

## FREQUENTLY ASKED QUESTIONS AND ANSWERS

Topic/ Number	Question	HUD Response
<b>A. Bid</b>		
<b>A.1</b>	Would HUD consider a bid for 100% of the assets?	No.
<b>A.2</b>	Will Participating Servicers be permitted to bid on the portfolio?	A Participating Servicer is permitted to bid in SFJV 2005; however, if a Participating Servicer holds an interest or otherwise has a beneficial interest in the LLC (whether directly or indirectly, through an Affiliate or otherwise, the Participating Servicer will not be permitted to file an ACD claim for any mortgage loans in connection with the SFJV 2005 transaction and thus will cease to be a Participating Servicer for purposes of the transaction.
<b>A.3</b>	Is HUD interested more in upfront cash on assets or long-term rate of return to the LLC?	In the event HUD makes an award in SFJV 2005, the award will be made to the bid that is determined to provide the highest overall value to HUD at the equity level HUD selects.
<b>A.4</b>	Can the bidder be a joint venture of two or more entities?	Yes, as long as the joint venture is a qualified bidder and all participants in the venture are disclosed.
<b>A.5</b>	Can participating servicers retain servicing?	No. The Mortgage Loans are transferred to HUD and by HUD to the LLC on a servicing released basis. While the LLC is not precluded from using a Participating Servicer to service the Mortgage Loans, it is not required to do so. Please note that if a Participating Servicer services mortgage loans on behalf of the LLC, the Participating Servicer's initial mortgage loan delivery commitment may be reduced by HUD such that it is not more than 50% of the total initial mortgage loan delivery commitments of all Participating Servicers. A Participating Servicer is only required to provide interim servicing in accordance with Article V of the Participating Servicer Agreement, the form of which has been provided to bidders.
<b>A.6</b>	Will the bid evaluation model delivered to bidders be used by HUD?	HUD anticipates that it will use this bid evaluation model.

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A.7	Does the model represent HUD's best guess at the economics of the transaction?	The model is merely a tool that will be used for bid evaluation purposes only and may not necessarily provide an accurate forecast of the actual economic results that the transaction will achieve.
A.8	Please provide a list of BPO providers currently used by the Participating Servicers.	The current BPO Providers are: Broker Price Opinions (formerly Cartel Asset Management), Market Intelligence, Coast to Coast Mortgage Services, Lighthouse Real Estate Solutions, Source One, and National REO Services, Inc.
A.9	What is the link for HUD's FHA Insurance Programs?	<a href="http://www.hud.gov/offices/hsg/sfh/insured.cfm">http://www.hud.gov/offices/hsg/sfh/insured.cfm</a>
A.10	How can multiple qualified bidders negotiating a potential teaming arrangement that may not be final before the Bid Date submit a bid and ensure that, whether or not the teaming arrangement is finalized, HUD will not object to the ownership arrangements at the time of closing?	Assuming that all potential teaming members are qualified bidders, and all such qualified bidders are identified on the Certificate of Independent Price Determination submitted with the winning bid, then any or all of the identified teaming members may hold ownership interests in Member B without any further approval from HUD, provided that the teaming arrangement is finalized and the ownership interests in Member B are held by the applicable teaming members at the time of the closing of the transaction with HUD. Also, prior to the closing, one of the teaming members will need to be identified as Parent B for purposes of the LLC Agreement.

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A.11	<p>What if the successful bidder cannot meet the two-day time frame in paragraph 8 of the Bid Terms Acknowledgment Form and in the Settlement Instructions contained in the Bid Package within which the successful bidder is required to form the LLC and Member B? Internal approvals may require a longer period for our company.</p>	<p>HUD will waive the requirement to form the LLC and Member B within the two-day period as long as the successful bidder provides HUD with all of the information HUD needs to complete the transaction documents within the two-day period. Accordingly, within the two day period, it will be necessary for the bidder to determine (and reserve) the name of Member B and its jurisdiction of organization and, if the name "SFJV 2005, LLC" is not then available in Delaware, to agree with HUD on a name for the LLC and to reserve that name in Delaware. The successful bidder must provide to HUD (or its counsel as HUD may direct) this information (along with all other information required to be provided by the successful bidder to HUD to allow HUD to complete the transaction documents) within the two-day time frame. In addition, the successful bidder will be required to provide HUD with evidence of the formation of Member B and the LLC as well as the required capitalization of Member B no later than 3:00 PM on the last business day before the closing date.</p>

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<b>B. Data Information</b>		
<b>B.1</b>	The loans being discussed are related to only the 203(b) and 234(c) programs? Is the data provided only for the 203(b) and 234(c) programs?	No, while certain of the materials provided to bidders only contains data on 203(b) and 234(c) loans, other materials also include data on other single-family loans. Thus, in the Bid Package, and Supplements #1 and #2, the data provided in "HUD Claims and HUD Recovery and Expense Data for FY 03, FY 04, and 1 <sup>st</sup> Quarter FY 05." relates only to 203(b), and 234(c) loans; however, the data provided in "FHA Default Outcomes" and "HUD Foreclosure Timelines" includes data on all HUD single-family loans. The Default Outcomes data excludes data on loans in the ACD Program.  See the Data Supplements for additional information.
<b>B.2</b>	Will we know the originators of the loans?	Information about the mortgage loans, including the originators of the loans, is not available until Servicing Transfer.

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<b>B.3</b>	Will we know the servicers of the loans?	Information about the mortgage loans, including the servicers of the loans, is not available until delivery of the Mortgage Loan Schedule.
<b>B.4</b>	Is it permissible for a bidder, as part of its process of selecting sub-servicers or bidding partners, to request information from a Prior Servicer regarding the Prior Servicer's overall performance in servicing FHA-insured loans on a portfolio basis?	Yes. Bidders are allowed to communicate with Prior Servicers for the purpose of determining their capabilities as sub-servicers and can request general portfolio-based information concerning the Prior Servicers' performance as servicers of FHA-insured loans.
<b>B.5</b>	What claims data will be provided from the first three phases of the ACD Demonstration?	See Supplement # 1, Sections S1-5 and S1-6.
<b>B.6</b>	How many assets will be delivered each month from the participating servicers?	HUD does not know. The number of mortgage loans delivered to HUD by Participating Servicers will likely vary from month to month.
<b>B.7</b>	How many claims does HUD pay each year on FHA Single Family conveyances?	HUD pays approximately 75,000 conveyance claims per year.
<b>C. Conveyance, Assignment and Assumption Agreement</b>		
<b>C.1</b>	What is the schedule for the delivery of trailing documents? Is that schedule in the transaction documents?	HUD's agreement with each Participating Servicer requires that any Mortgage Loan correspondence or documentation received after the Servicing Transfer Date is to be promptly delivered to the LLC's Servicer.
<b>C.2</b>	If there is an active lawsuit on a mortgage loan, is the mortgage loan as well as the lawsuit transferred to the new investor e.g. a class action suit? If there is a new lawsuit after ownership of the mortgage loan is transferred how will that lawsuit be handled? Can a mortgage loan be bought out of the pool?	Except as expressly provided in any representations and warranties in the Conveyance, Assignment and Assumption ("CAA") Agreement, as of the Cut-Off Date, the LLC assumes all of the obligations and liabilities relating to and arising from the Mortgage Loans. HUD does not provide any representation or warranty to the LLC that there is no litigation with respect to a Mortgage Loan.
<b>C.3</b>	Are loans where borrower is in bankruptcy eligible under the Demonstration?	Yes. However performing bankruptcies will not be permitted to be submitted as an ACD Claim.
<b>C.4</b>	Will SFJV 2005 include mortgage loans where there are restrictions on	Bidders should note that the definition of "Eligible Mortgage Loan" in the CAA

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	foreclosure, such as mortgage loans in Asset Control Areas? Are there other forms of restriction on foreclosure on any of the mortgage loans in SFJV 2005?	Agreement excludes any mortgage loan for which the related mortgaged property is located in an Asset Control Area Neighborhood. Bidders should review the transaction documents including the provisions of the Servicing Agreement that relate to the contacting of borrowers, collection activities and the requirement for LLC consent prior to foreclosure in certain circumstances.
<b>C.5</b>	At whose expense are BPOs ordered to challenge the Original BPOs provided by Prior Servicers?	Please see Section 5.13 of the CAA, which specifies this as Member B's expense.
<b>C.6</b>	Is there a maximum balance on the Mortgage Loans that can be conveyed to the LLC?	There is no maximum Unpaid Principal Balance over which a mortgage loan is not eligible for the ACD Demonstration. FHA insured mortgage loans are required to meet certain requirements including limitations on the maximum amount of the mortgage loan at origination.
<b>C.7</b>	How does HUD decide which of the loans that it receives from Participating Servicers are sold to the LLC?	Mortgage loans for which ACD claims are paid by HUD are sold to the LLC except for a mortgage loan that is paid in full (PIF) after the Claim Date but before the third Business Day of the month following the Claim Date.
<b>C.8</b>	Can individual Mortgage Loan representations be made as of the Settlement Dates rather than the Cut-Off Dates?	No. The economic interest in the Mortgage Loans is transferred to the LLC as of the Cut-Off Date (which is the same date as of which the claim for payment of FHA insurance under the ACD Demonstration is made).
<b>C.9</b>	Can HUD make more extensive loan level representations or extend the duration of the representations?	HUD will not make more extensive representations and will not extend the duration of any loan level representations beyond that set forth in Section 3.6 of the CAA.
<b>C.10</b>	What instructions were given the BPO providers?	The BPO providers were instructed that BPOs should include sufficient information about the property, preparers and the provider. The BPO should also include information on comparables of properties currently for sale in same market, and comparables on properties that were recently sold in the same neighborhood. "As is" and "repaired" values are also required.
<b>C.11</b>	If the Servicer does not provide a BPO before funding, do we still	A loan must have a BPO to be conveyed.

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	have to fund? What is the price?	
<b>C.12</b>	Servicing transfer timing – what are the expected dates?	See Section 2.02 of the CAA Agreement.
<b>C.13</b>	Conveyance Agreement – is the Qualifying BPO the same as the Original BPO?	No. See the definitions of these terms in Section 1.01 of the CAA Agreement.
<b>C.14</b>	Under Section 2.01(b) of the Conveyance Agreement, is there a difference between Member A’s contribution and the Owner’s purchase of loans?	Yes. Member A will contribute loans as a capital contribution unless the LLC exercises its option to purchase the loans from HUD. In order to exercise its option to purchase mortgage loans, the LLC must comply with the provisions of Section 2.01(e) of the CAA Agreement.
<b>C.15</b>	Can HUD quantify the interim servicing fees and advances that the LLC will have to pay?	HUD cannot quantify advances or servicing fees. However, the servicing fees will be calculated as set forth in Section 2.02 of the CAA Agreement. HUD does not anticipate that interim servicing periods for Mortgage Loans will exceed 60 days, but HUD cannot assure bidders that this will be the case. Servicing is expected to transfer at the beginning of the month after the settlement for the mortgage loan, which is the month after the month in which the mortgage loan is transferred to HUD.
<b>C.16</b>	Are loans secured by properties in Revitalization Areas eligible to be conveyed to the LLC and, if so, are there any home ownership performance goals or minimum rehabilitation standards requirements that are applicable to the LLC as a result?	Mortgage loans secured by properties in Revitalization Areas may be transferred by HUD to the LLC, but the LLC will not, as a result of any such transfer, be subject to any home ownership goals or minimum rehabilitation standards requirements.
<b>C.17</b>	Please refer to the definition of Qualifying BPO in the CAA. Please clarify the discrepancy between the 21 days Member B has to contest an Original BPO (set forth in section 4.01), and the “no earlier than 10 days before the date on which the BPO is delivered to Member A” in the definition of a Qualifying BPO.	There is no discrepancy. A Qualifying BPO must be prepared as of a date that is no earlier than 10 days before delivery to HUD. In order to challenge an Original BPO, a Qualifying BPO must be delivered to HUD within 21 days after delivery of the list of Assets to Member B (Schedule I to the CAA Agreement).
<b>C.19</b>	Aren’t missing endorsements a	In order to preserve any rights that the LLC

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	breach under Section 3.04(j)? If this is the case, the time period for which to claim a breach should be five months instead of the 2 month period discussed in Section 2.06 of the CAA.	may have for claiming a breach (within the 5 month period) as a result of missing endorsements or assignments, the notice required by Section 2.06 of the CAA Agreement must be given to HUD within the two-month period specified therein.
<b>C.20</b>	Is there no maximum percentage of Lost Note Affidavits? Also, Lost Note Affidavits should have a copy of the note attached – Section 3.04(b).	No, there is no such maximum percentage established under the transaction documents. HUD’s representation regarding lost note affidavits is set forth in Section 3.04(b) of the CAA Agreement.
<b>C.21</b>	Are all taxes and interest paid to date?	It is unlikely that interest will be paid to date on all of the Mortgage Loans to be assigned to the LLC. The Mortgage Loans are past due at the time they are assigned to HUD. HUD cannot state whether taxes will be paid to date with respect to the Mortgage Loans assigned to the LLC. However, HUD makes certain representations in Section 3.04 of the CAA Agreement with respect to the Mortgage Loans, including a first lien representation (Section 3.04(x)) and a representation with respect to the title policy with respect to the Mortgage Loan (Section 3.04(f)).
<b>C.22</b>	If the appraiser selected pursuant to Section 4.02 of the CAA Agreement is unable to deliver the appraisal within the specified time period of 10 days, will HUD agree to an extension of the 10-day time period?	The parties to the CAA Agreement can agree to extend the time frame if necessary. HUD cannot state whether, in all circumstances, it would agree to such an extension, but expects that, in the absence of an agreement to extend the time, an alternative dispute resolution process will be agreed to.
<b>C.23</b>	What is the expected time period between cut-off date and servicing transfer date?	The Cut-Off Date and the Servicing Transfer Date for each Mortgage Loan will be the date identified on Schedule I of the CAA Agreement. Schedule I will be prepared in accordance with Section 2.01 of the CAA Agreement and the instructions set forth in the Form of Mortgage Loan Schedule contained in the CAA Agreement.

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<b>D. LLC Agreement</b>		
<b>D.1</b>	Transaction documents state that LLC must be a Delaware corporation. Can the LLC be incorporated in another state such as Nevada?	No. The LLC is not a corporation. The LLC is required to be a limited liability company and must be formed in the State of Delaware.
<b>D.2</b>	Is arbitration an option in the case of a dispute between Member A and Member B?	No, HUD will not agree to be bound by an arbitration clause.
<b>D.3</b>	Should the LLC be formed with a 6 ½ year life?	Consistent with the requirements of Delaware law, the certificate of formation included as Exhibit A to the LLC Agreement will not specify the life of the LLC. The LLC Agreement provides for an initial term of 6 ½ years, which may be extended.
<b>D.4</b>	If the Manager anticipates that a Mortgage Loan will not require further expenditures in excess of its cash flow, is it still required that the LLC maintain a \$1,000 Reserve against that asset?	The Minimum Reserve is calculated monthly on the basis of the number of remaining assets regardless of the status of those assets. This amount must be maintained unless the Members agree otherwise.
<b>D.5</b>	Can the LLC provide representations and warrants when it sells or securitizes the assets?	Yes. Section 3.14 (c) of the Servicing Agreement permits assets to be sold with customary and ordinary warranties of title and condition and such other representations and warranties as are acceptable to the LLC. However, any such representation or warranty is required to terminate prior to or not to survive the initiation of a dissolution procedure with respect to the LLC in accordance with the provisions of Section 10.1 of the LLC Agreement.
<b>D.6</b>	To clarify the capital structure, is it true that the LLC can incur debt up to 65% of the full market value of the assets and the LLC will pay the interest expense as an expense of the LLC?	Yes.
<b>D.7</b>	Are there any representations that HUD is providing as to the suitability of loans ultimately delivered to the LLC? What happens if the LLC subsequently finds that some loans delivered did	HUD's representations and warranties as to individual Mortgage Loans can be found in Section 3.04 of the CAA Agreement. The remedies for a breach of any of the representations and warranties contained in Section 3.04 are set forth in Section 3.05(a) of

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	not meet the exclusion criterion?	the CAA Agreement.
<b>D.8</b>	What is the rationale behind the 65% debt limitation on the LLC? Is this subject to negotiation?	The 65% debt limitation reflects requirements for the minimum amount of capital Member B needs to have at risk. This debt limitation will not be open to negotiation.
<b>D.9</b>	How and when can net income be distributed from the LLC?	See Article VI of the LLC Agreement.
<b>D.10</b>	Does HUD have the right to approve expenses of the LLC?	HUD does not have approval rights with respect to the expenses that are incurred in accordance with the LLC Agreement, unless the LLC Agreement requires such specific approval.
<b>D.11</b>	May Member B retain third parties to assist it in fulfilling its duties as Manager?	Yes. Although the Manager may not assign or delegate its responsibilities without the written consent of HUD, the Manager may retain other parties to assist it in fulfilling its duties and responsibilities. Member B as the Manager remains liable for the fulfillment of its obligations under the LLC Agreement even if it uses third parties to assist it.
<b>D.12</b>	May the LLC sell assets to affiliates?	Yes. Please see the relevant provisions of the LLC Agreement, including Section 3.5.
<b>D.13</b>	Who selects the Custodian?	Member B in its capacity as the Manager must select the Custodian.
<b>D.14</b>	Can the LLC provide representations and warranties when it sells or securitizes the loans?	Yes. Section 3.14(c) of the Servicing Agreement permits assets to be sold with customary and ordinary warranties of title and condition and such other representations and warranties as are acceptable to the LLC. However, pursuant to Section 3.10 of the LLC Agreement, any such representation or warranty is required to terminate prior to or not to survive the initiation of the dissolution procedure with respect to the LLC in accordance with the provisions of Section 10.1 of the LLC Agreement.
<b>D.15</b>	It is customary and economic for investors in non-performing single family mortgage loans to create incentive compensation plans for servicers of those loans. The servicer's compensation increases on a scale according to the servicer's efficiency. The compensation plan for servicers who service the	HUD has determined not to change the Servicing Fee defined in the Servicing Agreement.

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	mortgage loans in SFJV 2005 should be configured to encourage servicers to efficiently serve the interests of both Member A and Member B. Would HUD consider a compensation plan with incentives for the firm that services the mortgage loans in SFJV 2005? That servicer compensation plan would be stated in the Business Plan presented by Member B to HUD. Both Members would share the costs and benefits of the plan on a pro rata basis.	
<b>D.16</b>	When will the \$10 million letter of credit be released? Can the letter of credit be amortized on a schedule such as a correlation to remaining principal balance?	Pursuant to Section 2.09 of the CAA Agreement, the full amount of the Letter of Credit shall remain in effect, or the full amount of the Forward Delivery Deposit shall be held by HUD, until thirty (30) days after the last Subsequent Settlement Date.
<b>D.17</b>	Can Section 3.5 be amended to permit Owner LLC to enter into a document custodial agreement with a Related Party?	HUD will permit the LLC to enter into a document custodial agreement with a Related Party as set forth in Section 3.9 of the LLC Agreement.
<b>D.18</b>	Are there any provisions in the LLC Agreement, the CAA Agreement, or the Servicing Agreement that impose obligations on or create liabilities for Member B's affiliates?	Generally, the only entities that have obligations or liabilities under these agreements are the parties to the agreements. However, Member B is obligated as Manager to make available to the LLC such employees, facilities and support services as are reasonably required for Member B to carry out its obligations as Manager and for the day-to-day operations of the business of the LLC. The Manager may fulfill these obligations by contracting with others, including affiliates, all at the Manager's cost (without reimbursement from the LLC). Under Section 13.14 of the LLC Agreement, however, an Affiliate of Member B that wishes to bring an action against HUD arising out of or relating to or in connection with the LLC Agreement or any Ancillary Document is obligated to institute the action in the U.S. District Court for the District of Columbia or

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		the U.S. Claims Court.
<b>D.19</b>	Are there any statutes, executive orders, regulations or rules applicable to the LLC or Member B as a result of the fact that Member A will be a member in the LLC?	HUD is not aware of any statutes, rules or regulations that will be applicable to the LLC or Member B solely as a result of HUD's membership in the LLC.
<b>D.20</b>	If the cost for ordering the BPO's under Section 4.01 is borne solely by Member B and not the LLC, then why should Member A have access to all BPO's ordered?	This is a Demonstration Program. HUD is collecting this information for analytical purposes.
<b>D.21</b>	Does the fact that HUD owns the LLC with Member B exempt Member B from state licensing requirements? If not, how will Member B deal with the fact that the LLC will be purchasing loans without proper state licenses for a certain period of time? Does the cost to obtain state licenses get paid by the LLC or Member B?	It is the obligation of Member B (as the Manager of the LLC) to ascertain and ensure that the LLC complies with any licensing requirements applicable to the LLC. HUD cannot advise bidders regarding applicable state licensing requirements for Member B or the LLC, but HUD is not aware of any exemption from those requirements for the LLC as a result of HUD having a membership interest in the LLC. Pursuant to Section 6.6 of the LLC Agreement, fees required to be paid for the LLC to obtain required licenses are payable by the LLC. The LLC is not liable for licenses required to be obtained by Member B.
<b>D.22</b>	Can the LLC pay servicing fees in excess of the Servicing Fee and reimbursements expressly provided for in the Servicing Agreement?	No. The LLC itself may pay only the Servicing Fees and reimbursements expressly provided for in the Servicing Agreement. However, Member B, in its capacity as Servicer, may, at its own expense, pay subservicers amounts in excess of the Servicing Fees and Expenses permitted under the Servicing Agreement.
<b>D.23</b>	Can Reserve Funds be used to pay regular servicing fees?	Yes, to the extent that the fees are not reimbursed from the Collection Account pursuant to the Servicing Agreement and the LLC is required to pay the fees. Section 5.4 of the LLC Agreement, "Permitted Uses of Reserve Fund", states that "the Reserve Fund may only be used by the Company to pay for (i) operating expenses of the Company, and (ii) other obligations of the Company arising under this Agreement, the Servicing Agreement, and

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		any Purchase Borrowings.”
<b>D.24</b>	After the closing of the transaction with HUD, can Member B transfer a portion of its interest in the LLC or an interest in Member B itself without HUD’s consent? Does it matter whether the entity to receive the interest was a qualified bidder and was identified as a teaming member at the time of the bid?	After the closing of the transaction, the rights of Member B to transfer some or all of its interest in the LLC are governed by Section 8.1 of the LLC Agreement, which requires HUD’s consent. Section 8.2 of the LLC Agreement and the definition of “Change of Control” govern the transfer of an interest in Member B after the closing.
<b>E. Servicing Agreement</b>		
<b>E.1</b>	In the Executive Summary in Volume I, Page 3, the document states, “Member B will be responsible for servicing the Mortgage Loans on behalf of the LLC.” Yet later in the document there are statements that indicate that Member B may engage another party to service the Mortgage Loans. Please confirm that Member B is not required to service the Mortgage Loans itself and may engage another party to do so.	As provided in Section 3.02 of the Servicing Agreement, with the prior written approval of the LLC, Member B may engage a subservicer, asset manager or other contractor to perform all or any portion of Member B’s duties as Servicer.
<b>E.2</b>	Please clarify the calculation of the Servicing Fee.	The Servicing Fee will be calculated monthly in arrears on a loan level basis. For example, to calculate the Servicing Fee for the month of September 2005, the number of performing Mortgage Loans, non-performing Mortgage Loans and REO Properties and the UPB of the Mortgage Loans, all determined as of the last day of August, will be determined. If a Mortgage Loan or REO Property is sold or otherwise liquidated before the end of September, the Servicing Fee for November for that asset will be prorated.
<b>E.3</b>	Please confirm that the Mortgage Loans to be acquired by the LLC are not FHA insured and are not subject to the serving requirements applicable to FHA insured loans?	The Mortgage Loans will not be FHA insured when acquired by the LLC. The Mortgage Loans should be serviced in accordance with the Servicing Agreement. Section 3.01 of the Servicing Agreement sets forth the servicing standard governing the Servicer’s servicing efforts.

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E.4	Sub-servicer will have expenses, e.g. skip-tracing, accounting and financial statement preparation, substantial management reporting. Confirm that these expenses are expenses of the LLC, and that the servicer can bill the LLC for these expenses and that Members will pay their portion on a pro rata basis.	Section 3.12 of the Servicing Agreement discusses the invoicing and payment of the Servicing Fee and Liquidation Expenses, Property Protection Expenses and Property Improvement Expenses incurred in accordance with the Servicing Agreement. To the extent the Servicing Fee and Expenses are not paid out of the Collection Account, the LLC is responsible for paying the Servicer. The Servicing Fee is intended to cover all servicing expenses other than those for which reimbursement is explicitly provided by the Servicing Agreement.
E.5	Does HUD realize that there may be errors or omissions reported from servicing data that may require more than one reporting period to reconcile and report accurately?	Yes.