and validly executed and delivered by the Borrower and constitutes, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with their terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.05 NO LEGAL BAR. The execution, delivery and performance of this Loan Agreement and the Note, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien (other than the Liens created hereunder) on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

6.06 NO MATERIAL LITIGATION. There are no actions, suits, arbitrations, investigations or proceedings of or before any arbitrator or

Governmental Authority pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its Subsidiaries or against any of its or their respective properties or revenues, other than those actions, suits, arbitrations, investigations or proceedings described on Schedule 4 hereto, none of which should reasonably be expected to have a Material Adverse Effect.

6.07 NO DEFAULT. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect which should reasonably be

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expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

6.08 COLLATERAL; COLLATERAL SECURITY.

(a) No Borrower has assigned, pledged, or otherwise conveyed or encumbered any of the Collateral to any Person other than the Lender, and immediately prior to the pledge of such Collateral, the applicable Borrower was the sole owner of the Collateral and had good and marketable title thereto, free and clear of all Liens, in each case except for Liens that have been released or are to be released simultaneously with the Liens granted in favor of the Lender hereunder. No Eligible Asset was acquired by the Borrower from an Affiliate of the Borrower.

(b) The provisions of this Loan Agreement are effective to create in favor of the Lender a valid security interest in all right, title and interest of the Borrower in, to and under the Collateral.

(c) Upon (i) receipt by the Mortgage Custodian of each Mortgage Note, (ii) the delivery to the Bond/PC Custodian of the Eligible Bonds in accordance with 5.02 hereof together with the Transfer Documents, (iii) receipt by the Bond/PC Custodian of the Participation Certificates and (iv) the filing (to the extent such interest can be perfected by filing under the Uniform Commercial Code) of financing statements on Form UCC-1 naming the Lender as "Secured Party" and the Borrower as a "Debtor", and describing the Collateral, in the jurisdictions and recording offices listed on Schedule 2 attached hereto, in both instances, the security interests granted hereunder in the Collateral will constitute fully perfected first-priority security interests under the Uniform Commercial Code in all right, title and interest of the Borrower in, to and under such Collateral, and without limitation on the foregoing, the Lender, as entitlement holder, shall have a "security entitlement" to the Eligible Bonds.

6.09 CHIEF EXECUTIVE OFFICE. The Borrower's chief executive office on the Effective Date is located at 90 West Street, Suite 1508, New York, New York 10006.

6.10 LOCATION OF BOOKS AND RECORDS. The location where the Borrower keeps its books and records, including all computer tapes and records relating to the Collateral is its chief operating office, which, on the effective date, is located at 100 Metroplex Drive, Suite 301, Edison, New Jersey 08817.

6.11 NO BURDENSOME RESTRICTIONS. No Requirement of Law or Contractual Obligation of the Borrower or any of its Subsidiaries has a Material Adverse Effect.

6.12 TAXES. The Borrower and its Subsidiaries have filed all Federal and state income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by any of them, except for any such taxes or assessments, if any, that are being appropriately contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves in conformity with GAAP have been provided. No tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax or assessment.

6.13 MARGIN REGULATIONS. No part of the proceeds of any Advances will be used for "purchasing" or "carrying" any "margin stock" within the respective

meanings of each of the quoted

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terms under, or for any other purpose which violates or would be inconsistent with the provisions of, Regulation G, T, U or X.

6.14 INVESTMENT COMPANY ACT; OTHER REGULATIONS. The Borrower is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. The Borrower is not subject to regulation under any Federal or state statute or regulation which limits its ability to incur Indebtedness.

6.15 SUBSIDIARIES. All of the Subsidiaries of the Borrower at the date hereof are listed on Schedule 3 to this Loan Agreement.

6.16 ACQUISITION OF MORTGAGE LOANS. The Mortgage Loans were acquired by the Borrower, and the origination and collection practices used by the originator of the Mortgage Loans have been, in all respects legal, proper, prudent and customary in the residential mortgage loan servicing business, and in accordance with the Underwriting Guidelines. All such Mortgage Loans are in conformity with the Underwriting Guidelines.

6.17 NO ADVERSE SELECTION. The Borrower used no selection procedures that identified the Eligible Assets as being less desirable or valuable than other comparable Eligible Assets owned by the Borrower.

6.18 BORROWER SOLVENT; FRAUDULENT CONVEYANCE. As of the date hereof and immediately after giving effect to each Advance, the fair value of the assets of the Borrower is greater than the fair value of the liabilities (including, without limitation, contingent liabilities if and to the extent required to be recorded as a liability on the financial statements of the Borrower in accordance with GAAP) of the Borrower and the Borrower is and will be solvent, is and will be able to pay its debts as they mature and does not and will not have an unreasonably small capital to engage in the business in which it is engaged and proposes to engage. The Borrower does not intend to incur, nor believes that it has incurred, debts beyond its ability to pay such debts as they mature. The Borrower is not contemplating the commencement of insolvency, bankruptcy, liquidation or consolidation proceedings or the appointment of a receiver, liquidator, conservator, trustee or similar official in respect of Borrower or any of its assets. The Borrower is not transferring any Eligible Assets with any intent to hinder, delay or defraud any of its creditors.

6.19 ERISA. Each Plan to which the Borrower or its Subsidiaries make direct contributions, and, to the knowledge of the Borrower, each other Plan and each Multiemployer Plan, is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other Federal or state law.

6.20 TRUE AND COMPLETE DISCLOSURE. The information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of the Borrower to the Lender in connection with the negotiation, preparation or delivery of this Loan Agreement and the other Loan Documents or included herein or therein or delivered pursuant hereto or thereto, do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein not misleading. All written information furnished after the date hereof by or on behalf of the Borrower to the Lender in connection with this Loan Agreement and the other Loan Documents and the transactions contemplated hereby and thereby will be true, correct and accurate in every material respect, or (in the case of projections) based on reasonable estimates, on the date as of which such information is stated or certified. There is no fact known to a Responsible Officer of the Borrower that, after due inquiry,

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should reasonably be expected to have a Material Adverse Effect that has not been disclosed herein, in the other Loan Documents or in a report, financial statement, exhibit, schedule, disclosure letter or other writing furnished to the Lender for use in connection with the transactions contemplated hereby or thereby.

6.21 TRUE SALES. Any Eligible Asset acquired by an Affiliate of the Borrower has been conveyed to the Borrower pursuant to a legal sale, and if so requested by the Lender, is covered by an opinion of counsel to that effect in form and substance acceptable to the Lender.

6.22 PARTICIPATION CERTIFICATES. The Borrower represents and warrants to the Lender with respect to each Participation Certificate that the representations and warranties set forth on Schedule 1, Part IV hereof are true and correct and that (a) such Participation Certificate is owned by the Borrower free from all Liens, (b) such Participation Certificate shall have been delivered to the Lender or its designee in a form suitable for registration in the name of the Lender, (c) such Participation Certificate represents an Ownership Percentage in the Underlying Mortgage Loans referenced therein, (d) the Eligible Assets referenced in such Participation Certificate are being held by a Participation Custodian for the benefit of the holder of such Participation Certificate, and (e) the Participation Custodian is not an Affiliate of the Borrower under the Governing Agreement for the related Participation Certificate.

SECTION 7 COVENANTS OF THE BORROWER. The Borrower covenants and agrees with the Lender that, so long as any Advance is outstanding and until the later to occur of the payment in full of all Secured Obligations and the termination of this Loan Agreement:

7.01 FINANCIAL STATEMENTS. The Borrower shall deliver to the Lender:

(a) if available, as soon as available and in any event within forty-five (45) days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Borrower, the consolidated and consolidating balance sheets of the Borrower and its consolidated Subsidiaries as at the end of such period and the related unaudited consolidated and consolidating statements of income and of cash flows for the Borrower and its consolidated Subsidiaries for such period and the portion of the fiscal year through the end of such period, setting forth in each case in comparative form the figures for the previous year, accompanied by a certificate of a Responsible Officer of the Borrower, which certificate shall state that said consolidated financial statements fairly present the consolidated and consolidating financial condition and results of operations of the Borrower and its Subsidiaries in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments);

(b) as soon as available and in any event within ninety (90) days after the end of each fiscal year of the Borrower, the audited consolidated and consolidating balance sheets of the Borrower and its consolidated Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income and retained earnings and of cash flows for the Borrower and its consolidated Subsidiaries for such year, setting forth in each case in comparative form the figures for the previous year, accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall not be qualified as to scope of audit or going concern and shall state that said consolidated and consolidating financial statements fairly present the consolidated and consolidating financial condition and results of operations of the Borrower and its consolidated Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP; and

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(c) from time to time such other information regarding the financial condition, operations, or business of the Borrower and its Subsidiaries as the Lender may reasonably request.

7.02 EXISTENCE, ETC. The Borrower and its Subsidiaries will:

- (a) preserve and maintain its legal existence;
- (b) preserve and maintain all of its material rights, privileges, licenses and franchises;
- (c) comply with the requirements of all applicable Requirements of Law (including, without limitation, the Truth in Lending Act, the Real Estate Settlement Procedures Act and all environmental laws) if failure to comply with such requirements should reasonably be expected (either individually or in the aggregate) to have a Material Adverse Effect; and
- (d) keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied.

7.03 MAINTENANCE OF PROPERTY; INSURANCE. The Borrower shall keep all property useful and necessary in its business in good working order and condition. The Borrower shall maintain errors and omissions insurance and/or mortgage impairment insurance and blanket bond coverage in such amounts as are in effect on the Effective Date (as disclosed to Lender in writing) and shall not reduce such coverage without the written consent of the Lender, and shall also maintain such other insurance with financially sound and reputable insurance companies, and with respect to property and risks of a character usually maintained by entities engaged in the same or similar business similarly situated, against loss, damage and liability of the kinds and in the amounts customarily maintained by such entities.

7.04 NOTICES.

(a) The Borrower shall give notice to the Lender promptly:

(i) upon the Borrower becoming aware of, and in any event within one (1) Business Day after, the occurrence of any Default or Event of Default or any Event of Default or Default under any other material agreement of the Borrower;

(ii) upon, and in any event within three (3) Business Days after, service of process on the Borrower or any of its Subsidiaries, or any agent thereof for service of process, in respect of any legal or arbitrable proceedings affecting the Borrower, or any of its Subsidiaries (a) that questions or challenges the validity or enforceability of any of the Loan Documents or (b) in which the amount in controversy exceeds \$300,000;

(iii) upon the Borrower becoming aware of any default related to any Collateral, any Material Adverse Effect and any event or change in circumstances which should reasonably be expected to have a Material Adverse Effect;

(iv) upon the Borrower becoming aware that the Mortgaged Property in respect of any Mortgage Loan has been damaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty, or otherwise damaged so as to materially and adversely affect the Collateral Value of such Mortgage Loan;

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(v) upon entry of a judgment or decree in an amount in excess of \$200,000.

Each notice pursuant to this Section 7.04(a) (other than 7.04(a)(v)) shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken or proposes to take with respect thereto.

7.05 OTHER INFORMATION. The Borrower shall furnish to the Lender, as soon as available, copies of any and all proxy statements, financial statements and reports which the Borrower sends to its stockholders, and copies of all

regular, periodic and special reports, and all registration statements filed with the Securities and Exchange Commission, any Governmental Authority which supervises the issuance of securities by the Borrower.

7.06 FURTHER IDENTIFICATION OF COLLATERAL. The Borrower will furnish to the Lender from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender or any Lender may reasonably request, all in reasonable detail.

7.07 ELIGIBLE ASSET DETERMINED TO BE DEFECTIVE. Upon discovery by the Borrower or the Lender of any breach of any representation or warranty listed on Schedule 1 hereto applicable to any Eligible Asset, the party discovering such breach shall promptly give notice of such discovery to the other.

7.08 MONTHLY REPORTING.

The Borrower shall deliver or cause to be delivered to the Lender, no later than five (5) days after the last day of each calendar month, the following documents, as applicable: (a) with respect to Eligible Mortgage Loans, a monthly servicing report and a Mortgage Loan Schedule and a Mortgage Loan Tape in a computer-readable format reasonably acceptable to the Lender which shall list and set forth such information as the Lender may reasonably request, including, without limitation, (i) the outstanding principal balance and delinquency status of each such Mortgage Loan as of the last day of the prior calendar month (reported as current, 30-59, 60-89, 90+, etc., in each case as of a date specified therein), (ii) any Mortgagor that is in bankruptcy, and (iii) a servicer exception report as defined in the Underwriting Guidelines, (b) with respect to Eligible Bonds, a Bond Summary which shall list and set forth such information as the Lender may reasonably request, and (c) with respect to Participation Certificates, a Participation Certificate Schedule and Participation Certificate Tape in a computer-readable format reasonably acceptable to the Lender which shall list and set forth such information as the Lender may reasonably request, and (d) with respect to all Eligible Assets, (i) a Remittance Report in the form attached hereto as EXHIBIT I together with a statement of reconciliation with respect to the Collection Account, (ii) if the Borrower and the Lender shall mutually agree (in accordance with Section 2.06 (b) hereof), a Borrowing Base Certificate in the form attached hereto as EXHIBIT H, and (iii) any other information as the Lender shall reasonably request. Each monthly servicing report described above shall separately identify each pool of Eligible Assets pledged to the Lender to secure the related Advance.

7.09 FINANCIAL CONDITION COVENANTS.

(a) MAINTENANCE OF TANGIBLE NET WORTH. The Borrower shall at all times maintain Tangible Net Worth of not less than \$70,000,000.

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(b) MAINTENANCE OF RATIO OF INDEBTEDNESS TO TANGIBLE NET WORTH. With respect to the Borrower or its Subsidiaries, the ratio of Indebtedness to Tangible Net Worth shall not at any time be greater than 10:1.

(c) MAINTENANCE OF LIQUIDITY. The Borrower shall ensure that, as of the end of each calendar month, it has Cash Equivalents in an amount of not less than \$2,500,000.

7.10 BORROWING BASE DEFICIENCY. If at any time there exists a Borrowing Base Deficiency the Borrower shall cure same in accordance with Section 2.06 hereof.

7.11 PROHIBITION OF FUNDAMENTAL CHANGES. Neither the Borrower nor any of its Subsidiaries shall enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation, winding up or dissolution) or sell all or substantially all of its assets, without the prior written consent of the Lender.

7.12 LIMITATION ON LIENS ON COLLATERAL. The Borrower will defend the Collateral against, and will take such other action as is necessary to remove,

any Lien, security interest or claim on or to the Collateral, other than the security interests created under this Loan Agreement, and the Borrower will defend the right, title and interest of the Lender in and to any of the Collateral against the claims and demands of all persons whomsoever.

7.13 LIMITATION ON TRANSACTIONS WITH AFFILIATES. Neither the Borrower nor any of its Subsidiaries shall enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate unless such transaction is (a) not otherwise prohibited under this Loan Agreement, (b) in the ordinary course of the Borrower's business and (c) upon fair and reasonable terms no less favorable to the Borrower, as the case may be, than it would obtain in a comparable arm's length transaction with a Person which is not an Affiliate.

7.14 UNDERWRITING GUIDELINES. Without prior written consent of the Lender, the Borrower shall not amend or otherwise modify the Underwriting Guidelines.

7.15 LIMITATIONS ON MODIFICATIONS, WAIVERS AND EXTENSIONS OF ELIGIBLE ASSETS. The Borrower will not, nor will it permit or allow others to, amend, modify, terminate or waive any provision of any Eligible Asset to which the Borrower is a party in any manner which should reasonably be expected to materially and adversely affect the value of such Eligible Asset as Collateral.

7.16 SERVICING. The Borrower shall not permit any Person other than the Master Servicer to service Eligible Assets without the prior written consent of the Lender.

7.17 LIMITATION ON DISTRIBUTIONS. After the occurrence and during the continuation of any Event of Default, the Borrower shall not make any payment on account of, or set apart assets for, a sinking or other analogous fund for the purchase, redemption, defeasance, retirement or other acquisition of any equity or partnership interest of the Borrower, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Borrower.

7.18 USE OF PROCEEDS. The Borrower will use the proceeds of the Advances solely to acquire, fund, manage and service the Eligible Assets.

7.19 RESTRICTED PAYMENTS. The Borrower shall not make any Restricted Payments.

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7.20 REPORTS. With respect to Eligible Assets which are Eligible Bonds or Participation Certificates, the Borrower shall promptly deliver to the Lender (i) any report received by or required to be delivered (a) by any Person pursuant to the Governing Agreements at the same time as required thereunder, or (b) to any holder of any securities issued pursuant to the Governing Agreements; (ii) any notice of transfer of servicing; and (iii) any other such document or information as the Lender may reasonably request from time to time.

7.21 INSPECTION. The Borrower shall permit the Lender, during normal business hours and upon reasonable prior notice but in any event within two (2) Business Days, to inspect its books and records relating to the Collateral and other matters relating to the transactions contemplated hereby; provided, however, that in the event a Default shall have occurred the Lender shall not be required to give any prior notice.

7.22 FURTHER PROCEEDS. If the Borrower shall become entitled to receive or shall receive any rights, whether in addition to, in substitution of, as a conversion of, or in exchange for the Eligible Bonds, or otherwise in respect thereof, the Borrower shall accept the same as the Lender's agent, hold the same in trust for the Lender and deliver the same forthwith to the Lender in the exact form received, duly indorsed by the Borrower to the Lender, if required, together with an undated bond power covering such certificate duly executed in blank and with, if the Lender so requests, signature guaranteed, to be held by the Lender hereunder as additional collateral security for the Secured Obligations. If any sums of money or property so paid or distributed in

respect of the Eligible Bonds shall be received by the Borrower, the Borrower shall, until such money or property is paid or delivered to the Lender as required hereunder, hold such money or property in trust for the Lender, segregated from other Advances of the Borrower, as additional collateral security for the Secured Obligations.

7.23 FURTHER DOCUMENTATION. At any time and from time to time, upon the written request of the Lender, and at the sole expense of the Borrower, the Borrower will promptly and duly execute and deliver such further instruments and documents and take such further actions as the Lender may reasonably request for the purposes of obtaining or preserving the full benefits of this Loan Agreement and of the rights and powers herein granted. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any instrument (including any certificated security or promissory note) or chattel paper (in each case as defined in the UCC), such instrument or chattel paper shall be immediately delivered to the Mortgage Custodian or the Bond/PC Custodian, as applicable, on behalf of Lender, duly endorsed in a manner satisfactory to Lender, to be held as Collateral pursuant to this Loan Agreement. Prior to such delivery, the Borrower shall hold all such instruments or chattel paper in trust of the Lender, and shall not commingle any of the foregoing with any assets of the Borrower.

7.24 TAXES. The Borrower shall pay, and hold the Lender harmless from, any and all liabilities with respect to, or resulting from and delay in paying, any and all stamp, excise, sales or other similar taxes which may be payable or determined to be payable with except to any of the Collateral or in connection with any of the transactions contemplated by this Loan Agreement.

7.25 LOST NOTE AFFIDAVITS; LOST INSTRUMENT AFFIDAVITS . Each Lost Note Affidavit or Lost Instrument Affidavit, as applicable, delivered to the Lender hereunder shall (i) attach a copy of the original Mortgage Note or, if available, a copy of the original Participation Certificate, as applicable, certified by applicable Borrower as a true, correct, and complete copy thereof, (ii)

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indemnify the Lender, and (iii) remain effective for all the Borrower's and Lenders' successors and assigns.

SECTION 8 EVENTS OF DEFAULT. Each of the following events shall constitute an event of default (an "EVENT OF DEFAULT") hereunder:

(a) BORROWER DEFAULT IN THE PAYMENT OF ANY ADVANCE. The Borrower shall default in the payment of any principal of or interest on any Advance when due (whether at stated maturity, upon acceleration or at mandatory payment); or

(b) BORROWER DEFAULT IN THE PAYMENT OF OTHER AMOUNT. The Borrower shall default in the payment of any other amount payable by it hereunder or under any other Loan Document, and such default shall have continued unremedied for three (3) Business Days; or

(c) FAILURE OF REPRESENTATION OR WARRANTY. Any representation, warranty or certification made or deemed made by the Borrower herein (other than those in Schedule 1 hereto) or by the Borrower in any other Loan Document or any certificate furnished to the Lender pursuant to the provisions thereof, shall prove to have been false or misleading in any material respect as of the time made or furnished; or

(d) DEFAULT OF COVENANT. The Borrower shall:

(i) fail to comply with the requirements of Section 7 hereof (other than Sections 7.01, 7.02(b), 7.02(d), 7.03, or 7.08),

(ii) fail to comply with the requirements of Sections 7.01, 7.02(b), 7.02(d), 7.03, or 7.08 and such default shall continue unremedied for a period of five (5) Business Days, or

(iii) fail to observe or perform any other covenant, condition or

agreement contained in this Loan Agreement or any other Loan Document and such failure to observe or perform shall continue unremedied for a period of seven (7) Business Days; or

(e) CROSS DEFAULT. The Borrower or any of its Subsidiaries shall:

(i) default in any payment of principal of or interest on any Indebtedness (other than the Advances) or in the payment of any Guarantee Obligation, beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created, if the aggregate amount of the Indebtedness and/or Guarantee Obligations in respect of which such default or defaults shall have occurred is \$250,000 or more; or

(ii) default in the observance or performance of any other agreement or condition relating to any Indebtedness (other than the Advances) or Guarantee Obligation or contained in any instrument or agreement evidencing, securing or relating thereto, in each case beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created; or

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(iii) permit any other event to occur or condition exist; or

(iv) default with respect to any other agreement between the Borrower, on the one hand, and Lender or any of its Affiliates on the other hand, which has not been waived by the Lender,

the effect of which default or other event or condition is to cause, or give the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) the immediate right to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or such Guarantee Obligation to become payable; or

(f) UNSATISFIED JUDGMENT. One or more judgments or decrees shall be entered against the Borrower or against the Borrower in the aggregate or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance) of \$1,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof; or

(g) INABILITY TO PAY DEBTS. The Borrower shall admit in writing its inability to pay its debts as such debts become due; or

(h) VOLUNTARY BANKRUPTCY EVENT. The Borrower or any of its Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate or other action for the purpose of effecting any of the foregoing; or

(i) INVOLUNTARY BANKRUPTCY EVENT. A proceeding or case shall be commenced, without the application or consent of the Borrower or any of its Subsidiaries, in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of the Borrower or any such Subsidiary or of all or any substantial part of its property, or (iii) similar relief in respect of the Borrower or any such Subsidiary under any law relating

to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismitted, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Borrower or any such Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(j) TERMINATION OF LOAN DOCUMENTS. The Mortgage Custodial Agreement, the Bond/PC Custodial Agreement, or any other Loan Document, shall for whatever reason be terminated or cease to be in full force and effect, or the enforceability thereof shall be contested by any party thereto; or

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(k) ERISA DEFAULT. (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Lender, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Lenders is likely to, incur any liability in connection with a withdrawal from, or the insolvency or reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(l) MATERIAL ADVERSE EFFECT. Any other event shall occur which, in the sole good faith discretion of the Lender, may have a Material Adverse Effect; or

(m) CHANGE OF CONTROL. Any Change of Control of the Borrower shall have occurred; or

(n) PRE-EXISTING CONDITION. The discovery by the Lender during its continuing due diligence of the Borrower of a condition or event and which the Lender, in its sole reasonable discretion, determines materially and adversely affects: (i) the condition (financial or otherwise) of the Borrower, its Subsidiaries or Affiliates; or (ii) the ability of the Borrower or the Lender to fulfill their respective obligations under this Agreement; or

(o) OTHER LIENS. The Borrower shall grant, or suffer to exist, any Lien on any Collateral except the Liens contemplated hereby; or the Liens contemplated hereby shall cease to be first priority perfected Liens on the Collateral in favor of the Lender or shall be Liens in favor of any Person other than the Lender; or

(p) FAILURE TO ANSWER. The Lender shall reasonably request, specifying the reasons for such request, information, and/or written responses to such requests, regarding the financial well-being of the Borrower and such information and/or responses shall not have been provided within three Business Days of such request.

SECTION 9 REMEDIES UPON DEFAULT.

(a) Upon the occurrence of one or more Events of Default other than those referred to in Sections 8(h) or (i), and in addition to the remedies provided in Section 4.07 hereof and otherwise provided in this Loan Agreement, the Lender may immediately declare the principal amount of the Advances then outstanding under the Note to be immediately due and payable, together with all interest thereon and fees and expenses accruing under this Loan Agreement. Upon the occurrence of an Event of Default referred to in Sections 8(h) or (i), and in addition to the remedies provided in Section 4.07 hereof and otherwise

provided in this Loan Agreement, such amounts shall immediately and automatically become due and payable without any further action by any Person. Upon such declaration or such automatic acceleration, the balance then outstanding on the Note shall become

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immediately due and payable, without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

(b) Upon the occurrence of one or more Events of Default, and in addition to the remedies provided in Section 4.07 hereof and otherwise provided in this Loan Agreement, the Lender shall have the right to obtain physical possession of the Servicing Records and all other files of the Borrower relating to the Collateral and all documents relating to the Collateral which are then or may thereafter come in to the possession of the Borrower or any third party acting for the Borrower and the Borrower shall deliver to the Lender such assignments as the Lender shall request. The Borrower shall be responsible for paying any fees of any Subservicer resulting from the termination of a Subservicer which is an Affiliate of the Borrower due to an Event of Default. The Lender shall be entitled to specific performance of all agreements of the Borrower contained in this Loan Agreement.

SECTION 10 NO DUTY OF LENDER. The powers conferred on the Lender hereunder are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act hereunder, except for its or their own gross negligence or willful misconduct.

SECTION 11 MISCELLANEOUS.

11.01 WAIVER. No failure on the part of the Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

11.02 NOTICES. Except as otherwise expressly permitted by this Loan Agreement, all notices, requests and other communications provided for herein and under the Mortgage Custodial Agreement (including without limitation any modifications of, or waivers, requests or consents under, this Loan Agreement) shall be given or made in writing (including without limitation by telex or telecopy) delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof or thereof); or, as to any party, at such other address as shall be designated by such party in a written notice to each other party. Except as otherwise provided in this Loan Agreement and except for notices given under Section 2 (which shall be effective only on receipt), all such communications shall be deemed to have been duly given when transmitted by telex or telecopy or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

11.03 INDEMNIFICATION AND EXPENSES.

(a) The Borrower agrees to hold the Lender and each of its officers, directors, agents and employees (each, an "INDEMNIFIED PARTY") harmless from and indemnify each Indemnified Party against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by or asserted against such Indemnified Party in any suit, action, claim or proceeding relating to or arising out of this Loan Agreement, the Note, any other Loan Document or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or

any waiver or consent under or in respect of, this Loan Agreement, the Note, any other Loan Document or any transaction contemplated hereby or thereby, except, in each case, to the extent arising from such Indemnified Party's gross negligence or willful misconduct. In any suit, proceeding or action brought by the Lender in connection with any Eligible Asset for any sum owing thereunder, or to enforce any provisions of any such Eligible Asset, the Borrower will save, indemnify and hold the Lender harmless from and against all expense, loss or damage suffered by reason of any defense, set-off, counterclaim, recoupment or reduction or liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by the Borrower of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from the Borrower. The Borrower also agrees to reimburse the Lender as and when billed by the Lender for all the Lender's costs and expenses incurred in connection with the enforcement or the preservation of the Lender's rights under this Loan Agreement, the Note, any other Loan Document or any transaction contemplated hereby or thereby, including without limitation the fees and disbursements of its counsel (including all fees and disbursements incurred in any action or proceeding between the Borrower and an Indemnified Party or between an Indemnified Party and any third party relating hereto). The Borrower hereby acknowledges that, notwithstanding the fact that the Note is secured by the Collateral, the obligation of the Borrower under the Note is a recourse obligation of the Borrower.

(b) The Borrower agrees to pay as and when billed by the Lender all of the out-of-pocket costs and expenses incurred by the Lender in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Loan Agreement, the Note, any other Loan Document or any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including without limitation (i) all the reasonable fees, disbursements and expenses of counsel to the Lender not to exceed \$30,000, and (ii) all the due diligence, inspection, testing and review costs and expenses incurred by the Lender with respect to Collateral under this Loan Agreement as set forth in Section 11.16 hereof.

11.04 AMENDMENTS. Except as otherwise expressly provided in this Loan Agreement, any provision of this Loan Agreement may be modified or supplemented only by an instrument in writing signed by the Borrower and the Lender and any provision of this Loan Agreement may be waived by the Lender.

11.05 SUCCESSORS AND ASSIGNS. This Loan Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.06 SURVIVAL. The obligations of the Borrower under Section 11.03 hereof shall survive the repayment of the Advances and the termination of this Loan Agreement. In addition, each representation and warranty made or deemed to be made by a request for a borrowing herein or pursuant hereto shall survive the making of such representation and warranty, and the Lender shall not be deemed to have waived, by reason of making any Advance, any Default that may arise because any such representation or warranty shall have proved to be false or misleading, notwithstanding that the Lender may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such Advance was made.

11.07 CAPTIONS. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Loan Agreement.

11.08 COUNTERPARTS. This Loan Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Loan Agreement by signing any such counterpart.

11.09 GOVERNING LAW; ETC. THIS LOAN AGREEMENT SHALL BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE (BUT WITH REFERENCE TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW, WHICH BY ITS TERMS APPLIES TO THIS LOAN AGREEMENT), AND SHALL CONSTITUTE A SECURITY AGREEMENT WITHIN THE MEANING OF THE UNIFORM COMMERCIAL CODE.

11.10 SUBMISSION TO JURISDICTION; WAIVERS. THE BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(A) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS LOAN AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND APPELLATE COURTS FROM ANY THEREOF;

(B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND, TO THE EXTENT PERMITTED BY LAW, WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO ITS ADDRESS SET FORTH UNDER ITS SIGNATURE BELOW OR AT SUCH OTHER ADDRESS OF WHICH THE LENDER SHALL HAVE BEEN NOTIFIED; AND

(D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION.

11.11 WAIVER OF JURY TRIAL. EACH OF THE BORROWER AND THE LENDER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

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11.12 ACKNOWLEDGMENTS. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Loan Agreement, the Note and the other Loan Documents;

(b) the Lender has no fiduciary relationship to the Borrower, and the relationship between the Borrower and the Lender is solely that of debtor and creditor; and

(c) no joint venture exists between the Lender and the Borrower.

11.13 HYPOTHECATION AND PLEDGE OF COLLATERAL. The Lender shall have free and unrestricted use of all Collateral and nothing in this Loan Agreement or in Section 9-207(2) (e) of the UCC shall preclude the Lender from engaging in repurchase transactions with the Collateral or otherwise pledging, repledging, transferring, hypothecating, or rehypothecating the Collateral, PROVIDED that, the Lender shall return the Collateral in accordance with this Agreement if the Borrower complies with the terms of this Agreement. Nothing contained in this Loan Agreement shall obligate the Lender to segregate, or cause the Mortgage Custodian or the Bond/PC Custodian to segregate, any Collateral delivered to the

Lender, the Bond/PC Custodian, or the Mortgage Custodian by the Borrower.

11.14 ASSIGNMENTS; PARTICIPATIONS.

(a) The Borrower may assign any of its rights or obligations hereunder or under the Note with the prior written consent of the Lender. The Lender may assign or transfer to any bank or other financial institution that makes or invests in loans or any Affiliate of the Lender all or any of its rights or obligations under this Loan Agreement and the other Loan Documents.

(b) The Lender may, in accordance with applicable law, at any time sell to one or more lenders or other entities ("PARTICIPANTS") participating interests in any Advance, the Note, its commitment to make Advances, or any other interest of the Lender hereunder and under the other Loan Documents. In the event of any such sale by the Lender of participating interests to a Participant, the Lender's obligations under this Loan Agreement to the Borrower shall remain unchanged, the Lender shall remain solely responsible for the performance thereof, the Lender shall remain the holder of the Note for all purposes under this Loan Agreement and the other Loan Documents, and the Borrower and the Lender shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Loan Agreement and the other Loan Documents. The Borrower agrees that if amounts outstanding under this Loan Agreement and the Note are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Loan Agreement and the Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Loan Agreement or the Note; PROVIDED, that such Participant shall only be entitled to such right of set-off if it shall have agreed in the agreement pursuant to which it shall have acquired its participating interest to share with the Lender the proceeds thereof. The Lender also agrees that each Participant shall be entitled to the benefits of Sections 2.08 and 11.03 with respect to its participation in the Advances outstanding from time to time; PROVIDED, that the Lender and all Participants shall be entitled to receive no greater amount in the aggregate pursuant to such Sections than the Lender would have been entitled to receive had no such transfer occurred.

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(c) The Lender may furnish any information concerning the Borrower or any of its Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants).

(d) The Borrower agrees to cooperate with the Lender in connection with any such assignment and/or participation, to execute and deliver such replacement notes, and to enter into such restatements of, and amendments, supplements and other modifications to, this Loan Agreement and the other Loan Documents in order to give effect to such assignment and/or participation.

11.15 SERVICING. With respect to Eligible Assets which are Mortgage Loans:

(a) The Borrower covenants to maintain or cause the servicing of the Mortgage Loans to be maintained in conformity with accepted customary and prudent servicing practices in the industry for the same type of mortgage loans as the Mortgage Loans and in a manner at least equal in quality to the servicing the Borrower provides for Mortgage Loans which they owns ("ACCEPTED SERVICING PRACTICES"). In the event that the preceding language is interpreted as constituting one or more servicing contracts, each such servicing contract shall terminate automatically upon the earlier of (i) an Event of Default, or (ii) the Termination Date.

(b) If the Mortgage Loans are serviced by the Borrower, the Borrower agrees that the Lender is the collateral assignee of all servicing records, including but not limited to any and all servicing agreements, files, documents, records, data bases, computer tapes, copies of computer tapes, proof of insurance coverage, insurance policies, appraisals, other closing documentation, payment history records, and any other records relating to or evidencing the

servicing of Mortgage Loans (the "SERVICING RECORDS"), and (ii) the Borrower grants the Lender a security interest in all of the Borrower's rights relating to the Mortgage Loans and all Servicing Records to secure the obligation of the Borrower or its designee to service in conformity with this Section and any other obligation of the Borrower to the Lender. The Borrower covenants to safeguard such Servicing Records and to deliver them promptly to the Lender or its designee (including the Mortgage Custodian) at the Lender's request.

(c) If the Mortgage Loans or Underlying Mortgage Loans are serviced by a third party servicer, (such third party servicer, the "SUBSERVICER"), the Borrower shall provide a copy of the servicing agreement to the Lender at least three (3) Business Days prior to the applicable Funding Date, which shall be in form and substance acceptable to the Lender (the "SERVICING AGREEMENT").

(d) The Borrower shall provide to the Lender a letter from the Borrower or any Subservicer which is an Affiliate of the Borrower (which may be part of the Instruction Letter), as the case may be, to the effect that upon the occurrence of an Event of Default, the Lender may terminate any Servicing Agreement and transfer servicing to its designee, at no cost or expense to the Lender, it being agreed that the Borrower will pay any and all fees required to terminate the Servicing Agreement and to effectuate the transfer of servicing to the designee of the Lender.]

(e) After the Funding Date, until the pledge of any Mortgage Loan is relinquished by the Mortgage Custodian, the Borrower will have no right to modify or alter the terms of such Mortgage Loan except with the prior written consent of the Lender, and the Borrower will have no obligation or right to repossess such Mortgage Loan or substitute another Mortgage Loan, except as provided in the Mortgage Custodial Agreement; PROVIDED, that the Borrower may enter into

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forbearance agreements or plans with Mortgagors consistent with its collection activities as servicer of the Mortgage Loans and in conformity with Accepted Servicing Practices.

(f) The Borrower shall permit the Lender to inspect the servicing facilities of the Borrower, its Affiliates, or any Subservicer which is its Affiliate of the Borrower as the case may be, for the purpose of satisfying the Lender that the Borrower, an Affiliate, or such Subservicer, as the case may be, has the ability to service the Mortgage Loans as provided in this Loan Agreement. With respect to any Subservicer which is not an Affiliate, the Borrower shall use its best efforts to enable the Lender to inspect the servicing facilities of such Subservicer.

11.16 PERIODIC DUE DILIGENCE REVIEW. The Borrower acknowledges that the Lender has the right to perform continuing due diligence reviews with respect to the Eligible Assets, for purposes of verifying compliance with the representations, warranties and specifications made hereunder, or otherwise, and the Borrower agrees that upon reasonable (but no less than one (1) Business Day's) prior notice to the Borrower (which prior notice shall not be required after the occurrence and during the continuation of a Default), the Lender or its authorized representatives will be permitted during normal business hours to examine, inspect, and make copies and extracts of, the Asset Files and any and all documents, records, agreements, instruments or information relating to such Eligible Assets in the possession or under the control of the Borrower, the Master Servicer, any Subservicer, and/or the Mortgage Custodian. The Borrower also shall make available to the Lender a knowledgeable financial or accounting officer for the purpose of answering questions respecting the Asset Files and the Eligible Assets. Without limiting the generality of the foregoing, the Borrower acknowledges that the Lender may make Advances to the Borrower based solely upon the information provided by the Borrower to the Lender and the representations, warranties and covenants contained herein, and that the Lender, at its option, has the right at any time to conduct a partial or complete due diligence review on some or all of the Eligible Assets securing such Advance, including without limitation ordering new credit reports and, with respect to Eligible Assets which are Mortgage Loans, new appraisals on the related Mortgaged Properties and otherwise re-generating the information used to

originate such Mortgage Loan. The Lender may underwrite such Eligible Assets itself or engage a mutually agreed upon third party underwriter to perform such underwriting. The Borrower agrees to cooperate with the Lender and any third party underwriter in connection with such underwriting, including, but not limited to, providing the Lender and any third party underwriter with access to any and all documents, records, agreements, instruments or information relating to such Eligible Assets in the possession, or under the control, of the Borrower, the Master Servicer, any Subservicer. In addition, the Lender has the right to perform continuing Due Diligence Reviews of the Borrower, the Master Servicer, any Subservicer, and its Affiliates, directors, officers, employees and significant shareholders. The Borrower and Lender further agree that all out-of-pocket costs and expenses incurred by the Lender in connection with the Lender's activities pursuant to this Section 11.16 shall be paid for by the Borrower.

11.17 SET-OFF. In addition to any rights and remedies of the Lender provided by this Loan Agreement and by law, the Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Lender or any Affiliate thereof to or for the credit or the account of the Borrower. The Lender agrees promptly to notify the Borrower

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after any such set-off and application made by the Lender; PROVIDED that the failure to give such notice shall not affect the validity of such set-off and application.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed and delivered as of the day and year first above written.

BORROWER

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By: /s/ Joyce S. Muzak

Joyce S. Muzak
Title: MANAGING DIRECTOR

Address For Notices:

Attention: -----

Telecopier No.:

Telephone No.: -----

LENDER

GREENWICH CAPITAL FINANCIAL PRODUCTS, INC.

By: -----
Title: Vice President

Address For Notices:

600 Steamboat Road
Greenwich, Connecticut 06830
Attention: Dawn Papaccio
Telecopier No.: (203) 629-4640
Telephone No.: (203) 625-2928

With a copy to:

Attention: General Counsel
Telecopier No.: (203) 629-5718
Telephone No.: (203) 625-2700

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed and delivered as of the day and year first above written.

BORROWER

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By: -----
Title:

Address For Notices:

Attention: -----
Telecopier No.: -----
Telephone No.: -----

LENDER

GREENWICH CAPITAL FINANCIAL PRODUCTS, INC.

By: /s/ Dawn Papaccio

Dawn Papaccio
Title: Vice President

Address For Notices:

600 Steamboat Road
Greenwich, Connecticut 06830
Attention: Dawn Papaccio
Telecopier No.: (203) 629-4640
Telephone No.: (203) 625-2928

With a copy to:

Attention: General Counsel
Telecopier No.: (203) 629-5718
Telephone No.: (203) 625-2700

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SCHEDULE 1

REPRESENTATIONS AND WARRANTIES RE: ELIGIBLE ASSETS

Part I. ELIGIBLE MORTGAGE LOANS AND UNDERLYING MORTGAGE LOANS

As to each Mortgage Loan included in the Borrowing Base on a Funding Date (and the related Mortgaged Property) and the Underlying Mortgage Loan represented by each Participation Certificate included in the Borrowing Base on a Funding Date, the Borrower shall be deemed to make the following representations and warranties to the Lender on and as of such Funding Date and at all times thereafter while such Mortgage Loan or Underlying Mortgage Loan is included in the Borrowing Base (with respect to any representations and warranties made to the best of the Borrower's knowledge, in the event that it is discovered that the circumstances with respect to the related Mortgage Loan are not accurately reflected in such representation and warranty notwithstanding the knowledge or lack of knowledge of the Borrower, then, notwithstanding that such representation and warranty is made to the best of the Borrower's knowledge, such Mortgage Loan shall be assigned a Collateral Value in accordance with the definition thereof in the Loan Agreement). For purposes of this Part I of Schedule 1 only, all references to Mortgage Loan, Mortgage Note, Mortgagor, Mortgaged Property, or other similar terms shall be deemed to include the Underlying Mortgage Loan, Underlying Mortgage Note, Underlying Mortgagor, the property securing the Underlying Mortgage Loan, or other related terms.

(a) MORTGAGE LOANS AS DESCRIBED. The information set forth in the Mortgage Loan Schedule accompanying the related Notice of Borrowing and Pledge is true and correct;

(b) PAYMENTS CURRENT. On the applicable Funding Date, and all other times:

(i) such Mortgage Loan is not thirty (30) days or more past due in respect of the first Scheduled Payment;

(ii) other than Delinquent Mortgage Loans subject to subsections (i) and (ii) of the definition of Collateral Value herein, such Mortgage Loan is not thirty (30) days or more past due in respect of any Scheduled Payment;

(iii) no Delinquent Mortgage Loan is ninety (90) days or more past due in respect of any Scheduled Payment.

(c) NO OUTSTANDING CHARGES. There are no defaults in complying with the terms of the Mortgage, and all taxes, governmental assessments, insurance premiums, water, sewer and municipal charges, leasehold payments or ground rents

which previously became due and owing have been paid, or an escrow of funds has been established in an amount sufficient to pay for every such item which remains unpaid and which has been assessed but is not yet due and payable. The Borrower has not advanced funds, or induced, solicited or knowingly received any advance of funds by a party other than the Mortgagor, directly or indirectly, for the payment of any amount required under the Mortgage Loan, except for interest accruing from the date of the Mortgage Note or date of disbursement of the Mortgage Loan proceeds, whichever is more recent, to the day which precedes by one month the Due Date of the first installment of principal and interest;

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(d) ORIGINAL TERMS UNMODIFIED. The terms of the Mortgage Note and Mortgage have not been impaired, waived, altered or modified in any respect, except by a written instrument which has been recorded, if necessary to protect the interests of the Lender and which has been delivered to the Mortgage Custodian. The substance of any such waiver, alteration or modification has been approved by the title insurer, to the extent required by the policy, and its terms are reflected on the Mortgage Loan Schedule. No Mortgagor has been released, in whole or in part, except in connection with an assumption agreement approved by the title insurer, to the extent required by the policy, and which assumption agreement is part of the Asset File delivered to the Mortgage Custodian and the terms of which are reflected in the Mortgage Loan Schedule;

(e) NO DEFENSES. The Mortgage Loan is not subject to any right of rescission, set-off, counterclaim or defense, including without limitation the defense of usury, nor will the operation of any of the terms of the Mortgage Note or the Mortgage, or the exercise of any right thereunder, render either the Mortgage Note or the Mortgage unenforceable, in whole or in part, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto; and no Mortgagor was a debtor in any state or federal bankruptcy or insolvency proceeding at the time the Mortgage Loan was originated;

(f) HAZARD INSURANCE. Pursuant to the terms of the Mortgage, all buildings or other improvements upon the Mortgaged Property are insured by an insurer who meets Fannie Mae and/or Freddie Mac guidelines against loss by fire, hazards of extended coverage and such other hazards as are customary in the area where the Mortgaged Property is located pursuant to insurance policies conforming to the requirements of the Underwriting Guidelines. If upon origination of the Mortgage Loan, the Mortgaged Property was in an area identified in the Federal Register by the Federal Emergency Management Agency as having special flood hazards (and such flood insurance was required by federal regulation and such flood insurance has been made available) a flood insurance policy meeting the requirements of the current guidelines of the Federal Insurance Administration is in effect. All individual insurance policies contain a standard mortgagee clause naming the loan originator or the Borrower and its respective successors and assigns as mortgagee, and all premiums thereon have been paid. The Mortgage obligates the Mortgagor thereunder to maintain the hazard insurance policy at the Mortgagor's cost and expense, and on the Mortgagor's failure to do so, authorizes the holder of the Mortgage to obtain and maintain such insurance at such Mortgagor's cost and expense, and to seek reimbursement therefor from the Mortgagor. Where required by state law or regulation, the Mortgagor has been given an opportunity to choose the carrier of the required hazard insurance, provided the policy is not a "master" or "blanket" hazard insurance policy covering a condominium, or any hazard insurance policy covering the common facilities of a planned unit development. The hazard insurance policy is the valid and binding obligation of the insurer, is in full force and effect, and will be in full force and effect and inure to the benefit of the Lender upon the consummation of the transactions contemplated by this Loan Agreement. The Borrower has not engaged in, and has no knowledge of the Mortgagor's having engaged in, any act or omission which would impair the coverage of any such policy, the benefits of the endorsement provided for herein, or the validity and binding effect of either including, without limitation, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by an attorney, firm or other person or entity and no such unlawful items have been received, retained or realized by the Borrower;

(g) COMPLIANCE WITH APPLICABLE LAWS. 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,

Mortgage Loan have been complied with in all material respects, the consummation by Borrower of the transactions contemplated hereby will not involve the violation of any such laws or regulations, and the Borrower shall maintain in its possession, available for the Lender's inspection, to the extent required by law, and shall deliver to the Lender upon demand, evidence of compliance with all such requirements;

(h) NO SATISFACTION OF MORTGAGE. The Mortgage has not been satisfied, canceled, subordinated or rescinded, in whole or in part, and the Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would effect any such release, cancellation, subordination or rescission. The Borrower has not waived the performance by the Mortgagor of any action, if the Mortgagor's failure to perform such action would cause the Mortgage Loan to be in default, nor has the Borrower waived any default resulting from any acting or inaction by the Mortgagor;

(i) LOCATION AND TYPE OF MORTGAGED PROPERTY. The Mortgaged Property is located in the state identified in the Mortgage Loan Schedule and consists of a parcel of real property with a detached single family residence erected thereon, or a two- to four-family dwelling, or an individual condominium unit in a low-rise condominium project, or an individual unit in a planned unit development or a de minimis planned unit development, provided, however, that no residence or dwelling is a mobile home or a manufactured dwelling. No portion of the Mortgaged Property is used for commercial purposes;

(j) VALID FIRST LIEN. The Mortgage is a valid, subsisting, enforceable, and perfected first lien on the Mortgaged Property, including all buildings on the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating and air conditioning systems located in or annexed to such buildings, and all additions, alterations and replacements made at any time with respect to the foregoing. The lien of the Mortgage is subject only to: (i) the lien of current real property taxes and assessments not yet due and payable; (ii) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording acceptable to mortgage lending institutions generally and specifically referred to in the lender's title insurance policy delivered to the originator of the Mortgage Loan and (A) referred to or to otherwise considered in the appraisal (if any) made for the originator of the Mortgage Loan or (B) which do not adversely affect the appraised value of the Mortgaged Property set forth in such appraisal; 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 the Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property. Any security agreement, chattel mortgage or equivalent document related to and delivered in connection with the Mortgage Loan establishes and creates a valid, subsisting and enforceable first lien and first priority security interest on the property described therein and the Borrower has full right to sell and assign the same to the Lender. The Mortgaged Property was not, as of the date of origination of the Mortgage Loan, subject to a mortgage, deed of trust, deed to secure debt or other security instrument creating a lien subordinate to the lien of the Mortgage;

(k) VALIDITY OF MORTGAGE DOCUMENTS. The Mortgage Note, the Mortgage and any other agreement executed and delivered by a Mortgagor in connection with a Mortgage Loan are genuine, and each is the legal, valid and binding obligation of the maker thereof enforceable in accordance with its terms. All parties to the Mortgage Note, the Mortgage and any other related agreement had legal capacity to enter into the Mortgage Loan and to execute and deliver the Mortgage Note, the Mortgage and any such agreement, and the Mortgage Note, the Mortgage, and any other such related agreement have been duly and properly executed by such parties. The Borrower has

reviewed all of the documents constituting the Asset File and have made such inquiries as they deem necessary to make and confirm the accuracy of the representations set forth herein;

(l) FULL DISBURSEMENT OF PROCEEDS. The proceeds of the Mortgage Loan have been fully disbursed and there is no requirement for future advances thereunder (except in the case of a Mortgage Loan a portion of the proceeds of which has been disbursed to an escrow account in connection with improvements to be made to the related Mortgaged Property where (i) the Mortgage Loan bears interest on the entire principal amount thereof as if it had been fully disbursed, (ii) any proceeds of such Mortgage Loan have not been held in such an escrow account for more than sixty (60) days, and (iii) the deposit of funds into such an escrow account has been effected in accordance with the Underwriting Guidelines) and any and all requirements as to completion of any on-site or off-site improvement and as to disbursements of any escrow funds therefor have been complied with. All costs, fees and expenses incurred in making or closing the Mortgage Loan and the recording of the Mortgage were paid, and the Mortgagor is not entitled to any refund of any amounts paid or due under the Mortgage Note or Mortgage;

(m) OWNERSHIP. The Borrower is the sole owner of record and holder of the Mortgage Loan; the Mortgage Loan is not assigned or pledged (other than as contemplated under the Loan Agreement), and the Borrower has good indefeasible and marketable title thereto, and has full right to transfer and pledge the Mortgage Loan therein to the Lender free and clear of any encumbrance, equity, participation interest, lien, pledge, charge, claim or security interest, and has full right and authority subject to no interest or participation of, or agreement with, any other party, to pledge and assign each Mortgage Loan pursuant to this Loan Agreement;

(n) DOING BUSINESS. All parties which have had any interest in the Mortgage Loan, whether as mortgagee, assignee, pledgee or otherwise, are (or, during the period in which they held and disposed of such interest, were) (i) in compliance with any and all applicable licensing requirements of the laws of the state wherein the Mortgaged Property is located, and (ii) (A) organized under the laws of such state, or (B) qualified to do business in such state, or (C) a federal savings and loan association, savings bank or a national bank having its principal office in such state, or (D) not doing business in such state;

(o) LTV. As of the date of origination of the Mortgage Loan, the LTV is as identified in the applicable Mortgage Loan Schedule, and the Borrower has no actual knowledge that such LTV has increased to higher than the level permitted under the Underwriting Guidelines;

(p) TITLE INSURANCE. The Mortgage Loan is covered by a limited liability lender's title insurance policy or such other form of policy of insurance acceptable to Fannie Mae or Freddie Mac for loans similar to the Mortgage Loans issued by a title insurer qualified to do business in the jurisdiction where the Mortgaged Property is located, insuring the Borrower, its successors and assigns, as to the priority of its lien of the Mortgage in the original principal amount of the Mortgage Loan, and subject only to the exceptions contained in clauses (1), (2), and (3) of paragraph (j) above. Where required by state law or regulation, the Mortgagor has been given the opportunity to choose the carrier of the required mortgage title insurance. Immediately prior to the sale of the Mortgage Loan to the Lender under the terms of this Loan Agreement, the Borrower, its successors and assigns were the sole insureds of such lender's title insurance policy. Such lender's title insurance policy is in full force and effect and will be in force and effect upon the consummation of the transactions contemplated by this Loan Agreement. No claims have been made under such lender's title insurance policy, and no prior holder of the Mortgage, including the Borrower, has done, by act or omission, anything which

should reasonably be expected to impair the coverage of such lender's title insurance policy. In connection with the issuance of such lender's title insurance policy, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other persons or entity, and no such unlawful items have been received, retained or realized by the Company;

(q) NO DEFAULTS; RIGHT TO CURE; NO FAILURE TO CURE. Other than Delinquent Mortgage Loans, there is no default, breach, violation or event of acceleration existing under the Mortgage or the 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 of acceleration (other than those payment delinquencies permitted by paragraph (a) of this Schedule 1), and neither the Borrower nor its predecessors have waived any default, breach, violation or event of acceleration;

(r) NO MECHANICS' LIENS There are no mechanics' or similar liens or claims which have been filed for work, labor or material (and no rights are outstanding that under the law could give rise to such liens) affecting the related Mortgaged Property which are or may be liens prior to, or equal or coordinate with, the lien of the related Mortgage;

(s) LOCATION OF IMPROVEMENTS; NO ENCROACHMENTS. All improvements which were considered in determining the Appraised Value of the Mortgaged Property lay wholly within the boundaries and building restriction lines of the Mortgaged Property and no improvements on adjoining properties encroach upon the Mortgaged Property. No improvement located on or being part of the Mortgaged Property is in violation of any applicable zoning law or regulation;

(t) ORIGINATION: PAYMENT TERMS. The Mortgage Loan was originated by or in conjunction with a mortgagee approved by the Secretary of Housing and Urban Development pursuant to Section 203 and 211 of the National Housing Act or a savings and loan association, a savings bank, a commercial bank credit union, insurance company or similar banking institution which is supervised and examined by a federal or state authority. Principal payments on the Mortgage Loan commenced no more than sixty (60) days after funds were disbursed in connection with the Mortgage Loan. The documents, instruments and agreements submitted for loan underwriting were not falsified and contain no untrue statement of material fact or omit to state a material fact required to be stated therein. The Mortgage Note has the terms identified in the applicable Mortgage Loan Schedule;

(u) CUSTOMARY PROVISIONS. The Mortgage Note has a stated maturity. The Mortgage contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby, including, (i) in the case of a Mortgage designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure. Upon default by a Mortgagor on a Mortgage Loan and foreclosure on, or trustee's sale of, the Mortgaged Property pursuant to the proper procedures, the holder of the Mortgage Loan will be able to deliver good and marketable title to the Mortgaged Property. There is no homestead or other exemption available to a Mortgagor which would interfere with the right to sell the Mortgaged Property at a trustee's sale or the right to foreclose the Mortgage;

(v) CONFORMANCE WITH UNDERWRITING GUIDELINES AND AGENCY STANDARDS. The Mortgage Loan was underwritten in accordance with, and the Mortgage Loan and Mortgaged Property

conform to, the Borrower's applicable Underwriting Guidelines. The Mortgage Note and Mortgage are on forms acceptable to FHLMC or FNMA];

(w) OCCUPANCY OF THE MORTGAGED PROPERTY. The Mortgaged Property is lawfully occupied under applicable law. All inspections, licenses and certificates required to be made or issued with respect to all occupied portions of the Mortgaged Property and, with respect to the use and occupancy of the

same, including but not limited to certificates of occupancy and fire underwriting certificates, have been made or obtained from the appropriate authorities. The Mortgaged Property is owner occupied except as set forth on the Mortgage Loan Tape;

(x) NO ADDITIONAL COLLATERAL. The Mortgage Note is not and has not been secured by any collateral except the lien of the corresponding Mortgage and the security interest of any applicable security agreement or chattel mortgage referred to in (j) above;

(y) DEEDS OF TRUST. In the event the Mortgage constitutes a deed of trust, a trustee, duly qualified under applicable law to serve 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 Lender to the trustee under the deed of trust, except in connection with a trustee's sale after default by the Mortgagor;

(z) TAKE-OUT COMMITMENTS. To the extent that a Mortgage Loan is covered by a Take-Out Commitment, such Take-Out Commitment is a valid, binding and subsisting obligation enforceable in accordance with its terms.

(aa) ACCEPTABLE INVESTMENT. No specific circumstances or conditions exist with respect to the Mortgage, the Mortgaged Property, the Mortgagor or the Mortgagor's credit standing that should reasonably be expected to (i) cause private institutional investors which invest in Mortgage Loans similar to the Mortgage Loan to regard the Mortgage Loan as an unacceptable investment, (ii) cause the Mortgage Loan to be more likely to become past due in comparison to similar Mortgage Loans, or (iii) adversely affect the value or marketability of the Mortgage Loan in comparison to similar Mortgage Loans;

(bb) DELIVERY OF MORTGAGE DOCUMENTS. The Mortgage Note, the Mortgage, the Assignment of Mortgage and any other documents required to be delivered for the Mortgage Loan by the Borrower under the Mortgage Custodial Agreement have been delivered to the Mortgage Custodian at or prior to the time specified for delivery in the Mortgage Custodial Agreement.

(cc) ASSIGNMENT OF MORTGAGE. The Assignment of Mortgage is in recordable form and is acceptable for recording under the laws of the jurisdiction in which the Mortgaged Property is located;

(dd) DUE ON SALE. The Mortgage contains an enforceable provision for the acceleration of the payment of the unpaid principal balance of the Mortgage Loan in the event that the Mortgaged Property is sold or transferred without the prior written consent of the mortgagee thereunder;

(ee) NO BUYDOWN PROVISIONS: NO GRADUATED PAYMENTS OR CONTINGENT INTERESTS. Except as noted in the Mortgage Loan Tape and Mortgage Loan Schedule or the Participation Certificate Schedule and Participation Certificate Tape, the Mortgage Loan does not contain provisions

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pursuant to which Scheduled Payments are paid or partially paid with funds deposited in any separate account established by the Borrower, the Mortgagor or anyone on behalf of the Mortgagor, or paid by any source other than the Mortgagor nor does it contain any other similar provisions currently in effect which may constitute a "buydown" provision. Except as noted in the Mortgage Loan Tape and Mortgage Loan Schedule or the Participation Certificate Schedule and Participation Certificate Tape, the Mortgage Loan is not a graduated payment Mortgage Loan and the Mortgage Loan does not have a shared appreciation or other contingent interest feature;

(ff) CONSOLIDATION OF FUTURE ADVANCES. Any future advances made after origination of the Mortgage Loan have been consolidated with the outstanding principal amount secured by the Mortgage, and the secured principal amount, as consolidated, bears a single interest rate and single repayment term. The lien of the Mortgage securing the consolidated principal amount is expressly insured as having second lien priority by a title insurance policy, an endorsement to the policy insuring the mortgagee's consolidated interest or by other title

evidence satisfying paragraph (p) above. The consolidated principal amount does not exceed the original principal amount of the Mortgage Loan;

(gg) MORTGAGED PROPERTY UNDAMAGED: CONDEMNATION. The Mortgaged Property is undamaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado or other casualty so as to adversely affect the value of the Mortgaged Property as security for the Mortgage Loan or the use for which the premises were intended and each Mortgaged Property is in good repair. There have not been any condemnation proceedings with respect to the Mortgaged Property and the Borrower has no knowledge of any such proceedings in the future;

(hh) COLLECTION PRACTICES; ESCROW DEPOSITS. The origination and collection practices used with respect to the Mortgage Loan have been in all respects in compliance with Accepted Servicing Practices, applicable laws and regulations, and have been in all respects legal, proper, and consistent with industry standards for mortgage loans of the same type as the Mortgage Loan. With respect to escrow deposits and Escrow Payments, if any, all such payments are in the possession of, or under control of, the Borrower and there exist no deficiencies in connection therewith for which customary arrangements for repayment thereof have not been made. All Escrow Payments, if any, have been collected in full compliance with state and federal law. An escrow of funds is not prohibited by applicable law and, to the extent such Escrow Payments are not collected by the mortgagee or its designee under the First Lien, any escrow that has been established is in an amount sufficient to pay for every item that remains unpaid and has been assessed but is not yet due and payable. No escrow deposits or Escrow Payments or other charges or payments due the Borrower has been capitalized under the Mortgage or the Mortgage Note. Any interest required to be paid pursuant to state and local law has been properly paid and credited;

(ii) APPRAISAL. The file held by the Master Servicer or the Subservicer contains an appraisal of the related Mortgaged Property signed prior to the approval of the Mortgage Loan application by a qualified appraiser, duly appointed by the Borrower, who had no interest, direct or indirect in the Mortgaged Property or in any loan made on the security thereof, and whose compensation is not affected by the approval or disapproval of the Mortgage Loan, and the appraisal and appraiser both satisfy the requirements of Title XI of the Federal Institutions Reform, Recovery and Enforcement Act of 1989, as amended, and the regulations promulgated thereunder, as such statute and regulations were in effect on the date the Mortgage Loan was originated;

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(jj) SOLDIERS' AND SAILORS' RELIEF ACT. The Mortgagor has not notified the Borrower, and the Borrower has no knowledge of any relief requested or allowed to the Mortgagor under the Soldiers' and Sailors' Civil Relief Act of 1940;

(kk) ENVIRONMENTAL MATTERS. To the Borrower's actual knowledge, the Mortgaged Property is free from any and all toxic or hazardous substances and there exists no violation of any local, state or federal environmental law, rule or regulation;

(ll) CONSTRUCTION OR REHABILITATION OF MORTGAGED PROPERTY. No Mortgage Loan was made in connection with the construction or rehabilitation of a Mortgaged Property or facilitating the trade-in or exchange of a Mortgaged Property;

(mm) GROUND LEASES. With respect to each ground lease to which the Mortgaged Property is subject (a "GROUND LEASE"): (i) the Mortgagor is the owner of a valid and subsisting interest as tenant under the Ground Lease; (ii) the Ground Lease is in full force and effect, unmodified and not supplemented by any writing or otherwise; (iii) all rent, additional rent and other charges reserved therein have been paid to the extent they are payable to the date hereof; (iv) the Mortgagor enjoys the quiet and peaceful possession of the estate demised thereby, subject to any sublease; (v) the Mortgagor is not in default under any of the terms thereof and there are no circumstances which, with the passage of time or the giving of notice or both, would constitute an event of default thereunder; (vii) the lessor under the Ground Lease is not in default under any of the terms or provisions thereof on the part of the lessor to be observed or

performed; (vii) the lessor under the Ground Lease has satisfied all of its repair or construction obligations, if any, to date pursuant to the terms of the Ground Lease; and (ix) the execution, delivery and performance of the Mortgage do not require the consent (other than those consents which have been obtained and are in full force and effect) under, and will not contravene any provision of or cause a default under, the Ground Lease.

(nn) NO DEFENSE TO INSURANCE COVERAGE. No action has been taken or failed to be taken, no event has occurred and no state of facts exists or has existed (whether or not known to the Borrower on or prior to such date) which has resulted or will result in an exclusion from, denial of, or defense to coverage under any applicable pool policy, special hazard insurance policy, or bankruptcy bond (including, without limitation, any exclusions, denials or defenses which would limit or reduce the availability of the timely payment of the full amount of the loss otherwise due thereunder to the insured), whether arising out of actions, representations, errors, omissions, negligence, or fraud of the Borrower, the related Mortgagor or any party involved in the application for such insurance or coverage, including the appraisal, plans and specifications and other exhibits or documents submitted therewith to the insurer or under any such insurance policy, or for any other reason under such coverage, but not including the failure of the insurer to pay by reason of the insurer's breach of the insurance policy or the insurer's financial inability to pay. In connection with the placement of any insurance or coverage, no commission, fee or other compensation has been or will be received by the Borrower or by any officer, director, or employee of the Borrower or any designee of the Borrower or any corporation in which the Borrower or any officer, director or employee had a financial interest at the time of placement of such insurance;

(oo) VALUE OF MORTGAGE PROPERTY. The Borrower has no knowledge of any circumstances existing that should reasonably be expected to adversely affect the value or the marketability of the Mortgaged Property or the Mortgage Loan or to cause the Mortgage Loan to prepay during any period materially faster or slower than the Mortgage Loans acquired by the Borrower generally;

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(pp) SECTION 32 MORTGAGES; OVERAGES. The Borrower has provided the related Mortgagor with all disclosure materials required by Section 226.32 of the Federal Reserve Board Regulation Z with respect to any Mortgage Loans subject to such Section of the Federal Reserve Board Regulation Z. The Borrower has not made or caused to be made any payment in the nature of an "overage" or "yield spread premium" to a mortgage broker or like Person which has not been fully disclosed to the Mortgagor;

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Part II ELIGIBLE BONDS

As to each Eligible Bond included in the Borrowing Base on a Funding Date, the Borrower shall be deemed to make the following representations and warranties to the Lender on and as of such Funding Date and at all times thereafter while such Eligible Bond is included in the Borrowing Base:

(a) COMPLIANCE WITH APPLICABLE LAWS. All of the Eligible Bonds have been validly issued, and are fully paid and non-assessable, and the Eligible Bonds have been offered, issued and sold in compliance with all applicable laws;

(b) NO ENCUMBRANCES. There are (i) no outstanding rights, options, warrants or agreements for a purchase, sale or issuance, in connection with the Eligible Bonds, (ii) no agreements on the part of the Borrower to issue, sell or distribute the Eligible Bonds, and (iii) no obligations on the part of the Borrower (contingent or otherwise) to purchase, redeem or otherwise acquire any

securities or any interest therein or to pay any dividend or make any distribution in respect of the Eligible Bonds;

(c) OWNERSHIP. A Borrower is, or will be upon issuance of the Eligible Bonds, the record and beneficial owner of, and has, or will have upon issuance, good title to, the Eligible Bonds, free of any and all liens or options in favor of, or claims of, any other Person, except the security interest created by this Loan Agreement;

(d) FIRST PRIORITY SECURITY INTEREST; SECURITY ENTITLEMENT. The Eligible Bonds, when pledged as Collateral hereunder, shall be unencumbered, and this Loan Agreement, together with delivery to the Lender or the Bond/PC Custodian of the Eligible Bonds and the filing of a financing statement naming the Borrower as "debtor" and the Lender as "secured party" and describing such Collateral as the "collateral", will create a valid first priority perfected security interest in such Collateral in favor of the Lender in accordance with its terms against all credits of the Borrower and any Persons purporting to purchase such Collateral from the Borrower, and without limitation the Lender shall have a "security entitlement" thereto. The Borrower has obtained from any and all concerned creditors, any waivers, amendments, releases or acknowledgments necessary to create and perfect in favor of the Lender the first priority security interests provided herein;

(e) PROPER FORM. The Eligible Bonds are certificated securities in registered form, or are in uncertificated form and (i) held through the facilities of a Relevant System, or (ii) registered on the books of the issuer thereof; and

(f) CHIEF EXECUTIVE OFFICE. The chief executive office of the Borrower is, and for the four months immediately preceding the date of this Loan Agreement has been, located at the address set forth for it on the signature page hereof.

(g) TAKE-OUT COMMITMENTS. To the extent that an Eligible Bond is covered by a Take-Out Commitment, such Take-Out Commitment is a valid, binding and subsisting obligation enforceable in accordance with its terms.

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Part III. PARTICIPATION CERTIFICATES

As to each Participation Certificate and the related Governing Agreement, the following eligibility criteria shall be met as of the applicable Funding Date and as of each date Collateral Value is determined:

- (a) VALIDITY OF GOVERNING AGREEMENT. The Governing Agreement and any other agreement executed and delivered in connection with Participation Certificate are genuine, and each is the legal, valid and binding obligation of the maker thereof enforceable in accordance with its terms. The Borrower and the Trustee had legal capacity to enter into the Governing Agreement and the Trustee had the legal capacity to execute and deliver the Governing Agreement and any such agreement, and the Governing Agreement and any such other related agreement to which the Borrower or the Trustee are parties have been duly and properly executed by the Borrower and the Trustee, as applicable. The Governing Agreement to which the Trustee is a party constitutes a legal, valid, binding and enforceable obligation of the Trustee. The Governing Agreement is in full force and effect, and the enforceability of the Governing Agreement has not been contested by the Trustee.
- (b) ORIGINAL TERMS UNMODIFIED. The terms of the Governing Agreement and the related Participation Certificate have not been impaired, altered or modified in any respect.
- (c) NO WAIVER. The Borrower has not waived the performance by the Trustee of any action, if the Trustee's failure to perform such action would cause the Governing Agreement to be in default, nor has the Borrower waived any default resulting from any action or

inaction by the Trustee.

- (d) NO DEFAULTS. There is no default, breach, violation or event of acceleration existing under the Governing Agreement and no event has occurred which, with the passage of time or giving of notice or both and the expiration of any grace or cure period, would constitute a default, breach, violation or event of acceleration thereunder, and neither the Borrower nor its predecessors in interest have waived any such default, breach, violation or event of acceleration.
- (e) DELIVERY OF GOVERNING AGREEMENT. The Governing Agreements for the related Participation Certificate has been or shall be delivered three (3) days prior to each Funding Date.
- (f) PARTICIPATION CERTIFICATE ASSIGNABLE. Each Participation Certificate is assignable to the Lender. The Governing Agreement permits the Borrower to sell, assign, pledge, transfer or rehypothecate the Eligible Mortgage Loan related to such Participation Certificate.
- (g) TAKE-OUT COMMITMENTS. To the extent that a Participation Certificate is covered by a Take-Out Commitment, such Take-Out Commitment is a valid, binding and subsisting obligation enforceable in accordance with its terms.

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- (h) UNDERLYING MORTGAGE LOANS. With respect to each Underlying Mortgage Loan, the representations and warranties set forth in Part I of this Schedule 1 are true and correct.

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Part IV DEFINED TERMS

In addition to terms defined elsewhere in the Loan Agreement, the following terms shall have the following meanings when used in this Schedule 1:

"APPRAISED VALUE" shall mean the value set forth in an appraisal made in connection with the origination of the related Mortgage Loan as the value of the Mortgaged Property.

"ASSIGNMENT OF MORTGAGE" shall mean an assignment of the Mortgage, notice of transfer or equivalent instrument in recordable form, sufficient under the laws of the jurisdiction wherein the related Mortgaged Property is located to reflect the transfer of the Mortgage.

"DUE DATE" means the day of the month on which the Scheduled Payment is due on a Mortgage Loan, exclusive of any days of grace.

"ESCROW PAYMENTS" shall mean with respect to any Mortgage Loan, the amounts constituting ground rents, taxes, assessments, water rates, sewer rents, municipal charges, fire and hazard insurance premiums, condominium charges, and any other payments required to be escrowed by the Mortgagor with the mortgagee pursuant to the Mortgage or any other related document.

"LOAN-TO-VALUE RATIO" OR "LTV" shall mean with respect to any Mortgage Loan, the ratio of (a) the Par Amount of the Mortgage Loan as of the date of origination (unless otherwise indicated) to (b) the Appraised Value of the Mortgaged Property or if the Mortgage Loan was made in connection with the purchase of the related Mortgaged Property, the lesser of the Appraised Value and the sales price of such property.

"STATED PRINCIPAL BALANCE" shall mean as to each Mortgage Loan, the

principal balance of the Mortgage Loan at the date of determination.

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SCHEDULE 2

FILING JURISDICTIONS AND OFFICES

Secretary of State of the State of New York
Secretary of County of New York County
Secretary of State of the State of New Jersey
Secretary of State of the State of Maryland

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SCHEDULE 3

SUBSIDIARIES

[TO BE PROVIDED BY COUNSEL TO BORROWER]

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SCHEDULE 4

LITIGATION

[TO BE PROVIDED BY COUNSEL TO BORROWER]

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EXHIBIT A

[FORM OF PROMISSORY NOTE]

\$100,000,000

March 30 1998
New York, New York

FOR VALUE RECEIVED, HANOVER CAPITAL MORTGAGE HOLDINGS, INC., a Maryland corporation (the "BORROWER"), hereby promises to pay to the order of GREENWICH CAPITAL FINANCIAL PRODUCTS, INC. a Delaware corporation (the "LENDER"), at the principal office of the Lender at 600 Steamboat Road, Greenwich, Connecticut 06830, in lawful money of the United States, and in immediately available funds, the principal sum of ONE HUNDRED MILLION DOLLARS (\$100,000,000) (or such lesser amount as shall equal the aggregate unpaid principal amount of the Advances made by the Lender to the Borrower under the Loan Agreement as defined below), on the dates and in the principal amounts

provided in the Loan Agreement, and to pay interest on the unpaid principal amount of each such Advance, at such office, in like money and funds, for the period commencing on the date of such Advance until such Advance shall be paid in full, at the rates per annum and on the dates provided in the Loan Agreement.

The date, amount and interest rate of each Advance made by the Lender to the Borrower, and each payment made on account of the principal and interest thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof; PROVIDED, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing under the Loan Agreement or hereunder in respect of the Advances made by the Lender.

This Note is the Note referred to in the Master Loan and Security Agreement dated as of March 30, 1998 (as amended, supplemented or otherwise modified and in effect from time to time, the "LOAN AGREEMENT") between the Borrower and the Lender, and evidences Advances made by the Lender thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Loan Agreement.

The Borrower agrees to pay all the Lender's costs of collection and enforcement (including attorneys' fees and disbursements of Lender's counsel) in respect of this Note when incurred, including, without limitation, attorneys' fees through appellate proceedings.

Notwithstanding the pledge of the Collateral, the Borrower hereby acknowledges, admits and agrees that the Borrower's obligations under this Note are recourse obligations of the Borrower to which the Borrower pledges its full faith and credit.

The Borrower, and any indorsers hereof, (a) severally waive diligence, presentment, protest and demand and also notice of protest, demand, dishonor and nonpayments of this Note, (b) expressly agree that this Note, or any payment hereunder, may be extended from time to time, and consent to the acceptance of further Collateral, the release of any Collateral for this Note, the release of any party primarily or secondarily liable hereon, and (c) expressly agree that it will not be necessary for the Lender, in order to enforce payment of this Note, to first institute or exhaust the Lender's remedies against the Borrower or any other party liable hereon or against any Collateral for this Note. No extension of time for the payment of this Note, or any installment hereof, made by agreement by the Lender with any person now or hereafter liable for the payment of this Note, shall affect the

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liability under this Note of the Borrower, even if the Borrower is not a party to such agreement; PROVIDED, HOWEVER, that the Lender and the Borrower, by written agreement between them, may affect the liability of the Borrower.

Any reference herein to the Lender shall be deemed to include and apply to every subsequent holder of this Note. Reference is made to the Loan Agreement for provisions concerning optional and mandatory prepayments, Collateral, acceleration and other material terms affecting this Note.

Any enforcement action relating to this Note may be brought by motion for summary judgment in lieu of a complaint pursuant to Section 3213 of the New York Civil Practice Law and Rules.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED UNDER THE LAWS OF THE STATE OF NEW YORK (WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE BUT WITH REFERENCE TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW, WHICH BY ITS TERMS APPLIES TO THIS NOTE) WHOSE LAWS THE BORROWER EXPRESSLY ELECTS TO APPLY TO THIS NOTE. THE BORROWER AGREES THAT ANY ACTION OR PROCEEDING BROUGHT TO ENFORCE OR ARISING OUT OF THIS NOTE MAY BE COMMENCED IN THE SUPREME COURT OF THE STATE OF NEW YORK, BOROUGH OF MANHATTAN, OR IN THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK. THE BORROWER HEREBY SUBMITS TO NEW YORK JURISDICTION WITH RESPECT TO ANY ACTION BROUGHT WITH RESPECT TO THIS NOTE AND WAIVES ANY RIGHT WITH RESPECT TO THE DOCTRINE OF FORUM NON CONVENIENS WITH RESPECT TO SUCH TRANSACTIONS.

[FORM OF MORTGAGE CUSTODIAL AGREEMENT]

[STORED AS A SEPARATE DOCUMENT]

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[FORM OF OPINION OF COUNSEL TO BORROWER]

(date)

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830

Dear Sirs and Mesdames:

You have requested [our] [my] opinion, as counsel to Hanover Capital Mortgage Holdings, Inc., a Maryland corporation (the "BORROWER"), with respect to certain matters in connection with that certain Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AND SECURITY AGREEMENT"), by and between the Borrower and Greenwich Capital Financial Products, Inc. (the "LENDER"), being executed contemporaneously with a Promissory Note dated March 30, 1998 from the Borrower to the Lender (the "NOTE"), a Mortgage Custodial Agreement, dated as of March 30, 1998 (the "MORTGAGE CUSTODIAL Agreement"), by and among the Borrower, First Chicago National Processing Corporation (the "MORTGAGE CUSTODIAN"), and the Lender. Capitalized terms not otherwise defined herein have the meanings set forth in the Loan and Security Agreement.

[We] [I] have examined the following documents:

1. the Loan and Security Agreement;
2. the Note;
3. Mortgage Custodial Agreement;
4. unfiled copies of the financing statements listed on SCHEDULE 1 (collectively, the "FINANCING STATEMENTS") naming the Borrower as Debtor and the Lender as Secured Party and describing the Collateral (as defined in the Loan and Security Agreement) as to which security interests may be perfected by filing under the Uniform Commercial Code of the States listed on SCHEDULE 1 (the "FILING COLLATERAL"), which I understand will be filed in the filing offices listed on SCHEDULE 1 (the "FILING OFFICES");
5. the reports listed on SCHEDULE 2 as to UCC financing statements (collectively, the "UCC SEARCH REPORT"); and
6. such other documents, records and papers as we have deemed necessary and relevant as a basis for this opinion.

To the extent [we] [I] have deemed necessary and proper, [we] [I] have relied upon the representations and warranties of the Borrower contained in the Loan and Security Agreement. [We] [I] have assumed the authenticity of all documents submitted to me as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to the originals of all

documents.

Based upon the foregoing, it is [our] [my] opinion that:

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1. The Borrower is a Maryland corporation duly organized, validly existing and in good standing under the laws of Maryland and is qualified to transact business in, and is in good standing under, the laws of the state of Maryland.

2. The Borrower has the corporate power to engage in the transactions contemplated by the Loan and Security Agreement, the Note, and the Mortgage Custodial Agreement and all requisite corporate power, authority and legal right to execute and deliver the Loan and Security Agreement, the Note, and the Mortgage Custodial Agreement and observe the terms and conditions of such instruments. The Borrower has all requisite corporate power to borrow under the Loan and Security Agreement and to grant a security interest in the Collateral pursuant to the Loan and Security Agreement.

3. The execution, delivery and performance by the Borrower of the Loan and Security Agreement, the Note, and the Mortgage Custodial Agreement, and the borrowings by the Borrower and the pledge of the Collateral under the Loan and Security Agreement have been duly authorized by all necessary corporate action on the part of the Borrower. Each of the Loan and Security Agreement, the Note and the Mortgage Custodial Agreement have been executed and delivered by the Borrower and are legal, valid and binding agreements enforceable in accordance with their respective terms against the Borrower, subject to bankruptcy laws and other similar laws of general application affecting rights of creditors and subject to the application of the rules of equity, including those respecting the availability of specific performance, none of which will materially interfere with the realization of the benefits provided thereunder or with the Lender's security interest in the Eligible Assets.

4. No consent, approval, authorization or order of, and no filing or registration with, any court or governmental agency or regulatory body is required on the part of the Borrower for the execution, delivery or performance by the Borrower of the Loan and Security Agreement, the Note and the Mortgage Custodial Agreement or for the borrowings by the Borrower under the Loan and Security Agreement or the granting of a security interest to the Lender in the Collateral, pursuant to the Loan and Security Agreement.

5. The execution, delivery and performance by the Borrower of, and the consummation of the transactions contemplated by, the Loan and Security Agreement, the Note and the Mortgage Custodial Agreement do not and will not (a) violate any provision of the Borrower's charter or by-laws, (b) violate any applicable law, rule or regulation, (c) violate any order, writ, injunction or decree of any court or governmental authority or agency or any arbitral award applicable to the Borrower of which I have knowledge (after due inquiry) or (d) result in a breach of, constitute a default under, require any consent under, or result in the acceleration or required prepayment of any indebtedness pursuant to the terms of, any agreement or instrument of which I have knowledge (after due inquiry) to which the Borrower is a party or by which it is bound or to which it is subject, or (except for the Liens created pursuant to the Loan and Security Agreement) result in the creation or imposition of any Lien upon any Property of the Borrower pursuant to the terms of any such agreement or instrument.

6. There is no action, suit, proceeding or investigation pending or, to the best of [our] [my] knowledge, threatened against the Borrower which, in [our] [my] judgment, either in any one instance or in the aggregate, would be reasonably likely to result in any material adverse change in the properties, business or financial condition, or prospects of the Borrower or in any material impairment of the right or ability of the Borrower to carry on its business substantially as now

conducted or in any material liability on the part of the Borrower or which would draw into question the validity of the Loan and Security Agreement, the Note, the Mortgage Custodial Agreement or the Eligible Assets or of any action taken or to be taken in connection with the transactions contemplated thereby, or which would be reasonably likely to impair materially the ability of the Borrower to perform under the terms of the Loan and Security Agreement, the Note, the Mortgage Custodial Agreement or the Eligible Assets.

7. The Loan and Security Agreement is effective to create, in favor of the Lender, a valid security interest under the Uniform Commercial Code in all of the right, title and interest of the Borrower in, to and under the Collateral as collateral security for the payment of the Secured Obligations (as defined in the Loan and Security Agreement), except that (a) such security interests will continue in Collateral after its sale, exchange or other disposition only to the extent provided in Section 9-306 of the Uniform Commercial Code, (b) the security interests in Collateral in which the Borrower acquires rights after the commencement of a case under the Bankruptcy Code in respect of the Borrower may be limited by Section 552 of the Bankruptcy Code.

8. When the Mortgage Notes are delivered to the Mortgage Custodian, endorsed in blank by a duly authorized officer of the Borrower, the security interest referred to in paragraph 7 above in the Mortgage Notes will constitute a fully perfected first priority security interest in all right, title and interest of the Borrower therein, in the Mortgage Loan evidenced thereby and in the Borrower's interest in the related Mortgaged Property.

9. (a) Upon the filing of financing statements on Form UCC-1 naming the Lender as "Secured Party" and the Borrower as a "Debtor", and describing the Collateral, in the jurisdictions and recording offices listed on SCHEDULE 1 attached hereto, the security interests referred to in paragraph 8 above will constitute fully perfected security interests under the Uniform Commercial Code in all right, title and interest of the Borrower in, to and under such Collateral, which can be perfected by filing under the Uniform Commercial Code.

(b) The UCC Search Report sets forth the proper filing offices and the proper debtors necessary to identify those Persons who have on file in the jurisdictions listed on SCHEDULE 1 financing statements covering the Filing Collateral as of the dates and times specified on SCHEDULE 2. Except for the matters listed on SCHEDULE 2, the UCC Search Report identifies no Person who has filed in any Filing Office a financing statement describing the Filing Collateral prior to the effective dates of the UCC Search Report.

10. The Assignments of Mortgage are in recordable form, except for the insertion of the name of the assignee, and upon the name of the assignee being inserted, are acceptable for recording under the laws of the state where each related Mortgaged Property is located.

11. The Borrower is duly registered as a [_____] in each state in which Mortgage Loans were originated to the extent such registration is required by applicable law, and has obtained all other licenses and governmental approvals in each jurisdiction to the extent that the failure to obtain such licenses and approvals would render any Mortgage Loan unenforceable or would materially and adversely affect the ability of the Borrower to perform any of its obligations under, or the enforceability of, the Loan Documents.

12. Assuming that all other elements necessary to render a Mortgage Loan legal, valid, binding and enforceable were present in connection with the execution, delivery and

performance of each Mortgage Loan (including completion of the entire Mortgage Loan fully, accurately and in compliance with all applicable laws, rules and regulations) and assuming further that no action was taken in connection with the execution, delivery and performance of each Mortgage Loan (including in connection with the sale of the related Mortgaged Property) that would give rise

to a defense to the legality, validity, binding effect and enforceability of such Mortgage Loan, nothing in the forms of such Mortgage Loans, as attached hereto as EXHIBIT A, would render such Mortgage Loans other than legal, valid, binding and enforceable.

13. Assuming their validity, binding effect and enforceability in all other respects (including completion of the entire Mortgage Loan fully, accurately and in compliance with all applicable laws, rules and regulations), the forms of Mortgage Loans attached hereto as EXHIBIT A are in sufficient compliance with _____ law and Federal consumer protection laws so as not to be rendered void or voidable at the election of the Mortgagor thereunder.

14. With respect to that portion of the Collateral consisting of Eligible Bonds, the security interest of the Lender will be a perfected, first-priority security interest, and a "security entitlement" (as defined in Section 8-102(a)(17) of the UCC) with respect to the Eligible Bonds will be created in favor of the Lender, upon (i) [the registration of the Eligible Bonds by the issuer thereof in the name of the Lender or Bond/PC Custodian,] [the making by the Relevant System of appropriate and accurate entries in its records to indicate the credit of a "security entitlement" with respect to the Eligible Bonds to the "securities account" (as defined in Section 8-501(a) of the Uniform Commercial Code) of the Mortgage Custodian,] [delivery of the certificates representing the Eligible Bonds to the Bond/PC Custodian, duly endorsed to the Bond/PC Custodian or in blank,] and (ii) the making by the Bond/PC Custodian of appropriate and accurate entries in its records to indicate the credit of a "security entitlement" to the Eligible Bonds to the "securities account" of the Lender. Such "security entitlement" will be subject to no prior interest.

15. With respect to that portion of the Collateral that consists of participation interests in any Mortgage Loans ("Participations"), the steps required to create and perfect a security interest in favor of the Lender in the Borrower's rights under each Participation will depend upon how such rights are classified under the UCC. We are of the opinion that a court would hold any one or more of the following with respect to such rights: (i) that a participation certificate evidencing such rights (a "PARTICIPATION CERTIFICATE") is itself an "instrument" (within the meaning of Section 9-105 of the UCC); (ii) if the related purchased debt is evidenced by an "instrument," that such rights constitute an interest in such instrument; or (iii) that such rights constitute a "general intangible" within the meaning of the UCC, as a (x) claim for the payment of money against the institution selling the Participation (the "SELLING INSTITUTION") (if a Participation Certificate does not constitute an instrument) or (y) claim for the payment of money against the obligor in respect of such purchased debt (if the purchased debt is not evidenced by an "instrument"). Our research has disclosed no case on point, however, and accordingly, our opinion addresses the steps required under the alternative treatments that could be accorded the Borrower's rights under the Participations under the UCC.

- (a) If a Participation Certificate constitutes an "instrument" physically held by the Custodian, such instrument will be transferred to the Lender upon the acknowledgment by the Custodian, in its capacity as bailee (as such term is used Section 9-305 of the UCC), that it holds such instrument for the Lender and such security interest will be a perfected first-priority security interest therein in favor of the Lender.

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- (b) If a Borrower's rights under a Participation constitute an interest in the purchased debt, and such purchased debt is evidenced by an "instrument," the Lender will have a perfected first-priority security interest in the Borrower's rights in such instrument, upon (i)(A) physical delivery of such instrument to the Participation Custodian and (B) the acknowledgment by the Custodian, in its capacity as bailee (as such term is used Section 9-305 of the UCC), that it holds such instrument for the Lender, or (ii) in the case of instruments in the possession of a Selling Institution, the acknowledgment by the Selling Institution that it holds such instruments for the Lender.
- (c) If a Borrower's rights under a Participation constitute a "general intangible" within the meaning of the UCC as to which the Selling Institution or the obligor in respect of the related purchased debt is the

"account debtor" within the meaning of the UCC, then our opinion in paragraph 9 will apply.

Very truly yours,

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EXHIBIT D-1

FORM OF NOTICE OF BORROWING AND PLEDGE-ELIGIBLE MORTGAGE LOANS

[insert date]

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

Notice of Borrowing and Pledge No. : -----
Name of Subservicer : -----
Interest Period : -----

Ladies/Gentlemen:

Reference is made to the Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AGREEMENT"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Loan Agreement), between Hanover Capital Mortgage Holdings, Inc. (the "BORROWER") and Greenwich Capital Financial Products, Inc. (the "LENDER").

In accordance with Section 2.03(a) of the Loan Agreement, the undersigned Borrower hereby requests that you, the Lender, make Advances to us in an aggregate principal amount of \$ _____ [insert requested Advance amount] (such amount representing [insert number of Mortgage Loans] loans on _____ [insert requested Funding Date, which must be at least three (3) Business Days following the date of the request], in connection with which we shall pledge to you as Collateral the Mortgage Loans set forth on the Mortgage Loan Schedule attached hereto.

The Borrower hereby certifies, as of such Funding Date, that:

(a) no Default or Event of Default has occurred and is continuing on the date hereof nor will occur after giving effect to such Advance as a result of such Advance;

(b) each of the representations and warranties made by the Borrower in or pursuant to the Loan Documents is true and correct in all material respects on and as of such date (in the case of the representations and warranties in respect of Eligible Mortgage Loans, solely with respect to Eligible Mortgage Loans being included the Borrowing Base on the Funding Date) as if made on and as of the date hereof (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date); and

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(c) the Borrower is in compliance with all governmental licenses and authorizations and is qualified to do business and is in good standing in all required jurisdictions.

Very truly yours,

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By:

Name:

Title:

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Schedule I

TO NOTICE OF BORROWING AND PLEDGE

ELIGIBLE MORTGAGE LOANS PROPOSED TO BE PLEDGED
TO LENDER ON FUNDING DATE

[ATTACH MORTGAGE LOAN SCHEDULE]

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EXHIBIT D-2

FORM OF NOTICE OF BORROWING AND PLEDGE - ELIGIBLE BONDS

[INSERT DATE]

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

Notice of Borrowing and Pledge No. : -----

Name of Trustee : -----

Interest Period : -----

Ladies/Gentlemen:

Reference is made to the Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AGREEMENT"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Loan Agreement), between Hanover Capital Mortgage Holdings, Inc. (the "BORROWER") and

Greenwich Capital Financial Products, Inc. (the "LENDER").

In accordance with Section 2.03(a) of the Loan Agreement, the undersigned Borrower hereby requests that you, the Lender, make Advances to us in an aggregate principal amount of \$_____ [insert requested Advance amount] (such amount representing [insert number of Eligible Bonds] bonds on _____ [insert requested Funding Date, which must be at least three (3) Business Days following the date of the request], in connection with which we shall pledge to you as Collateral the Eligible Bonds set forth in the Bond Summary attached hereto.

The Borrower hereby certifies, as of such Funding Date, that:

(a) no Default or Event of Default has occurred and is continuing on the date hereof nor will occur after giving effect to such Advance as a result of such Advance;

(b) each of the representations and warranties made by the Borrower in or pursuant to the Loan Documents is true and correct in all material respects on and as of such date (in the case of the representations and warranties in respect of Eligible Bonds, solely with respect to Eligible Bonds being included the Borrowing Base on the Funding Date) as if made on and as of the date hereof (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date); and

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(c) the Borrower is in compliance with all governmental licenses and authorizations and is qualified to do business and is in good standing in all required jurisdictions.

Very truly yours,

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By:

Name:
Title:

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SCHEDULE I

TO NOTICE OF BORROWING AND PLEDGE

[ELIGIBLE BONDS PROPOSED TO BE PLEDGED
TO LENDER ON FUNDING DATE]

[ATTACH BOND SUMMARY]

FORM OF NOTICE OF BORROWING AND PLEDGE - PARTICIPATION CERTIFICATES

[INSERT DATE]

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

Notice of Borrowing and Pledge No. : -----
Name of Trustee : -----
Interest Period : -----
Ownership Percentage : -----

Ladies/Gentlemen:

Reference is made to the Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AGREEMENT"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Loan Agreement), between Hanover Capital Mortgage Holdings, Inc. (the "BORROWER") and Greenwich Capital Financial Products, Inc. (the "LENDER").

In accordance with Section 2.03(a) of the Loan Agreement, the undersigned Borrower hereby requests that you, the Lender, make Advances to us in an aggregate principal amount of \$_____ [insert requested Advance amount] (such amount representing [insert number of Participation Certificates] on _____ [insert requested Funding Date, which must be at least three (3) Business Days following the date of the request], in connection with which we shall pledge to you as Collateral the Participation Certificates set forth in the Participation Certificate Summary attached hereto.

The Borrower hereby certifies, as of such Funding Date, that:

(a) no Default or Event of Default has occurred and is continuing on the date hereof nor will occur after giving effect to such Advance as a result of such Advance;

(b) each of the representations and warranties made by the Borrower in or pursuant to the Loan Documents is true and correct in all material respects on and as of such date (in the case of the representations and warranties in respect of Participation Certificates, solely with respect to Participation Certificates being included the Borrowing Base on the Funding Date) as if made on and as of the date hereof (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date); and

(c) the Borrower is in compliance with all governmental licenses and authorizations and is qualified to do business and is in good standing in all required jurisdictions.

Very truly yours,

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By:

Name:

Title:

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SCHEDULE I

TO NOTICE OF BORROWING AND PLEDGE

[ELIGIBLE PARTICIPATION CERTIFICATES PROPOSED TO BE PLEDGED TO LENDER ON FUNDING DATE]

[ATTACH PARTICIPATION CERTIFICATE TAPE]

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EXHIBIT E

UNDERWRITING GUIDELINES

[TO BE PROVIDED BY BORROWER]

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EXHIBIT F

FORM OF BLOCKED ACCOUNT AGREEMENT

_____, 199_

Fleet Bank

Attn:

Re: Account Established by Greenwich Capital Financial Products, Inc. ("LENDER"), pursuant to that certain Master Loan and Security Agreement (as amended, supplemented or otherwise modified from time to time, the "LOAN AGREEMENT"), dated as of March 30, 1998, by and among the Lender, Fleet Bank (the "COLLECTION BANK"), and Hanover Capital Mortgage Holdings, Inc. ("BORROWER")

Ladies and Gentlemen:

We refer to the collection account established by the Borrower pursuant to the Loan Agreement, at the Collection Bank, Providence, Rhode Island, Account No. [ACCOUNT #], ABA# [ABA #], [sub]account identified with respect to Eligible Assets pledged to the Lender (the "COLLECTION ACCOUNT"), which the Borrower maintains in accordance with the Loan Agreement.

From time to time, certain third-party servicers (each a "SUBSERVICER") and trustees (each a "TRUSTEE") will deposit funds received in accordance with a related servicing agreement or governing agreement into the Collection Account pursuant to an instruction letter signed by the Borrower and acknowledged by such Subservicer or Trustee. Greenwich Capital Financial Products, Inc. (the "LENDER") has established a secured loan arrangement with the Borrower. By its execution of this letter, the Collection Bank and the Borrower acknowledges that the Borrower has granted a security interest in all of the Borrower's right, title and interest in and to the Collection Account and any funds from time to time on deposit therein with respect to such Eligible Assets, that such funds are received by the Collection Bank in trust for the benefit of Lender and, except as provided below, are for application against the Borrower's liabilities to Lender.

By the Collection Bank's and the Borrower's execution of this letter, each party agrees: (a) that all funds from time to time hereafter in the Collection Account are the property of the Borrower held in trust for the benefit of, and subject to a security interest in favor of, the Lender; (b) that neither the Collection Bank nor the Borrower will exercise any right of set-off, banker's lien or any similar right in connection with such funds PROVIDED, that in the event any check is returned to the Collection Bank or the Borrower because of insufficient funds (or is otherwise unpaid) such party shall be entitled to set off the amount of any such returned check; (c) that unless the Lender shall have expressly consented in writing, the Borrower will not withdraw, nor shall the Collection Bank permit the Borrower or any other person or entity to withdraw or transfer funds from the Collection Account; and (d) that if the Lender shall notify the Collection Bank that an event of default has occurred and is continuing under the Lender's secured lending arrangement with the Borrower, the Collection Bank shall cause or permit withdrawals from the Collection Account in any other manner as the Lender may instruct.

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All bank statements in respect to the Blocked Account shall be sent to the Borrower with copies to:

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

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Kindly acknowledge your agreement with the terms of this agreement by signing the enclosed copy of this letter and returning it to the undersigned.

Very truly yours,

GREENWICH CAPITAL FINANCIAL PRODUCTS, INC.

By: _____

Name:
Title:

Agreed and acknowledged:

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By: _____

Name:
Title:

Agreed and acknowledged:

FLEET BANK

By: _____

Name:
Title:

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EXHIBIT G

FORM OF MORTGAGE LOAN TAPE

[TO BE PROVIDED BY LENDER]

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EXHIBIT H

FORM OF BORROWING BASE CERTIFICATE

[TO BE PROVIDED BY LENDER]

FORM OF REMITTANCE REPORT

_____, 19__

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

Ladies and Gentlemen:

The undersigned, HANOVER CAPITAL MORTGAGE HOLDINGS, INC., refers to the Master Loan and Security Agreement, dated as of March 30, 1998 (as amended, supplemented or otherwise modified from time to time, the "LOAN AGREEMENT") between Hanover Capital Mortgage Holdings, Inc. and Greenwich Capital Financial Products, Inc. Capitalized terms used herein but not defined herein shall have the meaning assigned to such terms in the Loan Agreement.

The undersigned hereby delivers this Remittance Report to you pursuant to Section 7.08 of the Loan Agreement and hereby certifies to you as follows as of _____, 1998.(1)

I. Summary of Collection Account Cash Flow

- (a) Total Collections remitted for the calendar month:
\$_____.
- (b) Borrowing Base Deficiency due to you on Remittance Date:
\$_____.
- (c) Interest due and payable to you on the Remittance Date (for the period from and including the previous Remittance Date to and including the day preceding the current Remittance Date): \$_____.
- (d) Commitment Fee due and owing (payable on Payment Dates occurring in April, July, October, January, and on the Termination Date.)
- (e) Total cash due to you on the Remittance Date: \$_____.
- (f) Cash flow in connection with any other act which during the month:
 - (i) Principal received: \$_____.
 - (ii) Accrued interest received: \$_____.

(1) Date should be the last day of the immediately preceeding calendar month.

(iii) Amounts swept from the Lender's Collection Account to the securitization or whole loan buyer: \$_____.

(g) Balance to the undersigned \$_____.

LIBOR reset for the following month as of _____, 1998 -----%.

II. Breakout of Daily Remittances to the Collection Account

Collection Dates	Wire Date	Cash Amount	Total Amount
Totals [attach Bank Statement]			

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.,

By: _____
Name:
Title:

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EXHIBIT J

FORM OF INSTRUCTION LETTER

_____, 1998

- _____, as [Trustee] [Subservicer]
- _____
- _____

Attention: _____

Re: Loan and Security Agreement, dated as of March 30, 1998, by and between Greenwich Capital Financial Products, Inc., ("LENDER"), and Hanover Capital Mortgage Holdings, Inc., ("BORROWER")

Ladies and Gentlemen:

Pursuant to the Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AND SECURITY AGREEMENT"), between the Lender and the Borrower, you are hereby notified that: (i) the Borrower has pledged to the Lender the assets described on SCHEDULE 1 hereto (the "ELIGIBLE ASSETS"), (ii) each of the Eligible Assets is subject to a security interest in favor of the Lender, (iii) the [Trustee] [Servicer] shall promptly send to the Lender a copy of the [GOVERNING AGREEMENT] [SERVICING AGREEMENT] related to the Eligible Assets, (iv) unless otherwise notified by the Lender in writing, any payments or distributions made with respect to such Eligible Assets should be remitted immediately by the [Trustee] [Servicer] directly to the Collection Account established at Fleet Bank (the "COLLECTION BANK"), in accordance with the following wire instructions and (v) if notified by the Lender in writing, the [Servicer][Trustee] shall send such payments or distributions in accordance with the Lender's written instructions:

Account No.: [_____
ABA No.: [_____
[_____]

Reference: [_____]

The Subservicer also acknowledges its consent to terminate such Servicing Agreement upon notification by the Lender of an occurrence of an Event of Default.

Please acknowledge receipt of this instruction letter by signing in the signature block below and forwarding an executed copy to the Lender promptly upon receipt. Any notices to the Lender should be delivered to the following address: 600 Steamboat Road, Greenwich, Connecticut 06830, Attention: Joe Bartolotta, Telephone: (203) 625-6675, Facsimile: (203) 625-4751.

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Very truly yours,

HANOVER CAPITAL MORTGAGE HOLDERS INC.

By: _____
Name:
Title:

ACKNOWLEDGED:

- _____, as [Trustee] [Servicer]

By: _____
Name:
Title:
Telephone:
Facsimile:

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EXHIBIT K-1

FORM OF LOST INSTRUMENT AFFIDAVIT

I, as _____ (title) (hereinafter called "DEPONENT") of _____ (the "BOND/PC CUSTODIAN"), am authorized to make this Lost Instrument Affidavit (this "Affidavit") on behalf of the Bond/PC Custodian. In connection with the administration of the Participation Certificates held by the Bond/PC Custodian on behalf of Greenwich Capital Financial Products, Inc. (the "LENDER"), Deponent being duly sworn, deposes and says that:

- 1. Bond/PC Custodian's address is:

[BOND/PC CUSTODIAN'S Address]

2. Bond/PC Custodian previously delivered to the Lender a Participation Certificate Schedule with respect to that certain Participation Certificate made by ___ in an original principal balance of \$___, which did not indicate such Participation Certificate is missing;

3. Such Participation Certificate was assigned or sold to the Lender by _____ pursuant to the terms and provisions of a Master Loan and Security Agreement dated and effective as of [_____];

5. Aforesaid Participation Certificate (hereinafter called the "ORIGINAL") has been lost;

6. Deponent has made or has caused to be made diligent search for the Original and has been unable to find or recover same;

7. The Bond/PC Custodian was the Bond/PC Custodian of the Original at the time of loss; and

8. Deponent agrees that, if said Original should ever come into Bond/PC Custodian's possession, custody or power, Bond/PC Custodian will immediately and without consideration surrender the Original to the Lender.

9. Attached hereto is a true and correct copy of the Participation Certificate.

10. Deponent hereby agrees that the Bond/PC Custodian (a) shall indemnify and hold harmless the Lender, its successors, and assigns, against any loss, liability or damage, including reasonable attorney's fees, resulting from the unavailability of any Originals, including but not limited to any loss, liability or damage arising from (i) any false statement contained in this Affidavit, (ii) any claim of any party that it has already purchased a participation certificate evidenced by the Originals or any interest in such participation certificate, (iii) the issuance of new instrument in lieu thereof and (iv) any claim whether or not based upon or arising from honoring or refusing to honor the Original when presented by anyone (items (i) through (iv) above are hereinafter referred to as the "LOSSES").

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11. This Affidavit is intended to be relied on by the Lender, its successors, and assigns and Greenwich Capital Financial Products, Inc. represents and warrants that it has the authority to perform its obligations under this Affidavit.

EXECUTED THIS ___ day of _____, 199_, on behalf of the Bond/PC Custodian by:

Signature

Typed Name

On this _____ day of _____, 199_, before me appeared _____, to me personally know, who being duly sworn did say that she/he is the _____ of _____, and that said Lost Instrument Affidavit was signed and sealed on behalf of such corporation and said _____ acknowledged this instrument to be the free act and deed of said corporation.

Notary Public in and for the State of _____ .

My Commission expires: _____ .

FORM OF LOST NOTE AFFIDAVIT

I, as _____ (title) (hereinafter called "DEPONENT") of _____ (the "MORTGAGE CUSTODIAN"), am authorized to make this Lost Note Affidavit (this "Affidavit") on behalf of the Mortgage Custodian. In connection with the administration of the Mortgage Loans held by the Mortgage Custodian on behalf of Greenwich Capital Financial Products, Inc. (the "LENDER"), Deponent being duly sworn, deposes and says that:

1. Mortgage Custodian's address is:

[MORTGAGE CUSTODIAN'S Address]

2. Mortgage Custodian previously delivered to the Lender a Mortgage Loan Schedule and an Exception Report with respect to that certain Mortgage Note made by ___ in an original principal balance of \$___, secured by a Mortgage on a property located at ____, which did not indicate such Mortgage Note is missing;

3. Such Mortgage Note was assigned or sold to the Lender by _____ pursuant to the terms and provisions of a Master Loan and Security Agreement dated and effective as of [_____];

4. Such Mortgage Note is not outstanding pursuant to a Request for Release of Documents;

5. Aforesaid Mortgage Note (hereinafter called the "ORIGINAL") has been lost;

6. Deponent has made or has caused to be made diligent search for the Original and has been unable to find or recover same;

7. The Mortgage Custodian was the Mortgage Custodian of the Original at the time of loss; and

8. Deponent agrees that, if said Original should ever come into Mortgage Custodian's possession, custody or power, Mortgage Custodian will immediately and without consideration surrender the Original to the Lender.

9. Attached hereto is a true and correct copy of (i) the Mortgage Note, endorsed in blank by the Mortgagee, as provided by Hanover Capital Mortgage Holdings, Inc. or its designee and (ii) the Mortgage which secures the Mortgage Note, which Mortgage is recorded at _____ .

10. Deponent hereby agrees that the Mortgage Custodian (a) shall indemnify and hold harmless the Lender, its successors, and assigns, against any loss, liability or damage, including reasonable attorney's fees, resulting from the unavailability of any Originals, including but not limited

to any loss, liability or damage arising from (i) any false statement contained in this Affidavit, (ii) any claim of any party that it has already purchased a mortgage loan evidenced by the Originals or any interest in such mortgage loan, (iii) any claim of any borrower with respect to the existence of terms of a Mortgage Loan evidenced by the Originals, (iv) the issuance of new instrument in lieu thereof and (v) any claim whether or not based upon or arising from honoring or refusing to honor the Original when presented by anyone (items (i) through (iv) above are hereinafter referred to as the "LOSSES").

11. This Affidavit is intended to be relied on by the Lender, its successors, and assigns and Greenwich Capital Financial Products, Inc. represents and warrants that it has the authority to perform its obligations under this Affidavit.

EXECUTED THIS ____ day of _____, 199_,
on behalf of the Mortgage Custodian by:

Signature

Typed Name

On this _____ day of _____, 199_, before me
appeared _____, to me personally know, who being
duly sworn did say that she/he is the _____ of
_____, and that said Lost Note Affidavit was signed and sealed
on behalf of such corporation and said _____ acknowledged this
instrument to be the free act and deed of said corporation.

Notary Public in and for the
State of _____ .

My Commission expires: _____ .

EXHIBIT L

FORM OF NOTICE OF EXTENSION OF INTEREST PERIOD

[insert date]

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: David Katze

Notice of Borrowing and Pledge No. : _____

Current Interest Period : [One Month][Two Month][Three Month][Six Month]

Termination Date of Current
Interest Period : _____

Ladies/Gentlemen:

Reference is made to the Master Loan and Security Agreement, dated as of March 30, 1998 (the "LOAN AGREEMENT"; capitalized terms used but not otherwise defined herein shall have the meaning given them in the Loan Agreement), between Hanover Capital Mortgage Holdings, Inc. (the "BORROWER") and Greenwich Capital Financial Products, Inc. (the "LENDER").

In accordance with Section 3.04 of the Loan Agreement, the undersigned

Borrower hereby requests that the Lender extend the current Interest Period of [One Month][Two Month][Three Month][Six Month] beginning immediately following the termination of the existing Interest Period which is scheduled to terminate on [INSERT LAST DAY OF EXISTING INTEREST PERIOD].

Very truly yours,

HANOVER CAPITAL MORTGAGE HOLDINGS, INC.

By: _____

Name:

Title:

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE HANOVER CAPITAL MORTGAGE HOLDINGS, INC'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD FROM JANUARY 1, 1998 TO MARCH 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

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<EPS-DILUTED>		.17

<FN>

<F1>AS A REAL ESTATE INVESTMENT TRUST OUR BALANCE SHEET IS NOT CLASSIFIED.

<F2>INCLUDES RETAINED EARNINGS AND PAID IN CAPITAL.

</FN>