

DI 2016-1 [REDACTED]

## INSURANCE POLICY

### DECLARATIONS

**Policy Number:** [REDACTED]

**Policy Period:** That period of time between the Effective Date and the Termination Date, as set forth immediately below.

**EFFECTIVE DATE:** The Effective Date will be the first calendar day of the calendar month during which this Policy has been executed by both parties.

**TERMINATION DATE:** As defined in Article VIII.

in each case, at 12:01 A.M. Eastern Time.

**Item 1: Insured:**

Federal Home Loan Mortgage Corporation, also known as Freddie Mac, a government-sponsored enterprise chartered by the U.S. Congress

8200 Jones Branch Drive  
McLean, Virginia 22102  
[REDACTED]

**Item 2: Insurer:**

[REDACTED]

**Item 3: Insurer's Jurisdiction**

[REDACTED] (the "Insurer's Jurisdiction")

**Item 4: Covered Transaction:**

For each month during the Loan Acquisition Period (as defined below), the Insured shall randomly designate 10% of all residential mortgage loans that meet the Eligibility Criteria (as more specifically described below) that are acquired by the Insured during such month to be included in the pool covered hereunder (the "Covered Pool") in accordance with the methodology set forth on Schedule 1.

The "Loan Acquisition Period" shall be the period commencing on the Effective Date and ending one (1) day prior to the date that is six (6) months after the Effective Date. For the avoidance of doubt, and solely as an example, if the Effective Date is January 1<sup>st</sup>, the Loan Acquisition Period ends on June 30<sup>th</sup>.

Coverage under this Policy will automatically and simultaneously attach to each residential mortgage loan included in the Covered Pool upon acquisition of such residential mortgage loan by the Insured.

**Item 5: Insurance Type:**

Aggregate excess of loss credit insurance.

**Item 6: Policy Limit of Liability:**

Regardless of the number of Credit Events, at any point in the Policy Period, the Insurer's maximum liability for all Covered Amounts hereunder shall not exceed an amount equal to the product of the Final Insured Percentage and the Class Notional Amount of the Class M Tranche as of the prior Premium Payment Date.

**Item 7: Target Insured Percentage and Final Insured Percentage:**

**Target Insured Percentage:** [REDACTED]

**Final Insured Percentage:** The Final Insured Percentage will be determined as of the Rate Recalculation Date based upon the Acquisition Balance and the calculation of the Initial Class Notional Amount of the Class M Tranche.

The Final Insured Percentage will be equal to the Target Insured Percentage, except that:

(a) the Final Insured Percentage will be less than the Target Insured Percentage if the Target Insured Percentage would result in a maximum liability amount that exceeds the liability cap amount of [REDACTED] ("Liability Cap Amount"). In that event, the Final Insured Percentage will be equal to the Liability Cap Amount divided by the product of (i) 2.65% and (ii) the Acquisition Balance as of the last date of the Loan Acquisition Period; and

(b) the Final Insured Percentage will be greater than the Target Insured Percentage if another participating insurer's share is reduced or eliminated because (i) that insurer's liability cap amount has been reached or (ii) that insurer was unable to reach acceptable terms, if necessary, in accordance with Schedule 2. In either event, the resulting excess risk will be shared by the remaining insurers, whose respective target insured percentages will be increased accordingly, subject to their respective liability cap amounts (which in respect of the Insurer, is the Liability Cap Amount).

The Final Insured Percentage will be set forth on Schedule 4, which will be provided on Rate Recalculation Date.

**Item 8: Initial Annual Premium Rate and Final Annual Premium Rate:**

**Initial Annual Premium Rate:** [REDACTED]

**Final Annual Premium Rate:** The Final Annual Premium Rate will be determined as of the Rate Recalculation Date as follows: the product of the (i) Initial Annual Premium Rate and (ii) Annual Premium Rate Scalar, as set forth in Schedule 2. The Final Annual Premium Rate will be set forth on Schedule 4, which will be provided on the Rate Recalculation Date.

Premiums will be paid in accordance with Article VI(C).

**Item 9: Taxes:**

Pursuant to Section 303(e) of the Federal Home Loan Mortgage

Corporation Act, 12 U.S.C. § 1452(e), the Insured is exempt from liability for the payment of state and local taxes, except certain real property taxes. Furthermore, as an instrumentality of the United States, the Insured is exempt from liability for federal excise taxes under the U.S. Internal Revenue Code. Accordingly, (a) the Insurer shall not pay on Insured's behalf or invoice the Insured for any federal excise or state or local taxes on Premiums (including, for the avoidance of doubt, any Catch-up Premium Payment) and (b) the Insured shall not be liable for the payment of any such taxes.

Additional tax withholding and reporting obligations are set forth in Article VII(K).

**Item 10: Payment Currency:**

United States of America Dollars

**Item 11: Delivery Location:**

[REDACTED]

**Item 12: Policy All-Inclusive:**

This Policy is comprised of this Declarations Page, the Insurance Application, the document entitle "Insurance Policy" related to this Declarations Page, and all exhibits and schedules relating hereto, all of which are incorporated herein and made a part of this Policy as of the Effective Date. Collectively, the Insurer and the Insured may be referred to as the "parties" and individually, each may be referred to as the "party."

**IN WITNESS HEREOF**, each party hereto has caused this Policy to be executed on its behalf by its duly authorized representative.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## INSURANCE POLICY

Various provisions in this Policy restrict coverage. Read the entire Policy carefully to determine rights, duties and what is and is not covered.

In consideration of the Insured paying the Premium stated in Item 8 of the Declarations to the Insurer and in reliance upon the statements in the Declarations made a part hereof and subject to all of the terms of this Policy, the Insurer hereby agrees, subject to the Policy Limit of Liability, to pay the Covered Amounts to the Insured to the extent and in the manner set forth herein.

### I. INSURING AGREEMENT; SECURITY

- A. In accordance with the provisions of this Policy, and in the event that, as of any Premium Payment Date during the Policy Period, a Tranche Write-down Amount has been allocated to the Class M Tranche on such Premium Payment Date (in each instance, a "Loss"), the Insurer will pay to the Insured an amount equal to the product of (a) such Loss, and (b) the Final Insured Percentage (the "Covered Amount"), which obligation of the Insurer shall be performed strictly in accordance with the terms of this Policy under all circumstances. In no event shall the Insurer's maximum liability under this Policy exceed the Policy Limit of Liability.
- B. To secure its performance hereunder, within thirty (30) calendar days after the Rate Recalculation Date, the Insurer shall deposit Assets in the Trust Account and maintain Assets in an amount as determined under and pursuant to the Trust Agreement, and subject to the following provisions:
  - 1. The Trust Agreement shall be in the form mutually agreed between the parties as of the Effective Date, and shall be subject only to changes that may be requested by the trustee. The parties agree to act reasonably and in good faith with respect to such requests in order to ensure that the Insurer is able to satisfy its obligations hereunder to deposit Assets in the Trust Account.
  - 2. The Insurer agrees to maintain the Assets such that the Outstanding Collateral Amount shall be equal to or greater than the Security Amount as of each Collateral Calculation Date.
  - 3. Within five (5) Business Days after each Collateral Calculation Date, the Insurer shall deliver to the Insured a statement showing the updated Security Amount as of such Collateral Calculation Date, which shall be calculated based on information regarding the Class of Tranches received in accordance with Article V(C); provided, that the Insurer's obligation to deliver such monthly statement shall be subject to the Insurer's obtaining information regarding the Class of Tranches and the Outstanding Collateral Amount as provided in Article V(C). If the statement shows that the Security Amount exceeds the Outstanding Collateral Amount, then the Insurer shall, within five (5) Business Days after delivery of the statement, deposit additional Assets in the Trust Account equal to the amount of such difference. If, however, the statement shows that the Outstanding Collateral Amount exceeds the Security Amount, then the Insured shall, within five (5) Business Days after receipt of the statement, allow the release to the Insurer of Assets from the Trust Account with an aggregate fair market value no greater than such excess, and in furtherance of the foregoing, the Insured shall undertake all actions that shall reasonably be necessary to allow such release of Assets, including delivery of any notices that might be required by the trustee.
  - 4. The Insured shall have the right to withdraw Assets from the Trust Account to reimburse the Insured for any amount under this Policy which becomes due from the Insurer under the terms of this Policy and which is not otherwise paid by the Insurer



when the payment becomes due under the terms of this Policy. In the event the amount withdrawn by the Insured from the Trust Account is in excess of the actual amount finally determined to be due to the Insured, which determination must be made by a court of competent jurisdiction in the event of a dispute unless the parties mutually agree otherwise, the Insured shall promptly return to the Trust Account the excess amount so withdrawn, and any such excess withdrawn amount shall accrue interest at the rate specified in Article V(F).

5. Notwithstanding anything contained herein to the contrary, and subject to the proviso below, if at any time the Outstanding Collateral Amount is equal to or less than 10% of the initial required amount established pursuant to the Trust Agreement, then the Insured shall allow the release to the Insurer of all remaining Assets in the Trust Account, and in furtherance of the foregoing the Insured shall undertake all actions that shall reasonably be necessary to allow such release of Assets, including delivery of any notices that might be required by the trustee; provided, however, that the Insurer shall not be entitled to the release of any Assets under this Article I(B)(5) (and the Insured shall have no obligation hereunder) if the Insured has withdrawn Assets as permitted under Article I(B)(4), but only to the extent such Assets have been withdrawn pursuant to Article I(B)(4). The Trust Account and the Trust Agreement shall be terminated immediately upon release of remaining Assets to the Insurer as permitted under this Article I(B)(5).

## **II. WARRANTIES AND CERTAIN COVENANTS AND AGREEMENTS OF THE INSURED**

In accepting this Policy, the Insured hereby covenants and agrees to, or represents and warrants the following to the Insurer, as applicable:

- A. Information in the statements and information provided to the Insurer in the Insurance Application are true and correct in all material respects as of the Effective Date.
- B. The Insured has not withheld any information from the Insurer that would reasonably affect the decision of an insurer of risks similar to the risk under this Policy, and as of the Effective Date of this Policy, the Insured has no Knowledge of any circumstance which could give rise to or increase the likelihood of a Covered Amount becoming due at any time during the Policy Period.
- C. The Insured is duly organized, validly existing and in good standing under the laws of the United States.
- D. The Insured has taken all corporate action required to authorize the execution, delivery and performance of this Policy.
- E. The Insured is accepting delivery of this Policy in the location specified in Item 11 of the Declarations.
- F. This Policy, when executed and delivered, will constitute a legal, valid and binding obligation of the Insured, enforceable except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect affecting creditors' rights generally and subject to the application of equitable principles and the availability of equitable remedies.
- G. The execution and delivery by the Insured of this Policy, and the performance by the Insured under this Policy, do not and will not require the Insured to possess, obtain, make, provide or deliver any consent, waiver, approval, license, permit, order, designation or authorization of, notice to, or registration, filing, qualification or declaration with, any

Governmental Entity or other Person, other than (a) any of which have been unconditionally obtained or effected (as appropriate) and are in full force and effect or (b) any of which the failure to possess, obtain, make, provide or deliver do not or will not, individually or together with any one or more such other failures, result in the Insurer incurring any liability, or have a material adverse effect on (i) the ability of the Insured to perform and comply with its respective obligations under this Policy, or (ii) the consummation of the transactions contemplated under this Policy.

- H. At all times during the Policy Period, the Insured shall retain 100% of the credit loss exposure to the Class B Tranche Write-Down Amounts.
- I. Each month during the Loan Acquisition Period, the Insured shall randomly designate 10% of all residential mortgage loans that meet the Eligibility Criteria that are acquired by the Insured during such month to be included in the Covered Pool, which random designation shall be done in accordance with the methodology set forth on Schedule 1. The Insured will apply the Guide to the Covered Pool in a manner consistent with the application of the Guide to other residential mortgage loans that meet the Eligibility Criteria but are not designated by the Insured for inclusion in the Covered Pool.
- J. In the event that, as of any Premium Payment Date during the Policy Period, the Class Notional Amount of the Class M Tranche has been increased since the prior Premium Payment Date by a Tranche Write-up Amount, then the Insured shall refund to the Insurer an amount equal to the product of (a) such Tranche Write-up Amount, and (b) the Final Insured Percentage (in each instance, a "Claim Refund"), pursuant to and in accordance with the terms of, and conditions set forth in this Policy, but only up to the sum of all Covered Amounts previously paid by the Insurer hereunder. Such Claim Refund shall be paid within ten (10) Business Days following such Premium Payment Date by immediately available funds transmitted by means of the U.S. Fedwire funds service to the Insurer from the Insured in accordance with wiring instructions provided by the Insurer to the Insured. In no event shall the sum of all Claim Refunds exceed the payment of all Covered Amounts paid by the Insurer under this Policy, including Covered Amounts associated with a Tranche Write-down Amount applied to any Overcollateralization Amount pursuant to Article VI(B)(6).
- K. With regard to any Covered Amount owed to the Insured by the Insurer, in the event that the Insured is paid directly by the Insurer or any reinsurer of the Insurer, or if the Insured were to withdraw assets from any trust under which the Insured is a beneficiary or co-beneficiary with regard to this Policy, then, only and solely to the extent of any such Covered Amount so received by the Insured, the Insurer is relieved of all corresponding responsibilities and liability to the Insured under this Policy for the payment of such Covered Amount.

### **III. WARRANTIES AND CERTAIN COVENANTS AND AGREEMENTS OF THE INSURER**

The Insurer hereby covenants and agrees to, or represents and warrants the following to the Insured, as applicable:

- A. The Insurer is an insurance company duly organized, validly existing and in good standing under the laws of the Insurer's Jurisdiction and has all requisite company power and authority to own and lease its properties and to carry on its business as conducted by it.
- B. The Insurer has taken all corporate action required to authorize the execution, delivery and performance of this Policy, and the performance of its obligations thereunder.
- C. The Insurer has the corporate power and authority to execute and deliver, and perform its obligations under, this Policy.

- D. This Policy, when executed and delivered, will constitute a legal, valid and binding obligation of the Insurer, enforceable except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect affecting creditors' rights generally and subject to the application of equitable principles and the availability of equitable remedies.
- E. The execution and delivery by the Insurer of this Policy, and the performance by the Insurer under this Policy, do not and will not require the Insurer to possess, obtain, make, provide or deliver any consent, waiver, approval, license, permit, order, designation or authorization of, notice to, or registration, filing, qualification or declaration with, any Governmental Entity or other Person, other than (a) any of which have been unconditionally obtained or effected (as appropriate) and are in full force and effect or (b) any of which the failure to possess, obtain, make, provide or deliver do not or will not, individually or together with any one or more such other failures, result in the Insured incurring any liability, or have a material adverse effect on (i) the ability of the Insurer to perform and comply with its respective obligations under this Policy, or (ii) the consummation of the transactions contemplated under this Policy.
- F. The Insurer is, and will use its best efforts to remain, in compliance at all times and in all material respects with all Applicable Law and with the conditions attached to its license or with any directions to the Insurer issued by the insurance regulator in the Insurer's Jurisdiction. The Insurer has not made any reductions of capital or paid any dividends or distributions in the past two (2) years that have not complied with the laws of the Insurer's domicile.
- G. The Insurer is currently in compliance with the requirement applicable to the Insurer to provide statutory financial statements and audited financial statements in respect of its insurance business to the insurance regulator in the Insurer's Jurisdiction and is currently in compliance in all material respects with the Insurance Code of the Insurer's Jurisdiction. The Insurer shall provide to the Insured copies of any such financial statements and any declarations required to be filed with the insurance regulator in the Insurer's Jurisdiction in connection with the Insurance Code of the Insurer's Jurisdiction within five (5) Business Days following any request by the Insured therefor; however, in no event shall the Insurer provide financial statements to the Insured less than annually, or, if available, quarterly.
- H. The Insurer is, and will use its best efforts to remain, operating in accordance with the solvency, liquidity and capital requirements imposed by the Insurer's Jurisdiction. The Insurer is, and after issuance of this Policy will be, solvent, including by all applicable standards of solvency under the laws of the Insurer's Jurisdiction.
- I. There are no pending or, to Insurer's Knowledge, threatened actions, suits, investigations or proceedings ("Proceedings") by or against the Insurer which are material to its business, at law or in equity or otherwise before any court, tribunal, agency, official, arbitrator or other Governmental Entity, and the Insurer has not been the subject of any such Proceedings in the last two (2) years, other than to the extent that such Proceedings that are considered part of the normal operations of an insurance or a reinsurance company.
- J. Without derogating from the generality of Article III(F), none of the Insurer, any of its direct or indirect subsidiaries, any shareholder that holds 10% or more of the outstanding voting securities of the Insurer (directly or, to the Knowledge of the Insurer, indirectly) ("Principal Shareholder"), any director or officer of the Insurer or any of its Principal Shareholders or any of their direct or indirect subsidiaries, or, to the Knowledge of the Insurer, any employee, agent, or affiliate of the Insurer or any of its Principal Shareholders or its direct or indirect subsidiaries is an individual or entity ("Covered Person") that is, or is owned or controlled by a Covered Person that is, (a) the target of any sanctions administered or

enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control or the U.S. Department of State (collectively, "Sanctions"), or (b) located, organized, or resident in any country or territory that is, or whose government is, the target of Sanctions (currently, the Crimea Region of Ukraine, Cuba, Iran, North Korea, Sudan and Syria).

- K. The Insurer has such Knowledge and experience in financial, business and insurance matters that it is capable of evaluating the merits and risks of this transaction. The Insurer has conducted its own independent review and analysis of the underwriting risk and acknowledges and agrees that the Insured has provided the Insurer with sufficient information for this purpose. In entering into this Policy, the Insurer has relied solely upon its own investigation and analysis, and the Insurer acknowledges and agrees that except for representations or warranties of the Insured expressly contained herein (a) the Insured makes no, and has made no, representation or warranty, either express or implied, with respect to this Policy or as to the accuracy or completeness of any of the information (including projections, estimates or any other forward looking forecasts) provided or otherwise made available to the Insurer, and (b) to the fullest extent permitted by Applicable Law, the Insured shall have no liability whatsoever to Insurer on any basis based upon such information provided or made available, or statements made or omissions therefrom in the underwriting process.
- L. Without derogating from the generality of Article III(F), the Insurer is compliant with the U.S. Foreign Account Tax Compliance Act.

#### **IV. LIMITATIONS OF LIABILITY**

The Insurer's total liability for all Covered Amounts under this Policy shall not exceed the Policy Limit of Liability. Each payment made by the Insurer in discharge of its obligations under this Policy shall reduce by the same amount the Policy Limit of Liability.

#### **V. CLAIMS AND REPORTING**

- A. The Insured shall provide to the Insurer a monthly report within twenty-five (25) calendar days following the end of each calendar month of the Loan Acquisition Period, beginning with the second full calendar month following the Effective Date, setting forth (a) a summary of the loan characteristics of all of the residential mortgage loans that meet the Eligibility Criteria acquired by the Insured during the preceding calendar month, (b) a summary of the loan characteristics of the subset of the loans referenced in clause (a) that the Insured has designated to be included in the Covered Pool, and (c) loan level detail (comparable to the loan level detail provided in the sample report attached as Schedule 3) for each of the loans referenced in clause (a) that the Insured has designated to be included in the Covered Pool, in each case, in accordance with the requirements set forth in Schedule 1. In no event shall the Insurer accept for coverage under this Policy any residential mortgage loans acquired by the Insured after the expiration of the Loan Acquisition Period. For the avoidance of doubt, coverage under this Policy with respect to each Covered Obligation shall commence at the time such Covered Obligation was acquired by the Insured.
- B. Within twenty-five (25) calendar days following the end of the Loan Acquisition Period, the Insured shall provide to the Insurer and the Calculation Agent a report setting forth (a) a list of all Covered Obligations as of the end of the Loan Acquisition Period, (b) the Acquisition Balance, (c) the Initial Balance, (d) a list of Covered Pool Removals as of the end of the Loan Acquisition Period and (e) the Initial Class Notional Amount of each Class.
- C. Following the end of the Loan Acquisition Period, the Insurer shall have the right to receive copies of the Payment Date Statements to be provided by the Calculation Agent, and may do so

by accessing the Calculation Agent's internet site at ["www.usbank.com/abs"] or any other website that may be established by the Calculation Agent. In the event that the Calculation Agent ceases to make such statements publicly available, including by means of any such website, the Insured shall designate the Insurer as a recipient of such statements in its agreement with the Calculation Agent. The Insurer does not have a right to request or access any reports or records of the Insured other than those produced by the Calculation Agent.

- D. Following the occurrence of a Loss after the end of the Loan Acquisition Period, the Insured shall submit to the Insurer a Proof of Loss within thirty (30) calendar days following the publication of the corresponding Payment Date Statement. In connection therewith, the Insured shall provide a copy of the Payment Date Statement and such other information required under the Proof of Loss form attached as Exhibit B. The Insured's failure to provide the Payment Date Statement or Proof of Loss within the foregoing period shall not relieve the Insurer of its obligations under this Policy. Within ten (10) Business Days following the date of receipt of such Proof of Loss, the Insurer shall verify that the Class Notional Amount, the Tranche Write-down Amount and the Loss set forth therein are in accordance with the Payment Date Statement and the Final Insured Percentage calculation set forth in the Proof of Loss.
- E. The determination by the Calculation Agent of the Class Notional Amount, the Tranche Write-down Amount or the Tranche Write-up Amount shall, absent manifest error, be binding on the Insurer and the Insured. Absent manifest error, the Insurer shall accept the Proof of Loss unless it has formed a reasonable good faith belief that the Insured has made material misrepresentations or committed other wrongful and dishonest acts or omissions directly relating to a calculation by the Insured set forth in a Proof of Loss. Within ten (10) Business Days following the Insurer's receipt of a Proof of Loss from the Insured, the Insurer shall either (a) provide written notice of its acceptance of such Proof of Loss to the Insured, clearly stating that such Proof of Loss has been accepted in full by the Insurer, or (b) send to the Insured a notice of its rejection of the Proof of Loss. In the absence of such notice of acceptance or rejection within that period, the Proof of Loss shall be deemed accepted by the Insurer on such tenth (10<sup>th</sup>) Business Day for the purpose of triggering the Insurer's obligation to make a claim payment, if any, hereunder, without any further action on the part of the Insurer or any other Person. Any rejection of a Proof of Loss shall be subject to dispute resolution as set forth in Article VII(A). Nothing contained herein shall be deemed to be a waiver of or prejudice in any way any claim that the Insurer may have relating to a Proof of Loss or payment of any amount under this Policy; provided, however, that any such claim shall be pursued by the Insurer within the period set by the applicable statute of limitations. Except as otherwise stated in the terms of this subsection, the Insurer shall have no right to nor shall it contest the validity of any data or information set forth in the Proof of Loss.
- F. Within five (5) Business Days following acceptance (including deemed acceptance) of a Proof of Loss by the Insurer, the Insurer shall pay to the Insured the Covered Amount set forth in such Proof of Loss in immediately available funds transmitted by means of the U.S. Fedwire funds service in accordance with wiring instructions provided by the Insured to the Insurer. Any such payments not received by the Insured within five (5) Business Days following acceptance (including deemed acceptance) of the Proof of Loss by the Insurer shall be subject to a late payment fee calculated based on the amount due but not received by the Insured. The amount of such late payment fee shall be calculated as follows: (amount due and owing under the unpaid Proof of Loss) multiplied by (prime rate + 1.000%) divided by 365, multiplied by the number of calendar days for which the payment is due but unpaid. The prime rate shall be determined by reference to the highest quoted prime rate published in the "Money Rates" section or other comparable section of The Wall Street Journal on the first Business Day of the calendar month in which the payment is due.
- G. The Insurer and the Insured shall have the right to offset any balance or amounts due from one party to the other under the terms of this Policy.

## **VI. REFERENCE POOL AND REFERENCE TRANCHES; PREMIUM PAYMENTS**

### **A. Covered Pool**

1. For each month of the Loan Acquisition Period, the Insured will randomly designate 10% of all Mortgage Loans that meet the Eligibility Criteria (as more specifically described below) that are acquired by the Insured to be included in the Covered Pool (each such Mortgage Loan, a "Covered Obligation") in accordance with the methodology set forth on Schedule 1.
2. The "Eligibility Criteria" to be satisfied with respect to each Covered Obligation in the Covered Pool are as follows:
  - a. is a fully amortizing, fixed rate, one- to four-unit, first lien Mortgage Loan, which has an original term of thirty (30) years;
  - b. was originated no earlier than six (6) months prior to acquisition by the Insured;
  - c. as of the date of acquisition by the Insured, the servicer has not reported that the borrower of a Covered Obligation has filed for bankruptcy;
  - d. meets the criteria set forth in the Guide;
  - e. was originated with documentation as described in Exhibit C;
  - f. is not covered by pool insurance;
  - g. is covered by primary mortgage insurance that provides coverage in an amount at least equal to the amount required under section 4701.1 of the Guide;
  - h. has an original loan-to-value ratio that is (i) greater than 80% and (ii) less than or equal to 95%;
  - i. subject to any applicable TOBs, is not subject to recourse or other credit enhancement;
  - j. was not originated under the Insured's Relief Refinance program (including the Home Affordable Refinance Program which is the Federal Housing Finance Agency's name for Relief Refinance Mortgage Loans with a loan-to-value ratio greater than 80%);
  - k. was not originated under Home Possible® or other affordable mortgage programs of the Insured;
  - l. was not associated with a mortgage revenue bond purchased by the Insured;
  - m. had an original principal balance greater than or equal to \$5,000; and
  - n. was not originated under a government program (e.g., FHA, VA or Guaranteed Rural Housing loans).
3. The characteristics of the Covered Pool will change from time to time to reflect payments, prepayments and Credit Events with respect to the Covered Obligations. In addition, the characteristics of the Covered Pool may change because Covered

Obligations will be removed (any such removal, a "Covered Pool Removal") from the Covered Pool because:

- a. the Covered Obligation becomes a Credit Event Covered Obligation;
- b. the Covered Obligation is paid in full;
- c. of the identification and final determination, through the Insured's quality control process, of an Underwriting Defect or Major Servicing Defect relating to the Covered Obligation;
- d. of the discovery of a violation of the Eligibility Criteria for such Covered Obligation; or
- e. the Covered Obligation is seized pursuant to any special eminent domain proceeding brought by any federal, state or local government instrumentality with the intent to provide relief to financially-distressed borrowers with negative equity in the underlying mortgage loan. For the avoidance of doubt, if a property were seized through any eminent domain proceedings brought by any state, federal, or local government entity, such seizure will not be treated as a Credit Event. Instead, the UPB of the loan at the time of seizure will be treated as Unscheduled Principal and the loan will be removed pursuant to Covered Pool Removal.

Covered Obligations will not be removed from the Covered Pool if they undergo a temporary or permanent modification and they do not meet any other criteria above to be removed. In the event that a Covered Obligation that was previously removed from the Covered Pool is discovered to have been removed in error, such Covered Obligation will be reinstated into the Covered Pool.

B. Tranches

1. For purposes of this Policy and for purposes of making the calculations for each Premium Payment Date of any write-downs (or write-ups) on the Tranches as a result of Credit Events (or reversals thereof) or Modification Events on the Covered Obligations, the Insured has established a hypothetical structure of three (3) Classes of Tranches (the Class A, Class M and Class B) (each, a "Tranche") deemed to be backed by the Covered Pool. Pursuant to the hypothetical structure, the Class A Tranche is senior to all the other Tranches and therefore does not provide any credit enhancement to the other Tranches. The Class M Tranche is subordinate to the Class A Tranche and is senior to the Class B Tranche. The Class B Tranche is subordinate to all the other Tranches and therefore does not benefit from any credit enhancement.

Each Class of Tranche will have a Class Notional Amount as of the last day of the Loan Acquisition Period (the "Initial Class Notional Amount") calculated as follows:

- a. the Initial Class Notional Amount of the Class A Tranche will be an amount equal to the Initial Balance, less the aggregate Initial Class Notional Amount of the Class M Tranche and the Class B Tranche;
- b. the Initial Class Notional Amount of the Class M Tranche will be an amount equal to (i) 2.65% of the Acquisition Balance, minus (ii) the amount, if any, by which the Loan Acquisition Period Loss Amount exceeds an amount equal to 0.35% of the Acquisition Balance;

- c. the Initial Class Notional Amount of the Class B Tranche will be an amount equal to the greater of (i) zero and (ii) an amount equal to (x) 0.35% of the Acquisition Balance, minus (y) the Loan Acquisition Period Loss Amount.
2. The "Class Notional Amount" of each Class of Tranche as of any Premium Payment Date is a notional amount equal to:
  - a. the Initial Class Notional Amount of such Class of Tranche, *minus*
  - b. the aggregate amount of Senior Reduction Amounts and/or Subordinate Reduction Amounts allocated to such Class of Tranche on such Premium Payment Date and all prior Premium Payment Dates, *minus*
  - c. the aggregate amount of Tranche Write-down Amounts allocated to reduce the Class Notional Amount of such Class of Tranche on such Premium Payment Date and on all prior Premium Payment Dates, *plus*
  - d. the aggregate amount of Tranche Write-up Amounts allocated to increase the Class Notional Amount of such Class of Tranche on such Premium Payment Date and on all prior Premium Payment Dates.
  - e. For the avoidance of doubt, no Tranche Write-up Amount or Tranche Write-down Amount will be applied twice on the same Premium Payment Date.
3. For any Premium Payment Date and for purposes of making calculations with respect to the hypothetical structure and the Tranches, the reporting periods (each, a "Reporting Period") will be:
  - a. in the case of all principal collections, other than full prepayments, on the Covered Obligations, the period from and including the 16<sup>th</sup> day of the second calendar month immediately preceding the calendar month in which such Premium Payment Date occurs to and including the 15<sup>th</sup> day of the calendar month immediately preceding the calendar month in which such Premium Payment Date occurs;
  - b. in the case of full principal prepayments on the Covered Obligations, in the case of determining loan modifications, Unconfirmed Underwriting Defects, Underwriting Defects, Unconfirmed Servicing Defects, Minor Servicing Defects or Major Servicing Defects, and in the case of determining Credit Events resulting from short sales being settled, from charge-offs, from a seriously delinquent Mortgage Note being sold prior to foreclosure, from the Mortgaged Property that secured the related Mortgage Note being sold to a third-party at a foreclosure sale, or from an REO disposition, the period from but excluding the 2<sup>nd</sup> Business Day of the calendar month immediately preceding the calendar month in which such Premium Payment Date occurs to and including the 2<sup>nd</sup> Business Day of the calendar month in which such Premium Payment Date occurs; and
  - c. in the case of determining delinquency status with respect to each Covered Obligation, the last day of the second calendar month immediately preceding the calendar month in which such Premium Payment Date occurs.
4. [Reserved]
5. Allocation of Tranche Write-down Amounts to the Tranches

On each Premium Payment Date on or prior to the Termination Date, the Tranche



Write-down Amount, if any, for that Premium Payment Date, will be allocated, *first*, to reduce any Overcollateralization Amount for such Premium Payment Date, until such Overcollateralization Amount is reduced to zero, and, *second*, to reduce the Class Notional Amount of each Class of Tranche in the following order of priority, in each case until its Class Notional Amount is reduced to zero:

- a. *first*, to the Class B Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date,
- b. *second*, to the Class M Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date, and
- c. *third*, to the Class A Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date.

6. Allocation of Tranche Write-up Amounts to the Tranches

On each Premium Payment Date on or prior to the Termination Date, the Tranche Write-up Amount, if any, for such Premium Payment Date will be allocated to increase the Class Notional Amount of each Class of Tranche in the following order of priority until the cumulative Tranche Write-up Amount allocated to each such Class of Tranche is equal to the cumulative Tranche Write-down Amount previously allocated to such Class of Tranche on or prior to such Premium Payment Date:

- a. *first*, to the Class A Tranche,
- b. *second*, to the Class M Tranche, and
- c. *third*, to the Class B Tranche.

To the extent that the Tranche Write-up Amount on any Premium Payment Date exceeds the Tranche Write-up Amount allocated on such Premium Payment Date pursuant to Articles VI(B)(6)(a) through (c), such excess (the "Write-up Excess") will be available as overcollateralization to offset any Tranche Write-down Amounts on future Premium Payment Dates prior to such Tranche Write-down Amounts being allocated to reduce the Class Notional Amounts of the Tranches. On each Premium Payment Date, the "Overcollateralization Amount" equals (i) the aggregate amount of Write-up Excesses for such Premium Payment Date and all prior Premium Payment Dates, *minus* (ii) the aggregate amount of Write-up Excesses used to offset Tranche Write-down Amounts on all prior Premium Payment Dates. For the avoidance of doubt, the Overcollateralization Amount is intended to preserve a Tranche Write-up Amount that would result in the increase of a Tranche above the amount equal to its Initial Class Notional Amount, but for the sole purpose of offsetting subsequent Tranche Write-down Amounts for that Tranche. The Insured does not anticipate that Overcollateralization Amounts, if any, in this transaction will be significant.

7. Allocation of Senior Reduction Amount and Subordinate Reduction Amount to the Tranches

- a. On each Premium Payment Date on or prior to the Termination Date, after allocation of the Tranche Write-down Amount or Tranche Write-up Amount, if any, for such Premium Payment Date as described above, the Senior Reduction Amount will be allocated to reduce the Class Notional Amount of each Class of Tranche in the following order of priority, in each case until its Class Notional Amount is reduced to zero:

- i. *first*, to the Class A Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date,
  - ii. *second*, to the Class M Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date, and
  - iii. *third*, to the Class B Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date.
- b. On each Premium Payment Date on or prior to the Termination Date, after allocation of the Senior Reduction Amount and the Tranche Write-down Amount or Tranche Write-up Amount, if any, for such Premium Payment Date as described above, the Subordinate Reduction Amount will be allocated to reduce the Class Notional Amount of each Class of Tranche in the following order of priority, in each case until its Class Notional Amount is reduced to zero:
- i. *first*, to the Class M Tranche, based on its Class Notional Amounts immediately prior to such Premium Payment Date,
  - ii. *second*, to the Class B Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date, and
  - iii. *third*, to the Class A Tranche, based on its Class Notional Amount immediately prior to such Premium Payment Date.

C. Premium Payments

1. The first Premium payment due under this Policy (the "First Premium Payment") shall be calculated as set forth in Articles VI(C)(2) through VI(C)(3), and for such purposes the immediately prior Premium Payment Date shall be the Rate Recalculation Date. Additionally, a one-time only payment (the "Catch-up Premium Payment") shall be paid by the Insured to compensate the Insurer for risk assumed hereunder from and including the Effective Date to and including the day immediately preceding the Rate Recalculation Date. The Catch-up Premium Payment shall be calculated as the product of:
  - a. 3.5;
  - b. the Final Insured Percentage;
  - c. the Final Annual Premium Rate divided by twelve (12);
  - d. 2.65%; and
  - e. the Acquisition Balance.

The Catch-up Premium Payment shall be deemed to be a Premium for all purposes hereunder.
2. The Insured shall pay the Insurer a Premium in an amount that shall be calculated as the product of (a) the Final Insured Percentage, (b) the Final Annual Premium Rate, (c) the Class Notional Amount of the Class M Tranche as of the immediately prior Premium Payment Date and (d) the number of full calendar months between that Premium Payment Date and the immediately prior Premium Payment Date divided by 12.
3. The Insured shall pay the Catch-up Premium Payment within twenty (20) Business Days following the Rate Recalculation Date. The Insured shall pay the First Premium Payment within twenty (20) Business Days following the twenty-fifth (25<sup>th</sup>) day of the

month following the month in which the Rate Recalculation Date occurs. The Insured shall pay subsequent Premiums within twenty (20) Business Days following each subsequent Premium Payment Date.

## VII. GENERAL CONDITIONS

- A. **Dispute Resolution; Venue.** Any dispute arising out of or in connection with this Policy shall be settled in a proceeding brought in the United States District Court for the Eastern District of Virginia. Each of the Insurer and the Insured irrevocably submits to the personal and in rem jurisdiction and venue of that Court for the Eastern District of Virginia for the purposes thereof and expressly waives any claim of lack of personal jurisdiction and improper venue and any claim that any such court is an inconvenient forum. The Insured and the Insurer hereby irrevocably consent to the service of process in such court in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address provided to the parties in accordance with the Declarations page of this Policy, such service to become effective ten (10) calendar days after such mailing. It is further agreed that service of process in any suit instituted against the Insurer or the Insured will be made upon the other party and that in any such suit the parties will abide by the final decision of such Virginia court, including any appellate court in the event of an appeal. Any award of money damages in such proceeding shall be consistent with the Policy Limit of Liability.
- B. **Assignment.** This Policy may not be assigned or transferred by either party without prior written consent of the other party.
- C. **Cancellation.**
1. The Insured may cancel this Policy on a cut-off basis (at the election of the Insured) upon (a) in the event the Insurer is rated, an official rating action, if applicable, by Standard & Poor's or other similar rating agency to withdraw or downgrade the financial strength rating of the Insurer (a "Credit Rating Downgrade") below investment grade; (b) the insolvency of the Insurer; (c) a transfer by the Insurer of substantially all of its business, by reinsurance or otherwise, other than to a Person that is an affiliate of the Insurer as of the Effective Date; provided however, that any such affiliate is a duly licensed insurance company with an official rating by Standard & Poor's or other similar rating agency of "A" (or its equivalent rating) or greater; (d) a breach by the Insurer of any representations and warranties provided to the Insured in this Policy; or (e) the receipt by the Insurer of a cease and desist order or any similar order from a regulatory authority or other Governmental Entity that it cease and desist writing all or part of its business. The Insured shall give written notice to the Insurer stating the grounds for such action and the cancellation shall be effective as of the next Premium Payment Date, provided that in the event of a Credit Rating Downgrade the Insured must provide prior written notice to the Insurer of its intention to cancel within at least thirty (30) calendar days following such Credit Rating Downgrade. This Policy shall automatically become null and void upon the occurrence of the events specified in Schedule 2, and, in such event, neither party shall have any liability to the other party hereunder.
  2. In the event of a Credit Rating Downgrade by Standard & Poor's or any other similar rating agency, the Insured may require that the Insurer place additional Assets into the Trust Account, as set forth in the Trust Agreement. The deposit of such additional Assets at the request of the Insured pursuant to this Article VII(C)(2) shall be in lieu of any cancellation permitted under Article VII(C)(1)(a).
  3. Without derogating from the generality of Article VII(C)(1), the Insured may also cancel this Policy in its entirety if it determines at any time that the Insurer, any of its Principal Shareholders or its direct or indirect subsidiaries, any director or officer of the Insurer or

any of its Principal Shareholders or any of their direct or indirect subsidiaries, or any employee, agent, or affiliate of the Insurer or any of its Principal Shareholders or its direct or indirect subsidiaries is a Covered Person that is, or is owned or controlled by a Covered Person that is, (a) the target of any Sanctions, or (b) located, organized, or resident in any country or territory that is, or whose government is, the target of Sanctions (currently, the Crimea Region of Ukraine, Cuba, Iran, North Korea, Sudan and Syria). The Insured shall give written notice to the Insurer stating the grounds for such action and the cancellation shall be effective as of the next Premium Payment Date.

4. The Insured may also cancel this Policy in its entirety, in its sole discretion, by providing written notice to the Insurer in the event that, at any time, the sum of the Class Notional Amounts of the Class A Tranche, the Class M Tranche and the Class B Tranche is less than 10% of the sum of the Initial Class Notional Amounts of the Class A Tranche, the Class M Tranche and the Class B Tranche. Such cancellation shall be effective as of the next Premium Payment Date following such notice.
  5. In addition, this Policy shall cancel automatically as of the Premium Payment Date on which the Class Notional Amount (without giving effect to any allocations of Tranche Write-down Amounts or Tranche Write-up Amounts on such Premium Payment Date and all prior Premium Payment Dates) of the Class M Tranche becomes zero (\$0).
  6. No cancellation of this Policy is permitted by the Insurer, except in the event of non-payment of Premium, without prejudice to the Insurer's right to retain the greater of the Premium earned to the date of such termination or right to offset any amounts due from the Insured to the Insurer against amounts due from the Insurer to the Insured.
  7. This Policy may be cancelled by the Insurer in the event of non-payment of Premium by the Insured by sending written notice to the Insured stating when, not less than thirty (30) calendar days thereafter, the cancellation shall be effective. Confirmation by the relevant courier of delivery of such notice shall be sufficient proof of notice and the effective date of cancellation stated in the notice shall become the Termination Date, unless payment of the Premium is received by the Insurer prior to this specified date of cancellation, in which case this Policy shall continue in full force and effect.
  8. Cancellation in accordance with this Article VII(C) shall not prejudice any rights of or remedies available at law or in equity to the Insured or the Insurer existing prior to or on the effective date of such cancellation, including the Insured's right to withhold Premium payment once it forms a reasonable belief that any Insurer representation or warranty has been breached.
  9. The Insurer shall notify the Insured in writing within five (5) days upon the occurrence of any of the circumstances described in Article VII(C)(1) or (3).
- D. Insolvency of Insured. In the event of an insolvency of the Insured, and the appointment of a liquidator, receiver, administrator, trustee in bankruptcy or other Person to administer the estate of the Insured as a consequence of an insolvency, or appointment of a statutory successor to the Insured, the coverage afforded by this Policy shall be payable by the Insurer directly to such liquidator, receiver, administrator, trustee in bankruptcy or other Person appointed to administer the estate of the Insured as a consequence of insolvency, or such statutory successor, on the basis of the liability of the Insurer as provided in this Policy and without diminution because of the insolvency. No insolvency of the Insured and no act of any conservator, liquidator, receiver, administrator, trustee in bankruptcy or other Person administering the estate of the Insured as a consequence of an insolvency, or of any statutory successor, shall cause any liability of the Insurer hereunder to become due earlier or for a higher amount than would have been the case if such insolvency had not occurred or if such act had not been committed.

- E. Changes. After issuance of this Policy, the Insured and the Insurer agree not to change any terms of this Policy or the exhibits thereto, unless agreed to by the Insured and the Insurer and attached to this Policy by written endorsement thereto.
- F. Acceleration. The Insurer's liability to pay a Covered Amount to the Insured shall be based only on the original Premium Payment Dates as set forth in this Policy. Any acceleration of the Premium Payment Dates shall not give rise to a corresponding acceleration of the Insurer's obligation to pay Covered Amounts hereunder.
- G. Interpretation. All headings in this Policy are for convenience only and shall not be used in interpreting the language of this Policy. Whenever the term "include" or "including" is used in this Policy, it shall mean "including, without limitation," (whether or not such language is specifically set forth) and shall not be deemed to limit the range of possibilities to those items specifically enumerated.
- H. Notice and Communications. All notices to the Insurer under any provision of this Policy shall be sent by electronic mail to the e-mail address set forth in Item 2 of the Declarations, with a copy of each such notice sent in writing and given by prepaid express courier, certified mail or fax, to the address specified in Item 2 of the Declarations.

All notices to the Insured under any provision of this Policy shall be in writing and given by prepaid express courier, certified mail or fax, to the place and the fax number indicated in Item 1 of the Declarations, with a copy of each such notice sent in writing and by the same means to:

Freddie Mac  
8200 Jones Branch Drive  
McLean, VA 22102-3110



Notice given as described above shall be deemed to be received and effective upon actual receipt thereof by the addressee or any Business Day following the date such notice is sent, whichever is earlier.

Notwithstanding the above, Proofs of Loss under this Policy shall be sent by electronic mail, prepaid express courier, certified mail or fax to the Insurer at the above address.

- I. Waiver. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Policy shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.
- J. Other Insurance. If the Insured has any bond or policy of insurance which would cover a Loss in whole or in part in the absence of this Policy, then such other coverage shall be primary to that afforded under this Policy, which shall apply according to its terms after the limit for that bond or policy for that Claim has been exhausted. For the avoidance of doubt, coverage under this Policy does not constitute duplicate insurance with respect to any mortgage guaranty or hazard insurance, but this excess coverage provision shall apply in the event that it is ever so construed.
- K. Premium and Tax Reporting; U.S. Foreign Account Tax Compliance Act ("FATCA"). The

Premium amount(s) specified in Item 8 of the Declarations are due and payable as specified in Item 8 of the Declarations. The Premium payable upon issuance of this Policy and payable upon each Premium Payment Date is non-refundable.

The Insurer shall be responsible for filing any excise tax returns and paying any excise taxes due on any Premiums. Notwithstanding any provision in this Policy to the contrary:

1. All Premiums paid shall be subject to any withholding or deduction imposed on such Premium payment pursuant to or on account of FATCA, and no additional payment shall be required from the Insured, nor any Premium payment be increased on account of any such withholding or deduction. Except as provided in Article VII(K)(2), the Insured shall not be required to indemnify the Insurer on account of any loss, liability or cost imposed as a result of or otherwise arising from such withholding or deduction relating to FATCA.
  2. If the Insured is required to make any deduction or withholding pursuant to or on account of FATCA and the Insured does not so deduct or withhold and a liability resulting from such failure to withhold or deduct is assessed directly against the Insured, then the Insurer will indemnify the Insured therefor and promptly pay to the Insured the amount of such liability. The Insurer's indemnification obligation hereunder shall include any related liability for interest and shall include any related liability for penalties.
  3. The Insured shall cooperate with the Insurer in seeking the return of Premiums that were incorrectly withheld or deducted on account of FATCA.
  4. Any representation or warranty made by the Insurer with respect to any withholding or deduction being or not being applicable to Premium payments hereunder shall be deemed not to be made in respect of any withholding or deduction imposed pursuant to or on account of FATCA.
  5. Upon execution of this Policy, the Insurer agrees to deliver to the Insured IRS Form W-9 or applicable IRS Form W-8. In addition, the Insurer agrees to deliver any forms or documentation or information reasonably requested in writing by the Insured in order for the Insured to comply with its obligations under FATCA with respect to this Policy, including, for the avoidance of doubt, any document establishing the Insurer's status under FATCA and any waiver that may be required to permit reporting of any "financial account" as defined under FATCA. The Insurer agrees to provide an updated and applicable IRS Form W-9 or W-8 if there is a change in its circumstances.
- L. Confidentiality. Neither party may disclose, publish or otherwise make this Policy or the terms hereof publicly available without the consent of the other party, except that the foregoing requirements shall not apply to the extent that (i) such information is or becomes generally available to the public other than as a result of disclosure by such party in violation of this section, (ii) any such information is required by Applicable Law, stock exchange rules or a Governmental Entity to be disclosed after prior notice has been given to the other party, if practical, (iii) any such information became or becomes available to such party on a non-confidential basis and from a source (other than the other party) that is not bound by a confidentiality agreement with respect to such information or is not otherwise obligated to keep such information confidential or (iv) any such information is reasonably necessary to be disclosed in connection with any proceeding or in any dispute with respect to this Policy. In the event of disclosure, the disclosing Party will use its best efforts to redact the Premium details.

Notwithstanding the above, any party to this Policy may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure relating to this Policy, any fact that may be relevant to understanding the tax treatment or structure of this Policy, and all materials of any kind relating to such tax treatment or structure and that may be relevant to understanding such tax treatment or structure.

- M. Public Announcements. The party drafting any news release or other public announcement or communication shall provide the other party reasonable advance notice and reasonable time to review and comment upon a draft of such news release or other public announcement or communication; provided, however, that prior to disclosure of this Policy as permitted under Article VII(L), this Article VII(M) shall not apply to a news release or other public announcement or communication that refers to this Policy in an incidental manner and does not include any material details regarding this Policy or the parties hereto.
- N. Governing Law. This Policy and any dispute, controversy or claim arising out of or relating to this Policy (except with respect to the Trust Agreement or insolvency of the Insurer), shall be governed by Delaware law. The parties (a) acknowledge that they have selected Delaware law to promote the parties' mutual commercial goals and (b) waive the application of non-Delaware law notwithstanding that the effect of provisions of this Policy under Delaware law may be inconsistent with the effect of such provisions under the law or public policy of another jurisdiction. For the avoidance of doubt, (i) any dispute, controversy or claim directly related to the Trust Agreement shall be governed by the terms and conditions of the Trust Agreement, including the choice of law provision set forth therein, and (ii) the insolvency of the Insurer will be governed by the laws of the Insurer's Jurisdiction.
- O. Severability. Each of the provisions of this Policy are severable and distinct from the others, and if at any time one or more of such provisions is or becomes invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Policy shall not in any way be affected or impaired thereby.
- P. Counterparts. This Policy may be in any number of counterparts and signed by each party on separate counterparts, each of which, when so executed shall be deemed to be an original, and all such counterparts shall constitute but one and the same instrument. The exchange of copies of this Policy and of signature pages by facsimile transmission or electronic mail shall constitute effective execution and delivery of this Policy as to the parties and may be used in lieu of the original for all purposes. Signatures of parties transmitted by facsimile or electronic mail shall be deemed to be their original signatures for any purpose whatsoever.
- Q. No Third Party Beneficiaries. Except as expressly provided herein, this Policy is made solely for the benefit of the Parties hereto. No provision of this Policy, whether express or implied, is intended to or shall confer on any Person other than the Parties any right, benefit, interest or remedy of any nature whatsoever under or by reason of this Policy. For the avoidance of doubt, no primary mortgage insurer shall under any circumstances be a third party beneficiary under this Policy.
- R. Entire Agreement. This Policy (including all exhibits hereto) constitutes the entire agreement between the Insured and the Insurer, and supersedes all prior agreements and understandings, both written and oral, among the Insured and the Insurer, with respect to the subject matter of this Policy and the coverage provided hereunder.

## VIII. DEFINITIONS

Except as otherwise defined in this Policy or in any endorsement or exhibit to this Policy, the definition of terms and phrases contained in this Policy and any endorsements to this Policy will be as set forth below.

1. "Accounting Net Yield" with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation, means the related Mortgage Note rate less the related servicing fee rate.

2. "Acquisition Balance" means the aggregate UPB of each Covered Obligation at the time of acquisition by the Insured (without regard to any Covered Pool Removals).
3. "Annual Premium Rate Scalar" has the meaning set forth in Schedule 2.
4. "Applicable Law" means any applicable order, law, statute, regulation, license, rule, ordinance, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any Governmental Entity, including any amendments thereto that may be adopted from time to time; provided, however, that for purposes of the Insurer's compliance with Article III(F), under no circumstances shall this definition confer or be deemed to confer in, on or to the Insured any right to enact, promulgate, issue, enforce or enter any order, law, statute, regulation, license, rule, ordinance, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty.
5. "Assets" means those assets deposited by the Insurer in the Trust Account as security for its performance obligations hereunder, and shall be limited as set forth in the Trust Agreement.
6. "Business Day" means a day other than (a) a Saturday or Sunday or (b) a day on which the offices of the Insurer, Insured, the corporate trust offices of the Calculation Agent (located as of the Effective Date at 1 Federal Street, 3rd Floor, Boston, Massachusetts 02110), or the banking institutions in the city of New York or Bermuda are authorized or obligated by law or executive order to be closed.
7. "Calculation Agent" means U.S. Bank National Association ("U.S. Bank"), or any such successor entity.
8. "Catch-up Premium Payment" has the meaning set forth in Article VI(C)(1).
9. "Claim" means that claim for the recovery of the Covered Amount that is filed by the Insured against the Insurer pursuant to the terms of this Policy by means of a Proof of Loss.
10. "Claim Refund" has the meaning in Article II(J).
11. "Class" means a class of Tranche.
12. "Class A Tranche" means a Tranche associated with the Covered Pool, with an Initial Subordination and Credit Enhancement of approximately 3.00% (as adjusted to take into account any Loan Acquisition Period Loss Amount, principal repayments and Covered Pool Removals) in respect of the Covered Pool.
13. "Class B Tranche" means a Tranche associated with the Covered Pool, with an Initial Subordination and Credit Enhancement of 0.00% in respect of the Covered Pool.
14. "Class M Tranche" means a Tranche associated with the Covered Pool, with an Initial Subordination and Credit Enhancement of approximately 0.35% (as adjusted to take into account any Loan Acquisition Period Loss Amount) in respect of the Covered Pool.
15. "Class Notional Amount" means the notional amount associated with each Class of Tranche, adjusted in accordance with Article VI(B). The Initial Class Notional Amount associated with each Class of Tranche will be calculated in accordance with Article VI(B)(1) and reported by the Insured to the Insurer and the Calculation Agent pursuant to Article V(B).
16. "Collateral Calculation Date" means the last Business Day of each calendar month, beginning on the last date of the Loan Acquisition Period, and which date is used to determine the Outstanding Collateral Amount and the Security Amount.
17. "Collateral Requirement" means that certain percentage of the Insurer's Policy Limit of Liability as determined in accordance with the Trust Agreement to collateralize the Insurer's claims payment



obligations hereunder, which such percentage is subject to change based on changes in certain financial strength ratings of the Insurer, all as established in accordance with the Trust Agreement.

18. "Covered Amount" means, with respect to a Loss, the amount set forth in Article I.
19. "Covered Obligation" has the meaning set forth in Article VI(A)(1).
20. "Covered Person" has the meaning in Article III(J).
21. "Covered Pool" has the meaning set forth in Item 4 of the Declarations.
22. "Covered Pool Additions" has the meaning set forth in Schedule 1.
23. "Covered Pool Removal" has the meaning set forth in Article VI(A)(3).
24. "Credit Event" means, with respect to any Premium Payment Date on or before the Termination Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation, the first to occur of any of the following events with respect to such Covered Obligation being reported by the applicable servicer to the Insured during the related Reporting Period: (a) a short sale is settled, (b) a seriously delinquent Mortgage Note is sold prior to foreclosure, (c) the Mortgaged Property that secured the related Mortgage Note is sold to a third party at a foreclosure sale, (d) a REO disposition occurs, or (e) the related Mortgage Note is charged off. With respect to any Credit Event Covered Obligation, there can only be one occurrence of a Credit Event; provided that one additional separate Credit Event can occur with respect to each instance of such Credit Event Covered Obligation becoming a Reversed Credit Event Covered Obligation.
25. "Credit Event Amount" means, with respect to any Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount), the aggregate amount of the Credit Event UPBs of all Credit Event Covered Obligations for the related Reporting Period.
26. "Credit Event Covered Obligation" means, with respect to any Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount), any Covered Obligation with respect to which a Credit Event has occurred.
27. "Credit Event Net Gain" with respect to any Credit Event Covered Obligation, means an amount equal to the excess, if any, of:
  - (a) the related Net Liquidation Proceeds; over
  - (b) the sum of:
    - (i) the related Credit Event UPB;
    - (ii) the total amount of prior principal forgiveness modifications, if any, on the related Credit Event Covered Obligation; and
    - (iii) delinquent accrued interest thereon, calculated at the related Current Accrual Rate from the related last paid interest date through the date the Insured determines such Covered Obligation has been reported as a Credit Event Covered Obligation.
28. "Credit Event Net Loss" with respect to any Credit Event Covered Obligation, means an amount equal to the excess, if any, of:
  - (a) the sum of:
    - (i) the related Credit Event UPB;

- (ii) the total amount of prior principal forgiveness modifications, if any, on the related Credit Event Covered Obligation; and
    - (iii) delinquent accrued interest thereon, calculated at the related Current Accrual Rate from the related last paid interest date through the date the Insured determines such Covered Obligation has been reported as a Credit Event Covered Obligation, over
  - (b) the related Net Liquidation Proceeds.
29. "Credit Event UPB" means, with respect to any Credit Event Covered Obligation, the UPB thereof as of the end of the Reporting Period related to the Premium Payment Date on which it became a Credit Event Covered Obligation (or as of the end of the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount).
  30. "Credit Rating Downgrade" has the meaning set forth in Article VII(C)(1).
  31. "Current Accrual Rate" with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation, means the lesser of (a) the related current Accounting Net Yield; and (b) the related current Mortgage Note rate thereon (as adjusted for any modifications) minus 0.35%.
  32. "Effective Date" has the meaning set forth in the Declarations.
  33. "Eligibility Criteria" has the meaning set forth in Article VI(A)(2).
  34. "Eligible Loans" has the meaning set forth in Schedule 1.
  35. "FATCA" has the meaning set forth in Article VII(K).
  36. "Final Annual Premium Rate" means the rate of Premium, expressed as a percentage, specified in Item 8 of the Declarations, multiplied by the Annual Premium Rate Scalar set forth in Schedule 2 attached hereto.
  37. "Final Insured Percentage" means the percentage of coverage specified in Item 7 of the Declarations.
  38. "First Premium Payment" has the meaning set forth in Article VI(C)(1).
  39. "Governmental Entity" means any foreign, domestic, federal, territorial, state or local governmental or independent regulatory authority, quasi-governmental authority, instrumentality, court or government, self-regulatory organization, commission, tribunal or organization or any political or other subdivision, department, branch or representative of any of the foregoing, and shall include the Federal Housing Finance Agency, in its role as conservator and regulator of the Insured, as well as the insurance regulator in the Insurer's Jurisdiction, in its role as regulator (and, as applicable, rehabilitator or any like role) of the Insurer.
  40. "Guide" means Freddie Mac Single Family Seller/Servicer Guide, as revised or amended from time to time, including any waivers granted pursuant to individual seller terms of business.
  41. "Initial Annual Premium Rate" means the rate of Premium, expressed as a percentage, specified in Item 8 of the Declarations.
  42. "Initial Balance" means the aggregate UPB of the Covered Obligations as of the last day of the Loan Acquisition Period, less the aggregate UPB of all Covered Pool Removals as of the last day

of the Loan Acquisition Period, as reported by the Insured to the Insurer and the Calculation Agent pursuant to Article V(B).

43. "Initial Class Notional Amount" has the meaning set forth in Article VI(B)(1).
  44. "Initial Subordination and Credit Enhancement" means, in respect of a Class or Classes of Tranches, an amount equal to the percentage of the Acquisition Balance of the Covered Pool represented by the aggregate Initial Class Notional Amount of the Class or Classes of Tranches subordinate to the subject Class or Classes of Tranches.
  45. "Insurance Application" means the document provided by the Insured to the Insurer, as set forth in Exhibit C.
  46. "Insured" means the entity named in Item 1 of the Declarations.
  47. "Insurer" means the entity named in Item 2 of the Declarations.
  48. "Knowledge", "Knowing" or "Known" means actual knowledge, after performing diligent inquiry.
  49. "Liability Cap Amount" has the meaning set forth in Item 7 of the Declarations.
  50. "Liquidation Proceeds" means, with respect to any Credit Event Covered Obligation, all cash amounts (including sales proceeds, net of selling expenses) received in connection with the liquidation of the Credit Event Covered Obligation.
  51. "Loan Acquisition Period" has the meaning set forth in Item 4 of the Declarations.
  52. "Loan Acquisition Period Loss Amount" means an amount equal to the excess, if any, of the Principal Loss Amount with respect to the Loan Acquisition Period over the Principal Recovery Amount with respect to the Loan Acquisition Period. For purposes of calculating the Loan Acquisition Period Loss Amount, the applicable Reporting Period shall be deemed to be the Loan Acquisition Period.
  53. "Loss" has the meaning set forth in Article I of this Policy.
  54. "Major Servicing Defect" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation for which the Insured has determined the existence of an Unconfirmed Servicing Defect, the occurrence of any of the following:
    - (a) the related servicer repurchased such Covered Obligation or made the Insured whole resulting in a full recovery of losses incurred ("Make-Whole") during the related Reporting Period;
    - (b) the party responsible for the representations and warranties and/or servicing obligations or liabilities with respect to the Covered Obligation becomes subject to a bankruptcy, an insolvency proceeding or a receivership; or
    - (c) inappropriate cancellation of the mortgage insurance policy.
- Covered Obligations covered under servicing settlements will not result in Major Servicing Defects, excluding Covered Obligations for which (c) above applies.
55. "Maturity Date" means the Premium Payment Date in March, 2027.
  56. "Minimum Credit Enhancement Test" means, with respect to any Premium Payment Date, a test that will be satisfied if the Subordinate Percentage is greater than or equal to 3.30%.

57. "Minor Servicing Defect" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation for which the Insured has determined the existence of an Unconfirmed Servicing Defect, the occurrence of a remedy, other than by repurchase or Make-Whole (as defined above) that is mutually agreed upon by both the Insured and the related servicer that results in a recovery of the damages sustained by the Insured on such Covered Obligation as a result of the Unconfirmed Servicing Defect.

No Covered Obligation will be removed from the Covered Pool as a result of the determination of a Minor Servicing Defect, and any such Covered Obligation will remain eligible to become subject to an Underwriting Defect or Major Servicing Defect.

58. "Modification Event" means with respect to any Covered Obligation, a forbearance or mortgage rate modification relating to such Covered Obligation.
59. "Modification Excess" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation that has experienced a Modification Event, the excess, if any, of:
- (a) one-twelfth of the Current Accrual Rate multiplied by the interest bearing UPB of such Covered Obligation as of the last day of the Reporting Period; over
  - (b) one-twelfth of the Original Accrual Rate multiplied by the UPB of such Covered Obligation as of the last day of the Reporting Period.
60. "Modification Gain Amount" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount), the excess, if any, of the aggregate Modification Excess over the aggregate Modification Shortfall for such Premium Payment Date (or for the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount).
61. "Modification Loss Amount" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount), the excess, if any, of the aggregate Modification Shortfall over the aggregate Modification Excess for such Premium Payment Date (or for the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount).
62. "Modification Shortfall" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation that has experienced a Modification Event, the excess, if any, of:
- (a) one-twelfth of the Original Accrual Rate multiplied by the UPB of such Covered Obligation as of the last day of the Reporting Period; over
  - (b) one-twelfth of the Current Accrual Rate multiplied by the interest bearing UPB of such Covered Obligation as of the last day of the Reporting Period.
63. "Mortgage Insurance Credit Amount" means with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Credit Event Covered Obligation, the amount that the Insured reports is payable under any effective mortgage insurance policy relating to such Credit Event Covered Obligation. If it is subsequently determined that the Mortgage Insurance Credit Amount with respect to any previous Premium Payment Date should have been a different amount based upon additional information received by the Insured after such Premium Payment Date, such difference will be treated as a subsequent loss under clause (a)(iii) of the definition of Principal Loss Amount (if the amount should have been lower) or a subsequent recovery under clause (a)(ii) of the definition of Principal Recovery Amount (if the amount should have been higher), as described under Article VI(B)(6). Any Mortgage Insurance Credit Amount reported by the Insured will be included as a component of Net Liquidation Proceeds irrespective of the Insured's receipt

of such amounts from the related mortgage insurance company. The Mortgage Insurance Credit Amount will not be reduced or otherwise affected irrespective of (a) any insolvency of the related mortgage insurance company or (b) any settlement between the Insured and the related mortgage insurance company resulting in the commutation or cancellation of coverage under the related mortgage insurance policy. For the avoidance of doubt, clause (b) in the immediately preceding sentence excludes settlements related to the transfer of a Mortgage Note to a third-party. The Mortgage Insurance Credit Amount with respect to any Covered Obligation will be deemed to be zero in the event that the related Mortgage Note is transferred to a third-party. In such event, any proceeds received from the related mortgage insurance company in connection with the commutation or cancellation of mortgage insurance for any related Mortgage Note with an effective mortgage insurance policy will be included as a component of Liquidation Proceeds.

64. "Mortgage Loan" means a loan evidenced by a Mortgage Note secured by a first mortgage, deed of trust or similar security instrument on a residential property.
65. "Mortgage Note" means a promissory note or other similar evidence of indebtedness.
66. "Mortgaged Property" means residential properties consisting of one- to four-family dwelling units, townhouses, individual condominium units, individual units in planned unit developments, individual cooperative units or manufactured homes.
67. "Mortgagor" means the Person who is named on the Mortgage Note.
68. "Net Liquidation Proceeds" means, with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Credit Event Covered Obligation, the sum of the related Liquidation Proceeds, any Mortgage Insurance Credit Amount, and any proceeds received from the related servicer in connection with a Minor Servicing Defect (except for those included in Modification Excess), less related expenses, credits and reimbursement of advances, including taxes and insurance, legal costs, maintenance and preservation costs; provided, however, to the extent that any such proceeds are received in connection with a Minor Servicing Defect resulting from a servicer's mishandling of a mortgage insurance claim, such proceeds will not be included in the Net Liquidation Proceeds.
69. "Original Accrual Rate" means, with respect to each Premium Payment Date (or with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount) and any Covered Obligation, the lesser of (a) the related Accounting Net Yield; and (b) the related Mortgage Note rate minus 0.35%.
70. "Origination Rep and Warranty/Servicing Breach Settlement" means any settlement (which settlement only relates to claims arising from breaches of origination/selling representations and warranties or breaches of servicing obligations) that the Insured enters into with a seller or servicer in lieu of requiring such seller or servicer to repurchase a specified pool of Mortgage Loans that include, among others, one or more Covered Obligations, as a result of breaches of origination/selling representations or warranties or as a result of breaches of servicing obligations whereby the Insured has received the agreed-upon settlement proceeds from such seller or servicer. For the avoidance of doubt, any Origination Rep and Warranty/Servicing Breach Settlement will only relate to breaches of either (a) origination/selling representations and warranties or (b) servicing obligations, but not both.
71. "Origination Rep and Warranty/Servicing Breach Settlement Amount" means:
  - with respect to the Premium Payment Date in the calendar month after the calendar month in which an Origination Rep and Warranty/Servicing Breach Settlement occurs, the lesser of:
  - (a) the aggregate amount of Credit Event Net Losses of the Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations for such Premium Payment Date and all prior Premium Payment Dates, less the aggregate amount of

Credit Event Net Losses of the Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations that were Reversed Credit Event Covered Obligations for such Premium Payment Date and all prior Premium Payment Dates; and

- (b) the Origination Rep and Warranty/Servicing Breach Settlement Loan Allocation Amount (Cap); and

with respect to each Premium Payment Date thereafter, the lesser of:

- (a) the aggregate amount of Credit Event Net Loss of the Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations for such Premium Payment Date; and
- (b) the maximum of:
  - (i) zero; and
  - (ii) the Origination Rep and Warranty/Servicing Breach Settlement Loan Allocation Amount (Cap), less the Origination Rep and Warranty/Servicing Breach Settlement Amount for all prior Premium Payment Dates; and

with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount, the lesser of:

- (a) the aggregate amount of Credit Event Net Losses of the Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations for the Loan Acquisition Period; and
- (b) the Origination Rep and Warranty/Servicing Breach Settlement Loan Allocation Amount (Cap).

72. "Origination Rep and Warranty/Servicing Breach Settlement Loan Allocation Amount (Cap)" means with respect to any Origination Rep and Warranty/Servicing Breach Settlement, an amount equal to the greater of (A) zero or (B)(1) the product of (a) the settlement proceeds received by the Insured in connection with such Origination Rep and Warranty/Servicing Breach Settlement and (b) the percentage expressed as a fraction, (i) the numerator of which is the sum of the original UPB of such Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations that the Insured identified as having (x) Underwriting Defects or Unconfirmed Underwriting Defects or (y) Major Servicing Defects, as applicable, through the related Origination Rep and Warranty/Servicing Breach Settlement date, and (ii) the denominator of which is the sum of the original UPB for all the Mortgage Loans (including, among others, Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations) covered by such Origination Rep and Warranty/Servicing Breach Settlement that the Insured identified as having (x) Underwriting Defects or Unconfirmed Underwriting Defects or (y) Major Servicing Defects, as applicable, through the related Origination Rep and Warranty/Servicing Breach Settlement date minus (2) the aggregate amount of unreimbursed Credit Event Net Losses on such Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations that the Insured identified as having Underwriting Defects or Major Servicing Defects as applicable, through the related Origination Rep and Warranty/Servicing Breach Settlement date (exclusive of the related settlement proceeds).

73. "Origination Rep and Warranty/Servicing Breach Settlement Covered Obligations" mean the Covered Obligations (including Credit Event Covered Obligations) that are covered by an Origination Rep and Warranty/Servicing Breach Settlement.

74. "Outstanding Collateral Amount" means, as of the applicable Collateral Calculation Date, the aggregate fair market value of the Assets held in the Trust Account.

75. "Overcollateralization Amount" has the meaning set forth in Article VI(B)(6).

76. "Payment Date Statement" means the monthly report prepared by the Calculation Agent, as set forth in Exhibit A.
77. "Person" means any natural person, corporation, limited partnership, general partnership, association, company, limited liability company, trust, business trust, statutory trust, trustee, Governmental Entity or other organization, whether or not a legal entity.
78. "Policy" has the meaning set forth in Item 12 of the Declarations.
79. "Policy Limit of Liability" means the amount set forth in Item 6 of the Declarations as the maximum amount payable for all Covered Amounts under this Policy.
80. "Policy Period" means the period beginning with the Effective Date shown in the Declarations and ending on the Termination Date.
81. "Premium" means the amounts payable from the Insured to the Insurer, as set forth in Item 8 of the Declarations.
82. "Premium Payment Date" means the twenty-fifth (25th) day of each month (or, if such day is not a Business Day, then on the next succeeding Business Day), beginning twenty-fifth (25th) day of the month (or, if such day is not a Business Day, then on the next succeeding Business Day) following the month in which the Rate Recalculation Date occurs, as set forth in Article VI(C).
83. "Principal Loss Amount" means:
- (a) with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount, the sum of:
    - (i) the aggregate amount of Credit Event Net Losses for all Credit Event Covered Obligations for the related Reporting Period;
    - (ii) the aggregate amount of court-approved principal reductions (i.e., "cramdowns") on the Covered Obligations in the related Reporting Period; and
    - (iii) the Modification Loss Amount for the Loan Acquisition Period; or
  - (b) with respect to each Premium Payment Date, the sum of:
    - (i) the aggregate amount of Credit Event Net Losses for all Credit Event Covered Obligations for the related Reporting Period;
    - (ii) the aggregate amount of court-approved principal reductions (i.e., "cramdowns") on the Covered Obligations in the related Reporting Period;
    - (iii) subsequent losses on any Covered Obligation that became a Credit Event Covered Obligation on a prior Premium Payment Date; and
    - (iv) the Modification Loss Amount for such Premium Payment Date;
- provided, that any amounts included in the Principal Loss Amount for purposes of calculating the Loan Acquisition Period Loss Amount shall not also be included in the Principal Loss Amount with respect to any Premium Payment Date.
84. "Principal Recovery Amount" means:
- (a) with respect to the Loan Acquisition Period, for purposes of calculating the Loan Acquisition Period Loss Amount, the sum of:
    - (i) the aggregate amount of Credit Event Net Gains of all Credit Event Covered Obligations for the related Reporting Period;
    - (ii) the Origination Rep and Warranty/Servicing Breach Settlement Amount for

- the Loan Acquisition Period; and
  - (iii) the Modification Gain Amount for the Loan Acquisition Period.
- (b) with respect to each Premium Payment Date, means the sum of:
- (i) the aggregate amount of Credit Event Net Losses for all Reversed Credit Event Covered Obligations for the related Reporting Period;
  - (ii) subsequent recoveries on any Covered Obligation that became a Credit Event Covered Obligation on a prior Premium Payment Date;
  - (iii) the aggregate amount of Credit Event Net Gains of all Credit Event Covered Obligations for the related Reporting Period;
  - (iv) the Origination Rep and Warranty/Servicing Breach Settlement Amount for such Premium Payment Date;
  - (v) the Projected Recovery Amount; provided, that such amount shall only be included in the Principal Recovery Amount on the Termination Date; and
  - (vi) the Modification Gain Amount for such Premium Payment Date;
- provided, that any amounts included in the Principal Recovery Amount for purposes of calculating the Loan Acquisition Period Loss Amount shall not also be included in the Principal Recovery Amount with respect to any Premium Payment Date.
85. "Principal Shareholder" has the meaning set forth in Article III(J).
86. "Proceedings" has the meaning set forth in Article III(I).
87. "Projected Recovery Amount" means the fair value of the estimated amount of subsequent recoveries on the Credit Event Covered Obligations as determined solely by the Insured on the Termination Date. The Projected Recovery Amount will be included in the Principal Recovery Amount on the Termination Date.
88. "Proof of Loss" means the Insured's executed notice of Claim and proof of Loss, substantially in the Form of Exhibit B.
89. "Rate Recalculation Date" means the twenty-fifth (25th) calendar day in the calendar month following the calendar month in which the last date of the Loan Acquisition Period occurs; provided that if such calendar day is not a Business Day, then the Rate Recalculation Date shall be the next occurring Business Day.
90. "Recovery Principal" means with respect to any Premium Payment Date the sum of:
- (a) the excess, if any, of the Credit Event Amount for such Premium Payment Date, over the Tranche Write-down Amount for such Premium Payment Date; and
  - (b) the Tranche Write-up Amount for such Premium Payment Date.
91. "REO" means real estate owned, as the term is commonly understood in the mortgage industry.
92. "Reporting Period" has the meaning set forth in Article VI(B)(3).
93. "Reversed Credit Event Covered Obligation" means, with respect to any Premium Payment Date, a Covered Obligation formerly in the Covered Pool that became a Credit Event Covered Obligation in a prior Reporting Period that is found in the related Reporting Period, through the Insured's quality control process, to have an Underwriting Defect, Major Servicing Defect or a data correction that invalidates the previously determined Credit Event.
94. "Sanctions" has the meaning set forth in Article III(J).



95. "Scheduled Principal" means, with respect to any Premium Payment Date, the sum of all monthly scheduled payments of principal due (whether with respect to the related Reporting Period or any prior Reporting Period) on the Covered Obligations in the Covered Pool and collected by the Insured during the related Reporting Period.
96. "Security Amount" means, as of the applicable Collateral Calculation Date, an amount equal to the product of the (a) Collateral Requirement, (b) Final Insured Percentage, and (c) Class Notional Amount as of such date for the Class M Tranche.
97. "Senior Percentage" means, with respect to any Premium Payment Date, the percentage equivalent of a fraction, the numerator of which is the Class Notional Amount of the Class A Tranche immediately prior to such Premium Payment Date and the denominator of which is the aggregate UPB of the Covered Obligations in the Covered Pool at the end of the previous Reporting Period.
98. "Senior Reduction Amount" means, with respect to any Premium Payment Date, either:
- (a) with respect to each Premium Payment Date, if the Minimum Credit Enhancement Test is not satisfied, the sum of:
    - (i) 100% of the Scheduled Principal for such Premium Payment Date;
    - (ii) 100% of the Unscheduled Principal for such Premium Payment Date; and
    - (iii) 100% of the Recovery Principal for such Premium Payment Date; or
  - (b) with respect to each Premium Payment Date, if the Minimum Credit Enhancement Test is satisfied, the sum of:
    - (i) the Senior Percentage of the Scheduled Principal for such Premium Payment Date;
    - (ii) the Senior Percentage of the Unscheduled Principal for such Premium Payment Date; and
    - (iii) 100% of the Recovery Principal for such Premium Payment Date.
99. "Subordinate Percentage" means, with respect to any Premium Payment Date, the percentage equal to 100% minus the Senior Percentage for such Premium Payment Date.
100. "Subordinate Reduction Amount" means, with respect to any Premium Payment Date, the sum of the Scheduled Principal, Unscheduled Principal and Recovery Principal for such Premium Payment Date, less the Senior Reduction Amount.
101. "Termination Date" means the earliest of: (a) the Maturity Date, (b) the date on which any cancellation under Article VII(C) takes effect, or (c) the date on which the full benefit of the insurance coverage provided by this Policy has been fulfilled.
102. "TOB" means terms of business the Insured negotiates with its sellers and servicers from time to time which may amend, waive or otherwise alter certain terms of the Guide.
103. "Tranche" has the meaning set forth in Article VI(B)(1).
104. "Tranche Write-down Amount" means, with respect to each Premium Payment Date, the excess, if any, of the Principal Loss Amount for such Premium Payment Date over the Principal Recovery Amount for such Premium Payment Date. With respect to each Premium Payment Date, the Class Notional Amount for the Class A Tranche will be increased by the excess, if any, of the Tranche Write-down Amount for such Premium Payment Date over the Credit Event Amount for such Premium Payment Date.

105. "Tranche Write-up Amount" means, with respect to each Premium Payment Date, the excess, if any, of the Principal Recovery Amount for such Premium Payment Date over the Principal Loss Amount for such Premium Payment Date.
106. "Trust Account" means the trust account established and maintained for the sole benefit of the beneficiary thereunder, pursuant to the terms of the Trust Agreement.
107. "Trust Agreement" means the trust agreement, which is comprised of the base trust agreement and its respective trust supplement, to be entered into within thirty (30) calendar days after the end of the Loan Acquisition Period among the Insurer, as the grantor, the Insured, as the beneficiary, and the Bank of New York, as the trustee.
108. "Unconfirmed Servicing Defect" means with respect to any Covered Obligation, the existence of the following, as determined by the Insured in its sole discretion:
- (a) there is a violation of the servicing guidelines and other requirements in the Guide (as modified by the terms of the related servicer's contract, including any related TOBs); and
  - (b) the Insured has issued a notice of defect, repurchase letter or a repurchase alternative letter related to the servicing breach.

For the avoidance of doubt, Covered Obligations with minor technical violations, which in each case the Insured determines to be acceptable Covered Obligations, may not result in an Unconfirmed Servicing Defect.

109. "Unconfirmed Underwriting Defect" means with respect to any Covered Obligation, the existence of the following, as determined by the Insured in its sole discretion: (a) there is a material violation of the underwriting guidelines and other requirements in the Guide (as modified by the terms of the related seller's contract, including any related terms of business) with respect to such Covered Obligation, (b) the Insured determines that as of the origination date such Covered Obligation was secured by collateral that was inadequate or (c) the Insured determines that as of the origination date repayment in full on such Covered Obligation from the related Mortgagor could not be expected. For the avoidance of doubt, Covered Obligations with minor technical violations or missing documentation, which in each case the Insured determines to be an acceptable Covered Obligation, may not result in an Unconfirmed Underwriting Defect.
110. "Underwriting Defect" means with respect to any Premium Payment Date and any Covered Obligation for which the Insured has determined the existence of an Unconfirmed Underwriting Defect, the occurrence of any of the following: (a) such Covered Obligation is repurchased by the related seller or servicer during the related Reporting Period, (b) in lieu of repurchase, an alternative remedy (such as indemnification) is mutually agreed upon by both the Insured and the related seller or servicer during the related Reporting Period, (c) the Insured in its sole discretion elects to waive the enforcement of a remedy against the seller or servicer in respect of such Unconfirmed Underwriting Defect during the related Reporting Period, or (d) the party responsible for the representations and warranties and/or servicing obligations or liabilities with respect to the Covered Obligation becomes subject to a bankruptcy, insolvency proceeding or a receivership. For the avoidance of doubt, if, through the Insured's quality control process, a loan were discovered to have an Underwriting Defect and the seller of the loan were declared insolvent or bankrupt; then one of the two things will happen depending upon whether or not the loan has suffered a Credit Event: (a) should the loan have suffered a Credit Event, then such Credit Event will be reversed through the Claim Refund process set forth in Article II(J); or (b) should the loan have not suffered a Credit Event, then it will be removed pursuant to Covered Pool Removal and the UPB of the loan will be treated as Unscheduled Principal.
111. "Unscheduled Principal" means, with respect to any Premium Payment Date, the sum of:

- (a) all partial principal prepayments on the Covered Obligations collected during the related Reporting Period, *plus*
- (b) the aggregate UPB of all Covered Obligations that become Covered Pool Removals during the related Reporting Period other than Credit Event Covered Obligations or any Reversed Credit Event Covered Obligations, *plus*
- (c) the absolute value of any negative adjustments in the UPB of all Covered Obligations made during the related Reporting Period as the result of loan modifications or data corrections, *minus*
- (d) the value of any positive adjustments in the UPB of all Covered Obligations made during the related Reporting Period as the result of loan modifications, reinstatements into the Covered Pool or Covered Obligations that were previously removed from the Covered Pool in error, or data corrections.

In the event the amount in clause (d) above exceeds the sum of the amounts in clauses (a), (b), and (c) above, the Unscheduled Principal for the applicable Premium Payment Date will be zero, and the Class Notional Amount for the Class A Tranche will be increased by the amount that the amount in clause (d) above exceeds the sum of the amounts in clauses (a), (b), and (c) above. In the event that the Class Notional Amount for the Class A Tranche is so increased as described in the prior sentence, this would have the effect of increasing the Senior Percentage and correspondingly reducing the Subordinate Percentage, which would have a negative impact on the Tranches in respect of the calculations of the Senior Reduction Amount and the Subordinate Reduction Amount, as described above. In the event that the Insured were to ever employ a policy that permitted or required principal forgiveness as a loss mitigation alternative, any principal that may be forgiven with respect to a Covered Obligation will be treated as a negative adjustment in the UPB of such Covered Obligation pursuant to clause (c) above. In addition, while principal modifications that result in a negative adjustment in the UPB of a Covered Obligation will be treated as Unscheduled Principal hereunder, initially resulting in a reduction in the Class Notional Amount of one or more Classes, if such Covered Obligation subsequently becomes a Credit Event Covered Obligation, such principal reduction will be allocated as a loss and possibly result in a Tranche Write-down Amount.

112. "UPB" means, with respect to any Mortgage Loan and as of any date, the unpaid principal balance of such Mortgage Loan as of such date.

113. "Write-up Excess" has the meaning set forth in Article VI(B)(6).

IN WITNESS HEREOF, each of the Insurer and Insured has caused this Policy to be executed on its behalf and signed in the Declarations by its duly authorized representative.

**EXHIBIT A**

**FORM OF PAYMENT DATE STATEMENT**

*(Attached)*

**EXHIBIT B**

**FORM OF NOTICE OF CLAIM AND PROOF OF LOSS**

(Date)

[Name]

[Address]

Re: Notice of Claim and Proof of Loss

Pursuant to the terms of the Insurance Policy issued by [Insert Insurer Name] (the "Insurer"), policy no. **[Insert Policy Number]** (the "Policy"), the undersigned authorized representative of Federal Home Loan Mortgage Corporation, also known as Freddie Mac, a government-sponsored enterprise chartered by the U.S. Congress (the "Insured"), hereby submits this notice of Claim and Proof of Loss in accordance with the terms of the Policy in order to provide required information with respect to a Loss, and obtain payment of the associated Covered Amount. Terms not defined herein shall have the meaning set forth in the Policy.

1. **Beginning Class Notional Amount  
relating to the Class M Tranche: as of the applicable Premium Payment Date**
2. **Tranche Write-down Amount  
relating to the Class M Tranche as of the  
applicable Premium Payment Date:**
3. **Loss:**
4. **Final Insured Percentage – [TBD]**
5. **Covered Amount:**

**(attach the Payment Date Statement)**

**IN WITNESS WHEREOF**, the undersigned authorized representative of the Insured has executed this Proof of Loss as of (Date).

\_\_\_\_\_  
By:

Name:

Title:

**EXHIBIT C**

**INSURANCE APPLICATION**

*(Attached)*

## SCHEDULE 1

### **COVERED POOL DESIGNATION METHODOLOGY AND REPORTING**

#### 1. Covered Pool Designation Methodology

On the seventh (7<sup>th</sup>) Business Day of each calendar month during the Loan Acquisition Period, beginning in the 2<sup>nd</sup> full calendar month following the Effective Date, and in the calendar month immediately following the end of the Loan Acquisition Period, the Insured will determine if all Mortgage Loans it acquired during the preceding calendar month satisfy the Eligibility Criteria. Mortgage Loans that meet all of the Eligibility Criteria ("Eligible Loans") will be assigned a random number between zero and one (1). Eligible Loans that are assigned a random number between and including zero and one-tenth (0.10) will be included in the Covered Pool ("Covered Pool Additions"). Eligible Loans that are not assigned a random number between and including zero and one-tenth (0.10) will not be included in the Covered Pool.

#### 2. Reporting

After the Covered Pool Additions have been determined for each calendar month, the Insured will provide to the Insurer, within twenty-five (25) calendar days following the end of the applicable calendar month, (a) loan level detail for the Covered Pool Additions (comparable to the loan level detail provided in the sample report attached as Schedule 3) and (b) a summary report, which will include the following items, for both Eligible Loans and Covered Pool Additions:

All of the following variables are weighted by the UPB at the time of acquisition by the Insured:

- Average Original Note Rate
- Average Original Loan-to-Value Ratio and Original Loan-to-Value Ratio Distribution
- Average FICO Score and FICO Score Distribution
- Average Debt-to-Income Ratio

All of the following variables are expressed as a percentage of the UPB of all Covered Pool Additions at the time of acquisition by the Insured and as a percentage of the UPB of all Eligible Loans at the time of acquisition by the Insured:

- Single Borrower
- Investor Property
- Condo
- Second Home
- Product Type
- 3/4 Unit Properties
- Manufactured Housing
- Rate-Refinance
- Cash-Out Refinance
- First Time Homebuyer
- Origination Channel
- Lender Paid Mortgage Insurance
- Borrower Paid Mortgage Insurance
- Mortgage Insurance Coverage %
- Top 10 States

## SCHEDULE 2

### ANNUAL PREMIUM RATE SCALAR

1. Subject to Sections 2 and 3 of this Schedule 2, "Annual Premium Rate Scalar" means an amount calculated as the product of (i) and (ii) below:

(i) If the Average FICO Score for all Covered Obligations is:

- (a) greater than or equal to 755, then █ %
- (b) greater than or equal to 750 and less than 755, then █ %
- (c) greater than or equal to 745 and less than 750, then █ %
- (d) greater than or equal to 740 and less than 745, then █ %
- (e) greater than or equal to 735 and less than 740, then █ %
- (f) greater than or equal to 730 and less than 735, then █ %
- (g) greater than or equal to 725 and less than 730, then █ %, and

(ii) If the Average Original Loan-to-Value Ratio for all Covered Obligations is:

- (a) greater than or equal to 93% and less than 94%, then █ %
- (b) greater than or equal to 92% and less than 93%, then █ %
- (c) greater than or equal to 90% and less than 92%, then █ %
- (d) less than 90%, then █ %;

provided that, if the Average FICO Score of all Covered Obligations is less than 725 or the Average Original Loan-to-Value Ratio of all Covered Obligations is greater than or equal to 94%, then the Annual Premium Rate Scalar will be an amount agreed by the Insurer and Insured; provided, further, that, if the Insurer and Insured, acting reasonably and in good faith, fail to agree on the Annual Premium Rate Scalar within 20 days following the Rate Recalculation Date, then the Policy will automatically become null and void, and neither party will have any liability to the other party under the Policy. For the avoidance of doubt, if the Policy becomes null and void under the terms of this paragraph, then no Premiums shall be due from the Insured to the Insurer and no claims payments shall be due from the Insurer to the Insured.

For the purposes of the above, the Average FICO Score and Average Original Loan-to-Value Ratio shall be a weighted average determined using the Acquisition Balance.

2. If (i) the total UPB, as determined by the Acquisition Balance, of Mortgage Loans with any of the following loan characteristics, divided by (ii) the Acquisition Balance, exceeds 0.95% as of the Rate Recalculation Date, then the Annual Premium Rate Scalar will be an amount agreed by the Insurer and Insured:

- (a) Investor Property;
- (b) 3/4 Unit Properties or Manufactured Housing;
- (c) Cash-Out Refinance;

provided, that, if the Insurer and Insured, acting reasonably and in good faith, fail to agree on the Annual Premium Rate Scalar within 20 days following the Rate Recalculation Date, then the Policy will automatically become null and void, and neither party will have any liability to the other party under the Policy. For the avoidance of doubt, if the Policy becomes null and void under the terms of this paragraph, then no Premiums shall be due from the Insured to the Insurer and no claims payments shall be due from the Insurer to the Insured.

For the avoidance of doubt, a Mortgage Loan may have characteristics that fall in more than one loan characteristic category.

3. If (i) the total UPB, as determined by the Acquisition Balance, of the aggregate of all Mortgage



Loans with the following loan characteristics, divided by (ii) the Acquisition Balance, exceeds ■■■% as of the Rate Recalculation Date, then the Annual Premium Rate Scalar will be an amount agreed by the Insurer and Insured:

- (a) Original Loan-to-Value Ratio for the Mortgage Loan is less than ■■■%, and mortgage insurance coverage with respect to the Mortgage Loan is less than ■■■%;
- (b) Original Loan-to-Value Ratio for the Mortgage Loan is greater than or equal to ■■■% and less than ■■■%, and mortgage insurance coverage with respect to the Mortgage Loan is less than ■■■%;
- (c) Original Loan-to-Value Ratio for the Mortgage Loan is greater than or equal to ■■■% and less than ■■■%, and mortgage insurance coverage with respect to the Mortgage Loan is less than ■■■%;

provided, that, (x) any Mortgage Loan that has the loan characteristics set forth in clause (a), (b) or (c) above that covers a property located in the State of New York shall be disregarded for purposes of the calculation set forth in this Section 3 if the amount of mortgage insurance coverage required with respect to such Mortgage Loan by the laws of the State of New York at the time such Mortgage Loan was made is satisfied; and (y) if the Insurer and Insured, acting reasonably and in good faith, fail to agree on the Annual Premium Rate Scalar within 20 days following the Rate Recalculation Date, then the Policy will automatically become null and void, and neither party will have any liability to the other party under the Policy. For the avoidance of doubt, if the Policy becomes null and void under the terms of this paragraph, then no Premiums shall be due from the Insured to the Insurer and no claims payments shall be due from the Insurer to the Insured.

**SCHEDULE 3**

**LOAN LEVEL DETAIL SAMPLE REPORT**

**SCHEDULE 4**

**FINAL INSURED PERCENTAGE AND FINAL ANNUAL PREMIUM RATE**