UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Chapter 11
	:	
Residential Capital, LLC, et al.,	:	Case No. 12-12020 (MG)
	:	
Debtors.	:	Jointly Administered
	:	

DECLARATION OF KENNETH H. ECKSTEIN IN SUPPORT OF OBJECTION OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO THE DEBTORS' MOTION PURSUANT TO FED. R. BANKR. P. 9019 FOR APPROVAL OF THE RMBS TRUST SETTLEMENT AGREEMENTS

I, Kenneth H. Eckstein, hereby declare, pursuant to 28 U.S.C. §1746, that the following is true and correct to the best of my knowledge, information and belief:

1. I am counsel to the Official Committee of Unsecured Creditors (the "Committee") in the chapter 11 cases (the "Chapter 11 Cases") of the above captioned debtors and debtors-in-possession (collectively, the "Debtors"). I make this declaration (the "Declaration") in support of the Committee's Objection dated December 3, 2012 (the "Objection") to the Debtors' motion (as supplemented, the "9019 Motion") [Dkt. Nos. 320, 1176, 1887] for approval of a proposed settlement (the "RMBS Trust Settlement" or the "Settlement").

2. Attached to my Declaration are the following Exhibits referenced in the Committee's Objection:

Exhibit A	Excerpts from Transcript of Proceedings, *In re: Residential Capital, LLC, et al.*, Case No. 12-12020 (MG), dated October 10, 2012.
Exhibit B	Excerpts from Deposition Transcript of Jeffrey Cancelliere, dated November 14, 2012.

Exhibit C	Fortace Analysis: PLS Demand Data Summary [Bates No. RC-9019_00045459] (Expert Exhibit 7, marked during the deposition of Frank Sillman, November 20, 2012).
Exhibit D	Excerpts from Deposition Transcript of Frank Sillman, dated November 20, 2012.
Exhibit E	Excerpts from Deposition Transcript of Thomas Marano, dated November 12, 2012.
Exhibit F	Email from William Solomon dated October 19, 2011 attaching Letter from Kathy Patrick dated October 17, 2011 [Bates Nos. ALLY_0212895 – ALLY_0212899] (Exhibit 48, marked during the deposition of Thomas Marano, November 12, 2012).
Exhibit G	Letter from William Solomon to Kathy Patrick dated October 21, 2011 [Bates No. RC-9019_00048954] (Exhibit 121, marked during the deposition of Timothy Devine, November 19, 2012).
Exhibit H	Email from William Solomon dated October 26, 2011 attaching Letter from Kathy Patrick dated October 25, 2011 [Bates Nos. ALLY_PEO_0042786- ALLY_PEO_0042787] (Exhibit 51, marked during the deposition of Thomas Marano, November 12, 2012).
Exhibit I	Excerpts from Deposition Transcript of Tammy Hamzehpour, dated November 13, 2012.
Exhibit J	Excerpts from Deposition Transcript of Timothy Devine, dated November 19, 2012.
Exhibit K	Excerpts from Transcript of Proceedings, *In re: Residential Capital, LLC, et al.*, Case No. 12-12020 (MG), dated October 4, 2012.
Exhibit L	Email from Timothy Devine to Gary Lee and Tammy Hamzehpour dated April 17, 2012 [Bates No. RC-9019_00048956] (Exhibit 76 marked during the deposition of Tammy Hamzehpour, November 13, 2012).

Exhibit M	Email from Tammy Hamzehpour to Timothy Devine, dated April 23, 2012 [Bates No. RC-9019_00061443] (Exhibit 79 marked during the deposition of Tammy Hamzehpour, November 13, 2012).
Exhibit N	Excerpts from Deposition of John Ruckdaschel, dated November 8, 2012.
Exhibit O	Email chain between Jeff Cancelliere, Timothy Devine, Tammy Hamzehpour, John Ruckdaschel and others, dated May 7, 2012 [Bates Nos. RC-9019_00049157 – RC-9019_00049159] (Exhibit 41, marked during the deposition of John Ruckdaschel, November 8, 2012).
Exhibit P	Email from Timothy Devine to Gary Lee dated May 9, 2012 [Bates No. RC-9019_00049196] (Exhibit 147, marked during the deposition of Timothy Devine, November 19, 2012).
Exhibit Q	Email from Noah Ornstein, dated May 12, 2012 [Bates No. RC-9019 00050446].
Exhibit R	Email from Timothy Devine dated May 12, 2012 [Bates No. RC-9019_00050455] (Exhibit 154, marked during the deposition of Timothy Devine, November 19, 2012).
Exhibit S	Form 10-Q for Ally Financial Inc., dated March 27, 2012 (Exhibit 93, marked during the deposition of John Mack, November 14, 2012).
Exhibit T	Email chain between Jamie Levitt, Timothy Devine, Gary Lee and others dated May 10, 2012 [Bates Nos. RC-9019_00049486 – RC-9019_00049491] (Exhibit 151, marked during the deposition of Timothy Devine, November 19, 2012).
Exhibit U	Memo, Agenda and Presentation to the Residential Capital, LLC Audit Committee, dated May 1, 2012 [Bates Nos. RC40022273 – RC40022367] (Exhibit 55, marked during the deposition of Thomas Marano, November 12, 2012).
Exhibit V	Excerpts from Deposition of John Mack, dated November 14, 2012.

Exhibit W	Email from Dan Soto to Jeff Brown dated May 8, 2012 [Bates Nos. ALLY_0141967 – ALLY_0141968] (Exhibit 105, marked during the deposition of John Mack, November 14, 2012).
Exhibit X	Excerpts from Deposition of James Whitlinger, dated November 15, 2012.
Exhibit Y	Email from Gary Lee attaching presentation materials for Residential Capital, LLC Board Meeting, dated May 9, 2012 [Bates Nos. RC-9019_00093180 – RC-9019_00093183] (Exhibit 60, marked during the deposition of Thomas Marano, November 12, 2012).
Exhibit Z	Excerpts from Deposition of Jeffrey A. Lipps, November 19, 2012.
Exhibit AA	Prospectus for Residential Funding Company, LLC, dated April 6, 2007.
Exhibit BB	Minutes of a Special Meeting of the Board of Directors of Residential Capital, LLC, dated May 9, 2012 [Bates Nos. RC-9019_00054006 – RC-9019_00054007] (Exhibit 61, marked during the deposition of Thomas Marano, November 12, 2012).

Dated: New York, New York
December 3, 2012

/s/ Kenneth H. Eckstein
Kenneth H. Eckstein

EXHIBIT A

In Re:

RESIDENTIAL CAPITAL, LLC, et al.

Case No. 12-12020-mg

October 10, 2012

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UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 12-12020-mg

- -x

In the Matter of:

RESIDENTIAL CAPITAL, LLC, et al.,

Debtors.

- -x

United States Bankruptcy Court

One Bowling Green

New York, New York

October 10, 2012

10:04 AM

B E F O R E:

HON. MARTIN GLENN

U.S. BANKRUPTCY JUDGE

reasonableness, the Court is required to approve the settlement, I don't read Iridium that way. I don't read TMT Trailer Ferry that way. I don't read the other cases regarding approval of 9019 settlements that way.

It is -- that isn't to say that I would conclude it can't be approved. You seem to be arguing that the Court has no alternative at that point, but to approve it. I don't agree with that statement.

MR. PRINCI: Understood, Your Honor. I think the way we -- what the debtors would argue, Your Honor, Iridium stands for, is that --

THE COURT: Because -- wait a second --

MR. PRINCI: Yes.

THE COURT: -- Mr. Princi. 8.7 could be a dollar value within the range of reasonableness, but the other settlement terms may be such that the settlement should not be approved. Okay? I don't know whether that's the case. I'm not making any determination. The parties will lay out their positions. But you shouldn't think you're going to come into the hearing and simply -- because you've asserted this position and you can carry forward with it, if you wish. But it's not my understanding of the law.

You've been consistent in articulating the view that the only issue for the Court at the settlement hearing is whether the 8.7 billion dollars is above the lowest point in the range of reasonableness. I will have an open mind at the hearing. But, you know, I can't count the number of times I have applied the Iridium factors in 9019 motions, and I -- if your argument is that the Court must approve a settlement any time it is above the lowest point in the range of reasonableness, that's not my understanding of the law.

That is certainly a very, very important factor, maybe the most important factor. We'll have to see. But if the remaining terms of the settlement are such, for example, if the -- any party that objects were to establish that the range of reasonableness was 3 billion to 12 billion, we settled on 8.7 billion, probably higher than we otherwise would have, because of the benefits it confers on AFI, that's going to be an argument I'm going to hear and consider.

So I don't doubt, it's a very complex matter. But I just -- the reason I take the time to go through this now is, you've been consistent at every hearing when you've opposed discovery about the negotiations that the only thing that matters at this hearing is whether 8.7 billion is in the range of reasonableness. It's not.

MR. PRINCI: Judge, I think I've been consistent, but perhaps not clear. We appreciate the fact that that is one of the factors.

THE COURT: We'll both agree on that.

MR. PRINCI: Judge, we appreciate that it is a factor.

EXHIBIT B

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

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In Re: Case No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

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VIDEOTAPE DEPOSITION OF JEFFREY CANCELLIERI

New York, New York

November 14, 2012

2:03 p.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27647-B

November 14, 2012

2:03 p.m.

Deposition of JEFFREY CANCELLIERI, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

specifically where actual repurchase claims were received. Meaning we did not calculate reserves on every private label securitization that we issued.

Q. So the reserve numbers that you were calculating were strictly limited to those repurchase requests, as opposed to any other trusts that had not, in fact, submitted repurchase requests?

A. That's correct.

Q. Are you aware of any repurchase requests that were made, other than by monolines? To ResCap, excuse me.

A. In the first quarter we had repurchase requests come in from one deal, at the direction of Deutsche Bank, who was directed by one of the investors.

Q. And that was the first quarter of 2012?

A. That was the first quarter of 2012.

Q. Now, with respect to the trusts that were part of the settlement that's at issue here today, did you do any the proceedings.)

THE VIDEOGRAPHER: The time is 3:24 p.m. We are back on the record.

MR. MOLONEY: Thank you. Just for the record I checked with the videographer. We have an hour and seven minutes of testimony so far.

Q. Mr. Cancelliere, I just want to go back to a couple of points that we talked about earlier. I believe you testified previously that you were aware of a repurchase request made by a nonmonoline in the first quarter of 2012, correct?

A. Yes.

Q. So prior to the first quarter of 2012 are you aware of any repurchase requests that were made in nonwrapped deals?

A. I am not.

Q. And secondly, you indicated that you provided a dollar range and defect rate range to FTI, amongst others. Once you gave that information to them, did you

JEFF CANCELLIERI

Q. And that was at the board meeting before, before it concluded at 4:00 p.m., correct?

A. As far as I can recall.

Q. Do you recall if Mr. Marano ever received any additional information?

A. I don't recall.

Q. Just give me one moment.

MR. DAILEY: That's all I have thank you.

EXAMINATION BY

MR. DOLAN:

Q. Mr. Cancelliere, I'm Matt Dolan, from Cleary Gottlieb, on behalf of Wilmington Trust.

You previously testified that you had a call with Kathy Patrick on May 8th, during which you challenged a number of assumptions that she had, related to the defect rate?

MR. RAINS: Misstates the witness's testimony.

A. I had a conversation with her around their assumptions and discussed and

challenged all of their assumptions.
Q. And you also discussed and challenged her use of the 36 percent Bank of America default -- defect rate?
A. In some form, yes. And used that information to provide our legal team, who was working through the negotiations, to have discussions with Kathy Patrick.
Q. So you relayed to the legal team that you had challenged her use of that?
A. I had relayed to the legal team the items where I believe we could challenge her assumptions.
Q. And included in that list of items was the 36 percent?
A. It was all of her assumptions, yes.
Q. Was anyone else on that call, besides you and Ms. Patrick?
A. I believe David Sheeren, from Kathy Patrick's side, was on the call as well.
Q. Do you know why you were on that

call?

A. Gary Lee had asked me to talk to Kathy about her specific assumptions, to get an idea of their calculated numbers.

Q. And after that call, you relayed to Gary Lee and others on the legal team your concerns you had with her assumptions?

A. Yes. I relayed to Gary Lee her assumptions and potential concerns with her assumptions.

Q. And then you were shown a second ago Exhibit 60, which is the board presentation from May 9th.

Do you recall that?

A. I do recall that.

Q. And that presentation includes the 36 percent Bank of America default rate?

Do you recall that?

A. It includes, yes, the baseline Bank of America defect rate.

Q. Was the board of directors of ResCap ever informed that you had raised

JEFF CANCELLIERI

concerns about using that 36 percent defect rate?

A. I don't know.

Q. But no -- you don't recall from that --

A. I don't recall from that meeting.

Q. Nothing, there was no discussion of that?

MR. RAINS: He says he doesn't recall.

A. I don't recall.

Q. But as you previously testified, that 36 percent was used as a comparison. It was presented to the board as a comparison to the 19.72 defect rate?

A. That is correct, at the direction of our legal counsel.

MR. DOLAN: I don't have anything else. Thank you, Mr. Cancelliere.

MR. RAINS: Any other takers?

MR. SHEEREN: David Sheeren from Gibbs & Bruns. Can we just take a

EXHIBIT C

REDACTED

Fortace Analysis
PLS Demand Data - Summary

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

EXHIBIT
Expert 9019-7
11/20/12
PENGAD 800-631-6989

EXHIBIT D

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

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In Re: Case No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

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DEPOSITION OF FRANK SILLMAN

New York, New York

November 20, 2012

9:35 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27687

November 20, 2012

9:35 a.m.

Deposition of FRANK SILLMAN, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

FRANK SILLMAN

Am I right when you refer to prime, jumbo, Alt-A and subprime, those labels as you understand them generally apply to first lien loans?

A. Yes.

Q. And then HELOC is a form of second lien loan?

A. In most cases, not always. There are first mortgage HELOCs but predominantly I believe the HELOCs are second mortgages.

Q. And in your experience do Alt-A and subprime mortgage loans tend to yield higher rep and warranty breaches than prime jumbo? And I'll refer you to paragraph 58 of your declaration if you want to look at that. I'm going to object to the form of the question as vague and ambiguous?

A. Can you restate the question for me.

Q. In your experience do Alt-A and subprime mortgages tend to yield higher rep and warranty breaches than prime jumbo

FRANK SILLMAN

mortgages?
A. They tend to yield higher alleged rep and warrant breaches.
Q. And how much higher, can you quantify that at all?
A. I don't have the numbers in front of me to be able to give you any type of percentage differences.
Q. Suppose you were asked by your client to quantify that. Could you do that and how would you go about it?
A. I wouldn't be able to quantify it without looking at and doing more work on what the actual experience is. I do know that it is -- my experience has been it's higher, there's been a higher rate of alleged rep and warrant breaches, but I couldn't put a percentage on it.
Q. Are there any publications that address that to your knowledge?
A. There may be that address it. I'm not aware of them.
Q. Do you know if anybody has attempted to address that issue on an

FRANK SILLMAN

Q. Correct. And suppose now we modify the question so we are not asking about alleged breach rates but instead we're asking about what you call loss share rates. Could that question be addressed using publicly available data?

A. There have been some expert reports that you can discern the loss share rates from. The issues with that is the underlying data you don't have access to so I can't opine on whether or not that's comparative to the debtors proposed settlement because the data behind those reports are not publicly available.

Q. And which expert reports are you referring to?

A. The Bank of America expert report and the Lehman expert declaration.

Q. Now, I'm not asking you about discerning loss share rates as to any particular seller but rather as to industry averages. Is there publicly available data from which one could reach meaningful conclusions about average

FRANK SILLMAN

industry loss share rates?

A. On a product by product basis?

Q. Yes.

A. I'm not aware of any credible sources that I have been able to evaluate their underlying data that provide that information.

Q. And now let me ask the same question but as to vintages. Is there publicly available data from which one could reach meaningful conclusions about how loss share rates varied depending on the loan's vintage?

A. Again, I'm not aware of any data that's available that you can reach credible conclusions and that I have been able to view the underlying data behind that.

Q. In your -- strike that.

So now let's turn away from industry averages and turn back to your personal experience. In your personal experience is the vintage of a loan a factor that can affect the likelihood of a put back?

A. Yes. There is some correlation between the vintage of the loan and the potential for an alleged rep-warrant breach.

Q. What correlation have you observed?

A. There's a segment of loans originated from 2005 to 2007 that tended to have higher alleged breach rates in the work that I have done for my clients.

Q. I want to understand what you said. You referred to a segment of loans originated from '05 to '07. Are you saying that loans originated during that period generally tend to have higher alleged breach rates in your experience?

MR. RAINS: Objection. Misstates the witness's testimony.

MR. BENTLEY: I'm trying to understand it.

A. Loans originated in that period may have higher alleged breach rates or reps and warrant violations than loans

FRANK SILLMAN

this paragraph is what I'm going to focus on. It says, "I was asked to provide an independent assessment of the total allowed claim as defined in the RMBS Trust Settlement Agreements and opine as to its reasonableness."

Do you see that?

A. Yes.

Q. And the total allowed claim, that's $8.7 billion?

A. Yes.

Q. Who first contacted you about this matter?

A. Jen Battle.

Q. When did she contact you?

A. I believe it was early May but, you know, I'm not positive as to the date. But that's around the time.

Q. She contacted you after the debtors had entered into the RMBS Trust Settlement Agreement?

A. Yes.

Q. And I can tell you that that agreement was executed on May 13th.

FRANK SILLMAN

A. Okay.

Q. And the debtors filed bankruptcy the next day.

When she contacted you, had the debtors filed bankruptcy?

A. Contacted me to discuss retaining me for this expert work?

Q. When she contacted you to discuss this expert work the first time.

A. You know, I don't recall. Because we were an ongoing -- we were doing ongoing work and then they suspended that work, I don't recall when. I believe it was -- we didn't have any discussions regarding this potential work until after they filed bankruptcy but I don't recall exactly.

Q. Turning back to the sentence I quoted a moment ago. The opinion you were asked to provide was as to whether or not the total allowed claim was reasonable; is that correct?

A. Yes.

Q. So you were not asked to come up

FRANK SILLMAN

said it in the paragraph.

Q. So is it fair to say you are not opining as to whether any of the claims have legal merit?

A. Whether they would be able to prove breaches of reps and warrants, yeah, under the governing agreements.

Q. Or prove the requirements of put back?

A. Correct.

Q. And by the way, you don't claim to have any expertise in that issue, do you?

MR. RAINS: Objection, vague and ambiguous.

A. Which area is that?

Q. Whether put back is legally required?

A. I didn't render any legal -- I don't have any legal training and didn't provide any legal recommendations under this work.

Q. And you don't claim to have the expertise needed to provide legal

FRANK SILLMAN

opinions, right?

A. Correct.

Q. And you are not expressing a view, I take it, as to whether any of the debtors' legal defenses have merit?

A. Correct.

Q. And you are also not expressing a view as to whether the facts relating to any of the loans in the pool being settled would legally warrant put back?

A. Yeah. I'm not making a legal assessment.

Q. Am I correct you've made no attempt to determine the, what portion of the loans in the pool actually breach reps and warranties?

A. The work that I'm depending on or relying on is the repurchased, GSE repurchase rate work that was done between Fannie, Freddie and the debtor where they reviewed thousands of loans over a number of years and looked at the actual loan by loan file review and availed themselves to the defenses of the governing agreements

FRANK SILLMAN

or any other legal arguments as part of that process. So it's that work and the results of that work that's incorporated in my work, in my declaration.

Q. I understand you are drawing inferences from the debtors' put back history with the GSEs, among other things?

A. Correct.

Q. So I just want to be clear, am I correct you haven't looked at any one loan within the pool that's being settled to try to reach a view or express an opinion as to whether that loan actually breaches any reps and warranties?

A. We have not completed our loan level review work. And I'm relying on the thousands of loans that went through the debtors' repurchase process as the basis for my original declaration.

Q. So I think I'm hearing the answer to my question but I just want to be clear. In your June 11 declaration you are not expressing any opinion as to whether any particular loan breaches any reps and warranties?

MR. RAINS: Objection. Vague and ambiguous. Asked and answered.

A. I utilized the repurchase work the debtor did with the GSEs to form the basis for my original declaration.

Q. And in reaching the conclusions in your initial declaration you didn't look at any individual loan file in the pool that's being settled?

A. I relied on the thousands of loans that were reviewed by the debtor as part of their process prelitigation.

Q. With respect, Mr. Sillman, I don't think you answered my question.

MR. BENTLEY: Let me ask the reporter to read it back.

MR. RAINS: I think you answered the question. It's been asked and answered.

MR. BENTLEY: You know, Darryl, it's a yes or no question and I got a nonanswer.

Read it back, please.

FRANK SILLMAN

(Record read.)

MR. RAINS: Same objections.

A. I relied on the GSE repurchase work that the debtor did with Fannie and Freddie.

Q. To date have you looked at any loan file for any of the loans within the pool that's being settled?

A. We are in the process of reviewing the loan files.

Q. Have you yet looked at any loan files?

MR. RAINS: You mean him personally or Fortace?

Q. Let's break it into pieces. Have you personally looked at any loan file?

A. I have not looked at the loan files.

Q. Prior to your signing your June 11 declaration, did anybody at Fortace look at any of the loan files for the loans being settled?

A. I relied on, we relied on, the

FRANK SILLMAN

work that the debtor did with the GSE repurchases in forming the assumptions and conclusions in my original declaration.

Q. So that's a no?

A. I relied on --

MR. BENTLEY: Read back my question.

Q. It's a very simple factual question. I'm not asking you what you relied on. I'm asking you whether you looked at any loan files?

MR. BENTLEY: Read it back, please.

(Record read.)

MR. RAINS: Objection, vague and ambiguous. Asked and answered.

A. I relied on the work that was done by the debtor as part of their GSE repurchase for the conclusions and assumptions made in my original declaration.

Q. And you didn't look at any loan files?

A. I relied on the GSE repurchase

work.

Q. Did that involve looking at any loan files?

A. It revolved relying on the loan file reviews that the debtor performed.

Q. Is there a reason you are resisting answering a simple question?

MR. RAINS: Objection. Argumentative. Asked and answered.

MR. BENTLEY: It's not asked and answered for Christ's sake, Darryl.

Read it back.

MR. RAINS: Of course it has. It's been asked 15 times and --

MR. BENTLEY: Is the answer no? Because I sure can't tell what the answer is.

MR. RAINS: I think his answer is very clear.

MR. BENTLEY: The answer is he did something else, it's not whether he did this or not.

MR. RAINS: That's his answer. You don't like his answer but it's his

FRANK SILLMAN

answer.

MR. BENTLEY: I'm fine with his answer, he just hasn't answered my question.

Can you read it back, please.

MR. RAINS: Let's do this, let's take a quick break.

MR. BENTLEY: You know what, I want an answer to my question before you speak --

MR. RAINS: I'm going to talk to him about his answer to your question.

MR. BENTLEY: I object. You are not supposed to talk to the witness while a question is pending.

(Whereupon, there is a recess in the proceedings.)

MR. RAINS: I think we have succeeded in clearing up some of the ambiguities and confusion caused by your question. Why don't you put the question to him again.

Q. I know it's very confusing but I'll state it again. In connection with forming the opinions expressed in your June 11 declaration, did you or any of your colleagues look at any of the files for the loans in the pool being settled.

A. For the, my original declaration I relied on the work that was done by ResCap and the repurchase activity. We are now looking at loan files. We are currently looking at loan files.

Q. So let's just unpack what you just said. You relied on the work that was done by ResCap. What work are you referring to?

A. To GSE and private label repurchase activity work ResCap did.

Q. Understood. But was that as to any of the loans that are in this pool that's being settled?

A. There may be in the private label securities work loans that are included in this settlement. The vast majority of the loans were related to their GSE originations.

Q. And none of the GSE deals

FRANK SILLMAN

overlap in any way with this settlement, right?

A. Correct.

Q. Were you relying, when you prepared this report, on any work that RFC had done in looking at the loans that are part of this settlement?

A. Yes. We did review some information regarding their private label securitization repurchase work. What we found, I think there's an exhibit, that the vast majority of those repurchase demands were unresolved.

Q. So I'm going to return to that. I know what you are referring to. Putting aside any loan reviews that RFC may have done in connection with its prepetition put back experience, did you or any of your colleagues look at any loan files in connection with the work that went into your June 11 report?

A. We relied on the company's work for the information in the original declaration and we are now looking at loan files that are contained within the 392 trusts.

Q. And when you say the company's work, are you referring to anything other than the work the company did prepetition in connection with its prepetition put back negotiations?

A. Yeah. It was prepetition work.

Q. In connection with -- done by the debtor in connection with its prepetition put back experience?

A. Yes.

Q. And no other review of loan files went into your, the conclusions expressed in your June 11 declaration?

A. That's right.

Q. Okay. We are there. We got an answer. Thank you. Let's move on.

A. I would say no additional loan work.

MR. BENTLEY: I'm about to change topics. If people want to take a break, this is fine or we can keep going.

FRANK SILLMAN

what?

A. Where they reviewed the loan file internally, possibly as part of a post funding QC process where they identified loans that they felt met the repurchase standard and notified the appropriate trustee or insurer.

Q. What is a post funding QC process?

A. That's where lenders review a sample of loans that close to see if there are any underwriting compliance or other errors in the origination process.

Q. And what's the -- do you have an understanding as to what the debtors purpose was in doing that?

A. It's standard in the industry to select a group of loans post closing. One, it's a requirement for the GSEs to do that and it's typically because the GSEs make up such a large percentage of their volume, it's typically utilized for all types of loans to review the origination process.

FRANK SILLMAN

Q. And is there a reason the debtor does this for PLS?

MR. JURGENS: Objection to form.

MR. RAINS: Calls for speculation. Go ahead.

A. I'm not aware of, you know, why they chose these loans and what their policies are for QC'ing loans that go into PLS securities.

Q. Did you or your team make any effort to try to understand the nature of the debtors practices and procedures in that regard?

MR. RAINS: Objection, vague and ambiguous.

A. We discussed when they provided this data what these various categories were. And they could not tell us under what initiative these voluntary loans were selected. So their records -- they explained to us their records didn't reflect you how the loans were created as voluntary demands.

Q. Who participated in these

FRANK SILLMAN

discussions?

A. I did, Michelle Minier and Jeff Cancelliere.

Q. Who is Mr. Cancelliere?

A. He works for the debtor.

Q. Do you know what he does there or what he did at the time of these discussions?

A. Yeah. He -- my understanding was he was involved in the risk group for the company.

Q. So did he, to your knowledge, did he participate in the post funding QC process?

A. That -- in my conversations with him that wasn't my understanding. I interfaced with him in this regard. He was the person that collected this information for us at the company.

Q. So were you able to ascertain what portion of the loans that you described as voluntary, were reviewed as part of the post funding QC process?

MR. JURGENS: Objection to form.

FRANK SILLMAN

A. I answered that already. In that they did not have the data available to ascertain under what program these voluntary demands were developed.

Q. Did you have any understanding what other programs may have given rise to these voluntary repurchases?

A. We had some discussions around trying to better understand the types of loans that would be included in the voluntary. And Jeff was not able to give us any data around how these were created.

Q. And just so we are clear. I meant to ask you about other programs, not types of loans. Do you have any understanding of what programs other than post funding QC programs led to these voluntary repurchases?

MR. SHEEREN: Objection to form.

A. In my conversations with him they didn't discuss the types of programs that led to these voluntary because the data was not available. So they weren't able to speak to how these loans came to be categorized as voluntary.

Q. And do you know if it would be possible now to reconstruct or come up with that information?

A. I don't know if anything has changed. They were not able to provide that information at the time that we requested this data.

Q. Did you reach a conclusion about whether the voluntary repurchases had any bearing on the issues you were analyzing?

A. We looked at all of the PLS demands including the voluntary in developing the conclusions that we had in my report.

Q. What weight -- strike that.

Table 2 addresses nonvoluntary repurchases only. Why did you isolate out the nonvoluntary?

A. I wanted to understand better the state of the repurchase demands that were made by trustees or insurers.

Q. Am I right the only difference between the Table 1 box relating to

MR. RAINS: He said put back demands.

Q. Let me try it again because my question wasn't very clear. You've computed that the debtors -- sorry, that the trusts -- let me start again. You've computed that the loans subject to the proposed settlement have losses, liquidated losses to date of about $30 billion, correct?

A. Correct.

Q. And by the way, by liquidated losses what do you mean?

A. It means when there's a loss that's passed on to the trust when the loan is liquidated.

Q. So are all of those losses on account of either foreclosure or some other sale?

A. Short sale, yes. There's a number of categories that would consider the loan liquidated. And any losses associated with that are reported as liquidated losses.

FRANK SILLMAN

Q. So it would be a sale in satisfaction of the mortgage?

A. I'm not sure that I'm the expert. Mortgages work differently in each of the states. When the property is liquidated, the losses associated with that are passed on to the trust.

Q. So let me just show you your report so we don't have to go back and forth on this. Look at paragraph 25 of your initial declaration. And item A in the first sentence refers to, "The actual losses that are incurred when a loan is foreclosed and sold through a short sale, REO or other final disposition."

Do you see that?

A. Yes.

Q. And that's what you've defined as the actual liquidated loss?

A. Yes.

Q. Okay. And do you have any way of knowing whether after a liquidation of that sort the trust would still hold the mortgage?

FRANK SILLMAN

A. That would be a --

MR. JURGENS: Objection to form.

MS. PATRICK: Objection to form.

A. -- a legal question that may be discussed in the governing agreements but outside the scope of what -- what I looked at for my declaration.

Q. Okay. Fair enough. But you've computed that the debtors -- the liquidated losses on the loans in the trusts to date are approximately $30 billion?

A. That's the information that I received from Intex and LP, loan performance.

Q. And does Table 2 of Exhibit 7 show that, tell you the dollar value of put back demands made against the debtors with respect to these trusts from late 2007 until the petition -- until May 2012?

A. I'm not sure -- you are asking the detailed schedule information?

Q. Exhibit 7, the cover page.

A. Oh, the cover page.

this next step in estimating the loss share rate ranges.

Q. So all of your calculations on pages 16 to 23, the upshot of those calculations is the loss share rate, correct?

A. Yes. The result of the work that's done starting on page 16, paragraph 44 and ending on page 23, paragraph 66.

Q. There's a number of different components, retrade, agree rate and audit rate and demand rate. But the purpose of all of those is to come up with the -- the collective result of all of those is the loss share rate?

A. Right.

Q. Now, going back to paragraph 6 in the second sentence describing loss share rate, you describe loss share rate as, "The percentage of estimated lifetime losses that the debtors might agree to share with the trusts."

Do you see that?

A. Yes.

FRANK SILLMAN

Q. So was it deliberate on your part to use the word "might" rather than would?

A. What I was developing -- what I developed for this is a range of reasonable loss share rates. And whether or not the debtor would agree to a loss share rate ultimately agree to a loss share rate or an allowed claim that you could calculate a loss share rate is something for the others to decide, not me to impose by using the word "would."

Q. For example, your calculations are all predicated on the assumption that a breach of rep and warranties can be proved against the debtors as a legal matter, right? We talked about that earlier.

A. Let me get to -- what paragraph are you referring --

Q. 5. Third sentence.

MR. RAINS: What was the question again?

Q. You assume for purposes of your

were referring to a few minutes ago?

A. Yes.

Q. The calculations you used to derive the audit rate ranges shown in the table on paragraph 53 of your report?

A. Right. The total average of 65 percent and 69 percent.

Q. Okay. But how did you compute each of the individual ranges shown on this table? For example, the first line, trusts, liquidated loans, a range of 70 to 75 percent. How did you compute those numbers?

A. That was based on my professional experience with audit rate percentages.

Q. So do you compute it or did you just -- does that number -- is that number the product of any calculations?

A. It's the product of my professional experience. There's not an additional calculation.

Q. You just came up with that number?

FRANK SILLMAN

A. I didn't just come up with it. It's based on my professional experience.

Q. How did you come up with it?

MR. RAINS: Objection. Asked and answered.

Q. How did you pick 70 percent rather than 60 or 80 percent?

MR. RAINS: Asked and answered.

A. I came up with it based on my professional experience. I developed a range to take into consideration the variability of each one of these categories.

Q. Did you compute any of the numbers shown in paragraph 53 other than the average that's shown at the bottom of the table?

A. The assumptions for each wouldn't delinquency buckets were based on my professional experience.

Q. But you didn't perform any calculations to derive any of these numbers?

MR. RAINS: Which numbers?

FRANK SILLMAN

MR. BENTLEY: All of the numbers in the table in paragraph 53 other than the total average numbers shown on the last line.

A. The numbers for each of those are assumptions based on my professional experience. So I developed those assumptions and input them into the model.

Q. How did you develop them? Were there any steps that went into the development?

A. Based on my professional experience for these categories of loans that's how I developed the assumptions.

Q. Did you start with the total average range of 65 to 69 and then back into the component ranges?

A. I did not.

Q. And can you shed any more light on how you came up with the various ranges shown here, other than the total average range?

A. Based on my professional experience.

FRANK SILLMAN

Q. It wasn't a quantitative calculation?

A. It wasn't a -- you are asking me is this a product of a mathematical equation?

Q. Correct.

A. It was -- these individual assumptions were not the product of an additional mathematical equation. They were based on my professional experience.

Q. And there's no backup to these numbers?

A. There is no -- there's no other data to support these numbers other than my professional experience.

Q. If I ask you the same questions about the numbers shown in the table on paragraph -- in paragraph 56 of your report are your answers the same?

MR. RAINS: Objection. Vague and ambiguous. Compound.

MR. BENTLEY: You can walk through all these questions again, Darryl.

FRANK SILLMAN

A. I followed the same process based on my professional experience in determining the assumptions for each of the lower and higher ranges in paragraph 56.

Q. Did you prepare any calculations that went in to the derivation of these numbers, that is on paragraph -- in paragraph 56?

A. There aren't any additional calculations to derive the assumptions other than the calculations for the total average.

Q. Let me try to be clear. The total average numbers you derived from the numbers above it in -- in the table?

A. And they are weighted against the estimated trust lifetime losses. So they are a function of a calculation in the model.

Q. But each of the numbers other than the total average has no calculation backing it up?

A. That's right. It's an

FRANK SILLMAN

assumption based on my professional experience.

Q. And there's no backup documents or data supporting these numbers?

A. That's correct.

Q. Let's move on to breach rate. And as we discussed before, breach rate is simply the product of audit rate and demand rate, correct?

A. Correct.

Q. So the derivation of this was simply math?

A. That's correct. And then again weighted against the estimated trust lifetime losses for the averages.

Q. Now, in paragraphs 57 and 58, you refer to the breach rates used in the BofA expert report and the Lehman expert report, right?

A. Yes. I discussed them.

Q. So you attempted to determine what breach rate had been used in connection with the BofA settlement, right?

FRANK SILLMAN

an expert, a loss share rate, excuse me. We calculated that by taking the estimated losses divided by their higher and lower range in the settlement columns. I believe that was in our spreadsheet. We can take a look at that.

Q. Maybe this will help you. Did you -- to compute the 14 percent loss share rate shown in your table in paragraph 65 did you derive that from the 36 percent breach rate and the 40 percent success rate shown on page 8 --

A. Yes.

Q. -- of the BofA expert report?

A. Yeah, the same amount.

Q. You simply multiplied 36 percent by 40 percent?

A. Yes, I believe that's the case.

Q. And to get your Lehman agree rates --

A. I'm sorry.

Q. I have got to review that. So I'm going to ask you now about how you derived the breach rate, agree rate and

FRANK SILLMAN

expert report?

A. Yes.

Q. And turn now to paragraph 65 of your report, which shows certain Lehman loss share rate assumptions. Did you derive those by simply multiplying your Lehman breach rate by your Lehman agree rate?

A. Yes. They are not mine but, yes, from the --

Q. Understood.

A. From Lehman's, yes.

Q. The numbers you put in your tables for the Lehman breach rate and agree rate?

A. Yes.

Q. Did you know whether the ResCap board of directors, when it approved the settlement, considered the BofA settlement and the Lehman settlement?

A. I don't have any information about what the board considered as part of the settlement.

Q. We will move on.

FRANK SILLMAN

anything relating in any way to agree rates on page 2 of this document?

A. No. That column referred here as formula column H is where I calculate the overall trust agree rate assumptions for the lower and higher ranges.

Q. But nothing in this document shows how you got to the lower and higher agree rate numbers shown for the various buckets?

A. That's correct. Those were based on my professional experience with agree rates for these buckets adjusted for the repurchase experience the debtor had and the higher agree rates than the industry as a whole for their GSE repurchases.

Q. Let's take it step by step. I'm going to ask you more about Exhibit 15 in a moment. But just to jump to the bottom line, does Exhibit 15 show how you computed the 41 to 47 percent agree rate range?

A. This was a validation step that

FRANK SILLMAN

A. I did not as part of this analysis.

Q. Did you attempt to quantify the vintages of their loans as part of this analysis?

A. The vintages were similar vintages to the vintages, the same time period majority from 2005 to 2007.

Q. Did you attempt to quantify how the vintages broke out as between the different years within that time frame?

A. I did not do the further analysis. I didn't feel that was necessary as part of my assumption development.

Q. Did you make any attempt to compare how the reps and warranties governing those loans compared to the reps and warranties in the governing agreements for the debtors?

A. In general I did do that. That's one of the discounts applied in my Exhibit 15 document.

Q. Okay. So we will turn back to

that in a moment. And over what years were the put back demands and put back responses that -- of the three clients you are referring to?

A. And the IndyMac experience. They related to originations primarily from 2005 to 2007.

Q. I'm actually asking a different question which is when were the put back demands? How long after origination?

A. They were 2008 -- let me step back. IndyMac they were 2006 through 2008. At my Fortace clients they were 2009 through part of 2012.

Q. And did you attempt to -- did you give any consideration to the length of time between the origination and the put back demands in the client experience that you were basing your opinion on?

A. I did not, with my experience with, at IndyMac Bank and with my Fortace clients, did not see any differences in when the demand was presented and the agree rates.

FRANK SILLMAN

Q. Did you make any attempts to quantify the length of time between originations and demands?

MR. JURGENS: Objection to form.

A. I didn't see that as a factors that influenced the agree rates in the work that I had been involved with.

Q. So you didn't do any such calculation?

A. It was not included in my agree rate calculation.

Q. Now, what were the agree rates of these three clients that you are referring to?

A. And IndyMac. They ranged in general from a low of around 37 to a high of 42 percent.

Q. One of the three clients was 37 and another was --

A. No. At different times the agree rates, depending on who the demander was, when the demands were made might change how they negotiated and came to agree rates. So in general I would see forming your conclusions, did you consult any documents?

A. I did not consult any documents.

Q. You just knew those numbers by memory?

A. I do know those numbers by memory.

Q. This was the experience of three clients. Were they sell side or buy side?

A. And IndyMac.

Q. Sure. Were the three Fortace clients sell side?

A. Yes.

Q. How many sell side clients did you have altogether who you advised on -- with respect to put back demands?

A. For what period? I mean, we had clients come and go so.

Q. From '09 through this year.

A. Five clients.

Q. About five sell side clients?

A. Yes.

Q. Why did you pick these three and not the other two?

FRANK SILLMAN

A. Just because of the volume of work that we did for them or have done for them is not significant. The three --

Q. The two --

A. Yeah. Two of the five we have not done significant work for.

Q. Did you consider including your buy side clients in doing this analysis?

A. Give me a second. Let me just recall. The work we did for the buy side was, in many cases, we did not receive back the ultimate agree rate data for those clients. The three clients I picked were ones where I received back agree rate feedback.

Q. Did you receive the ultimate agree rate data for any of your buy side clients?

A. I may have received agree rate data for those clients but I'm not sure.

Q. Did you give any consideration to including them in your analysis?

A. I did consider them in determining my analysis but felt that the

FRANK SILLMAN

data from the three that I selected and my IndyMac experience was more on point and more robust than the information that was provided to me.

Q. What was the basis for that conclusion?

A. The amount of loans that we did for them and the data that was provided to us regarding the agree rates.

Q. That explains how you concluded it was more robust. But how about more on point?

A. They were sell side clients, very similar in structure to ResCap.

Q. In what sense?

A. In that they sold securitizations with Alt-A, subprime, jumbo A loans.

Q. And that wasn't true of your buy side clients?

A. Some of the buy side clients sold whole loan to companies like ResCap. Some didn't have as robust of a correspondent or conduit business as

FRANK SILLMAN

shelf they may have changed.

Q. Did you perform any system -- did you attempt to review the reps and warrants of those clients in any systematic way?

A. I based it on my professional experience and actual repurchase agree rate experience with them in regards to their reps and warrants.

Q. And are there -- is there any work product that you or your team generated reflecting your review of the reps and warrants of these other clients?

A. There isn't any information that I relied on that we did not provide to the data room or in the exhibits. It's confidential information. So we didn't document any of the work. This was based on my professional experience with the Fortace clients.

Q. Let's just try to make sure we have a clear record. Did you go back and look at the reps and warrants of these other clients for purposes of performing your analysis or did you instead simply rely on your general experience in representing those clients?

MR. RAINS: Or something else.

Tell him what you did.

A. I relied on my familiarity with the reps and warrants from my other clients in comparing them to the reps and warrants in the governing agreements that I reviewed.

Q. So you didn't conduct any rep and warrant review of those other clients for purposes of this analysis?

A. I didn't do any additional rep and warrant review other than the rep and warrant review that I explained to you that I did.

Q. That you had done previously in connection with your work for those other clients?

A. Correct.

Q. And same question with respect to IndyMac. Did you go back and look at the reps and warrants for any IndyMac

EXHIBIT E

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

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In Re: Case No.

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

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VIDEOTAPE DEPOSITION OF THOMAS MARANO

New York, New York

November 12, 2012

9:56 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27645

November 12, 2012

9:56 a.m.

Deposition of THOMAS MARANO, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

negotiation, I didn't ask him, you know, for this specific number. So I can't -- I just don't know.

Q. I thought you testified a minute ago that you always asked him for more.

Are you saying just generally?

A. Whenever I negotiated anything with Michael, I always asked for more.

Q. Okay. So are you saying that you never had occasion to discuss with Mr. Carpenter the amount that AFI was willing to pay or that you thought should be paid by AFI to ResCap to settle claims?

A. Not in the context of negotiating the deal. But I had expressed numbers that I felt were, you know, higher than we were able to get.

Q. What numbers did you express?

A. Now, my general view was it probably would take something close to $2 billion to settle this.

Q. And you expressed that to Mr. Carpenter?

A. I expressed that to

THOMAS MARANO

Mr. Carpenter, definitely.

Q. Did you express it to other members of the ResCap board?

A. Yes.

Q. Did you express it to all of the other members of the ResCap board?

A. I was fairly vocal in what I thought it would take to get a deal done. My view is it would take a couple billion dollars, that no one was going to do a deal for 750.

Q. And during what period of time or over what period of time did you advocate for a number in the range of $2 billion from AFI?

A. I wouldn't use the phrase "advocate." I would say expressed my view of how to get a settlement --

Q. Fine.

A. -- or, pardon me, a deal. And in that context, I would say, you know, over the spring of this year.

MR. KAUFMAN: Let's mark as the next exhibit, Ally Financial, Inc.'s

Elliott Management?

A. Yes.

Q. And Mr. Cederholm's e-mail summarized a telephone conversation he had with you regarding the statute of limitations defenses to put-back claims, correct?

A. Yes.

Q. Mr. Cederholm pointed out, didn't he, that put-back claims are based on alleged breaches of contract and that if the claimed breach is in the reps and warranties made in the contract the claimant must assert the breach within the applicable limitations period?

A. What was the question?

MR. KAUFMAN: Read it back, please.

(Record read.)

A. That is what he asserts in this e-mail and it is generally what he discussed on the telephone, yes.

Q. And did you understand from what Mr. Cederholm was telling you that

THOMAS MARANO

applying a six-year statute of limitations that exists in New York, that should in 2012 bar any put-back claims based on contracts made before 2006?

MR. PRINCI: Objection as to form.

A. I understood his position and I understood what his opinion was but he was not counsel and I'm not even sure if he's a lawyer. He's just a guy who bought bonds who is trying to make an argument for what the bonds were worth. I relied on counsel.

Q. I wasn't asking what you relied or even if you relied on it. I just wanted to know when you received the e-mail and read it you understood that's what he was saying?

A. I understood that's what his assertion was.

Q. Okay. So did you understand from what he was telling you, at least from his view, that in light of the statute of limitations there should be

THOMAS MARANO

zero put-back liability for PLS deals done in 2004 and 2005?

MR. PRINCI: Objection as to form.

A. Again, that was his opinion. The reason why I copied, as you can see, the attorneys on the top here was I was interested in their opinion.

Q. Did any of those to whom you sent Mr. Cederholm's e-mail ever get back to you and express a view as to what he said to you?

A. I do believe there was discussion with Tim Devine on this matter and probably Tammy as well. And my recollection of the discussion was he --

MR. PRINCI: No, don't.

THE WITNESS: Oh, counsel. I'm sorry.

Q. Shifting gears. Mr. Marano, you knew that the settlement being negotiated with Kathy Patrick and Talcott Franklin was contingent on their signing plan support agreements with ResCap, didn't

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dated May 9, 2012, notifying the board of a meeting on May 9, 2012, at 3:00 p.m., attached to which is a several page analysis that was presented at that meeting. Bates numbers RC 9019_0093180 through 3183.

(9019 Exhibit 60, e-mail from Gary Lee dated May 9, 2012, Bates RC 9019_0093180 through 3183, marked for identification, as of this date.)

Q. Let me show you what we have marked. Did you receive this e-mail and the attachment from Mr. Lee on May 9, 2012?

MR. PRINCI: Just give me one minute to read the document.

A. Yes.

Q. And Mr. Lee attached or sent his e-mail at 2:38 p.m. on May 9th. Do you see that?

A. Yes.

Q. And that was 22 minutes before the scheduled meeting at 3:00 p.m., right?

A. Yes.

THOMAS MARANO

Q. Is that when you first received the supporting materials he attached to his e-mail?

A. I honestly couldn't tell you but I'm sure I got them at that time.

Q. Okay. Were any other written materials besides the ones attached as part of this exhibit provided to the board in advance of the meeting?

A. Not that I can recall.

Q. Were you and other members of the board told before the May 9th meeting the terms of the proposed settlement with Ms. Patrick?

A. My recollection was that the discussion with Ms. Patrick was fluid up until the board meeting. And so I can't -- I can't recall, you know, if -- you know, it was just fluid. It was ongoing. We were apprised periodically. But it was a fluid negotiation.

Q. Wasn't the board being asked to approve the settlement at the May 9th meeting?

THOMAS MARANO

A. Yes.

Q. So my question is -- well, let me see if I understood your answer. Are you telling me that until the meeting was actually held neither you nor the other board members knew the terms that had been negotiated and agreed upon in principal?

A. No, that's not what I'm saying.

Q. Okay. So my question is did you know the terms of the negotiated deal prior to the May 9th board meeting?

A. I was aware of the general concepts. Negotiations were going down to the wire. I don't know if it moved a little bit between my prior knowledge and the time of the board meeting. It was extremely fluid.

Q. How much prior to the May 9th meeting could you have been aware of the final negotiated terms as fluid as you've described the negotiations?

MR. PRINCI: Objection to form.

Q. What's the earliest you could have been aware?

THOMAS MARANO

MR. PRINCI: Objection as to form.

A. Well, I -- I knew there was some level of negotiation going on back in October.

Q. That wasn't my question. Since you've testified that the negotiations with Ms. Patrick were so fluid right up to the May 9th meeting that you are not sure when you found out about the terms that were agreed upon, I'm trying to find out what's the earliest possible time before May 9th, given how fluid everything was when you could have learned --

MR. PRINCI: Objection as to form.

Q. -- what the terms were?

MR. PRINCI: Misstates his testimony.

A. The earliest possible time would have been within a few days or hours.

Q. Okay. Could have been as late as a few hours before the meeting is what you are saying?

THOMAS MARANO

A. Could very easily have been.

Q. Okay. Prior to the proposed agreement with Ms. Patrick being presented to the board for formal approval did you authorize an agreement in principal on the terms that were ultimately presented?

MR. PRINCI: Objection to form.

A. I was kept appraised of the negotiations that were going on with Ms. Patrick by Gary Lee and Tammy Hamzephour. And I told them to keep working on trying to get the best deal possible.

Q. My question was prior to the time the agreement was formally presented to the board for approval, had you authorized -- had you authorized an agreement in principal on the terms that were ultimately presented to the board?

MR. PRINCI: Objection as to form.

A. I -- I don't think so. I authorized negotiations.

Q. Okay. We have seen that as of

THOMAS MARANO

You can answer it.

A. I agree that's what page 73 says.

Q. So you understood as of May 9, 2012, that it had been publicly disclosed that the estimated or the estimate of reasonably possible losses over time relating to the matters that were being settled was 0 to $4 billion?

MR. PRINCI: Objection. Misstates the record.

MS. PATRICK: Same objection.

A. Give me the date you just used.

Q. I'm saying as of May 9th, you knew that it had been publicly disclosed on April 27 that the estimate of reasonable -- reasonably possible losses over time related to -- relating to put-back claims or repurchase claims was 0 to $4 billion?

A. That is correct.

Q. Okay. As of May 9, 2012, exactly how many repurchase claims had actually been asserted against ResCap by

THOMAS MARANO

any RMBS trust?

A. I can't recall the exact number that had been asserted. I believe, you know, there was an FHFA lawsuit.

Q. Is that a trust?

A. I don't know. Actually I can't answer that question. I don't know.

Q. Isn't the answer 0?

A. I don't know.

Q. You don't know. Did you ever ask anyone prior to the May 9th meeting at which you were being asked to approve an $8.7 billion settlement whether anyone, whether any trust or certificate holder had actually sued ResCap for repurchase obligations?

MR. PRINCI: Just don't include counsel in the answer to that question, please.

MR. KAUFMAN: That's a fact. That's not a legal advice.

Q. Did anybody tell you that as a fact that any lawsuit like that had been filed?

THOMAS MARANO

A. Yeah. I don't -- I do not believe -- I actually think he's right. There had been no trust -- trustees that filed suits.

Q. So as of May 9, what you were settling you knew what you were settling was threatened claims not real claims, right?

MS. PATRICK: Objection to form.

A. On May 9th we knew that Kathy had, Kathy Patrick had aggregated enough investors to break the threshold at which she could order the trustees to file a claim. And that's why the scope of the settlement was much larger than was in the Q.

Q. Was it your understanding, Mr. Marano, that whatever amount Ms. Patrick had aggregated, her clients actually had the right to order the trustees to do something or did you understand they could merely request that the trustees do something?

A. My -- my understanding was that

THOMAS MARANO

A. I have to rely on the minutes. I can't recall.

The minutes suggest that it was held by telephone.

Q. Do the minutes accurately reflect what occurred at the May 9th meeting?

A. Yes.

Q. The minutes say that one of the board's members, Mr. Ilany, was unable to attend.

Why couldn't he attend?

A. I'm -- I don't know why he was not there. I don't remember.

Q. The minutes also reflect that two matters were addressed at the meeting, the proposed RMBS settlements and the Project Bounce update; is that correct?

A. Yes.

Q. How much time was devoted to each of those matters?

A. There was, you know, there was a considerable amount of time, you know, dedicated to both matters. I can't tell

THOMAS MARANO

you within the hour that the board meeting transpired, whether it was 50/50; but there was, you know, a fair amount of time.

Q. The entire meeting, according to the minutes, lasted an hour, correct?

A. Correct. I just can't tell you whether it was 30 and 30. I don't recall.

Q. Is it your best recollection that it was split approximately equally between the two matters?

A. I don't recall how much time was spent on each matter.

Q. In the next-to-last paragraph on the first page, the minutes say that during the discussion you requested that a report with separate line items identifying the different settlement amounts be prepared to provide the board with additional details on the settlements.

Do you see that?

A. Yes.

Q. Why did you want that

information?
A. For purposes of clarity.
Q. Clarifying what?
A. To help to make sure the board understood, you know, the components that made up the rep and warrant and PLS settlement.
Q. Was that report provided during the course of the hour meeting?
A. I do not believe it was.
Q. Why didn't you adjourn the meeting until you got the information you were looking for?
A. I think -- my recollection of this meeting is that we had enough of a basis to determine whether or not the settlement agreement was fair, and this was just clarifying details.
Q. Was there a written presentation that accompanied the May 9th meeting?
A. I don't recall if there was a presentation.
Q. Wasn't it the two-page document we looked at before that you got --

THOMAS MARANO

A. Oh, yes.

Q. -- just about 20 minutes before?

A. Yes. This is the same meeting.

Q. So that's the information that the board was looking at, when it was considering, on May 9th, whether to approve the settlement?

A. That is -- that is correct.

Q. Was there anything other than that two-page presentation the board was looking at, when it was asked to consider whether to approve the settlement?

A. Not that I recall.

Q. On the second page of the minutes regarding the Project Bounce update, it says that you and Mr. Nashelsky briefed the board on the status of various matters related to a potential ResCap Chapter 11 filing, including but not limited to the AFI settlement agreement.

Do you see that?

A. Yes.

Q. And that refers to the settlement agreement between ResCap and

THOMAS MARANO

that counsel for the institutional investors will have their fees paid by the debtors?

MS. PATRICK: Objection to form.

MR. PRINCI: Objection to form.

A. Yeah. I believe that the fees will be paid, yes.

Q. Do you have an understanding as to the amount of those fees that would be paid by the debtors?

A. I don't recall. And it may be in the document. I just don't recall.

Q. Okay. When the -- I think you previously discussed the May 9th board meeting at which the settlement agreement was considered. Was there any discussion at that meeting regarding the payment of the institutional investors' counsel fees?

A. I don't recall if that was a matter of discussion at the board meeting.

Q. Okay. Have you or anyone else on behalf of the debtors evaluated the reasonableness of the fees that would be paid to counsel to the institutional investors pursuant to the settlement agreement?

MS. PATRICK: Objection to form.

A. I have not looked at the reasonableness. I'm not -- again, I don't recall that I even knew what that number was.

Q. Are you aware whether anyone on behalf of the debtors has requested either bills or time sheets from counsel to the RMBS investors to substantiate fees that will be paid to them under the settlement agreement?

MR. PRINCI: Objection to form.

MS. PATRICK: Same objection.

A. I'm not the best person to answer that. My chief financial officer keeps track of all that information. If we received it, he'll have it.

Q. Okay. Is that -- that's Mr. Whitlinger?

A. Whitlinger.

Q. Okay. Whitlinger. I'm sorry.

Give me one moment.

Mr. Marano. You testified early that Mr. Ilany and Mr. Mack were responsible for the Ally ResCap negotiations, right, and you also testified earlier that -- I'm sorry the court reporter can't take down a head nod. Is that yes or no?

A. Yes.

Q. You also testified earlier -- backup. You also testified earlier that another group of people were responsible for negotiations with Ms. Patrick and Mr. Franklin's group; is that correct?

A. Yes.

Q. And who were those people responsible for negotiations with Ms. Patrick's group?

A. Tammy Hamzephour from general counsel of ResCap and Gary Lee who was -- who was counsel to ResCap via Morrison & Foerster.

Q. Anyone else responsible for negotiations with Ms. Patrick?

A. In the early stages when Ms. Patrick's letter first arrived Tim

Devine had been present but he did not represent ResCap in that meeting.

Q. I understand but my question is something different. I'm asking you overall who was responsible for the negotiations with Ms. Patrick?

A. Tammy and Gary Lee.

Q. Not Mr. Devine?

A. No. Not -- not on behalf of ResCap, no.

Q. I understand but I'm not -- I'm not making that distinction you are. So let me ask my question. Who was responsible for negotiating the RMBS settlement with Ms. Patrick?

MR. PRINCI: Objection. Asked and answered.

You can answer again.

A. Tim Devine was there. But Tammy Hamzephour represented ResCap and Gary Lee.

Q. And who did Mr. Devine represent?

A. Mr. Devine was there as a

THOMAS MARANO

representative of Ally I believe.
Q. So Mr. Devine represented Ally?
A. Yes.
Q. Did anyone else to your knowledge have significant involvement with the negotiations with Ms. Patrick?
A. Our risk team was involved, Jeff Cancelliere.
Q. Anyone else?
A. No.
Q. And Jeff Cancelliere, who did he work for?
A. He -- he worked for the risk group.
Q. I understand. Was that risk group with Ally or risk group with ResCap?
A. Within -- within ResCap.
Q. So he did not work for Ally?
A. Again, there was a period -- there was a period in 2012 where the roles of the various global functions began to disengage from Ally. For a period of time Jeff would have reported to Todd Cushman. At some point I believe Jeff would have

EXHIBIT F

From: Solomon, William Legal
Sent: Wednesday, October 19, 2011 1:47 PM
To: Carpenter, Michael; Yastine, Barbara; Marano, Tom; Hamzehpour, Tammy; Brown, Jeff; Mackey, James; Pinkston, Corey
Subject: PLS Claimant

Yesterday, I received the attached letter from Kathy Patrick, a Houston attorney, requesting to meet with Ally representatives next week to "seek a resolution of repurchase and servicing claims with Ally". Ms Patrick represented the claimants in the $8.5 billion settlement with BofA.

I am meeting with Tim Devine and the litigation team later today to develop a recommend approach for dealing with this.

EXHIBIT
PENGAD 800-631-6989
9019-48
11/12/12

GIBBS BRUNS

Kathy D. Patrick
kpatrick@gibbsbruns.com
713.751.5253

October 17, 2011

Via Federal Express

William B. Solomon, Jr., Esq.
General Counsel
Ally Financial Inc.
200 Renaissance Center
Detroit, Michigan 48265

Dear Mr. Solomon:

This firm represents investment advisers and holders of Residential Mortgage Backed Securities (RMBS) issued and/ or underwritten by Ally Financial Inc. and/or its affiliates ("Ally"). The aggregate outstanding balance of the 242 Ally deals in which our clients collectively hold 25% or more of the voting rights of a class in that deal, exceeds $51 billion. The aggregate outstanding balance of the 173 Ally deals in which our clients collectively hold 50% or more of the voting rights of a class in that deal, exceeds $36 billion.

There is widespread, readily available evidence suggesting that large numbers of mortgages securing the certificates held by our clients were sold or deposited into the RMBS pools based on false and/or fraudulent representations and warranties by the mortgage originators, sellers and/or depositors. This evidence includes, but is certainly not limited to:

- excessive early default and foreclosure rates experienced in the underlying mortgage pools;

- a loan-level analysis of Ally RMBS conducted by the Federal Housing Finance Agency (FHFA), which revealed that up to 13% of the mortgage loans in Ally RMBS breached owner-occupancy representations and warranties, and that up to 49% of the mortgage loans in Ally RMBS breached Loan-to-Value representations and warranties[1];

[1] Our clients collectively hold 25% or more of the voting rights of a class in 18 of the 21 Ally deals which FHFA analyzed.

- MBIA's lawsuits against Ally, reporting that its loan-level analysis of various Ally RMBS showed that high numbers of mortgages in the pools were ineligible at origination[2];

- detailed allegations in securities cases against Ally, which suggest widespread deficiencies in Ally's underwriting practices, including inaccurate representations and warranties regarding important loan characteristics such as borrower incomes and home appraisals[3];

- substantial downgrades of the certificates by credit rating agencies; and

- Ally's own apparent acknowledgement that it is potentially liable for violations of representations and warranties in Ally RMBS, evidenced by its $829 million reserve for repurchase liabilities as of June 30, 2011, which relates "primarily" to non-GSE exposure,[4] as well as its statement that such liabilities are "most significant for loans originated and sold between 2004 through 2008, specifically the 2006 and 2007 vintages ***that were originated and sold prior to enhanced underwriting standards and risk-mitigation actions implemented in 2008 and forward.***"[5]

In addition, there is widespread, readily available evidence suggesting that Ally, as servicer and/or master servicer of mortgage loans securing the certificates held by our clients, has failed to observe and perform the covenants and agreements imposed on it by the governing agreements, and has failed to meet its duty to prudently service those mortgage loans, including, but certainly not limited to:

- Ally's admittedly flawed and "embarrassing"[6] mortgage loan servicing and foreclosure practices, including deficient document signing practices, leading to Ally's foreclosure suspension and review in Fall 2010;

- Ally's April 2011 consent order with the Board of Governors of the Federal Reserve System and the FDIC, which alleged that, in connection with certain

---

[2] MBIA has reported that 89% of adversely selected loans from 3 separate GMAC securitizations were not originated in material compliance with GMAC's underwriting guidelines or representations and warranties. *See* Complaint ¶ 6, *MBIA Ins. Co. v. GMAC Mortg., LLC*, No. 600837/2010 (N.Y. Sup. Ct.). MBIA has also reported that 93% of adversely selected loans from 5 separate RFC securitizations were not originated or acquired in material compliance with RFC's representations and warranties. *See* Complaint ¶ 46, *MBIA Ins. Co. v. Residential Funding Co., LLC*, No. 603552/2008 (N.Y. Sup. Ct.).

[3] *See, e.g.*, Complaint, *Mass. Mut. Life Ins. Co. v. Residential Funding Co.*, LLC, No. 3:11-cv-30035 (D. Mass.).

[4] *See* Ally Financial Inc.'s Second Quarter 2011 Form 10-Q at 83.

[5] *See id.* at 81 (emphasis added).

[6] *See* Dakin Campbell and Natalie Doss, *Ally Will Keep ResCap, 'Screwed Up' Using Robosigners*, BLOOMBERG NEWS, Nov. 3, 2010.

foreclosures of loans in Ally's servicing portfolio, Ally engaged in "unsafe or unsound banking practices" because, among other reasons, Ally filed or caused to be filed in courts inaccurate affidavits, filed or caused to be filed in courts or in land record offices improperly notarized mortgage-related documents, litigated or initiated foreclosure proceedings without ensuring proper assignment and possession of promissory notes or mortgage documents, failed to devote adequate resources to foreclosure processes, failed to ensure timely, effective, and efficient communication with borrowers with respect to loss mitigation and foreclosure activities, failed to subject its foreclosure processes to adequate oversight, internal controls, policies, and procedures, and failed to sufficiently oversee third parties handling foreclosure-related services;

- ongoing investigations by state attorneys general and other government agencies into Ally's mortgage loan servicing and foreclosure-related practices;

- evidence of wholly avoidable and unnecessary servicing fees to maintain mortgaged property, which have resulted from Ally's flawed mortgage loan servicing and foreclosure practices; and

- Ally's apparent failure to notify other parties to the governing agreements of mortgage loans in the pools that violated representations and warranties at the time they were sold into the pools, and its apparent failure to enforce the sellers' obligations to cure, substitute, or repurchase such loans, as Ally is required to do under the governing agreements.

Based on this and other evidence, our clients believe that large numbers of ineligible loans were sold or deposited into, and remain in, the RMBS pools securing the certificates. Under the governing agreements, Ally has substantial repurchase liability for such loans. Our clients further believe that Ally's failure to observe and perform the covenants and agreements imposed on it by the governing agreements, and to meet its duty to prudently service those mortgages, may constitute a servicer event of default under the governing agreements.

Our clients are not willing to suffer further losses resulting from ineligible loans in the pools and improper servicing of the loans in the pools, and they wish to seek a resolution of repurchase and servicing claims with Ally. As such, our clients hope and anticipate that Ally will begin a constructive dialogue with them regarding the concerns raised by this letter. If, however, Ally proves to be an obstacle to their efforts to mitigate such losses, our clients fully intend to exercise their rights under the governing agreements—including the issuance of binding instructions to Trustees—to pursue enforcement of repurchase and servicing claims against Ally.

Should Ally wish to begin a constructive dialogue regarding these issues, please make appropriately senior legal and business personnel available to meet with me and various of our clients on Thursday, October 27, 2011. To arrange the details of this meeting, please contact me as soon as possible.

Very truly yours,

Kathy Patrick

Gibbs & Bruns LLP · 1100 Louisiana · Suite 5300 · Houston, Texas 77002 · T 713.650.8805 · F 713.750.0903 · www.gibbsbruns.com

EXHIBIT G

ally

William B. Solomon, Jr.
Group Vice President and General Counsel

October 21, 2011

Via Federal Express

Kathy Patrick, Esq.
Gibbs & Bruns LLP
1100 Louisiana
Suite 5300
Houston, TX 77002

Dear Ms. Patrick:

I am in receipt of your October 17, 2011 letter. None of the transactions that you describe in your letter involved Ally Financial Inc., so it would be inappropriate to engage you on the issues.

For your information, the General Counsel of Residential Funding Corporation and GMAC Mortgage is Tammy Hamzehpour, whose address is 1100 Virginia Drive, Fort Washington, Pennsylvania 19034.

Sincerely,

William B. Solomon Jr.

EXHIBIT
PENGAD 800-631-6989
9019-121
11/19/12

200 Renaissance Center Phone: 313-656-6128 Mail Code: 482-B09-B11 Fax: 313-656-6124 Detroit, MI 48265 E-mail: william.b.solomon@ally.com

EXHIBIT H

From: Solomon, William Legal
Sent: Wednesday, October 26, 2011 7:48 PM
To: Carpenter, Michael; Yastine, Barbara; Marano, Tom; Brown, Jeff; Pinkston, Corey; Mackey, Jim; Devine, Timothy; Hamzehpour, Tammy
Cc: Hagens, David; Ruckdaschel, John
Subject: PLS Claimant -- PRIVILEGED AND CONFIDENTIAL

Attached please find the response from attorney Kathy Patrick in reply to my reply to her original letter. The issues are beginning to crystallize. I do not intend answering.

EXHIBIT
PENGAD 800-631-6989
9019-51
11/12/12

GIBBS BRUNS

Kathy D. Patrick
kpatrick@gibbsbruns.com
713.751.5253

October 25, 2011

Via Federal Express

William B. Solomon, Jr., Esq.
General Counsel
Ally Financial Inc.
200 Renaissance Center
Detroit, Michigan 48265

Dear Mr. Solomon:

I am in receipt of your October 21st, 2011 letter. As you know, Ally Financial Inc. ("Ally") is the parent and 100% owner of GMAC Mortgage Group, Inc. ("GMACM"). Residential Capital, LLC ("ResCap"), in turn, is a wholly-owned subsidiary of GMACM. ResCap is the direct or indirect parent of the parties to the pooling and servicing agreements at issue, including GMAC Mortgage and Residential Funding, to which you referred in your letter.

In response to your suggestion, I will forward my October 17th, 2011 letter to Ms. Hamzehpour, who appears to be the General Counsel of Ally's Mortgage Operations, as well as the General Counsel of ResCap.

Our clients do not, however, accept your assertion that Ally Financial Inc. does not ultimately bear the liability associated with the repurchase and servicing claims described in my October 17th letter. Ally does.

Very truly yours,

Kathy Patrick

EXHIBIT I

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

-----------------------------------x

In Re: Case No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

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VIDEOTAPE DEPOSITION OF TAMMY HAMZEPHOUR

New York, New York

November 13, 2012

9:43 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27903

November 13, 2012

9:43 a.m.

Deposition of TAMMY HAMZEPHOUR, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

the Minneapolis office. Also my capital markets partner, John Ruckdaschel, was there, and Tim Devine from Ally.

Q. How long did the meeting last?

A. Three hours, maybe. I don't remember exactly.

Q. Can you please describe for me, in as much detail as you can remember, what the discussion was?

A. Ms. Patrick did most of the talking in the beginning of meeting. She talked to us a bit about who her investor clients were and their holdings that were represented across the spectrum of our securitization deals. She indicated that they believed they have claims against us and against Ally.

We talked about some of the work she had done in preparation for the meeting, and she mentioned that she had reviewed our prospectuses for the deals, that she had reviewed loan and servicing agreements, that she was familiar with the structure and the language and the

TAMMY HAMZEPHOUR

disclosures as across those deals, and that she had created a matrix of rep and warranty language, basically, among the deals.

She spoke a little bit about her pending settlement with Bank of America.

She mentioned that she had not notified any of the trustees about the meeting we were having, because we asked if the trustees knew that she was there, and she said no.

Talked about her theory of the case. She felt that she had claims, rep and warranty breaches, also servicing claims; and she felt that they had extended both to GMAC Mortgage and RFC, who were sponsors of different securitizations in which her investors had an interest.

And also that they viewed Ally, likewise, as responsible.

Q. Who said what on the ResCap and Ally side, as best you can remember?

MR. RAINS: Objection. Vague

TAMMY HAMZEPHOUR

A. Yes.

Q. Did you understand what Mr. Devine was referring to by "clarity of purpose or comprehensive third-party releases"?

A. Yes.

Q. What was your understanding?

A. That third-party releases would be required, in order to achieve a substantial contribution from AFI.

Q. And Mr. Devine had made that clear to you, had he not?

A. It was clear to everyone internally, in the context of the discussions that were beginning to take shape at this, in this time frame.

Q. So as far as you were concerned, or I should say as far as you knew, there would be no contribution from AFI without third-party releases to AFI; is that correct?

MR. RAINS: Objection.

Misstates her testimony.

A. No, that's not what I said.

TAMMY HAMZEPHOUR

There may be a contribution, but a substantial contribution would need comprehensive third-party releases.

Q. Okay. Did you speak with Mr. Devine and Mr. Lee at or about 11:00 a.m. that morning?

A. I don't remember.

Q. Do you recall whenever the meeting occurred or -- well, let me ask you this: Was there a conversation following up on this e-mail chain?

A. I'm sure there were -- there were many conversations taking place around this topic. So I don't know if this one happened at 11:00 a.m. or not.

Q. Okay. When you received Mr. Devine's April 17th e-mail, the one sent at 9:57 a.m., did you express then or thereafter any disagreement with Mr. Devine's recommendation as to how to deal with Ms. Patrick?

A. I don't remember if I did.

Q. You don't remember one way or the other?

A. No.

Q. You weren't coordinating that, were you?

A. No. Gary Lee was coordinating that.

Q. Who was the one who was communicating with Ms. Patrick about the status of the documents?

MR. RAINS: Objection. Assumes facts not in evidence.

Q. To your knowledge?

A. Gary was communicating with her and Tim as well. I assume K&E was involved for Ally.

Q. Okay. Was Mr. Devine coordinating the negotiations with Ms. Patrick concerning the amount of the allowed claims she would get in a settlement?

A. No. He participated in those discussions.

Q. What was your participation in that discussion?

A. I was present for some of the

discussions, not all of them, as they shaped up over a week or two of negotiations. I was aware, I was kept informed by Gary of what was going on and the developments as they were happening.

Q. So if I understand you correctly, the people who were communicating with Ms. Patrick over the amount of the allowed claim would have been Mr. Devine and Mr. Lee?

A. And Mark Renzi and Jeff Cancelliere and other folks who were in the meetings where these things were being discussed.

Q. Okay.

MR. KAUFMAN: Let's mark as the next exhibit an e-mail chain on May 7, 2012. Bates numbers RC 9019_00049157 through 59.

(9019 Exhibit 85, e-mail chain dated May 7, 2012, Bates RC 9019_00049157 through 59, marked for identification, as of this date.)

Q. Please take however long you

20 percent of their allowed claim to ResCap LLC. This provision was added to protect the investors in the event that a larger than expected portion of the Ally settlement proceeds is allocated to ResCap LLC based on alter ego type claims (as opposed to RFC and GMACM as we anticipate)."

Do you see that?

A. Yes.

Q. That was a description of the so-called Holdco election, wasn't it?

A. Yes.

Q. Was ResCap's board of directors asked to consider and approve that amendment to the RMBS trust settlement agreement?

A. I don't remember that there were.

Q. Weren't you the one who approved that?

A. I approved it -- I signed it after discussing with counsel and Mr. Marano.

TAMMY HAMZEPHOUR

Q. Who authorized you to sign it?

A. I don't think anyone gave a specific direction to sign it.

MR. KAUFMAN: Just take a few minute break.

THE VIDEOGRAPHER: The time is 11:36 a.m. and we are off the record.

(Whereupon, there is a recess in the proceedings.)

THE VIDEOGRAPHER: The time is 11:55 a.m. and we are back on the record.

Q. Ms. Hamzephour, I just have a couple of questions more.

A. Sure.

Q. I understand that you may have had one or two telephone calls with Ms. Patrick in or around November of 2011 in connection with the first meeting with her in Minneapolis. Did you have any telephone calls with her in 2012?

A. Not one-on-one that I remember.

Q. You have been identified as the debtors -- one of the debtors fact

Q. Do you recall -- withdrawn.

In reviewing the settlement agreement and section 6.04, did you make any assessment of whether or not the legal fees provided for for the Steering Committee counsel were reasonable?

A. No. I didn't -- I didn't determine it one way or the other.

Q. You didn't do it at all?

A. No. I mean I didn't -- I didn't consider an analysis of whether I thought they were reasonable fees.

Q. Do you think that was an important thing to do?

A. No.

Q. Why not?

A. They weren't -- they weren't fees that the debtors were paying. So I'm not sure why I would set the fees for these investors between themselves and their lawyer.

Q. Right. But you testified earlier that the fees that they received were going to come out of the allowed

EXHIBIT J

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

-----------------------------------x

In Re: Cae No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

-----------------------------------x

VIDEOTAPE DEPOSITION OF TIMOTHY DEVINE

New York, New York

November 19, 2012

10:17 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27973

November 19, 2012

10:17 a.m.

Videotape Deposition of TIMOTHY DEVINE, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

TIMOTHY DEVINE

MR. BRYAN: You know that production of a document has nothing to do with where to draw the line on attorney-client communications. Mr. Devine is not going to disclose his communications with his clients and the legal advice he provided.

MR. KAUFMAN: Okay.

Q. In any event, you said the first step was to get confirmation of Ms. Patrick's representation, right?

A. That's what the e-mail reflects.

Q. And you were the one who was coordinating that effort; is that correct?

MR. BRYAN: Objection to form.

A. I had been asked to interface with Kathy Patrick.

Q. And did you follow up and request that information from Ms. Patrick?

A. I don't remember doing so but I presume that I did. It looks here that Tammy asked me to do that and I was doing that.

Q. Do you have some specific

require releases both from the R&W claimants as well as from ResCap?

MR. BRYAN: Object to form.

A. So if -- if I understand your question, what I communicated to Kathy Patrick was that in connection with the settlement agreement she was trying to reach with the debtor, for which she sought Ally's support and assurance that Ally wouldn't object to it, Ally would seek a release -- Ally would seek the support of her clients of the plan that was being negotiated between ResCap and Ally at the time.

Q. And that plan would include releases both from third-party claimants such as her clients and ResCap, right?

A. The plan being negotiated between ResCap and Ally?

Q. Yes.

A. The plan being negotiated between ResCap and Ally would include a debtor release as well as a provision for third-party nonconsensual releases, that's

TIMOTHY DEVINE

settlement?

A. I don't remember as of May 4th.

Q. Okay.

A. The days -- it's going to be very difficult for me to remember the particular days. Those conversations were very concentrated during that time.

Q. Well, the amount of AFI's contribution towards this settlement was important to AFI, wasn't it?

A. Toward the -- toward the ResCap settlement?

Q. In this settlement.

A. Well, we weren't -- we weren't contributing to this settlement.

Q. Yeah, okay. I guess technically that may have been true, Mr. Devine, but you certainly understood as both negotiations were proceeding that the money, whatever it might be, that AFI was going to settle with ResCap for was going to wind up in a settlement with Ms. Patrick, right?

MR. PRINCI: Objection as to

form.

MR. BRYAN: Same objection.

A. What -- I certainly understood that Kathy Patrick was negotiating with ResCap for an allowed claim which would govern or -- govern in part or would potentially go toward resolution of the eventual disbursement to her clients and the class that are clients were in in the estate. And that obviously the quantum of the recovery of the estate, from whatever source, was very interesting to her and her clients.

Q. And the amount that AFI would be paying for the releases from ResCap and third parties was important to AFI, was it not?

A. Yes.

MR. BRYAN: Object to the form.

Q. Okay.

MR. KAUFMAN: Why don't we take a lunch break now. It's 1:30.

MR. BRYAN: What time do you want to reconvene?

TIMOTHY DEVINE

for PLS rep and warrants at about 4 billion when you add and subtract for other contingencies and whether or not we create any securities law/disclosure exposure if we stipulate to a claim by KP at 10, meaning 10 billion.

Q. And on that issue you wrote, "Need an answer as to whether stipulated allowed claim creates securities/SEC/disclosure risk for us on these facts and if yes, how much risk really in comparison to the risk that will blow the chance to get third-party releases," right, that's what you said?

A. Are you asking me what the e-mail says?

Q. Did I just read that correctly?

A. You read that correctly.

Q. Okay. And you were weighing the relative risks to AFI of facing securities law violations based on what AFI had said in its 10-Q or blowing AFI's chances of getting third-party releases as part of a settlement with Ms. Patrick, right?

MR. BRYAN: Objection to form.
The document speaks for itself.
Q. Those are the two risks you were weighing, securities law violation exposure or blowing chance to get third-party releases as part of the Kathy Patrick settlement?
MR. BRYAN: Objection to form.
A. It's really a false comparison. They answer two different questions.
Q. I'm just asking you whether that was what you were asking Mr. Cieri and Mr. Lee. You needed an answer as to the relative risks on the one hand of exposure to the SEC or the investing public and on the other hand blowing chance to get third-party releases?
A. No.
MR. BRYAN: Objection to form.
MR. PRINCI: Objection as to form. Asked and answered.
A. No. What -- at that time and at every moment from then to and through today I have been confident that there is

no risk of a securities claw -- securities law/SEC disclosure risk and that there was no such risk. The securities disclosures had been made appropriately, according to all the appropriate processes, and were then and are now in my view accurate and fully compliant with all the law and regulations. The question was not whether there was any defect, legal or otherwise, in connection with AFI's consolidated disclosures from a securities/SEC disclosure or any other risk, those are -- those were accurate and appropriate and lawful at the time and they stand the same today.

The question to these people was not with regard to what had already taken place, because I had no doubt and do not have any doubt today as to the lawfulness of those 10-Qs, it was whether or not in undertaking to resolve a disputed claim in a compromise setting, whether there was any potential exposure to that settlement or whether that settlement created any

TIMOTHY DEVINE

Q. Did the information Mr. Cancelliere gave to you in this e-mail make you comfortable with an allowed claim at $8.7 billion?

MR. BRYAN: Object to form.

A. What do you mean by comfortable?

Q. Willing to go along with it.

A. All right. So with that understanding in terms -- willing to go along with it in the context of the negotiation of a settlement by ResCap of an allowed claim based on that number?

Q. Yes.

A. I'm not sure as of 5/9/2012 at that time whether I was comfortable with it or not. Because it was only one term in a very complicated series of transactions. And it would have been within that much, much larger context as to whether or not I would have advised the client or not that that was a comfortable number.

Q. Were you representing ResCap on May 9th, 2012?

TIMOTHY DEVINE

A. In connection with the resolution with Kathy Patrick, no.

Q. Were you -- okay. So what you just said is incorrect, right? It had nothing to do with your advising the client on that number. I'm asking you whether you were comfortable as Ally's lawyer with an $8.7 billion number based on the information Mr. Cancelliere gave to you in his May 9th e-mail?

MR. PRINCI: Objection as to form.

MR. BRYAN: Objection as to form.

A. That's how I understood your question.

Q. Right, okay. So that was the client, AFI?

A. Correct.

Q. Okay. Do you recall one way or another whether an $8.7 billion allowed claim had been agreed to as of May 9th, 2012, at 7:17 a.m.?

A. Do I recall that right now

TIMOTHY DEVINE

of the conversation, at least from my perspective in the deal.

Q. Mr. Devine, given what you have claimed is your limited expertise, why were you injecting yourself into the discussion on these matters? Why didn't you just let Mr. Schrock and Mr. Lee hash it out?

MR. BRYAN: Objection as to form.

A. I was driving a deal to conclusion.

Q. What deal?

A. The deal that is represented in gross by the resolution between the ResCap estate and the RMBS claimants, both the Kathy Patrick and Talcott Franklin in the one sense and also the tripartite agreement between Ally, the ResCap entities and the claimants. And I thought it was a good deal and I still to this day think it's a good deal. And I saw that to my mind anyway the essential elements of a deal had been worked out that were their claims?

MR. BRYAN: Object to form. I knew -- I certainly knew that the monolines were not a signatory party to the settlement. But it was my understanding that the claims that they would or could enunciate in connection with the securities subject of the settlement would be included within the scope of the allowed claim.

Q. You said, "And we can define securities claims narrowly." What do you mean by that?

A. What I meant by securities claims was claims brought by securities holders on traditional federal securities law or state blue sky or the closely Allied state common law fraud claims that would be characterized typically as a securities based claim.

Q. A bit further down in your e-mail you said "The circle is squared at the plan. KP can only get us the everything but securities settlement release because that is the full extent of her representation. She has been clear about that. Same as in her" BofA -- "B of New York Mellon work, etc."

Do you see that?

A. Yes, I do see that.

Q. And then you said "But notice, though her clients don't release securities claims, they sign plan support agreements and the plan includes very simple comprehensive releases, which of course include third-party release of all claims which of course includes securities claims. Presto. So while she can't represent parties in giving up their securities claims, clients face a choice, either sign up with the settlement to make sure your trust receives monies under the waterfall in which case you need to sign the plan support agreement and support the plan. And the plan wipes out all their claims of any sort. This is the beauty of it."

Do you see that?

TIMOTHY DEVINE

A. I see that.

Q. So you were explaining how execution of the plan support agreement achieved releases of securities claims even if the settlement agreement itself did not, correct?

A. What I was explaining is that in signing up for the settlement agreement between ResCap and -- with ResCap those parties were committing to sign a plan support agreement simultaneously, which to my understanding represented their valuation of the securities claims they were giving up and therefore they were supporting a plan which would include release of securities claims against the debtor and release of securities claims, such as they might be, against Ally Financial.

Q. And you thought that was pretty clever, didn't you?

MR. BRYAN: Object to form.

MR. PRINCI: Objection as to form.

TIMOTHY DEVINE

A. Well, I sent an e-mail to Gary Lee, Jamie Levitt, Noah Ornstein and John Ruckdaschel, cc'd Cieri and Schrock at 4:29.

Q. Right. And you sent that e-mail in response to Mr. Lee's e-mail at 4:26 on May 12th, didn't you?

A. Yeah, I'm not sure if it's in response but I did send him an e-mail a couple minutes later.

Q. And you wrote, "Got it. Had call with KP. We told her PSA support whole hog is drop dead." That's what you wrote, right?

A. That's what I wrote.

Q. And is that what you told Ms. Patrick?

A. I don't remember if I told her whole hog but if I read this sitting here now, it looks like I was communicating to that group that I told her that she had to support the PSAs in full. And that that was a provision that Ally would insist on to the extent Ally could insist on

TIMOTHY DEVINE

anything.

Q. And by using the phrase "drop dead" you meant it was nonnegotiable from Ally's perspective, right?

A. I meant that if she wanted our participation in the PSA she needed to support it.

MR. KAUFMAN: Let's mark as the next exhibit an e-mail chain on May 13, 2012 between Mr. Devine and Talcott Franklin.

(9019 Exhibit 155, e-mail chain dated May 13, 2012 between Mr. Devine and Talcott Franklin, marked for identification, as of this date.)

A. Okay.

Q. Looking at the first e-mail in this chain which starts at the bottom of the first page, did you send that e-mail to Mr. Franklin at 12:16 p.m. on May 13th -- I'm sorry -- at 1:28 p.m. on May 12th?

A. It looks like I did. Again, I'm not sure of the timing but it looks like I

EXHIBIT K

In Re:

RESIDENTIAL CAPITAL, LLC, et al.

Case No. 12-12020-mg

October 4, 2012

---

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
Case No. 12-12020-mg
- -x
In the Matter of:

RESIDENTIAL CAPITAL, LLC, et al.,

Debtors.

- -x

United States Bankruptcy Court
One Bowling Green
New York, New York

October 4, 2012
11:12 AM

B E F O R E:
HON. MARTIN GLENN
U.S. BANKRUPTCY JUDGE

THE COURT: The same thing. You know, that's not the same thing as saying he saw the document.

MR. MALONEY: No, he may have seen the documents, but, Your Honor, it goes to the same question as --

THE COURT: You're overstating your position, Mr. Maloney.

MR. MALONEY: Right, and I apologize. But let me cut back to why I stood up besides pointing out we got zero documents. It's the same story of self-selection by Mr. Mack of what was relevant, as best I can tell from the meet and confer, rather than the lawyer looking to prove his documents. And Rule 26, lawyers have to certify that the production is reasonable. You can't do this.

MR. PRINCI: Your Honor, we'd be happy to continue to speak to the debtors' counsel about this. If it requires briefing -- we don't believe that the case cited is the standard, but if it requires briefing we'll brief the issue for the Court. I'd like my partner Mr. Rains though to address the specific allegations about our document production not being complete or timely. So, Mr. Rains, if you can address the Court on that please?

MR. RAINS: Thank you, Tommy. Good morning, Your Honor, I apologize for finding myself stuck on the West Coast today. Just a couple of quick points. I'm not sure I captured every criticism, but let me hit the highlights if I can.

First, the April 1 cut-off is a date range that we applied for our e-mail searches, and we did it for the simple reason that our review of the documents shows that the negotiations began on April 16, and that's based on documents that the creditors' committee has. So, based on our review of documents and our confirmation that the negotiations began in April we began our searches on April 1st.

Search terms. Yes, we used domain names for the -- well, let me back up. There are two ways to collect emails for some groups of people including the people at my law firm. We went to our IT department and actually collected all e-mails in their mailboxes, and as to those people we applied search terms. The search terms we used for the lawyers in our firm were largely e-mail addresses and domain names, which, as the Court can imagine, are much more inclusive than subject matter search terms. We searched for all communications to anyone who could have been involved in the settlement process. That is the search that we ran, adding search terms on subject matter to that would produce subsets, but subsets are the documents we've already produced.

As to other people such as consultants, FTI and Centerview, in particular, we did begin by interviewing them and asking them where they stored documents relevant to the settlement process. As you can imagine, they are involved in many activities for the debtor, most of which have nothing to

EXHIBIT L

Outlook E-mail

From: Devine, Timothy
Sent: 4/17/2012 9:57:19 AM
To: Lee, Gary S.; Hamzehpour, Tammy
Subject: RE: Kathy Patrick follow-up

Would 11 am work?

Short story: Gary and I had very constructive talk yesterday on number of issues. On KP next steps, I don't think we should share dollar range of potential AFI contribution (Gary and I had discussed including some figures). I think it's premature given that business has not got to a number yet. Can always share with her at next round of discussion. Would recommend we simply indicate all the rest – the structure of the proposed outcomes, the potential for substantial contribution from AFI, fragility of the goal but clarity of purpose for comprehensive third party releases, etc.,

Thanks,

Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Tuesday, April 17, 2012 9:33 AM
To: Devine, Timothy; Hamzehpour, Tammy
Subject: RE: Kathy Patrick follow-up

How is 10.30?

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Devine, Timothy [mailto:Timothy.Devine@ally.com]
Sent: Tuesday, April 17, 2012 9:29 AM
To: Hamzehpour, Tammy; Lee, Gary S.
Subject: Kathy Patrick follow-up

Let's find 10 minutes to talk this morning. Will catch up and make plans for next steps. Thanks. Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

PENGAD 800-631-6989 EXHIBIT 9019-76 11/13/12

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EXHIBIT M

Outlook E-mail

From: Hamzehpour, Tammy
Sent: 4/23/2012 8:54:01 PM
To: Devine, Timothy
Subject: RE: Prep for KP

Yes, let's walk through it tomorrow. I'm fine with not raising her expectations, so long as (to your point) there are analytics to support what we would show her. I can't speak as to the proposed settlement with AFI, as MoFo is much closer to that than I am. We can cover in the same conversation.

Tammy

-----Original Message-----
From: Devine, Timothy
Sent: Monday, April 23, 2012 8:38 PM
To: Hamzehpour, Tammy
Subject: Prep for KP

Tammy:

Thinking of waterfall for KP.

Would like to recommend 3, 4, 6 rather than 4, 5, 6 as low medium high. Thought is that we creat flexibility for discussion re potential losses beyond reserves. I will provide analytics to demonstrate how one could get to 3, 4 or 6. Point is not to persuade KP that such range is correct. She will have strong instinct to dispute it as unrealistically low. We are ok with her informing us otherwise, so long as she comes away knowing that ratcheting up those ranges leads automatially to lower percentage recoveries, by simple math in light of afact that there will only be X or Y real dollars available. What we will sell, though, is basedon strength of Gary's waterfall presentation as btwn GMACM and RFC in the two scenarios. The message to her will be clear - get on board.

Finally, I recommend we use 750 million rather than one billion as potential AFI contribution. I don't have basis to say it should be a billion, and it would be better to leave some room for negotiation. If we want to use a billion we will need clearance from AFI and I haven't spoken to Mike.

I recommend we take advantage of tomorrow's meeting of you, me, Kirkland and MoFo to run through the KP draft slides. Your thoughts?

Thanks.

Tim

EXHIBIT
PENGAD 800-631-6989
9019-79
11/13/12

EXHIBIT N

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

-----------------------------------x

In Re: Case No.

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

-----------------------------------x

VIDEOTAPE DEPOSITION OF JOHN RUCKDASCHEL

New York, New York

November 8, 2012

9:37 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27643

November 8, 2012

9:37 a.m.

Deposition of JOHN RUCKDASCHEL, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

JOHN RUCKDASCHEL

made by the seller. They are passed to the depositor and then passed to the -- to the trust. So one of the -- if somebody sends you a loan and says you need to repurchase this loan because, because it defaulted, the first response would be, well, what representation or warranty are you suggesting that this loan breaches. Because you would not, you would not repurchase a loan that doesn't -- that doesn't breach a rep or warranty. So that would be, you know, that would be an example of the document based discussion.

Q. Is that a defense that it didn't breach a representation or warranty?

A. If the person who is throwing the loan over the fence saying, you know, buy this loan back cannot point to a representation or warranty that's been breached, the depositor and the sponsor actually cannot repurchase the loan. It does not trigger the repurchase obligation.

Q. And this is even if the loan has

defaulted?

A. Even if the loan has defaulted. There's not -- there's not a guarantee put on the transaction.

Q. What other defenses did you raise?

A. So another example of -- and this won't come as a surprise to any of the securitization folks, there's the concept of loss causation. That even if, even if you say a plaintiff or just a counterparty says here's a loan, you need to buy it back, it has defaulted, you know, because it has breached the representation or warranty and the breach in question has nothing to do with the default, the argument is that, well, the loss in question was not caused by the default, it was caused because the borrower, you know, lost his job, you know, got sick. Those sorts of things.

Q. And in that situation you wouldn't repurchase the loan?

A. The -- the argument is that no,

JOHN RUCKDASCHEL

we would not. The sponsor and depositor would not have to repurchase the loan under those circumstances because the breach in question did not cause the loss.

Q. In your time at ResCap, are you aware if ResCap did repurchase some loans under this rule or did they refuse to purchase loans which didn't show loss causations while you were there?

A. I don't have, you know, personal knowledge of that. But my understanding is that, you know, we have a repurchase group and the repurchase group would not repurchase a loan where the -- the loss was not caused by a breach of a representation or warranty. You know, the classic example is there's supposed to be some document in the file. You can't find the document. But the borrower has -- has defaulted because they lost their job. Well, a missing document has nothing to do with the default in question.

Q. And you weren't the person in charge of putting numbers to any of these

JOHN RUCKDASCHEL

A. The --

MR. RAINS: Wait for a question.

THE WITNESS: Okay. Sorry.

Q. Did you understand Mr. Devine in that conversation to be representing Ally or ResCap?

A. As I said earlier, my understanding is that in the RMBS settlement discussions that Tim was representing Ally.

Q. Do you recall Mr. Devine's response to your indemnification issue that you raised?

A. I don't -- I don't recall the specifics.

Q. Do you recall if he agreed or disagreed?

A. I think he -- I think he agreed with me that it was -- it was a good idea but as I recall I think it wasn't something that we were -- that the parties wanted to, you know, have the deal fall apart just on a trustee indemnity issue.

Q. So it wasn't drop dead for the

EXHIBIT O

Outlook E-mail

Confidential

From: Cancelliere, Jeff - PA
Sent: 5/7/2012 11:29:28 PM
To: Devine, Timothy; 'mark.renzi@FTIConsulting.com'; Lee, Gary S.; Hamzehpour, Tammy; 'rcieri@kirkland.com'; 'rschrock@kirkland.com'; Thompson, William - Legal Dept - PA; Delehey, Lauren - PA; Ruckdaschel, John
Cc: Nashelsky, Larren M.; 'william.nolan@FTIConsulting.com'
Subject: RE: KP

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

EXHIBIT
PENGAD 800-631-6989
9019-41
11/8/12

From: Devine, Timothy
Sent: Monday, May 07, 2012 10:14 PM
To: 'mark.renzi@FTIConsulting.com'; 'glee@mofo.com'; Hamzehpour, Tammy; 'rcieri@kirkland.com'; 'rschrock@kirkland.com'; Cancelliere, Jeff - PA; Thompson, William - Legal Dept - PA; Delehey, Lauren - PA; Ruckdaschel, John

Cc: 'LNashelsky@mofo.com'; 'william.nolan@FTIConsulting.com' Confidential
Subject: Re: KP

[redacted]

From: Renzi, Mark <mark.renzi@FTIConsulting.com>
To: glee@mofo.com <glee@mofo.com>; Devine, Timothy; Hamzehpour, Tammy; rcieri@kirkland.com <rcieri@kirkland.com>; rschrock@kirkland.com <rschrock@kirkland.com>; Cancelliere, Jeff - PA; Thompson, William - Legal Dept - PA; Delehey, Lauren - PA; Ruckdaschel, John
Cc: LNashelsky@mofo.com <LNashelsky@mofo.com>; Nolan, William <william.nolan@FTIConsulting.com>
Sent: Mon May 07 21:13:52 2012
Subject: Re: KP

[redacted]

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Monday, May 07, 2012 09:08 PM
To: Timothy.Devine@ally.com <Timothy.Devine@ally.com>; Tammy.Hamzehpour@gmacrescap.com <Tammy.Hamzehpour@gmacrescap.com>; rcierl@kirkland.com <rcieri@kirkland.com>; rschrock@kirkland.com <rschrock@kirkland.com>; jeff.cancelliere@gmacrescap.com <jeff.cancelliere@gmacrescap.com>; Renzi, Mark; William.Thompson@ally.com <William.Thompson@ally.com>; lauren.delehey@ally.com <lauren.delehey@ally.com>; john.ruckdaschel@ally.com <john.ruckdaschel@ally.com>
Cc: Nashelsky, Larren M. <LNashelsky@mofo.com>; Lee, Gary S. <GLee@mofo.com>
Subject: KP

[redacted]

Gary S. Lee
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EXHIBIT P

Outlook E-mail

From: Devine, Timothy
Sent: 5/9/2012 9:03:30 AM
To: Lee, Gary S.
Cc: Cieri, Richard M.; Schrock, Ray C.
Subject: KP

Gary: as I told you on the phone, Ally will support the $8.7 billion allowed claim. There is no new Ally money. Hard stop at 750 + 200 + 100. Thanks. Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

EXHIBIT
PENGAD 800-631-6989
9019-147
12/19/12

EXHIBIT Q

Outlook E-mail

From: Ornstein, Noah
Sent: 5/12/2012 10:46:20 AM
To: Levitt, Jamie A.; Princi, Anthony; Lee, Gary S.
Cc: Newton, James A.; Clark, Daniel E.; Schrock, Ray C.; Cieri, Richard M.
Subject: KP Settlement Agreement - Ally Release - Subject to FRE 408

All, two comments, the second more substantive:

1. Please add "arising under law or equity" to the long list of types of claims released.
2. Spoke with T. Devine this morning. He is adamant that Ally get a release from Trusts in the settlement agreement. Notwithstanding that Ally is not a party to that agreement, I think we can get there. Consider a third party beneficiary provision running to Ally that is a full release of Ally upon the Effective Date. I'm in MoFo's offices if you want to discuss or on my cell 646.338.1620.

Regarding the third party release of securities related claims, understand that the signatories will have an issue granting that, but it would, as discussed with Ropes, be required under the Trusts' support obligations.

All parties' rights preserved.

Noah J. Ornstein
Kirkland & Ellis LLP
300 North LaSalle | Chicago, IL 60654
p. (312) 862-2122 | f. (312) 862-2200

EXHIBIT R

Outlook E-mail

From: Devine, Timothy
Sent: 5/12/2012 4:29:50 PM
To: Lee, Gary S.; Levitt, Jamie A.; Ornstein, Noah; Ruckdaschel, John
Cc: Cieri, Richard M.; Schrock, Ray C.
Subject: RE: Has Talcott Franklin signed on without reservation to support the Plan, including broad third party release of all claims against Ally etc including security claims?

Got it.

Had call with KP.

We told her PSA support – whole hog – is drop dead.

Her aversion to lock up is, she said, drop dead for her clients.

What are our best fall-backs on the lockup?

Thanks.

Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Saturday, May 12, 2012 4:26 PM
To: Devine, Timothy; Levitt, Jamie A.; Ornstein, Noah; Ruckdaschel, John
Subject: RE: Has Talcott Franklin signed on without reservation to support the Plan, including broad third party release of all claims against Ally etc including security claims?

Its complicated - they are trying to preserve lots of other claims, their clients dont seem to have brought equity claims. I dont even know whether their clients are 40 act advisors (anyone?). we sent Talcott the agreement the way we wanted it and told him he couldn't really negotiate it - but if KP doesnt sign I dont know if he will.

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Devine, Timothy [mailto:Timothy.Devine@ally.com]
Sent: Saturday, May 12, 2012 4:22 PM
To: Levitt, Jamie A.; Lee, Gary S.; Ornstein, Noah; Ruckdaschel, John
Subject: Has Talcott Franklin signed on without reservation to support the Plan, including broad third party release of all claims against Ally etc including security claims?

Thanks.

Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

EXHIBIT S

Ally Financial Inc. (GKM)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 04/27/2012
Filed Period 03/31/2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012, or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-3754

ALLY FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-0572512**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

200 Renaissance Center
P.O. Box 200, Detroit, Michigan
48265-2000
(Address of principal executive offices)
(Zip Code)

(866) 710-4623
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing for the past 90 days.

Yes ☑ No ☐

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files).

Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

At April 27, 2012 , the number of shares outstanding of the Registrant's common stock was 1,330,970 shares.

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Ally Financial Inc. Form 10-Q

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Condensed Consolidated Statement of Comprehensive Income (unaudited)

Ally Financial Inc. • Form 10-Q

	Three months ended March 31,	
($ in millions)	2012	2011
Financing revenue and other interest income		
Interest and fees on finance receivables and loans	$ 1,678	$ 1,621
Interest on loans held-for-sale	73	84
Interest on trading assets	11	3
Interest and dividends on available-for-sale investment securities	84	103
Interest-bearing cash	14	12
Operating leases	540	655
Total financing revenue and other interest income	2,400	2,478
Interest expense		
Interest on deposits	186	166
Interest on short-term borrowings	75	92
Interest on long-term debt	1,177	1,406
Total interest expense	1,438	1,664
Depreciation expense on operating lease assets	293	270
Net financing revenue	669	544
Other revenue		
Servicing fees	310	357
Servicing asset valuation and hedge activities, net	9	(87)
Total servicing income, net	319	270
Insurance premiums and service revenue earned	375	399
Gain on mortgage and automotive loans, net	126	90
Loss on extinguishment of debt	—	(39)
Other gain on investments, net	90	84
Other income, net of losses	277	204
Total other revenue	1,187	1,008
Total net revenue	1,856	1,552
Provision for loan losses	140	113
Noninterest expense		
Compensation and benefits expense	475	424
Insurance losses and loss adjustment expenses	159	170
Other operating expenses	716	746
Total noninterest expense	1,350	1,340
Income from continuing operations before income tax expense (benefit)	366	99
Income tax expense (benefit) from continuing operations	64	(70)
Net income from continuing operations	302	169
Income (loss) from discontinued operations, net of tax	8	(23)
Net income	310	146
Other comprehensive income (loss), net of tax	187	(25)
Comprehensive income	$ 497	$ 121

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Comprehensive Income (unaudited)

Ally Financial Inc. • Form 10-Q

	Three months ended March 31,	
($ in millions except per share data)	2012	2011
Net income (loss) attributable to common shareholders		
Net income from continuing operations	$ 302	$ 169
Preferred stock dividends — U.S. Department of Treasury	(134)	(134)
Preferred stock dividends	(67)	(69)
Impact of preferred stock amendment	—	32
Net income (loss) from continuing operations attributable to common shareholders (a)	101	(2)
Income (loss) from discontinued operations, net of tax	8	(23)
Net income (loss) attributable to common shareholders	$ 109	$ (25)
Basic weighted-average common shares outstanding	1,330,970	1,330,970
Diluted weighted-average common shares outstanding (a)	1,330,970	1,330,970
Basic earnings per common share		
Net income (loss) from continuing operations	$ 76	$ (2)
Income (loss) from discontinued operations, net of tax	6	(17)
Net income (loss)	$ 82	$ (19)
Diluted earnings per common share (a)		
Net income (loss) from continuing operations	$ 76	$ (2)
Income (loss) from discontinued operations, net of tax	6	(17)
Net income (loss)	$ 82	$ (19)

(a) Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares and the net income (loss) attributable to common shareholders for the three months ended March 31, 2012 and 2011, income (loss) attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Balance Sheet (unaudited)

Ally Financial Inc. • Form 10-Q

($ in millions)	March 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents		
Noninterest-bearing	$ 2,279	$ 2,475
Interest-bearing	10,800	10,560
Total cash and cash equivalents	13,079	13,035
Trading assets	895	622
Investment securities	14,942	15,135
Loans held-for-sale, net ($1,823 and $3,919 fair value-elected)	6,670	8,557
Finance receivables and loans, net		
Finance receivables and loans, net ($832 and $835 fair value-elected)	119,818	114,755
Allowance for loan losses	(1,546)	(1,503)
Total finance receivables and loans, net	118,272	113,252
Investment in operating leases, net	10,048	9,275
Mortgage servicing rights	2,595	2,519
Premiums receivable and other insurance assets	1,876	1,853
Other assets	16,965	18,741
Assets of operations held-for-sale	1,008	1,070
Total assets	$ 186,350	$ 184,059
Liabilities		
Deposit liabilities		
Noninterest-bearing	$ 2,314	$ 2,029
Interest-bearing	44,892	43,021
Total deposit liabilities	47,206	45,050
Short-term borrowings	7,203	7,680
Long-term debt ($828 and $830 fair value-elected)	93,990	92,794
Interest payable	1,675	1,587
Unearned insurance premiums and service revenue	2,632	2,576
Reserves for insurance losses and loss adjustment expenses	565	580
Accrued expenses and other liabilities ($30 and $29 fair value-elected)	13,089	14,084
Liabilities of operations held-for-sale	323	337
Total liabilities	166,683	164,688
Equity		
Common stock and paid-in capital	19,668	19,668
Mandatorily convertible preferred stock held by U.S. Department of Treasury	5,685	5,685
Preferred stock	1,255	1,255
Accumulated deficit	(7,215)	(7,324)
Accumulated other comprehensive income	274	87
Total equity	19,667	19,371
Total liabilities and equity	$ 186,350	$ 184,059

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Balance Sheet (unaudited)

Ally Financial Inc. • Form 10-Q

The assets of consolidated variable interest entities that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) do not have recourse to our general credit were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Assets		
Loans held-for-sale, net	$ 8	$ 9
Finance receivables and loans, net		
Finance receivables and loans, net ($832 and $835 fair value-elected)	41,281	40,935
Allowance for loan losses	(205)	(210)
Total finance receivables and loans, net	41,076	40,725
Investment in operating leases, net	4,758	4,389
Other assets	3,403	3,029
Total assets	$ 49,245	$ 48,152
Liabilities		
Short-term borrowings	$ 814	$ 795
Long-term debt ($828 and $830 fair value-elected)	34,924	33,143
Interest payable	13	14
Accrued expenses and other liabilities	119	405
Total liabilities	$ 35,870	$ 34,357

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Changes in Equity (unaudited)

Ally Financial Inc. • Form 10-Q

($ in millions)	Common stock and paid-in capital	Mandatorily convertible preferred stock held by U.S. Department of Treasury	Preferred stock	Accumulated deficit	Accumulated other comprehensive income	Total equity
Balance at January 1, 2011	$ 19,668	$ 5,685	$ 1,287	$ (6,410)	$ 259	$20,489
Net income				146		146
Preferred stock dividends — U.S. Department of Treasury				(134)		(134)
Preferred stock dividends				(69)		(69)
Series A preferred stock amendment (a)			(32)	32		—
Other comprehensive loss, net of tax					(25)	(25)
Balance at March 31, 2011	$ 19,668	$ 5,685	$ 1,255	$ (6,435)	$ 234	$20,407
Balance at January 1, 2012	$ 19,668	$ 5,685	$ 1,255	$ (7,324)	$ 87	$19,371
Net income				310		310
Preferred stock dividends — U.S. Department of Treasury				(134)		(134)
Preferred stock dividends				(67)		(67)
Other comprehensive income, net of tax					187	187
Balance at March 31, 2012	$ 19,668	$ 5,685	$ 1,255	$ (7,215)	$ 274	$19,667

(a) Refer to Note 20 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for further detail.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Cash Flows (unaudited)

Ally Financial Inc. • Form 10-Q

Three months ended March 31, (*$ in millions*)	2012	2011
Operating activities		
Net income	$ 310	$ 146
Reconciliation of net income to net cash provided by operating activities		
Depreciation and amortization	568	717
Other impairment	(6)	16
Changes in fair value of mortgage servicing rights	(1)	(117)
Provision for loan losses	140	113
Gain on sale of loans, net	(131)	(94)
Net gain on investment securities	(96)	(85)
Loss on extinguishment of debt	—	39
Originations and purchases of loans held-for-sale	(9,626)	(12,635)
Proceeds from sales and repayments of loans held-for-sale	11,111	15,835
Net change in		
Trading securities	(268)	77
Deferred income taxes	(31)	69
Interest payable	86	16
Other assets	755	(120)
Other liabilities	(865)	(321)
Other, net	196	(614)
Net cash provided by operating activities	2,142	3,042
Investing activities		
Purchases of available-for-sale securities	(3,172)	(5,529)
Proceeds from sales of available-for-sale securities	2,940	4,475
Proceeds from maturities of available-for-sale securities	1,222	1,103
Net increase in finance receivables and loans	(4,409)	(4,249)
Purchases of operating lease assets	(1,468)	(1,933)
Disposals of operating lease assets	465	1,882
Proceeds from sale of business units, net (a)	29	46
Other, net	323	591
Net cash used in investing activities	(4,070)	(3,614)

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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Condensed Consolidated Statement of Cash Flows (unaudited)

Ally Financial Inc. • Form 10-Q

Three months ended March 31, (*$ in millions*)	2012	2011
Financing activities		
Net change in short-term borrowings	(546)	87
Net increase in bank deposits	1,737	1,670
Proceeds from issuance of long-term debt	10,749	13,804
Repayments of long-term debt	(10,024)	(13,211)
Dividends paid	(200)	(228)
Other, net	352	83
Net cash provided by financing activities	2,068	2,205
Effect of exchange-rate changes on cash and cash equivalents	(141)	(266)
Net (decrease) increase in cash and cash equivalents	(1)	1,367
Adjustment for change in cash and cash equivalents of operations held-for-sale (a) (b)	45	(91)
Cash and cash equivalents at beginning of year	13,035	11,670
Cash and cash equivalents at March 31,	$ 13,079	$ 12,946
Supplemental disclosures		
Cash paid for		
Interest	$ 1,218	$ 1,465
Income taxes	178	305
Noncash items		
Transfer of mortgage servicing rights into trading securities through certification	—	266
Other disclosures		
Proceeds from sales and repayments of mortgage loans held-for-investment originally designated as held-for-sale	63	58

(a) The amounts are net of cash and cash equivalents of $64 million at March 31, 2012, and $7 million at March 31, 2011, of business units at the time of disposition.
(b) Cash flows of discontinued operations are reflected within operating, investing, and financing activities in the Condensed Consolidated Statement of Cash Flows. The cash balance of these operations is reported as assets of operations held-for-sale on the Condensed Consolidated Balance Sheet.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Description of Business, Basis of Presentation, and Changes in Significant Accounting Policies

Ally Financial Inc. (formerly GMAC Inc. and referred to herein as Ally, we, our, or us) is a leading, independent, globally diversified, financial services firm. Founded in 1919, we are a leading automotive financial services company with over 90 years experience providing a broad array of financial products and services to automotive dealers and their customers. We are also one of the largest residential mortgage companies in the United States. We became a bank holding company on December 24, 2008, under the Bank Holding Company Act of 1956, as amended. Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (online and telephonic) banking market.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and that affect income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence; however, actual results could differ because of uncertainties associated with estimating the amounts, timing, and likelihood of possible outcomes.

The Condensed Consolidated Financial Statements at March 31, 2012, and for the three months ended March 31, 2012, and 2011, are unaudited but reflect all adjustments that are, in management's opinion, necessary for the fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements (and the related notes) included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed on February 28, 2012, with the U.S. Securities and Exchange Commission (SEC).

Residential Capital, LLC

Residential Capital, LLC (ResCap), one of our mortgage subsidiaries continues to be negatively impacted by the events and conditions in the mortgage banking industry and the broader economy that began in 2007. Market deterioration has led to fewer sources of, and significantly reduced levels of, liquidity available to finance ResCap's operations. ResCap is highly leveraged relative to its cash flow and has recognized credit and valuation losses and other charges resulting in a significant deterioration in capital. In the future, ResCap may also continue to be negatively impacted by exposure to representation and warranty obligations, adverse outcomes with respect to current or future litigation, fines, penalties, or settlements related to our mortgage-related activities, and additional expenses to address regulatory requirements. ResCap is required to maintain consolidated tangible net worth, as defined, of $250 million at the end of each month, under the terms of certain of its credit facilities. For this purpose, consolidated tangible net worth is defined as ResCap's consolidated equity excluding intangible assets. ResCap's consolidated tangible net worth was $399 million at March 31, 2012, and ResCap remained in compliance with all of its consolidated tangible net worth covenants. During the fourth quarter of 2011, ResCap's consolidated tangible net worth was temporarily reduced to below $250 million. This was, however, immediately remediated by Ally through a capital contribution, which was provided through forgiveness of intercompany debt during January 2012. Notwithstanding the immediate cure, the temporary reduction in tangible net worth resulted in a covenant breach in certain of ResCap's credit facilities as of December 31, 2011. ResCap obtained waivers from all applicable lenders with respect to this covenant breach and an acknowledgment letter from a Government-sponsored Enterprise indicating they would take no immediate action as a result of the breach. In the future, Ally may choose not to remediate any further breaches of covenants.

ResCap did not make a semi-annual interest payment that was due on April 17, 2012, related to $473 million of unsecured debt principal, which matures in 2013. The interest due was $20 million. The indenture provides that a failure to pay interest on an interest payment date does not become an event of default unless such failure continues for a period of 30 days. ResCap has significant additional near-term interest and principal payments on its outstanding debt securities and credit facilities.

Ally or ResCap may take additional actions with respect to ResCap as each party deems appropriate. These actions may include, among others, Ally providing or declining to provide additional liquidity and capital support for ResCap; Ally purchasing assets from ResCap; asset sales by ResCap to third parties, or other business reorganization or similar action by ResCap with respect to all or part of ResCap and/or its affiliates. This may include a reorganization under bankruptcy laws, which ResCap is actively considering.

ResCap remains heavily dependent on Ally and its affiliates for funding and capital support, and there can be no assurance that Ally or its affiliates will continue such actions or that Ally will choose to execute any further strategic transactions with respect to ResCap or that any transactions undertaken will be successful. Consequently, there remains substantial doubt about ResCap's ability to continue as a going concern. Should Ally no longer continue to support the capital or liquidity needs of ResCap or should ResCap be unable to successfully execute other initiatives, it would have a material adverse effect on ResCap's business, results of operations, and financial position.

Ally has extensive financing and hedging arrangements with ResCap that could be at risk of nonpayment if ResCap were to file for bankruptcy. At December 31, 2011, Ally had funding arrangements with ResCap that included $1.0 billion of senior secured credit facilities (the Senior Secured Facilities) and a $1.6 billion line of credit (Line of Credit) consisting of a $1.1 billion secured facility and a $500 million unsecured facility. The Senior Secured Facilities and Line of Credit had a maturity date of April 13, 2012. Ally extended the maturity date of the Senior Secured Facilities and the $1.1 billion secured facility under the Line of Credit to May 14, 2012. The $500 million unsecured facility under the Line of Credit was not extended. At March 31, 2012, the $1.0 billion in Senior Secured Facilities were fully drawn, and $410 million of the remaining $1.1 billion Line of Credit was drawn. At March 31, 2012, the hedging arrangements were fully collateralized.

Amounts outstanding under the secured financing and hedging arrangements fluctuate. If ResCap were to file for bankruptcy, ResCap's repayments of its secured financing facilities to us could be slower. In addition, we could be an unsecured creditor of ResCap to the extent that the proceeds from the sale of our collateral are insufficient to repay ResCap's obligations to us. It is possible that other ResCap creditors would seek to recharacterize our loans to ResCap as equity contributions or to seek equitable subordination of our claims so that the claims of other creditors would have priority over our claims. In addition, should ResCap file for bankruptcy, our $399 million investment related to ResCap's equity position as of March 31, 2012 , would likely be reduced to zero. If a ResCap bankruptcy were to occur, we could incur significant charges, substantial litigation could result, and repayment of our credit exposure to ResCap could be at risk. We currently estimate a range of reasonably possible losses arising at the time of a ResCap bankruptcy filing, including our investment in ResCap, to be between $400 million and $1.25 billion . This estimated range is based on significant judgment and numerous assumptions that are subject to change, and which could be material.

Significant Accounting Policies

Income Taxes

In calculating the provision for interim income taxes, in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes* , we apply an estimated annual effective tax rate to year-to-date ordinary income. At the end of each interim period, we estimate the effective tax rate expected to be applicable for the full fiscal year. We exclude and record discretely the tax effect of unusual or infrequently occurring items, including, for example, changes in judgment about valuation allowances and effects of changes in tax law or rates. The provision for income taxes in tax jurisdictions with a projected full year or year-to-date loss for which a tax benefit cannot be realized are estimated using tax rates specific to that jurisdiction.

Refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K regarding additional significant accounting policies.

Recently Adopted Accounting Standards

Financial Services - Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26)

As of January 1, 2012, we adopted Accounting Standards Update (ASU) 2010-26, which amends ASC 944, *Financial Services - Insurance* . The amendments in this ASU specify which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. All other acquisition-related costs should be expensed as incurred. If the initial application of the amendments in this ASU results in the capitalization of acquisition costs that had not been previously capitalized, an entity may elect not to capitalize those types of costs. Both retrospective application and early adoption was permitted. We elected prospective application and did not early adopt the ASU. The adoption did not have a material impact to our consolidated financial condition or results of operations.

Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04)

As of January 1, 2012, we adopted ASU 2011-04, which amends ASC 820, *Fair Value Measurements* . The amendments in this ASU clarify how to measure fair value and it contains new disclosure requirements to provide more transparency into Level 3 fair value measurements. It is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU must be applied prospectively. The adoption did not have a material impact to our consolidated financial condition or results of operations.

Intangibles-Goodwill and Other - Testing Goodwill for Impairment (ASU 2011-08)

As of January 1, 2012, we adopted ASU 2011-08, which amends ASC 350, *Intangibles-Goodwill and Other* . This ASU permits the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If it is determined, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not more than the carrying amount, the two-step impairment test would not be required. Otherwise, further evaluation under the existing two-step framework would be required. The adoption did not have a material impact to our consolidated financial condition or results of operation.

Recently Issued Accounting Standards

Balance Sheet - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the Financial Accounting Standards Board issued ASU 2011-11, which amends ASC 210, *Balance Sheet* . This ASU contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures will give financial statement users information about both gross and net exposures. ASU 2011-11 is effective for us on January 1, 2013, and retrospective application is required. Since the guidance relates only to disclosures, adoption is not expected to have a material effect on our consolidated financial condition or results of operation.

Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

2. Discontinued and Held-for-sale Operations

We classify operations as discontinued when operations and cash flows will be eliminated from our ongoing operations and we do not expect to retain any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, all of the operating results for these discontinued operations were removed from continuing operations and were presented separately as discontinued operations, net of tax, in the Condensed Consolidated Statement of Comprehensive Income . The Notes to the Condensed Consolidated Financial Statements were adjusted to exclude discontinued operations unless otherwise noted.

Select Mortgage — Legacy Portfolio and Other Operations

During the fourth quarter of 2011, we committed to sell the Canadian mortgage operations of ResMor Trust. We expect to complete the sale during 2012.

Select Global Automotive Services — Insurance Operations

During the fourth quarter of 2011, we committed to sell our U.K.-based operations that provide vehicle service contracts and insurance products in Europe and Latin America. We expect to complete the sale during 2012. During the second quarter of 2011, we completed the sale of our U.K. consumer property and casualty insurance business.

Select Global Automotive Services — International Automotive Finance Operations

During the fourth quarter of 2011, we committed to sell our full-service leasing operations in Austria, Germany, Greece, Portugal, and Spain. We continue to negotiate with a potential buyer and expect to complete the sale during 2012. During the first quarter of 2012, we completed the sale of our Venezuela operations.

Select Financial Information

Select financial information of discontinued operations is summarized below. The pretax income or loss, including direct costs to transact, includes any impairment recognized to present the operations at the lower-of-cost or fair value. Fair value was based on the estimated sales price, which could differ from the ultimate sales price due to the fluidity of ongoing negotiations, price volatility, changing interest rates, changing foreign-currency rates, and future economic conditions.

	Three months ended March 31,	
($ in millions)	2012	2011
Select Mortgage — Legacy and Other operations		
Total net revenue (loss)	$ 5	$ (2)
Pretax loss including direct costs to transact a sale	—	(8)
Tax benefit	—	(2)
Select Global Automotive Services — Insurance operations		
Total net revenue	$ 38	$ 91
Pretax income including direct costs to transact a sale	8	9
Tax expense	2	2
Select Global Automotive Services — International operations		
Total net revenue	$ 6	$ 28
Pretax income (loss) including direct costs to transact a sale (a)	2	(21)
Tax expense	—	3

(a) Includes certain income tax activity recognized by Corporate and Other.

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Notes to Condensed Consolidated Financial Statements (unaudited)

Held-for-sale Operations

The assets and liabilities of operations held-for-sale are summarized below.

March 31, 2012 (*$ in millions*)	Select Mortgage – Legacy and Other operations (a)	Select Global Automotive Services – Insurance operations (b)	Select Global Automotive Services – International operations (c)	Total held-for-sale operations
Assets				
Cash and cash equivalents				
Noninterest-bearing	$ —	$ 3	$ 27	$ 30
Interest-bearing	—	70	5	75
Total cash and cash equivalents	—	73	32	105
Investment securities	—	193	—	193
Loans held-for-sale, net	202	—	—	202
Finance receivables and loans, net				
Finance receivables and loans, net	237	—	4	241
Allowance for loan losses	—	—	—	—
Total finance receivables and loans, net	237	—	4	241
Investment in operating leases, net	—	—	64	64
Premiums receivable and other insurance assets	—	74	—	74
Other assets	124	19	20	163
Impairment on assets of held-for-sale operations	—	—	(34)	(34)
Total assets	$ 563	$ 359	$ 86	$ 1,008
Liabilities				
Unearned insurance premiums and service revenue	$ —	$ 136	$ —	$ 136
Reserves for insurance losses and loss adjustment expenses	—	17	—	17
Accrued expenses and other liabilities	69	93	8	170
Total liabilities	$ 69	$ 246	$ 8	$ 323

(a) Includes the Canadian mortgage operations of ResMor Trust.
(b) Includes our U.K.-based operations that provide vehicle service contracts and insurance products.
(c) Includes our full-service leasing operations in Austria, Germany, Greece, Portugal, and Spain.

Notes to Condensed Consolidated Financial Statements (unaudited)

December 31, 2011 (*$ in millions*)	Select Mortgage – Legacy and Other operations (a)	Select Global Automotive Services – Insurance operations (b)	Select Global Automotive Services – International operations (c)	Total held-for-sale operations
Assets				
Cash and cash equivalents				
Noninterest-bearing	$ —	$ 4	$ 55	$ 59
Interest-bearing	—	54	38	92
Total cash and cash equivalents	—	58	93	151
Investment securities	—	186	—	186
Loans held-for-sale, net	260	—	—	260
Finance receivables and loans, net				
Finance receivables and loans, net	285	—	11	296
Allowance for loan losses	—	—	(1)	(1)
Total finance receivables and loans, net	285	—	10	295
Investment in operating leases, net	—	—	91	91
Premiums receivable and other insurance assets	—	77	—	77
Other assets	140	14	30	184
Impairment on assets of held-for-sale operations	—	—	(174)	(174)
Total assets	$ 685	$ 335	$ 50	$ 1,070
Liabilities				
Unearned insurance premiums and service revenue	$ —	$ 130	$ —	$ 130
Reserves for insurance losses and loss adjustment expenses	—	17	—	17
Accrued expenses and other liabilities	80	82	28	190
Total liabilities	$ 80	$ 229	$ 28	$ 337

(a) Includes the Canadian mortgage operations of ResMor Trust.
(b) Includes our U.K.-based operations that provide vehicle service contracts and insurance products.
(c) Includes the operations of Venezuela and our full-service leasing operations in Austria, Germany, Greece, Portugal, and Spain.

Notes to Condensed Consolidated Financial Statements (unaudited)

Recurring Fair Value

The following tables display the assets and liabilities of our held-for-sale operations measured at fair value on a recurring basis. Refer to Note 21 for descriptions of valuation methodologies used to measure material assets at fair value and details of the valuation models, key inputs to these models, and significant assumptions used.

	Recurring fair value measurements			
($ in millions)	Level 1	Level 2	Level 3	Total
March 31, 2012				
Assets				
Investment securities				
Available-for-sale securities				
Debt securities				
Foreign government	**$ 192**	**$ —**	**$ —**	**$ 192**
Corporate debt	**1**	**—**	**—**	**1**
Other assets				
Interest retained in financial asset sales	**—**	**—**	**58**	**58**
Total assets	**$ 193**	**$ —**	**$ 58**	**$ 251**
December 31, 2011				
Assets				
Investment securities				
Available-for-sale securities				
Debt securities				
Foreign government	$ 171	$ 15	$ —	$ 186
Other assets				
Interest retained in financial asset sales	—	—	66	66
Total assets	$ 171	$ 15	$ 66	$ 252

3. Other Income, Net of Losses

Details of other income, net of losses, were as follows.

	Three months ended March 31,	
($ in millions)	2012	2011
Mortgage processing fees and other mortgage income	**$ 124**	$ 44
Late charges and other administrative fees	**31**	33
Income from equity-method investments	**29**	22
Remarketing fees	**20**	37
Fair value adjustment on derivatives (a)	**11**	(14)
Securitization income	**1**	28
Change due to fair value option elections (b)	**(14)**	(17)
Other, net	**75**	71
Total other income, net of losses	**$ 277**	$ 204

(a) Refer to Note 19 for a description of derivative instruments and hedging activities.
(b) Refer to Note 21 for a description of fair value option elections.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Other Operating Expenses

Details of other operating expenses were as follows.

	Three months ended March 31,	
($ in millions)	2012	2011
Technology and communications	$ 126	$ 119
Professional services	116	66
Insurance commissions	112	118
Lease and loan administration	46	44
Advertising and marketing	39	54
Regulatory and licensing fees	36	37
Premises and equipment depreciation	25	26
Vehicle remarketing and repossession	25	36
Occupancy	24	22
State and local non-income taxes	24	31
Mortgage representation and warranty obligation, net	19	26
Other	124	167
Total other operating expenses	$ 716	$ 746

5. Trading Assets

The composition of trading assets was as follows.

($ in millions)	March 31, 2012	December 31, 2011
Mortgage-backed residential trading securities	$ 883	$ 608
Trading derivatives	12	14
Total trading assets	$ 895	$ 622

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Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

6. Investment Securities

Our portfolio of securities includes bonds, equity securities, asset- and mortgage-backed securities, interests in securitization trusts, and other investments. The cost, fair value, and gross unrealized gains and losses on available-for-sale securities were as follows.

	March 31, 2012				December 31, 2011			
		Gross unrealized		Fair		Gross unrealized		Fair
($ in millions)	Amortized cost	gains	losses	value	Amortized cost	gains	losses	value
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	$ 1,438	$ 7	$ (1)	$ 1,444	$ 1,535	$ 13	$ (2)	$ 1,546
States and political subdivisions	1	—	—	1	1	—	—	1
Foreign government	851	14	(1)	864	765	20	(1)	784
Mortgage-backed residential (a)	6,773	71	(25)	6,819	7,266	87	(41)	7,312
Asset-backed	2,679	33	(5)	2,707	2,600	28	(13)	2,615
Corporate debt	1,514	45	(8)	1,551	1,486	23	(18)	1,491
Other	582	—	—	582	326	1	—	327
Total debt securities	13,838	170	(40)	13,968	13,979	172	(75)	14,076
Equity securities	1,046	24	(96)	974	1,188	25	(154)	1,059
Total available-for-sale securities (b)	$ 14,884	$ 194	$ (136)	$ 14,942	$ 15,167	$ 197	$ (229)	$ 15,135

(a) Residential mortgage-backed securities include agency-backed bonds totaling $5,234 million and $6,114 million at March 31, 2012, and December 31, 2011, respectively.
(b) Certain entities related to our Insurance operations are required to deposit securities with state regulatory authorities. These deposited securities totaled $16 million at both March 31, 2012, and December 31, 2011.

Notes to Condensed Consolidated Financial Statements (unaudited)

The maturity distribution of available-for-sale debt securities outstanding is summarized in the following tables. Prepayments may cause actual maturities to differ from scheduled maturities.

	Total		Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years (a)	
($ in millions)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
March 31, 2012										
Fair value of available-for-sale debt securities (b)										
U.S. Treasury and federal agencies	$ 1,444	0.8%	$ 241	—%	$ 1,201	1.0%	$ 2	2.2%	$ —	—%
States and political subdivisions	1	5.4	—	—	—	—	—	—	1	5.4
Foreign government	864	3.8	65	7.4	555	4.0	244	2.5	—	—
Mortgage-backed residential	6,819	2.4	—	—	6	6.2	237	1.9	6,576	2.4
Asset-backed	2,707	2.1	—	—	1,611	1.9	522	2.0	574	3.0
Corporate debt	1,551	4.9	13	5.8	727	4.3	686	5.4	124	5.2
Other	582	1.4	571	1.4	—	—	11	4.1	—	—
Total available-for-sale debt securities	$ 13,968	2.5	$ 890	1.5	$ 4,100	2.3	$ 1,702	3.4	$ 7,275	2.5
Amortized cost of available-for-sale debt securities	$ 13,838		$ 890		$ 4,058		$ 1,673		$ 7,217	
December 31, 2011										
Fair value of available-for-sale debt securities (b)										
U.S. Treasury and federal agencies	$ 1,546	0.9%	$ 231	—%	$ 1,202	0.9%	$ 113	2.2%	$ —	—%
States and political subdivisions	1	5.4	—	—	—	—	—	—	1	5.4
Foreign government	784	4.4	77	7.7	506	4.3	201	3.3	—	—
Mortgage-backed residential	7,312	2.5	3	4.8	2	6.3	189	2.6	7,118	2.5
Asset-backed	2,615	2.1	—	—	1,599	1.9	574	1.9	442	3.2
Corporate debt	1,491	4.9	19	4.9	741	4.4	606	5.6	125	4.7
Other	327	1.4	316	1.3	—	—	11	4.6	—	—
Total available-for-sale debt securities	$ 14,076	2.6	$ 646	1.7	$ 4,050	2.4	$ 1,694	3.5	$ 7,686	2.6
Amortized cost of available-for-sale debt securities	$ 13,979		$ 644		$ 4,026		$ 1,678		$ 7,631	

(a) Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment options.
(b) Yields on tax-exempt obligations are computed on a tax-equivalent basis.

The balances of cash equivalents were $5.2 billion and $5.6 billion at March 31, 2012, and December 31, 2011, respectively, and were composed primarily of money market accounts and short-term securities, including U.S. Treasury bills.

The following table presents gross gains and losses realized upon the sales of available-for-sale securities. During the three months ended March 31, 2012, we did not recognize any other-than-temporary impairment on available-for-sale securities.

	Three months ended March 31,	
($ in millions)	2012	2011
Gross realized gains	$ 98	$ 94
Gross realized losses	(8)	(10)
Net realized gains	$ 90	$ 84

The following table presents interest and dividends on available-for-sale securities.

	Three months ended March 31,	
($ in millions)	2012	2011
Taxable interest	$ 79	$ 98
Taxable dividends	5	5
Interest and dividends on available-for-sale securities	$ 84	$ 103

The table below summarizes available-for-sale securities in an unrealized loss position in accumulated other comprehensive income. Based on the methodology described below that was applied to these securities, we believe that the unrealized losses relate to factors other than credit losses in the current market environment. As of March 31, 2012, we did not have the intent to sell the debt securities with an unrealized loss position in accumulated other comprehensive income, and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. As of March 31, 2012, we had the ability and intent to hold equity securities with an unrealized loss position in accumulated other comprehensive income. As a result, we believe that the securities with an unrealized loss position in accumulated other comprehensive income are not considered to be other-than-temporarily impaired at March 31, 2012. Refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for additional information related to investment securities and our methodology for evaluating potential other-than-temporary impairments.

	March 31, 2012				December 31, 2011			
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
($ in millions)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	$ 477	$ —	$ —	$ —	$ 179	$ (2)	$ —	$ —
Foreign government	231	(1)	—	—	197	(1)	—	—
Mortgage-backed residential	2,499	(23)	72	(3)	2,302	(39)	45	(2)
Asset-backed	624	(5)	8	—	994	(13)	1	—
Corporate debt	241	(7)	14	(1)	444	(16)	30	(2)
Total temporarily impaired debt securities	4,072	(36)	94	(4)	4,116	(71)	76	(4)
Temporarily impaired equity securities	450	(65)	91	(31)	770	(148)	18	(6)
Total temporarily impaired available-for-sale securities	$ 4,522	$ (101)	$ 185	$ (35)	$ 4,886	$ (219)	$ 94	$ (10)

7. Loans Held-for-Sale, Net

The composition of loans held-for-sale, net, was as follows.

	March 31, 2012			December 31, 2011		
($ in millions)	Domestic	Foreign	Total	Domestic	Foreign	Total
Consumer automobile	$ 623	$ —	$ 623	$ 425	$ —	$ 425
Consumer mortgage						
1st Mortgage	5,299	35	5,334	7,360	12	7,372
Home equity	713	—	713	740	—	740
Total consumer mortgage (a)	6,012	35	6,047	8,100	12	8,112
Commercial and industrial						
Other	—	—	—	20	—	20
Total loans held-for-sale (b)	$ 6,635	$ 35	$ 6,670	$ 8,545	$ 12	$ 8,557

(a) Fair value option-elected domestic consumer mortgages were $1.8 billion and $3.9 billion at March 31, 2012 , and December 31, 2011 , respectively. Refer to Note 21 for additional information.
(b) Totals are net of unamortized premiums and discounts and deferred fees and costs. Included in the totals are net unamortized discounts of $275 million and $221 million at March 31, 2012, and December 31, 2011, respectively.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table summarizes held-for-sale mortgage loans reported at carrying value by higher-risk loan type.

($ in millions)	March 31, 2012	December 31, 2011
High original loan-to-value (greater than 100%) mortgage loans	$ 577	$ 423
Payment-option adjustable-rate mortgage loans	13	12
Interest-only mortgage loans	283	298
Below-market rate (teaser) mortgages	167	169
Total higher-risk mortgage loans held-for-sale (a)	$ 1,040	$ 902

(a) The majority of these loans are held by our Mortgage Legacy Portfolio and Other operations at March 31, 2012, and December 31, 2011.

8. Finance Receivables and Loans, Net

The composition of finance receivables and loans, net, reported at carrying value before allowance for loan losses was as follows.

	March 31, 2012			December 31, 2011		
($ in millions)	Domestic	Foreign	Total	Domestic	Foreign	Total
Consumer automobile	$ 49,444	$ 17,770	$ 67,214	$ 46,576	$ 16,883	$ 63,459
Consumer mortgage						
1st Mortgage	6,929	9	6,938	6,867	24	6,891
Home equity	3,020	—	3,020	3,102	—	3,102
Total consumer mortgage	9,949	9	9,958	9,969	24	9,993
Commercial						
Commercial and industrial						
Automobile	28,197	8,407	36,604	26,552	8,265	34,817
Mortgage	1,377	26	1,403	1,887	24	1,911
Other	1,204	56	1,260	1,178	63	1,241
Commercial real estate						
Automobile	2,372	160	2,532	2,331	154	2,485
Mortgage	—	15	15	—	14	14
Total commercial	33,150	8,664	41,814	31,948	8,520	40,468
Loans at fair value (a)	589	243	832	603	232	835
Total finance receivables and loans (b)	$ 93,132	$ 26,686	$ 119,818	$ 89,096	$ 25,659	$ 114,755

(a) Includes domestic consumer mortgages at fair value as a result of fair value option election. Refer to Note 21 for additional information.
(b) Totals are net of unearned income, unamortized premiums and discounts, and deferred fees and costs of $3.0 billion and $2.9 billion at March 31, 2012, and December 31, 2011, respectively.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables present an analysis of the activity in the allowance for loan losses on finance receivables and loans.

Three months ended March 31, 2012 (*$ in millions*)	Consumer automobile	Consumer mortgage	Commercial	Total
Allowance at January 1, 2012	$ 766	$ 516	$ 221	$ 1,503
Charge-offs				
Domestic	(100)	(45)	(2)	(147)
Foreign	(36)	—	—	(36)
Total charge-offs	(136)	(45)	(2)	(183)
Recoveries				
Domestic	46	2	7	55
Foreign	16	—	5	21
Total recoveries	62	2	12	76
Net charge-offs	(74)	(43)	10	(107)
Provision for loan losses	133	28	(21)	140
Other	7	—	3	10
Allowance at March 31, 2012	$ 832	$ 501	$ 213	$ 1,546
Allowance for loan losses				
Individually evaluated for impairment	$ 8	$ 168	$ 47	$ 223
Collectively evaluated for impairment	816	333	166	1,315
Loans acquired with deteriorated credit quality	8	—	—	8
Finance receivables and loans at historical cost				
Ending balance	67,214	9,958	41,814	118,986
Individually evaluated for impairment	88	619	367	1,074
Collectively evaluated for impairment	67,055	9,339	41,447	117,841
Loans acquired with deteriorated credit quality	71	—	—	71

Notes to Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2011 *($ in millions)*	Consumer automobile	Consumer mortgage	Commercial	Total
Allowance at January 1, 2011	$ 970	$ 580	$ 323	$ 1,873
Charge-offs				
Domestic	(139)	(60)	(6)	(205)
Foreign	(42)	—	(31)	(73)
Total charge-offs	(181)	(60)	(37)	(278)
Recoveries				
Domestic	50	3	6	59
Foreign	19	—	11	30
Total recoveries	69	3	17	89
Net charge-offs	(112)	(57)	(20)	(189)
Provision for loan losses	53	40	20	113
Other	5	—	4	9
Allowance at March 31, 2011	$ 916	$ 563	$ 327	$ 1,806
Allowance for loan losses				
Individually evaluated for impairment	$ —	$ 98	$ 103	$ 201
Collectively evaluated for impairment	900	465	224	1,589
Loans acquired with deteriorated credit quality	16	—	—	16
Finance receivables and loans at historical cost				
Ending balance	56,868	10,568	39,052	106,488
Individually evaluated for impairment	—	529	1,164	1,693
Collectively evaluated for impairment	56,724	10,039	37,888	104,651
Loans acquired with deteriorated credit quality	144	—	—	144

The following table presents information about significant sales of finance receivables and loans recorded at historical cost and transfers of finance receivables and loans from held-for-investment to held-for-sale.

	Three months ended March 31,	
($ in millions)	2012	2011
Consumer mortgage	$ 40	$ 65
Commercial	—	6
Total sales and transfers	$ 40	$ 71

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents an analysis of our past due finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

($ in millions)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total finance receivables and loans
March 31, 2012						
Consumer automobile	$ 612	$ 124	$ 186	$ 922	$ 66,292	$ 67,214
Consumer mortgage						
1st Mortgage	91	34	165	290	6,648	6,938
Home equity	16	10	16	42	2,978	3,020
Total consumer mortgage	107	44	181	332	9,626	9,958
Commercial						
Commercial and industrial						
Automobile	3	3	64	70	36,534	36,604
Mortgage	26	—	—	26	1,377	1,403
Other	—	—	1	1	1,259	1,260
Commercial real estate						
Automobile	2	—	25	27	2,505	2,532
Mortgage	—	—	15	15	—	15
Total commercial	31	3	105	139	41,675	41,814
Total consumer and commercial	$ 750	$ 171	$ 472	$ 1,393	$ 117,593	$ 118,986
December 31, 2011						
Consumer automobile	$ 802	$ 162	$ 179	$ 1,143	$ 62,316	$ 63,459
Consumer mortgage						
1st Mortgage	91	35	162	288	6,603	6,891
Home equity	21	11	18	50	3,052	3,102
Total consumer mortgage	112	46	180	338	9,655	9,993
Commercial						
Commercial and industrial						
Automobile	—	1	126	127	34,690	34,817
Mortgage	—	—	—	—	1,911	1,911
Other	—	—	1	1	1,240	1,241
Commercial real estate						
Automobile	2	1	34	37	2,448	2,485
Mortgage	—	2	12	14	—	14
Total commercial	2	4	173	179	40,289	40,468
Total consumer and commercial	$ 916	$ 212	$ 532	$ 1,660	$ 112,260	$ 113,920

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents the carrying value before allowance for loan losses of our finance receivables and loans recorded at historical cost on nonaccrual status.

($ in millions)	March 31, 2012	December 31, 2011
Consumer automobile	$ 245	$ 228
Consumer mortgage		
1st Mortgage	246	281
Home equity	52	58
Total consumer mortgage	298	339
Commercial		
Commercial and industrial		
Automobile	174	223
Mortgage	26	—
Other	33	37
Commercial real estate		
Automobile	54	67
Mortgage	15	12
Total commercial	302	339
Total consumer and commercial finance receivables and loans	$ 845	$ 906

Management performs a quarterly analysis of the consumer automobile, consumer mortgage, and commercial portfolios using a range of credit quality indicators to assess the adequacy of the allowance based on historical and current trends. The tables below present the population of loans by quality indicators for our consumer automobile, consumer mortgage, and commercial portfolios.

The following table presents performing and nonperforming credit quality indicators in accordance with our internal accounting policies for our consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

	March 31, 2012			December 31, 2011		
($ in millions)	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Consumer automobile	$ 66,969	$ 245	$ 67,214	$ 63,231	$ 228	$ 63,459
Consumer mortgage						
1st Mortgage	6,692	246	6,938	6,610	281	6,891
Home equity	2,968	52	3,020	3,044	58	3,102
Total consumer mortgage	$ 9,660	$ 298	$ 9,958	$ 9,654	$ 339	$ 9,993

The following table presents pass and criticized credit quality indicators based on regulatory definitions for our commercial finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

	March 31, 2012			December 31, 2011		
($ in millions)	Pass	Criticized (a)	Total	Pass	Criticized (a)	Total
Commercial						
Commercial and industrial						
Automobile	$ 34,338	$ 2,266	$ 36,604	$ 32,464	$ 2,353	$ 34,817
Mortgage	1,250	153	1,403	1,760	151	1,911
Other	913	347	1,260	883	358	1,241
Commercial real estate						
Automobile	2,354	178	2,532	2,305	180	2,485
Mortgage	—	15	15	—	14	14
Total commercial	$ 38,855	$ 2,959	$ 41,814	$ 37,412	$ 3,056	$ 40,468

(a) Includes loans classified as special mention, substandard, or doubtful. These classifications are based on regulatory definitions and generally represent loans within our portfolio that have a higher default risk or have already defaulted.

Notes to Condensed Consolidated Financial Statements (unaudited)

Impaired Loans and Troubled Debt Restructurings

Impaired Loans

Loans are considered impaired when we determine it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. For more information on our impaired finance receivables and loans, refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

The following table presents information about our impaired finance receivables and loans recorded at historical cost.

($ in millions)	Unpaid principal balance	Carrying value before allowance	Impaired with no allowance	Impaired with an allowance	Allowance for impaired loans
March 31, 2012					
Consumer automobile	$ 88	$ 88	$ —	$ 88	$ 8
Consumer mortgage					
1st Mortgage	526	518	88	430	124
Home equity	100	101	—	101	44
Total consumer mortgage	626	619	88	531	168
Commercial					
Commercial and industrial					
Automobile	169	169	82	87	12
Mortgage	26	26	—	26	11
Other	33	33	21	12	5
Commercial real estate					
Automobile	59	59	29	30	13
Mortgage	15	15	2	13	5
Total commercial	302	302	134	168	46
Total consumer and commercial finance receivables and loans	$ 1,016	$ 1,009	$ 222	$ 787	$ 222
December 31, 2011					
Consumer automobile	$ 69	$ 69	$ —	$ 69	$ 7
Consumer mortgage					
1st Mortgage	516	508	83	425	126
Home equity	97	98	—	98	46
Total consumer mortgage	613	606	83	523	172
Commercial					
Commercial and industrial					
Automobile	222	222	64	158	22
Mortgage	—	—	—	—	—
Other	37	37	25	12	5
Commercial real estate					
Automobile	68	68	32	36	18
Mortgage	12	12	1	11	5
Total commercial	339	339	122	217	50
Total consumer and commercial finance receivables and loans	$ 1,021	$ 1,014	$ 205	$ 809	$ 229

The following table presents average balance and interest income for our impaired finance receivables and loans.

Three months ended March 31, ($ in millions)	2012 Average balance	2012 Interest income	2011 Average balance	2011 Interest income
Consumer automobile	$ 83	$ 2	$ —	$ —
Consumer mortgage				
1st Mortgage	512	4	423	4
Home equity	100	1	85	1
Total consumer mortgage	612	5	508	5
Commercial				
Commercial and industrial				
Automobile	196	2	336	—
Mortgage	7	—	42	5
Other	34	—	128	1
Commercial real estate				
Automobile	63	—	178	—
Mortgage	15	—	63	1
Total commercial	315	2	747	7
Total consumer and commercial finance receivables and loans	$ 1,010	$ 9	$ 1,255	$ 12

Troubled Debt Restructurings

TDRs are loan modifications where concessions were granted to borrowers experiencing financial difficulties. Numerous initiatives, such as Home Affordable Modification Program are in place to provide support to our mortgage customers in financial distress, including principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates. Additionally for automobile loans, we offer several types of assistance to aid our customers including changing the due date, and rewriting the loan terms. Total TDRs recorded at historical cost and reported at carrying value before allowance for loan losses at March 31, 2012, increased $38 million to $772 million from December 31, 2011. Refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for additional information.

The following table present information related to finance receivables and loans recorded at historical cost modified in connection with a troubled debt restructuring during the period.

Three months ended March 31, ($ in millions)	2012 Number of loans	2012 Pre-modification carrying value before allowance	2012 Post-modification carrying value before allowance	2011 Number of loans	2011 Pre-modification carrying value before allowance	2011 Post-modification carrying value before allowance
Consumer automobile	2,792	$ 33	$ 33	1,228	$ 17	$ 17
Consumer mortgage						
1st Mortgage	77	28	27	127	44	44
Home equity	173	10	9	216	13	11
Total consumer mortgage	250	38	36	343	57	55
Commercial						
Commercial and industrial						
Automobile	3	3	3	1	3	3
Mortgage	—	—	—	—	—	—
Commercial real estate						
Automobile	1	2	2	—	—	—
Mortgage	—	—	—	—	—	—
Total commercial	4	5	5	1	3	3
Total consumer and commercial finance receivables and loans	3,046	$ 76	$ 74	1,572	$ 77	$ 75

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table present information about finance receivables and loans recorded at historical cost that have redefaulted during the reporting period and were within 12 months or less of being modified as a troubled debt restructuring. Redefault is when finance receivables and loans meet the requirements for evaluation under our charge-off policy (Refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for additional information) except for commercial finance receivables and loans where default is defined as 90 days past due.

	2012			2011		
Three months ended March 31, (*$ in millions*)	Number of loans	Carrying value before allowance	Charge-off amount	Number of loans	Carrying value before allowance	Charge-off amount
Consumer automobile	208	$ 2	$ 1	—	$ —	$ —
Consumer mortgage						
1st Mortgage	5	1	—	1	—	—
Home equity	4	1	1	2	—	—
Total consumer mortgage	9	2	1	3	—	—
Commercial						
Commercial and industrial						
Automobile	2	2	—	—	—	—
Total commercial	2	2	—	—	—	—
Total consumer and commercial finance receivables and loans	219	$ 6	$ 2	3	$ —	$ —

At March 31, 2012, and December 31, 2011, commercial commitments to lend additional funds to debtors owing receivables whose terms had been modified in a troubled debt restructuring were $19 million and $45 million, respectively.

Higher-Risk Mortgage Concentration Risk

The following table summarizes held-for-investment mortgage finance receivables and loans recorded at historical cost and reported at carrying value before allowance for loan losses by higher-risk loan type.

(*$ in millions*)	March 31, 2012	December 31, 2011
Interest-only mortgage loans (a)	$ 2,828	$ 2,947
Below-market rate (teaser) mortgages	240	248
Total higher-risk mortgage finance receivables and loans (b)	$ 3,068	$ 3,195

(a) The majority of the interest-only mortgage loans are expected to start principal amortization in 2015 or beyond.
(b) The majority of these loans are held by our Mortgage Legacy Portfolio and Other operations at March 31, 2012 , and December 31, 2011 .

9. Investment in Operating Leases, Net

Investments in operating leases were as follows.

(*$ in millions*)	March 31, 2012	December 31, 2011
Vehicles and other equipment	$ 11,983	$ 11,160
Accumulated depreciation	(1,935)	(1,885)
Investment in operating leases, net	$ 10,048	$ 9,275

Depreciation expense on operating lease assets includes remarketing gains and losses recognized on the sale of operating lease assets. The following summarizes the components of depreciation expense on operating lease assets.

	Three months ended March 31,	
(*$ in millions*)	2012	2011
Depreciation expense on operating lease assets (excluding remarketing gains)	$ 347	$ 390
Remarketing gains	(54)	(120)
Depreciation expense on operating lease assets	$ 293	$ 270

Notes to Condensed Consolidated Financial Statements (unaudited)

10. Securitizations and Variable Interest Entities

Overview

We are involved in several types of securitization and financing transactions that utilize SPEs. An SPE is an entity that is designed to fulfill a specified limited need of the sponsor. Our principal use of SPEs is to obtain liquidity and favorable capital treatment by securitizing certain of our financial assets.

The SPEs involved in securitization and other financing transactions are generally considered variable interest entities (VIEs). VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities.

Securitizations

We provide a wide range of consumer and commercial automobile loans, operating leases, and mortgage loan products to a diverse customer base. We often securitize these loans and leases (which we collectively describe as loans or financial assets) through the use of securitization entities, which may or may not be consolidated on our Consolidated Balance Sheet. We securitize consumer and commercial automobile loans and operating leases through private-label securitizations. We securitize consumer mortgage loans through transactions involving the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae) (collectively the Government-Sponsored Enterprises or GSEs), or private-label mortgage securitizations. During the three months ended March 31, 2012 and 2011, our consumer mortgage loans were primarily securitized through the GSEs.

In executing a securitization transaction, we typically sell pools of financial assets to a wholly owned, bankruptcy-remote SPE, which then transfers the financial assets to a separate, transaction-specific securitization entity for cash, servicing rights, and in some transactions, other retained interests. The securitization entity is funded through the issuance of beneficial interests in the securitized financial assets. The beneficial interests take the form of either notes or trust certificates which are sold to investors and/or retained by us. These beneficial interests are collateralized by the transferred loans and entitle the investors to specified cash flows generated from the securitized loans. In addition to providing a source of liquidity and cost-efficient funding, securitizing these financial assets also reduces our credit exposure to the borrowers beyond any economic interest we may retain.

Each securitization is governed by various legal documents that limit and specify the activities of the securitization entity. The securitization entity is generally allowed to acquire the loans, to issue beneficial interests to investors to fund the acquisition of the loans, and to enter into derivatives or other yield maintenance contracts (e.g., coverage by monoline bond insurers) to hedge or mitigate certain risks related to the financial assets or beneficial interests of the entity. A servicer, who is generally us, is appointed pursuant to the underlying legal documents to service the assets the securitization entity holds and the beneficial interests it issues. Servicing functions include, but are not limited to, making certain payments of property taxes and insurance premiums, default and property maintenance payments, as well as advancing principal and interest payments before collecting them from individual borrowers. Our servicing responsibilities, which constitute continued involvement in the transferred financial assets, consist of primary servicing (i.e., servicing the underlying transferred financial assets) and/or master servicing (i.e., servicing the beneficial interests that result from the securitization transactions). Certain securitization entities also require the servicer to advance scheduled principal and interest payments due on the beneficial interests issued by the entity regardless of whether cash payments are received on the underlying transferred financial assets. Accordingly, we are required to provide these servicing advances when applicable. Refer to Note 11 for additional information regarding our servicing rights.

The GSEs provide a guarantee of the payment of principal and interest on the beneficial interests issued in securitizations. In private-label securitizations, cash flows from the assets initially transferred into the securitization entity represent the sole source for payment of distributions on the beneficial interests issued by the securitization entity and for payments to the parties that perform services for the securitization entity, such as the servicer or the trustee. In certain private-label securitization transactions, a liquidity facility may exist to provide temporary liquidity to the entity. The liquidity provider generally is reimbursed prior to other parties in subsequent distribution periods. Monoline insurance may also exist to cover certain shortfalls to certain investors in the beneficial interests issued by the securitization entity. As noted above, in certain private-label securitizations, the servicer is required to advance scheduled principal and interest payments due on the beneficial interests regardless of whether cash payments are received on the underlying transferred financial assets. The servicer is allowed to reimburse itself for these servicing advances. Additionally, certain private-label securitization transactions may allow for the acquisition of additional loans subsequent to the initial loan transfer. Principal collections on other loans and/or the issuance of new beneficial interests, such as variable funding notes, generally fund these loans; we are often contractually required to invest in these new interests.

We may retain beneficial interests in our private-label securitizations, which may represent a form of significant continuing economic interest. These retained interests include, but are not limited to, senior or subordinate mortgage- or asset-backed securities, interest-only strips, principal-only strips, and residuals. Certain of these retained interests provide credit enhancement to the trust as they may absorb credit losses or other cash shortfalls. Additionally, the securitization agreements may require cash flows to be directed away from certain of our retained interests due to specific over-collateralization requirements, which may or may not be performance-driven.

We generally hold certain conditional repurchase options that allow us to repurchase assets from the securitization entity. The majority of the securitizations provide us, as servicer, with a call option that allows us to repurchase the remaining transferred financial assets or outstanding beneficial interests at our discretion once the asset pool reaches a predefined level, which represents the point where servicing

Notes to Condensed Consolidated Financial Statements (unaudited)

becomes burdensome (a clean-up call option). The repurchase price is typically the par amount of the loans plus accrued interest. Additionally, we may hold other conditional repurchase options that allow us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan or contract if it exceeds a certain prespecified delinquency level. We generally have complete discretion regarding when or if we will exercise these options, but generally, we would do so only when it is in our best interest.

Other than our customary representation and warranty provisions, these securitizations are nonrecourse to us, thereby transferring the risk of future credit losses to the extent the beneficial interests in the securitization entities are held by third parties. Representation and warranty provisions generally require us to repurchase loans or indemnify the investor or other party for incurred losses to the extent it is determined that the loans were ineligible or were otherwise defective at the time of sale. Refer to Note 24 for detail on representation and warranty provisions. We did not provide any noncontractual financial support to any of these entities during the three months ended March 31, 2012 and 2011.

Other Variable Interest Entities

Servicer Advance Funding Entity

To assist in the financing of our servicer advance receivables, we formed an SPE that issues variable funding notes to third-party investors that are collateralized by servicer advance receivables. These servicer advance receivables are transferred to the SPE and consist of delinquent principal and interest advances we made as servicer to various investors; property taxes and insurance premiums advanced to taxing authorities and insurance companies on behalf of borrowers; and amounts advanced for mortgages in foreclosure. The SPE funds the purchase of the receivables through financing obtained from the third-party investors and subordinated loans or an equity contribution from our mortgage activities. This SPE is consolidated on our balance sheet at March 31, 2012, and December 31, 2011. The beneficial interest holder of this SPE does not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support to the entity during the three months ended March 31, 2012 and 2011.

Other

We have involvements with various other on-balance sheet, immaterial SPEs. Most of these SPEs are used for additional liquidity whereby we sell certain financial assets into the VIE and issue beneficial interests to third parties for cash.

We also provide long-term guarantee contracts and a line of credit to certain nonconsolidated affordable housing entities. Since we do not have control over the entities or the power to make decisions, we do not consolidate the entities and our involvement is limited to the guarantee and the line of credit.

Involvement with Variable Interest Entities

The determination of whether financial assets transferred by us to these VIEs (and related liabilities) are consolidated on our balance sheet (also referred to as on-balance sheet) or not consolidated on our balance sheet (also referred to as off-balance sheet) depends on the terms of the related transaction and our continuing involvement (if any) with the SPE. We are deemed the primary beneficiary and therefore consolidate VIEs for which we have both (a) the power, through voting rights or similar rights, to direct the activities that most significantly impact the VIE's economic performance, and (b) a variable interest (or variable interests) that (i) obligates us to absorb losses that could potentially be significant to the VIE and/or (ii) provides us the right to receive residual returns of the VIE that could potentially be significant to the VIE. We determine whether we hold a significant variable interest in a VIE based on a consideration of both qualitative and quantitative factors regarding the nature, size, and form of our involvement with the VIE. We assess whether we are the primary beneficiary of a VIE on an ongoing basis.

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Ally Financial Inc. • Form 10-Q

Our involvement with consolidated and nonconsolidated VIEs in which we hold variable interests is presented below.

($ in millions)	Consolidated involvement with VIEs		Assets of nonconsolidated VIEs (a)		Maximum exposure to loss in nonconsolidated VIEs	
March 31, 2012						
On-balance sheet variable interest entities						
Consumer automobile	$ 28,953		$ —		$ —	
Consumer mortgage — private-label	1,086		—		—	
Commercial automobile	18,245		—		—	
Other	961		—		—	
Off-balance sheet variable interest entities						
Consumer mortgage — Ginnie Mae	2,665	(b)	43,317		43,317	(c)
Consumer mortgage — CMHC	62	(b)	3,131		62	(d)
Consumer mortgage — private-label	132	(b)	4,194		4,194	(c)
Consumer mortgage — other	—		—	(e)	16	(f)
Commercial other	48	(g)	—	(h)	193	
Total	$ 52,152		$ 50,642		$ 47,782	
December 31, 2011						
On-balance sheet variable interest entities						
Consumer automobile	$ 26,504		$ —		$ —	
Consumer mortgage — private-label	1,098		—		—	
Commercial automobile	19,594		—		—	
Other	956		—		—	
Off-balance sheet variable interest entities						
Consumer mortgage — Ginnie Mae	2,652	(b)	44,127		44,127	(c)
Consumer mortgage — CMHC	66	(b)	3,222		66	(d)
Consumer mortgage — private-label	141	(b)	4,408		4,408	(c)
Consumer mortgage — other	—		—	(e)	17	(f)
Commercial other	83	(g)	—	(h)	242	
Total	$ 51,094		$ 51,757		$ 48,860	

(a) Asset values represent the current unpaid principal balance of outstanding consumer finance receivables and loans within the VIEs.
(b) Includes $2.4 billion and $2.4 billion classified as mortgage loans held-for-sale, $87 million and $92 million classified as trading securities or other assets, and $419 million and $386 million classified as mortgage servicing rights at March 31, 2012, and December 31, 2011, respectively. CMHC is the Canada Mortgage and Housing Corporation.
(c) Maximum exposure to loss represents the current unpaid principal balance of outstanding loans based on our customary representation and warranty provisions. This measure is based on the unlikely event that all of the loans have underwriting defects or other defects that trigger a representation and warranty provision and the collateral supporting the loans are worthless. This required disclosure is not an indication of our expected loss.
(d) Due to combination of the credit loss insurance on the mortgages and the guarantee by CMHC on the issued securities, the maximum exposure to loss would be limited to the amount of the retained interests. Additionally, the maximum loss would occur only in the event that CMHC dismisses us as servicer of the loans due to servicer performance or insolvency.
(e) Includes a VIE for which we have no management oversight and therefore we are not able to provide the total assets of the VIE. However, in March 2011 we sold excess servicing rights valued at $266 million to the VIE.
(f) Our maximum exposure to loss in this VIE is a component of servicer advances made that are allocated to the trust. The maximum exposure to loss presented represents the unlikely event that every loan underlying the excess servicing rights sold defaults, and we, as servicer, are required to advance the entire excess service fee to the trust for the contractually established period. This required disclosure is not an indication of our expected loss.
(g) Includes $65 million and $100 million classified as finance receivables and loans, net, and $20 million and $20 million classified as other assets, offset by $37 million and $37 million classified as accrued expenses and other liabilities at March 31, 2012 , and December 31, 2011 , respectively.
(h) Includes VIEs for which we have no management oversight and therefore we are not able to provide the total assets of the VIEs.

On-balance Sheet Variable Interest Entities

We engage in securitization and other financing transactions that do not qualify for off-balance sheet treatment. In these situations, we hold beneficial interests or other interests in the VIE, which represent a form of significant continuing economic interest. The interests held include, but are not limited to, senior or subordinate mortgage- or asset-backed securities, interest-only strips, principal-only strips, residuals, and servicing rights. Certain of these retained interests provide credit enhancement to the securitization entity as they may absorb credit losses or other cash shortfalls. Additionally, the securitization documents may require cash flows to be directed away from certain of our retained interests due to specific over-collateralization requirements, which may or may not be performance-driven. Because these securitization

Notes to Condensed Consolidated Financial Statements (unaudited)

entities are consolidated, these retained interests and servicing rights are not recognized as separate assets on our Condensed Consolidated Balance Sheet.

We consolidated certain of these entities because we had a controlling financial interest in the VIE, primarily due to our servicing activities, and because we hold a significant variable interest in the VIE. We are generally the primary beneficiary of automobile securitization entities, as well as certain mortgage private-label securitization entities for which we perform servicing activities and have retained a significant variable interest in the form of a beneficial interest. In cases where we did not meet sale accounting under previous guidance, unless we have made modifications to the overall transaction, we do not meet sale accounting under current guidance as we are not permitted to revisit sale accounting guidelines under the current guidance. In cases where substantive modifications are made, we then reassess the transaction under the amended guidance, based on the new circumstances.

The consolidated VIEs included in the Condensed Consolidated Balance Sheet represent separate entities with which we are involved. The third-party investors in the obligations of consolidated VIEs have legal recourse only to the assets of the VIEs and do not have such recourse to us, except for the customary representation and warranty provisions or when we are the counterparty to certain derivative transactions involving the VIE. In addition, the cash flows from the assets are restricted only to pay such liabilities. Thus, our economic exposure to loss from outstanding third-party financing related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets. All assets are restricted for the benefit of the beneficial interest holders. Refer to Note 21 for discussion of the assets and liabilities for which the fair value option has been elected.

Off-balance Sheet Variable Interest Entities

The nature, purpose, and activities of nonconsolidated securitization entities are similar to those of our consolidated securitization entities with the primary difference being the nature and extent of our continuing involvement. The cash flows from the assets of nonconsolidated securitization entities generally are the sole source of payment on the securitization entities' liabilities. The creditors of these securitization entities have no recourse to us with the exception of market customary representation and warranty provisions as described in Note 24.

Nonconsolidated VIEs include entities for which we either do not hold significant variable interests or do not provide servicing or asset management functions for the financial assets held by the securitization entity. Additionally, to qualify for off-balance sheet treatment, transfers of financial assets must meet the sale accounting conditions in ASC 860, *Transfers and Servicing*. Our residential mortgage loan securitizations consist of GSEs and private-label securitizations. We are not the primary beneficiary of any GSE loan securitization transaction because we do not have the power to direct the significant activities of such entities. Additionally, we do not consolidate certain private-label mortgage securitizations because we do not have a variable interest that could potentially be significant or we do not have power to direct the activities that most significantly impact the performance of the VIE.

For nonconsolidated securitization entities, the transferred financial assets are removed from our balance sheet provided the conditions for sale accounting are met. The financial assets obtained from the securitization are primarily reported as cash, servicing rights, or retained interests (if applicable). Typically, we conclude that the fee we are paid for servicing consumer automobile finance receivables represents adequate compensation, and consequently, we do not recognize a servicing asset or liability. As an accounting policy election, we elected fair value treatment for our mortgage servicing rights (MSR) portfolio. Liabilities incurred as part of these securitization transactions, such as representation and warranty provisions, are recorded at fair value at the time of sale and are reported as accrued expenses and other liabilities on our Condensed Consolidated Balance Sheet. Upon the sale of the loans, we recognize a gain or loss on sale for the difference between the assets recognized, the assets derecognized, and the liabilities recognized as part of the transaction.

The following summarizes all pretax gains and losses recognized on financial assets sold into nonconsolidated securitization and similar asset-backed financing entities.

	Three months ended March 31,	
($ in millions)	2012	2011
Consumer mortgage — GSEs	$ 280	$ (3)
Consumer mortgage — private-label	—	(1)
Total pretax gain (loss)	$ 280	$ (4)

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The following table summarizes cash flows received from and paid related to securitization entities, asset-backed financings, or other similar transfers of financial assets where the transfer is accounted for as a sale and we have a continuing involvement with the transferred assets (e.g., servicing) that were outstanding during the three months ended March 31, 2012 and 2011 . Additionally, this table contains information regarding cash flows received from and paid to nonconsolidated securitization entities that existed during each period.

Three months ended March 31, (*$ in millions*)	Consumer mortgage GSEs	Consumer mortgage private-label
2012		
Cash proceeds from transfers completed during the period	$ 10,645	$ —
Cash flows received on retained interests in securitization entities	—	14
Servicing fees	249	48
Purchases of previously transferred financial assets	(580)	(8)
Representations and warranties obligations	(19)	(4)
Other cash flows	10	23
2011		
Cash proceeds from transfers completed during the period	$ 15,153	$ 595
Cash flows received on retained interests in securitization entities	—	20
Servicing fees	220	43
Purchases of previously transferred financial assets	(554)	(7)
Representations and warranties obligations	(44)	—
Other cash flows	70	62

The following table represents on-balance sheet loans held-for-sale and finance receivable and loans, off-balance sheet securitizations, and whole-loan sales where we have continuing involvement. The table presents quantitative information about delinquencies and net credit losses. Refer to Note 11 for further detail on total serviced assets.

	Total Amount		Amount 60 days or more past due		Net credit losses Three months ended	
(*$ in millions*)	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	March 31, 2011
On-balance sheet loans						
Consumer automobile	$ 67,837	$ 63,884	$ 310	$ 341	$ 74	$ 112
Consumer mortgage (a)	16,837	18,940	3,202	3,242	20	94
Commercial automobile	39,136	37,302	92	162	—	3
Commercial mortgage	1,418	1,925	15	14	(1)	16
Commercial other	1,260	1,261	1	1	(9)	1
Total on-balance sheet loans	126,488	123,312	3,620	3,760	84	226
Off-balance sheet securitization entities						
Consumer mortgage — GSEs (b)	255,160	262,984	8,934	9,456	n/m	n/m
Consumer mortgage — private-label	61,686	63,991	11,070	11,301	749	1,289
Total off-balance sheet securitization entities	316,846	326,975	20,004	20,757	749	1,289
Whole-loan transactions (c)	29,516	33,961	2,116	2,901	142	215
Total	$ 472,850	$ 484,248	$ 25,740	$ 27,418	$ 975	$ 1,730

n/m = not meaningful
(a) Includes loans subject to conditional repurchase options of $2.3 billion and $2.3 billion guaranteed by the GSEs, and $129 million and $132 million sold to certain private-label mortgage securitization entities at March 31, 2012, and December 31, 2011, respectively.
(b) Anticipated credit losses are not meaningful due to the GSE guarantees.
(c) Whole-loan transactions are not part of a securitization transaction, but represent consumer automobile and consumer mortgage pools of loans sold to third-party investors.

Changes in Accounting for Variable Interest Entities

For the three months ended March 31, 2012 and 2011, there were no material changes in the accounting for variable interest entities.

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11. Servicing Activities

Mortgage Servicing Rights

The following table summarizes activity related to MSRs, which are carried at fair value. Although there are limited market transactions that are directly observable, management estimates fair value based on the price it believes would be received to sell the MSR asset in an orderly transaction under current market conditions.

Three months ended March 31, *($ in millions)*	2012	2011
Estimated fair value at January 1,	$ 2,519	$ 3,738
Additions recognized on sale of mortgage loans	75	184
Additions from purchases of servicing rights	—	2
Subtractions from sales of servicing assets	—	(266)
Changes in fair value		
Due to changes in valuation inputs or assumptions used in the valuation model	163	297
Other changes in fair value	(162)	(181)
Estimated fair value at March 31,	$ 2,595	$ 3,774

Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model include all changes due to a revaluation by a model or by a benchmarking exercise. Other changes in fair value primarily include the accretion of the present value of the discount related to forecasted cash flows and the economic runoff of the portfolio. Refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K for additional information regarding our significant assumptions and valuation techniques used in the valuation of mortgage servicing rights.

The key economic assumptions and sensitivity of the fair value of MSRs to immediate 10% and 20% adverse changes in those assumptions were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Weighted average life *(in years)*	5.2	4.7
Weighted average prepayment speed	12.1%	15.7%
Impact on fair value of 10% adverse change	$ (181)	$ (135)
Impact on fair value of 20% adverse change	(345)	(257)
Weighted average discount rate	12.0%	10.2%
Impact on fair value of 10% adverse change	$ (65)	$ (59)
Impact on fair value of 20% adverse change	(125)	(114)

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected change in the fair value of the instruments used to manage the interest rates and prepayment risks associated with these assets.

Risk Mitigation Activities

The primary risk of our servicing rights is interest rate risk and the resulting impact on prepayments. A significant decline in interest rates could lead to higher-than-expected prepayments that could reduce the value of the MSRs. We economically hedge the impact of these risks with both derivative and nonderivative financial instruments. Refer to Note 19 for additional information regarding the derivative financial instruments used to economically hedge MSRs.

The components of servicing valuation and hedge activities, net, were as follows.

	Three months ended March 31,	
($ in millions)	2012	2011
Change in estimated fair value of mortgage servicing rights	$ 1	$ 117
Change in fair value of derivative financial instruments	8	(204)
Servicing valuation and hedge activities, net	$ 9	$ (87)

Mortgage Servicing Fees

The components of mortgage servicing fees were as follows.

	Three months ended March 31,	
($ in millions)	2012	2011
Contractual servicing fees, net of guarantee fees and including subservicing	$ 226	$ 257
Late fees	19	21
Ancillary fees	35	33
Total mortgage servicing fees	$ 280	$ 311

Mortgage Servicing Advances

In connection with our primary servicing activities (i.e., servicing of mortgage loans), we make certain payments for property taxes and insurance premiums, default and property maintenance payments, as well as advances of principal and interest payments before collecting them from individual borrowers. Servicing advances including contractual interest, are priority cash flows in the event of a loan principal reduction or foreclosure and ultimate liquidation of the real estate-owned property, thus making their collection reasonably assured. These servicing advances are included in other assets on the Condensed Consolidated Balance Sheet and totaled $1.8 billion and $1.9 billion at March 31, 2012, and December 31, 2011, respectively. We maintain an allowance for uncollected primary servicing advances of $43 million at both March 31, 2012, and December 31, 2011. Our potential obligation is influenced by the loan's performance and credit quality.

When we act as a subservicer of mortgage loans we perform the responsibilities of a primary servicer but do not own the corresponding primary servicing rights. We receive a fee from the primary servicer for such services. As the subservicer, we would have the same responsibilities of a primary servicer in that we would make certain payments of property taxes and insurance premiums, default and property maintenance, as well as advances of principal and interest payments before collecting them from individual borrowers. At March 31, 2012, and December 31, 2011, outstanding servicer advances related to subserviced loans were $127 million and $125 million, respectively, and we had a reserve for uncollected subservicer advances of $1.0 million and $1.1 million, respectively.

In many cases, where we act as master servicer, we also act as primary servicer. In connection with our master-servicing activities, we service the mortgage-backed and mortgage-related asset-backed securities and whole-loan packages sold to investors. As the master servicer, we collect mortgage loan payments from primary servicers and distribute those funds to investors in the mortgage-backed and mortgage-related asset-backed securities and whole-loan packages. As the master servicer, we are required to advance scheduled payments to the securitization trust or whole-loan investors. To the extent the primary servicer does not advance the payments, we are responsible for advancing the payment to the trust or whole-loan investors. Master-servicing advances, including contractual interest, are priority cash flows in the event of a default, thus making their collection reasonably assured. In most cases, we are required to advance these payments to the point of liquidation of the loan or reimbursement of the trust or whole-loan investors. We had outstanding master-servicing advances of $190 million and $158 million at March 31, 2012, and December 31, 2011, respectively. We had no reserve for uncollected master-servicing advances at March 31, 2012, or December 31, 2011.

Serviced Mortgage Assets

The unpaid principal balance of our serviced mortgage assets was as follows.

($ in millions)	March 31, 2012	December 31, 2011
On-balance sheet mortgage loans		
Held-for-sale and investment	$ 17,115	$ 18,871
Operations held-for-sale	436	541
Off-balance sheet mortgage loans		
Loans sold to third-party investors		
Private-label	48,514	50,886
GSEs	255,053	262,868
Whole-loan	14,484	15,105
Purchased servicing rights	3,089	3,247
Operations held-for-sale	5,213	4,912
Total primary serviced mortgage loans	343,904	356,430
Subserviced mortgage loans	28,423	26,358
Subserviced operations held-for-sale	2	4
Total subserviced mortgage loans	28,425	26,362
Master-servicing-only mortgage loans	8,225	8,557
Total serviced mortgage loans	$ 380,554	$ 391,349

Our Mortgage operations that conduct primary and master-servicing activities are required to maintain certain servicer ratings in accordance with master agreements entered into with GSEs. At March 31, 2012, our Mortgage operations were in compliance with the servicer-rating requirements of the master agreements.

At March 31, 2012, domestic insured private-label securitizations with an unpaid principal balance of $5.4 billion contains provisions entitling the monoline or other provider of contractual credit support (surety providers) to declare a servicer default and terminate the servicer upon the failure of the loans to meet certain portfolio delinquency and/or cumulative loss thresholds. Securitizations with an unpaid principal balance of $4.8 billion had breached a delinquency and/or cumulative loss threshold. We continue to receive service fee income with respect to these securitizations. Securitizations with an unpaid principal balance of $574 million have not yet breached a delinquency or cumulative loss threshold. The value of the related MSR is $4 million at March 31, 2012. Refer to Note 24 for additional information.

Automobile Servicing Activities

We service consumer automobile contracts. Historically, we have sold a portion of our consumer automobile contracts. With respect to contracts we sell, we retain the right to service and earn a servicing fee for our servicing function. Typically, we conclude that the fee we are paid for servicing consumer automobile finance receivables represents adequate compensation, and consequently, we do not recognize a servicing asset or liability. We recognized automobile servicing fees of $30 million and $46 million during the three months ended March 31, 2012 and 2011, respectively.

Automobile Serviced Assets

The total serviced automobile loans outstanding were as follows.

($ in millions)	March 31, 2012	December 31, 2011
On-balance sheet automobile loans and leases		
Consumer automobile	$ 67,837	$ 63,884
Commercial automobile	39,136	37,302

Operating leases		10,048		9,275
Operations held-for-sale		68		102
Off-balance sheet automobile loans				
Loans sold to third-party investors				
Whole-loan		10,456		12,318
Total serviced automobile loans and leases	$	127,545	$	122,881

12. Other Assets

The components of other assets were as follows.

($ in millions)		March 31, 2012		December 31, 2011
Property and equipment at cost	$	1,162	$	1,152
Accumulated depreciation		(802)		(787)
Net property and equipment		360		365
Fair value of derivative contracts in receivable position		4,175		5,687
Servicer advances		2,144		2,142
Restricted cash collections for securitization trusts (a)		1,830		1,596
Collateral placed with counterparties		1,425		1,448
Other accounts receivable		1,176		1,110
Cash reserve deposits held-for-securitization trusts (b)		890		838
Restricted cash and cash equivalents		846		1,381
Debt issuance costs		610		612
Prepaid expenses and deposits		558		568
Goodwill		519		518
Real estate and other investments		411		385
Nonmarketable equity securities		394		419
Accrued interest and rent receivable		227		232
Interests retained in financial asset sales		194		231
Repossessed and foreclosed assets		150		141
Other assets		1,056		1,068
Total other assets	$	16,965	$	18,741

(a) Represents cash collection from customer payments on securitized receivables. These funds are distributed to investors as payments on the related secured debt.
(b) Represents credit enhancement in the form of cash reserves for various securitization transactions.

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13. Deposit Liabilities

Deposit liabilities consisted of the following.

($ in millions)	March 31, 2012	December 31, 2011
Domestic deposits		
Noninterest-bearing deposits	$ 2,314	$ 2,029
Interest-bearing deposits		
Savings and money market checking accounts	9,859	9,035
Certificates of deposit	29,348	28,540
Dealer deposits	1,860	1,769
Total domestic deposit liabilities	43,381	41,373
Foreign deposits		
Interest-bearing deposits		
Savings and money market checking accounts	1,536	1,408
Certificates of deposit	1,983	1,958
Dealer deposits	306	311
Total foreign deposit liabilities	3,825	3,677
Total deposit liabilities	$ 47,206	$ 45,050

Noninterest-bearing deposits primarily represent third-party escrows associated with our mortgage loan-servicing portfolio. The escrow deposits are not subject to an executed agreement and can be withdrawn without penalty at any time. At March 31, 2012, and December 31, 2011, certificates of deposit included $10.5 billion and $10.0 billion, respectively, of domestic certificates of deposit in denominations of $100 thousand or more.

14. Short-term Borrowings

The following table presents the composition of our short-term borrowings portfolio.

	March 31, 2012			December 31, 2011		
($ in millions)	Unsecured	Secured	Total	Unsecured	Secured	Total
Demand notes	$ 2,987	$ —	$ 2,987	$ 2,756	$ —	$ 2,756
Bank loans and overdrafts	1,826	—	1,826	1,613	—	1,613
Federal Home Loan Bank	—	200	200	—	1,400	1,400
Securities sold under agreements to repurchase	—	561	561	—	—	—
Other (a)	173	1,456	1,629	146	1,765	1,911
Total short-term borrowings	$ 4,986	$ 2,217	$ 7,203	$ 4,515	$ 3,165	$ 7,680

(a) Other primarily includes nonbank secured borrowings at our Mortgage and International Automotive Finance operations.

15. Long-term Debt

The following tables present the composition of our long-term debt portfolio.

	March 31, 2012			December 31, 2011		
($ in millions)	Unsecured	Secured	Total	Unsecured	Secured	Total
Long-term debt						
Due within one year (a)	$ 11,438	$ 15,139	$ 26,577	$ 11,664	$ 14,521	$ 26,185
Due after one year (b)	31,200	35,271	66,471	30,272	35,279	65,551
Fair value adjustment	942	—	942	1,058	—	1,058
Total long-term debt (c)	$ 43,580	$ 50,410	$ 93,990	$ 42,994	$ 49,800	$ 92,794

(a) Includes $7.4 billion guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP) at both March 31, 2012, and December 31, 2011.
(b) Includes $2.6 billion of trust preferred securities at both March 31, 2012, and December 31, 2011.
(c) Includes fair value option-elected secured long-term debt of $828 million and $830 million at March 31, 2012, and December 31, 2011, respectively. Refer to Note 21 for additional information.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents the scheduled remaining maturity of long-term debt at March 31, 2012 , assuming no early redemptions will occur. The actual payment of secured debt may vary based on the payment activity of the related pledged assets.

Year ended December 31, (*$ in millions*)	2012	2013	2014	2015	2016	2017 and thereafter	Fair value adjustment	Total
Unsecured								
Long-term debt	$ 11,219	$ 2,681	$ 5,787	$ 3,641	$ 1,469	$ 19,934	$ 942	$ 45,673
Original issue discount	(240)	(265)	(192)	(60)	(64)	(1,272)	—	(2,093)
Total unsecured	10,979	2,416	5,595	3,581	1,405	18,662	942	43,580
Secured								
Long-term debt	10,369	16,972	11,910	6,334	1,688	2,918	—	50,191
Troubled debt restructuring concession (a)	78	82	46	13	—	—	—	219
Total secured	10,447	17,054	11,956	6,347	1,688	2,918	—	50,410
Total long-term debt	$ 21,426	$ 19,470	$ 17,551	$ 9,928	$ 3,093	$ 21,580	$ 942	$ 93,990

(a) In the second quarter of 2008, ResCap executed an exchange offer that resulted in a concession being recognized as an adjustment to the carrying value of certain secured notes. This concession is being amortized over the life of the notes through a reduction to interest expense using an effective yield methodology.

The following table presents the scheduled remaining maturity of long-term debt held by ResCap at March 31, 2012 , assuming no early redemptions will occur. The actual payment of secured debt may vary based on the payment activity of the related pledged assets.

Year ended December 31, (*$ in millions*)	2012	2013	2014	2015	2016	2017 and thereafter	Fair value adjustment	Total
ResCap								
Unsecured debt								
Long-term debt	$ 351	$ 532	$ 102	$ 114	$ —	$ —	$ 14	$ 1,113
Secured debt								
Long-term debt	3	707	759	707	—	1,631	—	3,807
Troubled debt restructuring concession (a)	78	82	46	13	—	—	—	219
Total secured debt	81	789	805	720	—	1,631	—	4,026
ResCap — Total long-term debt	$ 432	$ 1,321	$ 907	$ 834	$ —	$ 1,631	$ 14	$ 5,139

(a) In the second quarter of 2008, ResCap executed an exchange offer that resulted in a concession being recognized as an adjustment to the carrying value of certain secured notes. This concession is being amortized over the life of the notes through a reduction to interest expense using an effective yield methodology.

The following summarizes assets restricted as collateral for the payment of the related debt obligation primarily arising from securitization transactions accounted for as secured borrowings and repurchase agreements.

	March 31, 2012		December 31, 2011	
($ in millions)	Total	Ally Bank (a)	Total	Ally Bank (a)
Trading securities	$ 26	$ —	$ 27	$ —
Investment securities	1,106	1,106	780	780
Loans held-for-sale	412	—	805	—
Mortgage assets held-for-investment and lending receivables	11,662	10,680	12,197	11,188
Consumer automobile finance receivables	33,429	18,195	33,888	17,320
Commercial automobile finance receivables	21,610	15,810	20,355	14,881
Investment in operating leases, net	4,964	395	4,555	431
Mortgage servicing rights	1,981	1,340	1,920	1,286
Other assets	4,063	1,973	3,973	1,816
Total assets restricted as collateral (b)	$ 79,253	$ 49,499	$ 78,500	$ 47,702
Secured debt (c)	$ 52,627	$ 27,694	$ 52,965	$ 25,533

(a) Ally Bank is a component of the total column.
(b) Ally Bank has an advance agreement with the Federal Home Loan Bank of Pittsburgh (FHLB) and access to the Federal Reserve Bank Discount Window. Ally Bank had assets pledged and restricted as collateral to the FHLB and Federal Reserve Bank totaling $11.3 billion and $11.8 billion at March 31, 2012, and December 31, 2011, respectively. These assets were composed of consumer and commercial mortgage finance receivables and loans, net; consumer automobile finance receivables and loans, net; and investment securities. Under the agreement with the FHLB, Ally Bank also had assets pledged as collateral under a blanket-lien totaling $7.9 billion and $7.3 billion at March 31, 2012, and December 31, 2011, respectively. These assets were primarily composed of mortgage servicing rights; consumer and commercial mortgage finance receivables and loans, net; and other assets. Availability under these programs is generally only for the operations of Ally Bank and cannot be used to fund the operations or liabilities of Ally or its subsidiaries.
(c) Includes $2.2 billion and $3.2 billion of short-term borrowings at March 31, 2012, and December 31, 2011, respectively.

Trust Preferred Securities

On December 30, 2009, we entered into a Securities Purchase and Exchange Agreement with U.S. Department of Treasury (Treasury) and GMAC Capital Trust I, a Delaware statutory trust (the Trust), which is a finance subsidiary that is wholly owned by Ally. As part of the agreement, the Trust sold to Treasury 2,540,000 trust preferred securities (TRUPS) issued by the Trust with an aggregate liquidation preference of $2.5 billion. Additionally, we issued and sold to Treasury a ten-year warrant to purchase up to 127,000 additional TRUPS with an aggregate liquidation preference of $127 million, at an initial exercise price of $0.01 per security, which Treasury immediately exercised in full.

On March 1, 2011, the Declaration of Trust and certain other documents related to the TRUPS were amended and all the outstanding TRUPS held by Treasury were designated 8.125% Fixed Rate / Floating Rate Trust Preferred Securities, Series (Series 2 TRUPS). On March 7, 2011, Treasury sold 100% of the Series 2 TRUPS in an offering registered with the SEC. Ally did not receive any proceeds from the sale.

Each Series 2 TRUPS security has a liquidation amount of $25. Distributions are cumulative and are payable until redemption at the applicable coupon rate. Distributions are payable at an annual rate of 8.125% payable quarterly in arrears, beginning August 15, 2011, to but excluding February 15, 2016. From and including February 15, 2016, to but excluding February 15, 2040, distributions will be payable at an annual rate equal to three-month London interbank offer rate plus 5.785% payable quarterly in arrears, beginning May 15, 2016. Ally has the right to defer payments of interest for a period not exceeding 20 consecutive quarters. The Series 2 TRUPS have no stated maturity date, but must be redeemed upon the redemption or maturity of the related debentures (Debentures), which mature on February 15, 2040. The Series 2 TRUPS are generally nonvoting, other than with respect to certain limited matters. During any period in which any Series 2 TRUPS remain outstanding but in which distributions on the Series 2 TRUPS have not been fully paid, none of Ally or its subsidiaries will be permitted to (i) declare or pay dividends on, make any distributions with respect to, or redeem, purchase, acquire or otherwise make a liquidation payment with respect to, any of Ally's capital stock or make any guarantee payment with respect thereto; or (ii) make any payments of principal, interest, or premium on, or repay, repurchase or redeem, any debt securities or guarantees that rank on a parity with or junior in interest to the Debentures with certain specified exceptions in each case.

Funding Facilities

We utilize both committed and uncommitted credit facilities. The financial institutions providing the uncommitted facilities are not contractually obligated to advance funds under them. The amounts outstanding under our various funding facilities are included on our Condensed Consolidated Balance Sheet.

As of March 31, 2012, Ally Bank had exclusive access to $9.5 billion of funding capacity from committed credit facilities. Ally Bank also has access to a $3.9 billion committed facility that is shared with the parent company. Funding programs supported by the Federal Reserve and the FHLB, together with repurchase agreements, complement Ally Bank's private committed facilities.

Notes to Condensed Consolidated Financial Statements (unaudited)

The total capacity in our committed funding facilities is provided by banks and other financial institutions through private transactions. The committed secured funding facilities can be revolving in nature and allow for additional funding during the commitment period, or they can be amortizing and do not allow for any further funding after the closing date. At March 31, 2012, $32.5 billion of our $42.9 billion of committed capacity was revolving. Our revolving facilities generally have an original tenor ranging from 364 days to two years. As of March 31, 2012, we had $18.2 billion of committed funding capacity from revolving facilities with a remaining tenor greater than 364 days.

Committed Funding Facilities

	Outstanding		Unused capacity (a)		Total capacity	
($ in billions)	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011
Bank funding						
Secured	$ **4.7**	$ 5.8	$ **4.8**	$ 3.7	$ **9.5**	$ 9.5
Nonbank funding						
Unsecured						
Automotive Finance operations	**0.5**	0.3	**0.4**	0.5	**0.9**	0.8
Secured						
Automotive Finance operations (b)	**13.9**	14.3	**13.6**	13.2	**27.5**	27.5
Mortgage operations	**0.9**	0.7	**0.2**	0.5	**1.1**	1.2
Total nonbank funding	**15.3**	15.3	**14.2**	14.2	**29.5**	29.5
Shared capacity (c)	**0.1**	1.6	**3.8**	2.5	**3.9**	4.1
Total committed facilities	$ **20.1**	$ 22.7	$ **22.8**	$ 20.4	$ **42.9**	$ 43.1

(a) Funding from committed secured facilities is available on request in the event excess collateral resides in certain facilities or is available to the extent incremental collateral is available and contributed to the facilities.

(b) Total unused capacity includes $4.0 billion as of March 31, 2012, and $4.9 billion as of December 31, 2011, from certain committed funding arrangements that are generally reliant upon the origination of future automotive receivables and that are available in 2012 and 2013.

(c) Funding is generally available for assets originated by Ally Bank or the parent company, Ally Financial Inc.

Uncommitted Funding Facilities

	Outstanding		Unused capacity		Total capacity	
($ in billions)	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011
Bank funding						
Secured						
Federal Reserve funding programs	$ **—**	$ —	$ **2.9**	$ 3.2	$ **2.9**	$ 3.2
FHLB advances	**5.0**	5.4	**0.3**	—	**5.3**	5.4
Repurchase agreements	**0.6**	—	**—**	—	**0.6**	—
Total bank funding	**5.6**	5.4	**3.2**	3.2	**8.8**	8.6
Nonbank funding						
Unsecured						
Automotive Finance operations	**2.2**	1.9	**0.4**	0.5	**2.6**	2.4
Secured						
Automotive Finance operations	**0.1**	0.1	**0.1**	0.1	**0.2**	0.2
Mortgage operations	**—**	—	**—**	0.1	**—**	0.1
Total nonbank funding	**2.3**	2.0	**0.5**	0.7	**2.8**	2.7
Total uncommitted facilities	$ **7.9**	$ 7.4	$ **3.7**	$ 3.9	$ **11.6**	$ 11.3

16. Equity

The following table summarizes information about our Series F-2, Series A, and Series G preferred stock.

	March 31, 2012	December 31, 2011
Mandatorily convertible preferred stock held by U.S. Department of Treasury		
Series F-2 preferred stock (a)		
Carrying value *($ in millions)*	$ 5,685	$ 5,685
Par value *(per share)*	$ 0.01	$ 0.01
Liquidation preference *(per share)*	$ 50	$ 50
Number of shares authorized	228,750,000	228,750,000
Number of shares issued and outstanding	118,750,000	118,750,000
Dividend/coupon	Fixed 9%	Fixed 9%
Redemption/call feature	Perpetual (b)	Perpetual (b)
Preferred stock		
Series A preferred stock		
Carrying value *($ in millions)*	$ 1,021	$ 1,021
Par value *(per share)*	$ 0.01	$ 0.01
Liquidation preference *(per share)*	$ 25	$ 25
Number of shares authorized	160,870,560	160,870,560
Number of shares issued and outstanding	40,870,560	40,870,560
Dividend/coupon		
Prior to May 15, 2016	8.5%	8.5%
On and after May 15, 2016	three month LIBOR + 6.243%	three month LIBOR + 6.243%
Redemption/call feature	Perpetual (c)	Perpetual (c)
Series G preferred stock (d)		
Carrying value *($ in millions)*	$ 234	$ 234
Par value *(per share)*	$ 0.01	$ 0.01
Liquidation preference *(per share)*	$ 1,000	$ 1,000
Number of shares authorized	2,576,601	2,576,601
Number of shares issued and outstanding	2,576,601	2,576,601
Dividend/coupon	Fixed 7%	Fixed 7%
Redemption/call feature	Perpetual (e)	Perpetual (e)

(a) Mandatorily convertible to common equity on December 30, 2016.
(b) Convertible prior to mandatory conversion date with consent of Treasury.
(c) Nonredeemable prior to May 15, 2016.
(d) Pursuant to a registration rights agreement, we are required to maintain an effective shelf registration statement. In the event we fail to meet this obligation, we may be required to pay additional interest to the holders of the Series G Preferred Stock.
(e) Redeemable beginning at December 31, 2011.

17. Earnings per Common Share

The following table presents the calculation of basic and diluted earnings per common share.

	Three months ended March 31,	
($ in millions except per share data)	2012	2011
Net income from continuing operations	$ 302	$ 169
Preferred stock dividends — U.S. Department of Treasury	(134)	(134)
Preferred stock dividends	(67)	(69)
Impact of preferred stock amendment	—	32
Net income (loss) from continuing operations attributable to common shareholders (a)	101	(2)
Income (loss) from discontinued operations, net of tax	8	(23)
Net income (loss) attributable to common shareholders	$ 109	$ (25)
Basic weighted-average common shares outstanding	1,330,970	1,330,970
Diluted weighted-average common shares outstanding (a)	1,330,970	1,330,970
Basic earnings per common share		
Net income (loss) from continuing operations	$ 76	$ (2)
Income (loss) from discontinued operations, net of tax	6	(17)
Net income (loss)	$ 82	$ (19)
Diluted earnings per common share (a)		
Net income (loss) from continuing operations	$ 76	$ (2)
Income (loss) from discontinued operations, net of tax	6	(17)
Net income (loss)	$ 82	$ (19)

(a) Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares and the net income (loss) attributable to common shareholders for the three months ended March 31, 2012, and 2011, income (loss) attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.

The effects of converting the outstanding Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares are not included in the diluted earnings per share calculation for the three months ended March 31, 2012 and 2011, as the effects would be antidilutive for those periods. As such, 574 thousand of potential common shares were excluded from the diluted earnings per share calculation for the three months ended March 31, 2012, and 2011, respectively.

18. Regulatory Capital

As a bank holding company, we and our wholly owned state-chartered banking subsidiary, Ally Bank, are subject to risk-based capital and leverage guidelines issued by federal and state banking regulators that require that our capital-to-assets ratios meet certain minimum standards. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements or the results of operations and financial condition of Ally and Ally Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets and certain off-balance sheet items. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

The risk-based capital ratios are determined by allocating assets and specified off-balance sheet financial instruments into several broad risk categories with higher levels of capital being required for the categories that present greater risk. Under the guidelines, total capital is divided into two tiers: Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common equity, minority interests, qualifying noncumulative preferred stock, and the fixed rate cumulative preferred stock sold to Treasury under the Troubled Asset Relief Program (TARP), less goodwill and other adjustments. Tier 2 capital generally consists of perpetual preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt and the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.

Total risk-based capital is the sum of Tier 1 and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a minimum Total risk-based capital ratio (Total capital to risk-weighted assets) of 8% and a Tier 1 risk-based capital ratio (Tier 1 capital to risk-weighted assets) of 4%.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by adjusted quarterly average total assets (which reflect adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.

A banking institution meets the regulatory definition of "well-capitalized" when its Total risk-based capital ratio equals or exceeds 10%

and its Tier 1 risk-based capital ratio equals or exceeds 6%; and for insured depository institutions, when its leverage ratio equals or exceeds 5%, unless subject to a regulatory directive to maintain higher capital levels.

The banking regulators have also developed a measure of capital called "Tier 1 common" defined as Tier 1 capital less noncommon elements, including qualifying perpetual preferred stock, minority interest in subsidiaries, trust preferred securities, and mandatory convertible preferred securities. Tier 1 common is used by banking regulators, investors and analysts to assess and compare the quality and composition of Ally's capital with the capital of other financial services companies. Also, bank holding companies with assets of $50 billion or more, such as Ally, must develop and maintain a capital plan annually, and among other elements, the capital plan must include a discussion of how we will maintain a pro forma Tier 1 common ratio (Tier 1 common to risk-weighted assets) above 5% under expected conditions and certain stressed scenarios.

On October 29, 2010, Ally, IB Finance Holding Company, LLC, Ally Bank, and the FDIC entered into a Capital and Liquidity Maintenance Agreement (CLMA). The CLMA requires capital at Ally Bank to be maintained at a level such that Ally Bank's leverage ratio is at least 15%. For this purpose, the leverage ratio is determined in accordance with the FDIC's regulations related to capital maintenance.

The following table summarizes our capital ratios.

	March 31, 2012		December 31, 2011		Required minimum	Well-capitalized minimum
($ in millions)	**Amount**	**Ratio**	Amount	Ratio		
Risk-based capital						
Tier 1 (to risk-weighted assets)						
Ally Financial Inc.	$ 21,398	13.50%	$ 21,158	13.71%	4.00%	6.00%
Ally Bank	13,189	16.90	12,953	17.42	4.00	6.00
Total (to risk-weighted assets)						
Ally Financial Inc.	$ 23,026	14.53%	$ 22,755	14.75%	8.00%	10.00%
Ally Bank	13,921	17.84	13,675	18.40	8.00	10.00
Tier 1 leverage (to adjusted quarterly average assets) (a)						
Ally Financial Inc.	$ 21,398	11.65%	$ 21,158	11.50%	3.00-4.00%	(b)
Ally Bank	13,189	15.61	12,953	15.50	15.00 (c)	5.00%
Tier 1 common (to risk-weighted assets)						
Ally Financial Inc.	$ 11,916	7.52%	$ 11,676	7.57%	n/a	n/a
Ally Bank	n/a	n/a	n/a	n/a	n/a	n/a

n/a = not applicable
(a) Federal regulatory reporting guidelines require the calculation of adjusted quarterly average assets using a daily average methodology.
(b) There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
(c) Ally Bank, in accordance with the CLMA, is required to maintain a Tier 1 leverage ratio of at least 15%.

At March 31, 2012, Ally and Ally Bank were "well-capitalized" and met all capital requirements to which each was subject.

19. Derivative Instruments and Hedging Activities

We enter into interest rate and foreign-currency swaps, futures, forwards, options, and swaptions in connection with our market risk management activities. Derivative instruments are used to manage interest rate risk relating to specific groups of assets and liabilities, including investment securities, MSRs, debt, and deposits. In addition, we use foreign exchange contracts to mitigate foreign-currency risk associated with foreign-currency-denominated investment securities, foreign-currency-denominated debt, foreign exchange transactions, and our net investment in foreign subsidiaries. Our primary objective for utilizing derivative financial instruments is to manage market risk volatility associated with interest rate and foreign-currency risks related to the assets and liabilities.

Interest Rate Risk

We execute interest rate swaps to modify our exposure to interest rate risk by converting certain fixed-rate instruments to a variable-rate and certain variable-rate instruments to a fixed rate. We monitor our mix of fixed- and variable-rate debt in relation to the rate profile of our assets. When it is cost effective to do so, we may enter into interest rate swaps to achieve our desired mix of fixed- and variable-rate debt. Derivatives qualifying for hedge accounting consist of fixed-rate debt obligations in which receive-fixed swaps are designated as hedges of specific fixed-rate debt obligations. Other derivatives qualifying for hedge accounting consist of an existing variable-rate liability in which pay fixed swaps are designated as hedges of the expected future cash flows in the form of interest payments on the outstanding borrowing associated with Ally Bank's secured floating-rate credit facility.

We enter into economic hedges to mitigate exposure for the following categories.

- *MSRs and retained interests* — Our MSRs and retained interest portfolios are generally subject to loss in value when mortgage rates decline. Declining mortgage rates generally result in an increase in refinancing activity that increases prepayments and results in a decline in the value of MSRs and retained interests. To mitigate the impact of this risk, we maintain a portfolio of financial instruments, primarily derivative instruments that increase in value when interest rates decline. The primary objective is to minimize the overall risk of loss in the value of MSRs and retained interests due to the change in fair value caused by interest rate changes.

  We may use a multitude of derivative instruments to manage the interest rate risk related to MSRs and retained interests. They include, but are not limited to, interest rate futures contracts, call or put options on U.S. Treasuries, swaptions, MBS, futures, U.S. Treasury futures, interest rate swaps, interest rate floors, and interest rate caps. We monitor and actively manage our risk on a daily basis.

- *Mortgage loan commitments and mortgage and automobile loans held-for-sale* — We are exposed to interest rate risk from the time an interest rate lock commitment (IRLC) is made until the time the mortgage loan is sold. Changes in interest rates impact the market price for our loans; as market interest rates decline, the value of existing IRLCs and loans held-for-sale increase and vice versa. Our primary objective in risk management activities related to IRLCs and mortgage loans held-for-sale is to eliminate or greatly reduce any interest rate risk associated with these items.

  The primary derivative instrument we use to accomplish the risk management objective for mortgage loans and IRLCs is forward sales of MBS, primarily Fannie Mae or Freddie Mac to-be-announced securities. These instruments typically are entered into at the time the IRLC is made. The value of the forward sales contracts moves in the opposite direction of the value of our IRLCs and mortgage loans held-for-sale. We also use other derivatives, such as interest rate swaps, options, and futures, to economically hedge automobile loans held-for-sale and certain portions of the mortgage portfolio. Nonderivative instruments, such as short positions of U.S. Treasuries, may also be periodically used to economically hedge the mortgage portfolio.

- *Debt* — With the exception of a portion of our fixed-rate debt and a portion of our outstanding floating-rate borrowing associated with Ally Bank's secured floating-rate credit facility, we do not apply hedge accounting to our derivative portfolio held to mitigate interest rate risk associated with our debt portfolio. Typically, the significant terms of the interest rate swaps match the significant terms of the underlying debt resulting in an effective conversion of the rate of the related debt.

- *Other* — We enter into futures, options, and swaptions to economically hedge our net fixed versus variable interest rate exposure. We also enter into equity options to economically hedge our exposure to the equity markets.

Foreign Currency Risk

We enter into derivative financial instrument contracts to mitigate the risk associated with variability in cash flows related to foreign-currency financial instruments. Currency swaps and forwards are used to economically hedge foreign exchange exposure on foreign-currency-denominated debt by converting the funding currency to the same currency of the assets being financed. Similar to our interest rate derivatives, the swaps are generally entered into or traded concurrent with the debt issuance with the terms of the swap matching the terms of the underlying debt.

Our foreign subsidiaries maintain both assets and liabilities in local currencies; these local currencies are generally the subsidiaries' functional currencies for accounting purposes. Foreign-currency exchange-rate gains and losses arise when the assets or liabilities of our subsidiaries are denominated in currencies that differ from its functional currency. In addition, our equity is impacted by the cumulative translation adjustments resulting from the translation of foreign subsidiary results; this impact is reflected in our accumulated other comprehensive income (loss). We enter into foreign-currency forwards and option-based contracts with external counterparties to hedge foreign exchange exposure on our net investments in foreign subsidiaries. In March 2011, we elected to dedesignate all of our existing net investment hedge relationships and changed our method of measuring hedge effectiveness from the spot method to the forward method for new hedge relationships entered into prospectively. For the net investment hedges that were designated under the spot method up until dedesignation date, the hedges were recorded at fair value with changes recorded to accumulated other comprehensive income (loss) with the exception of the spot to forward difference that was recorded to earnings. For current net investment hedges designated under the forward method, the hedges are recorded at fair value with the changes recorded to accumulated other comprehensive income (loss) including the spot to forward difference. The net derivative gain or loss remains in accumulated other comprehensive income (loss) until earnings are impacted by the sale or the liquidation of the associated foreign operation.

We also have a centralized-lending program to manage liquidity for all of our subsidiary businesses. Foreign-currency-denominated loan agreements are executed with our foreign subsidiaries in their local currencies. We evaluate our foreign-currency exposure resulting from intercompany lending and manage our currency risk exposure by entering into foreign-currency derivatives with external counterparties. Our foreign-currency derivatives are recorded at fair value with changes recorded as income offsetting the gains and losses on the associated foreign-currency transactions.

We also periodically purchase nonfunctional currency denominated investment securities and enter into foreign currency forward contracts with external counterparties to hedge against changes in the fair value of the securities, through maturity, due to changes in the related foreign-currency exchange rate. The foreign-currency forward contracts are recorded at fair value with changes recorded to earnings.

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The changes in value of the securities due to changes in foreign-currency exchange rates are also recorded to earnings. In the case of securities classified as available-for-sale, any changes in fair value due to unhedged risks are recorded to accumulated other comprehensive income.

Except for our net investment hedges and fair value foreign currency hedges of available-for-sale securities, we generally have not elected to treat any foreign-currency derivatives as hedges for accounting purposes principally because the changes in the fair values of the foreign-currency swaps are substantially offset by the foreign-currency revaluation gains and losses of the underlying assets and liabilities.

Credit Risk

Derivative financial instruments contain an element of credit risk if counterparties are unable to meet the terms of the agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe us under the contract completely fail to perform under the terms of those contracts, assuming no recoveries of underlying collateral as measured by the market value of the derivative financial instrument.

To mitigate the risk of counterparty default, we maintain collateral agreements with certain counterparties. The agreements require both parties to maintain collateral in the event the fair values of the derivative financial instruments meet established thresholds. In the event that either party defaults on the obligation, the secured party may seize the collateral. Generally, our collateral arrangements are bilateral such that we and the counterparty post collateral for the value of our total obligation to each other. Contractual terms provide for standard and customary exchange of collateral based on changes in the market value of the outstanding derivatives. The securing party posts additional collateral when their obligation rises or removes collateral when it falls. We also have unilateral collateral agreements whereby we are the only entity required to post collateral.

Certain derivative instruments contain provisions that require us to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk-related event. If a credit risk-related event had been triggered the amount of additional collateral required to be posted by us would have been insignificant.

We placed cash and securities collateral totaling $1.4 billion and $1.4 billion at March 31, 2012, and December 31, 2011, respectively, in accounts maintained by counterparties. We received cash collateral from counterparties totaling $1.0 billion and $1.4 billion at March 31, 2012, and December 31, 2011, respectively. The receivables for collateral placed and the payables for collateral received are included on our Condensed Consolidated Balance Sheet in other assets and accrued expenses and other liabilities, respectively. In certain circumstances, we receive or post securities as collateral with counterparties. We do not record such collateral received on our Condensed Consolidated Balance Sheet unless certain conditions are met. At March 31, 2012, we did not receive any noncash collateral. At December 31, 2011, we received noncash collateral of $43 million.

Notes to Condensed Consolidated Financial Statements (unaudited)

Balance Sheet Presentation

The following table summarizes the fair value amounts of derivative instruments reported on our Condensed Consolidated Balance Sheet. The fair value amounts are presented on a gross basis, are segregated by derivatives that are designated and qualifying as hedging instruments or those that are not, and are further segregated by type of contract within those two categories. At March 31, 2012, $4.2 billion and $12 million of the derivative contracts in a receivable position were classified as other assets and trading assets, respectively, on the Condensed Consolidated Balance Sheet. At December 31, 2011, $5.7 billion and $14 million of the derivative contracts in a receivable position were classified as other assets and trading assets, respectively, on the Condensed Consolidated Balance Sheet. During the normal course of business, our broker-dealer enters into forward purchases and sales, which are classified as trading derivatives. Refer to Note 5 for our trading assets. At March 31, 2012, $4.2 billion of derivative contracts in a liability position and $10 million of trading derivatives were both classified as accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. At December 31, 2011, $5.4 billion of derivative contracts in a liability position and $12 million of trading derivatives were both classified as accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

	March 31, 2012			December 31, 2011		
	Derivative contracts in a			Derivative contracts in a		
($ in millions)	receivable position (a)	payable position (b)	Notional amount	receivable position (a)	payable position (b)	Notional amount
Derivatives qualifying for hedge accounting						
Interest rate risk						
Fair value accounting hedges	$ 207	$ 15	$ 7,585	$ 289	$ 4	$ 8,398
Cash flow accounting hedges	—	8	3,000	4	—	3,000
Total interest rate risk	207	23	10,585	293	4	11,398
Foreign exchange risk						
Net investment accounting hedges	17	112	6,891	123	54	8,208
Total derivatives qualifying for hedge accounting	224	135	17,476	416	58	19,606
Economic hedges and trading derivatives						
Interest rate risk						
MSRs and retained interests	3,554	3,893	417,273	4,812	5,012	523,037
Mortgage loan commitments and mortgage loans held-for-sale	65	12	14,303	95	107	24,950
Debt	85	49	20,475	81	54	25,934
Other	182	100	49,720	160	101	42,142
Total interest rate risk	3,886	4,054	501,771	5,148	5,274	616,063
Foreign exchange risk	77	41	8,077	137	47	7,569
Total economic hedges and trading derivatives	3,963	4,095	509,848	5,285	5,321	623,632
Total derivatives	$ 4,187	$ 4,230	$527,324	$ 5,701	$ 5,379	$643,238

(a) Includes accrued interest of $378 million and $459 million at March 31, 2012, and December 31, 2011, respectively.
(b) Includes accrued interest of $366 million and $458 million at March 31, 2012, and December 31, 2011, respectively.

Notes to Condensed Consolidated Financial Statements (unaudited)

Statement of Comprehensive Income Presentation

The following table summarizes the location and amounts of gains and losses on derivative instruments reported in our Condensed Consolidated Statement of Comprehensive Income .

	Three months ended March 31,	
($ in millions)	2012	2011
Derivatives qualifying for hedge accounting		
Loss recognized in earnings on derivatives (a)		
Interest rate contracts		
Interest on long-term debt	$ (71)	$ (148)
Gain recognized in earnings on hedged items (b)		
Interest rate contracts		
Interest on long-term debt	52	145
Total derivatives qualifying for hedge accounting	(19)	(3)
Economic and trading derivatives		
(Loss) gain recognized in earnings on derivatives		
Interest rate contracts		
Interest on long-term debt	(2)	—
Servicing asset valuation and hedge activities, net	8	(204)
Loss on mortgage and automotive loans, net	(57)	(39)
Other income, net of losses	16	7
Other operating expenses	—	4
Total interest rate contracts	(35)	(232)
Foreign exchange contracts (c)		
Interest on long-term debt	(11)	13
Other income, net of losses	(25)	(104)
Other operating expenses	6	—
Total foreign exchange contracts	(30)	(91)
Loss recognized in earnings on derivatives	$ (84)	$ (326)

(a) Amounts exclude gains related to interest for qualifying accounting hedges of debt, which are primarily offset by the fixed coupon payment on the long-term debt. The gains were $29 million and $88 million for the three months ended March 31, 2012 and 2011 , respectively.
(b) Amounts exclude gains related to amortization of deferred basis adjustments on the hedged items. The gains were $63 million for both the three months ended March 31, 2012 and 2011.
(c) Amounts exclude gains and losses related to the revaluation of the related foreign-denominated debt or receivable. Gains of $29 million and $90 million were recognized for the three months ended March 31, 2012 and 2011 , respectively.

The following table summarizes derivative instruments used in cash flow and net investment hedge accounting relationships.

	Three months ended March 31,	
($ in millions)	2012	2011
Cash flow hedges		
Interest rate contracts		
Loss recorded directly to interest on long-term debt	$ (5)	$ —
Loss recognized in other comprehensive income	(3)	—
Net investment hedges		
Foreign exchange contracts		
Loss recorded directly to other income, net of losses (a)	$ —	$ (3)
Loss recognized in other comprehensive income (b)	(203)	(148)

(a) The amounts represent the forward points excluded from the assessment of hedge effectiveness.
(b) The amounts represent the effective portion of net investment hedges. There are offsetting amounts recognized in accumulated other comprehensive income related to the revaluation of the related net investment in foreign operations. There were offsetting gains of $300 million and $145 million for three months ended March 31, 2012 and 2011, respectively.

Notes to Condensed Consolidated Financial Statements (unaudited)

20. Income Taxes

For the three months ended March 31, 2012, the income tax expense of $ 64 million resulted primarily from tax expense attributable to profitable foreign entities. The effective tax rate is lower than the blended worldwide statutory tax rate primarily because the tax effects of income earned in the United States and certain foreign jurisdictions have been offset by loss carryforwards for which a tax benefit has not previously been recognized.

For the three months ended March 31, 2011, the income tax benefit of $ 70 million resulted primarily from the $101 million reversal of valuation allowance on net deferred tax assets in one of our Canadian subsidiaries offset partially by tax expense attributable to profitable foreign entities. The valuation allowance reversal related to modifications to the structure of our Canadian operations.

A sustained period of profitability in our U.S. operations is required before we would change our judgment regarding the need for a full valuation allowance against our net U.S. deferred tax assets. Continued improvement in our U.S. operating results throughout 2012 could lead to the reversal of a portion of our U.S. valuation allowance.

21. Fair Value

Fair Value Measurements

For purposes of this disclosure, fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability. Additionally, entities are required to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

GAAP specifies a three-level hierarchy that is used when measuring and disclosing fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels.

Level 1	Inputs are quoted prices in active markets for identical assets or liabilities at the measurement date. Additionally, the entity must have the ability to access the active market, and the quoted prices cannot be adjusted by the entity.
Level 2	Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.
Transfers	Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfer occurred. There were no transfers between any levels during the three months ended March 31, 2012.

Following are descriptions of the valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized.

- *Trading assets (excluding derivatives)* — Trading assets are recorded at fair value. Our portfolio includes MBS (including senior and subordinated interests) and may be investment-grade, noninvestment grade, or unrated securities. Valuations are primarily based on internally developed discounted cash flow models (an income approach) that use assumptions consistent with current market conditions. The valuation considers recent market transactions, experience with similar securities, current business conditions, and analysis of the underlying collateral, as available. To estimate cash flows, we utilize various significant assumptions including market observable inputs (e.g., forward interest rates) and internally developed inputs (e.g., prepayment speeds, delinquency levels, and credit losses).

- *Available-for-sale securities* — Available-for-sale securities are carried at fair value based on observable market prices, when available. If observable market prices are not available, our valuations are based on internally developed discounted cash flow models (an income approach) that use a market-based discount rate and consider recent market transactions, experience with similar securities, current business conditions, and analysis of the underlying collateral, as available. To estimate cash flows, we are required to utilize various significant assumptions including market observable inputs (e.g., forward interest rates) and internally developed inputs (including prepayment speeds, delinquency levels, and credit losses).

- *Mortgage loans held-for-sale, net* — Our mortgage loans held-for-sale are accounted for at either fair value because of fair value option elections or they are accounted for at the lower-of-cost or fair value. Mortgage loans held-for-sale are typically pooled together and sold into certain exit markets depending on underlying attributes of the loan, such as GSE eligibility (domestic only), product type, interest rate, and credit quality. Two valuation methodologies are used to determine the fair value of mortgage loans

Notes to Condensed Consolidated Financial Statements (unaudited)

held-for-sale. The methodology used depends on the exit market as described below.

Level 2 mortgage loans — This includes all GSE-eligible mortgage loans carried at fair value due to fair value option election, which are valued predominantly using published forward agency prices. It also includes any domestic loans and foreign loans where recently negotiated market prices for the loan pool exist with a counterparty (which approximates fair value) or quoted market prices for similar loans are available.

Level 3 mortgage loans — This includes all conditional repurchase option loans carried at fair value due to the fair value option election and all GSE-ineligible residential mortgage loans that are accounted for at the lower-of-cost or fair value. The fair value of these residential mortgage loans are determined using internally developed valuation models because observable market prices were not available. The loans are priced on a discounted cash flow basis utilizing cash flow projections from internally developed models that utilize prepayment, default, and discount rate assumptions. To the extent available, we will utilize market observable inputs such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates.

Refer to the section within this note titled *Fair Value Option for Financial Assets and Financial Liabilities* for further information about the fair value elections.

- ***Consumer mortgage finance receivables and loans, net*** — We elected the fair value option for certain consumer mortgage finance receivables and loans. The elected mortgage loans collateralized on-balance sheet securitization debt in which we estimated credit reserves pertaining to securitized assets that could have exceeded or already had exceeded our economic exposure. We also elected the fair value option for all mortgage securitization trusts required to be consolidated due to the adoption of ASU 2009-17. The elected mortgage loans represent a portion of the consumer finance receivable and loans consolidated upon adoption of ASU 2009-17. The balance for which the fair value option was not elected was reported on the balance sheet at the principal amount outstanding, net of charge-offs, allowance for loan losses, and premiums or discounts.

  The loans are measured at fair value using a portfolio approach. The objective in fair valuing the loans and related securitization debt is to account properly for our retained economic interest in the securitizations. As a result of reduced liquidity in capital markets, values of both these loans and the securitized bonds are expected to be volatile. Since this approach involves the use of significant unobservable inputs, we classified all the mortgage loans elected under the fair value option as Level 3. Refer to the section within this note titled *Fair Value Option of Financial Assets and Financial Liabilities* for additional information.

- ***MSRs*** — We typically retain MSRs when we sell assets into the secondary market. MSRs are classified as Level 3 because they currently do not trade in an active market with observable prices; therefore, we use internally developed discounted cash flow models (an income approach) to estimate the fair value. These internal valuation models estimate net cash flows based on internal operating assumptions that we believe would be used by market participants combined with market-based assumptions for loan prepayment rates, interest rates, and discount rates that we believe approximate yields required by investors in this asset. Cash flows primarily include servicing fees, float income, and late fees in each case less operating costs to service the loans. The estimated cash flows are discounted using an option-adjusted spread-derived discount rate.

- ***Interests retained in financial asset sales*** — The interests retained are in securitization trusts and deferred purchase prices on the sale of whole-loans. Due to inactivity in the market, valuations are based on internally developed discounted cash flow models (an income approach) that use a market-based discount rate; therefore, we classified these assets as Level 3. The valuation considers recent market transactions, experience with similar assets, current business conditions, and analysis of the underlying collateral, as available. To estimate cash flows, we utilize various significant assumptions, including market observable inputs (e.g., forward interest rates) and internally developed inputs (e.g., prepayment speeds, delinquency levels, and credit losses).

- ***Derivative instruments*** — We enter into a variety of derivative financial instruments as part of our risk management strategies. Certain of these derivatives are exchange traded, such as Eurodollar futures. To determine the fair value of these instruments, we utilize the quoted market prices for the particular derivative contracts; therefore, we classified these contracts as Level 1.

  We also execute over-the-counter derivative contracts, such as interest rate swaps, swaptions, forwards, caps, floors, and agency to-be-announced securities. We utilize third-party-developed valuation models that are widely accepted in the market to value these over-the-counter derivative contracts. The specific terms of the contract and market observable inputs (such as interest rate forward curves and interpolated volatility assumptions) are used in the model. We classified these over-the-counter derivative contracts as Level 2 because all significant inputs into these models were market observable.

  We also hold certain derivative contracts that are structured specifically to meet a particular hedging objective. These derivative contracts often are utilized to hedge risks inherent within certain on-balance sheet securitizations. To hedge risks on particular bond classes or securitization collateral, the derivative's notional amount is often indexed to the hedged item. As a result, we typically are required to use internally developed prepayment assumptions as an input into the model to forecast future notional amounts on these structured derivative contracts. Additionally, we hold some foreign currency derivative contracts that utilize an in-house valuation model to determine the fair value of the contracts. Accordingly, we classified these derivative contracts as Level 3.

  We are required to consider all aspects of nonperformance risk, including our own credit standing, when measuring fair value of a liability. We reduce credit risk on the majority of our derivatives by entering into legally enforceable agreements that enable the posting and receiving of collateral associated with the fair value of our derivative positions on an ongoing basis. In the event that we do not enter into legally enforceable agreements that enable the posting and receiving of collateral, we will consider our credit risk and the credit risk of our counterparties in the valuation of derivative instruments through a credit valuation adjustment (CVA), if warranted. The CVA calculation utilizes our credit default swap spreads and the spreads of the counterparty.

- ***On-balance sheet securitization debt*** — We elected the fair value option for certain mortgage loans held-for-investment and the related on-balance sheet securitization debt. We value securitization debt that was elected pursuant to the fair value option and any economically retained positions using market observable prices whenever possible. The securitization debt is principally in the form of asset- and MBS collateralized by the underlying mortgage loans held-for-investment. Due to the attributes of the underlying collateral and current market conditions, observable prices for these instruments are typically not available. In these situations, we consider observed transactions as Level 2 inputs in our discounted cash flow models. Additionally, the discounted cash flow models utilize other market observable inputs, such as interest rates, and internally derived inputs including prepayment speeds, credit losses, and discount rates. Fair value option-elected financing securitization debt is classified as Level 3 as a result of the reliance on significant assumptions and estimates for model inputs. Refer to the section within this note titled *Fair Value Option for Financial Assets and Financial Liabilities* for further information about the election. The debt that was not elected under the fair value option is reported on the balance sheet at cost, net of premiums or discounts and issuance costs.

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Recurring Fair Value

The following tables display the assets and liabilities measured at fair value on a recurring basis including financial instruments elected for the fair value option. We often economically hedge the fair value change of our assets or liabilities with derivatives and other financial instruments. The tables below display the hedges separately from the hedged items; therefore, they do not directly display the impact of our risk management activities.

	Recurring fair value measurements			
March 31, 2012 *($ in millions)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Trading assets (excluding derivatives)				
Mortgage-backed residential securities	$ —	$ 851	$ 32	$ 883
Investment securities				
Available-for-sale securities				
Debt securities				
U.S. Treasury and federal agencies	669	775	—	1,444
States and political subdivisions	—	1	—	1
Foreign government	506	358	—	864
Mortgage-backed residential	—	6,819	—	6,819
Asset-backed	—	2,644	63	2,707
Corporate debt securities	—	1,551	—	1,551
Other debt securities	—	582	—	582
Total debt securities	1,175	12,730	63	13,968
Equity securities (a)	974	—	—	974
Total available-for-sale securities	2,149	12,730	63	14,942
Mortgage loans held-for-sale, net (b)	—	1,793	30	1,823
Consumer mortgage finance receivables and loans, net (b)	—	—	832	832
Mortgage servicing rights	—	—	2,595	2,595
Other assets				
Interests retained in financial asset sales	—	—	194	194
Derivative contracts in a receivable position (c)				
Interest rate	37	3,997	59	4,093
Foreign currency	—	87	7	94
Total derivative contracts in a receivable position	37	4,084	66	4,187
Collateral placed with counterparties (d)	291	—	—	291
Total assets	$ 2,477	$ 19,458	$ 3,812	$ 25,747
Liabilities				
Long-term debt				
On-balance sheet securitization debt (b)	$ —	$ —	$ (828)	$ (828)
Accrued expenses and other liabilities				
Derivative contracts in a payable position (c)				
Interest rate	(36)	(4,026)	(15)	(4,077)
Foreign currency	—	(151)	(2)	(153)
Total derivative contracts in a payable position	(36)	(4,177)	(17)	(4,230)
Loan repurchase liabilities (b)	—	—	(30)	(30)
Trading liabilities (excluding derivatives)	(4)	—	—	(4)
Total liabilities	$ (40)	$ (4,177)	$ (875)	$ (5,092)

(a) Our investment in any one industry did not exceed 19%.
(b) Carried at fair value due to fair value option elections.
(c) Includes derivatives classified as trading.
(d) Represents collateral in the form of investment securities. Cash collateral was excluded.

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December 31, 2011 (*$ in millions*)	Recurring fair value measurements Level 1	Level 2	Level 3	Total
Assets				
Trading assets (excluding derivatives)				
Mortgage-backed residential securities	$ —	$ 575	$ 33	$ 608
Investment securities				
Available-for-sale securities				
Debt securities				
U.S. Treasury and federal agencies	903	643	—	1,546
States and political subdivisions	—	1	—	1
Foreign government	427	357	—	784
Mortgage-backed residential	—	7,312	—	7,312
Asset-backed	—	2,553	62	2,615
Corporate debt securities	—	1,491	—	1,491
Other debt securities	—	327	—	327
Total debt securities	1,330	12,684	62	14,076
Equity securities (a)	1,059	—	—	1,059
Total available-for-sale securities	2,389	12,684	62	15,135
Mortgage loans held-for-sale, net (b)	—	3,889	30	3,919
Consumer mortgage finance receivables and loans, net (b)	—	—	835	835
Mortgage servicing rights	—	—	2,519	2,519
Other assets				
Interests retained in financial asset sales	—	—	231	231
Derivative contracts in a receivable position (c)				
Interest rate	79	5,274	88	5,441
Foreign currency	—	242	18	260
Total derivative contracts in a receivable position	79	5,516	106	5,701
Collateral placed with counterparties (d)	328	—	—	328
Total assets	$ 2,796	$ 22,664	$ 3,816	$ 29,276
Liabilities				
Long-term debt				
On-balance sheet securitization debt (b)	$ —	$ —	$ (830)	$ (830)
Accrued expenses and other liabilities				
Derivative contracts in a payable position (c)				
Interest rate	(32)	(5,229)	(17)	(5,278)
Foreign currency	—	(99)	(2)	(101)
Total derivative contracts in a payable position	(32)	(5,328)	(19)	(5,379)
Loan repurchase liabilities (b)	—	—	(29)	(29)
Trading liabilities (excluding derivatives)	(61)	—	—	(61)
Total liabilities	$ (93)	$ (5,328)	$ (878)	$ (6,299)

(a) Our investment in any one industry did not exceed 18%.
(b) Carried at fair value due to fair value option elections.
(c) Includes derivatives classified as trading.
(d) Represents collateral in the form of investment securities. Cash collateral was excluded.

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Ally Financial Inc. • Form 10-Q

The following table presents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets and liabilities measured at fair value on a recurring basis.

March 31, 2012 (*$ in millions*)	Level 3 recurring measurements	Valuation technique	Unobservable input	Range
Assets				
Consumer mortgage finance receivables and loans, net (a)	$ 832	Discounted cash flow	Prepayment rate	2.5-12.9%
			Default rate	1.1-34.8%
			Loss severity	40.0-100.0%
Mortgage servicing rights	2,595	(b)	(b)	(b)
Other assets				
Interests retained in financial asset sales	194	Discounted cash flow	Discount rate	5.2-6.1%
			Commercial paper rate	0-0.2%
Liabilities				
Long-term debt				
On-balance sheet securitization debt (a)	$ (828)	(a)	(a)	(a)

(a) A portfolio approach links the value of the consumer mortgage finance receivables and loans, net to the on-balance sheet securitization debt; therefore, the valuation technique, unobservable inputs, and related range for the debt is the same as the loans. Increases in prepayments, which would primarily be driven by any combination of lower projected mortgage rates and higher projected home values, would result in higher fair value measurement. These drivers of higher prepayments (increased ability to refinance due to lower rates and higher property values) have an opposite impact on the default rate, creating an inverse relationship between prepayments and default frequency on the fair value measurements. Generally factors that contribute to higher default frequency also contribute to higher loss severity.

(b) Refer to Note 11 for information related to MSR valuation assumptions and sensitivities.

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The following tables present the reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis. We often economically hedge the fair value change of our assets or liabilities with derivatives and other financial instruments. The Level 3 items presented below may be hedged by derivatives and other financial instruments that are classified as Level 1 or Level 2. Thus, the following tables do not fully reflect the impact of our risk management activities.

	Level 3 recurring fair value measurements									
		Net realized/unrealized gains (losses)								
($ in millions)	Fair value at Jan. 1, 2012	Included in earnings		Included in other comprehensive income	Purchases	Issuances	Settlements	Fair value at March 31, 2012	Net unrealized gains (losses) included in earnings still held at March 31, 2012	
Assets										
Trading assets (excluding derivatives)										
Mortgage-backed residential securities	$ 33	$ 2	(a)	$ —	$ —	$ —	$ (3)	$ 32	$ 4	(a)
Investment securities										
Available-for-sale debt securities										
Asset-backed	62	—		1	—	—	—	63	—	
Mortgage loans held-for-sale, net (b)	30	—		—	9	—	(9)	30	—	
Consumer mortgage finance receivables and loans, net (b)	835	87	(b)	—	—	—	(90)	832	35	(b)
Mortgage servicing rights	2,519	1	(c)	—	—	11	64	2,595	1	(c)
Other assets										
Interests retained in financial asset sales	231	5	(d)	—	—	—	(42)	194	—	
Derivative contracts, net (e)										
Interest rate	71	(24)	(f)	—	—	—	(3)	44	(28)	(f)
Foreign currency	16	(11)	(f)	—	—	—	—	5	(11)	(f)
Total derivative contracts in a (payable) receivable position, net	87	(35)		—	—	—	(3)	49	(39)	
Total assets	$ 3,797	$ 60		$ 1	$ 9	$ 11	$ (83)	$ 3,795	$ 1	
Liabilities										
Long-term debt										
On-balance sheet securitization debt (b)	$ (830)	$ (83)	(b)	$ —	$ —	$ —	$ 85	$ (828)	$ (39)	(b)
Accrued expenses and other liabilities										
Loan repurchase liabilities (b)	(29)	—		—	(9)	—	8	(30)	—	
Total liabilities	$ (859)	$ (83)		$ —	$ (9)	$ —	$ 93	$ (858)	$ (39)	

(a) The fair value adjustment was reported as other income, net of losses, and the related interest was reported as interest on trading assets in the Condensed Consolidated Statement of Comprehensive Income.
(b) Carried at fair value due to fair value option elections. Refer to the next section of this note titled *Fair Value Option for Financial Assets and Liabilities* for the location of the gains and losses in the Condensed Consolidated Statement of Comprehensive Income.
(c) Fair value adjustment was reported as servicing-asset valuation and hedge activities, net, in the Condensed Consolidated Statement of Comprehensive Income.
(d) Reported as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income.
(e) Includes derivatives classified as trading.
(f) Refer to Note 19 for information related to the location of the gains and losses on derivative instruments in the Condensed Consolidated Statement of Comprehensive Income.

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Ally Financial Inc. • Form 10-Q

	Level 3 recurring fair value measurements																
		Net realized/unrealized gains (losses)															
($ in millions)	Fair value at Jan. 1, 2011	included in earnings		included in other comprehensive income	Purchases	Sales		Issuances	Settlements	Fair value at March 31, 2011	Net unrealized gains (losses) included in earnings still held at March 31, 2011	
Assets												
Trading assets (excluding derivatives)												
Mortgage-backed residential securities	$ 44	$ 1	(a)	$ —	$ —	$ —		$ —	$ (5)	$ 40	$ 2	(a)
Asset-backed securities	94	—		—	—	(94)		—	—	—	—	
Total trading assets	138	1		—	—	(94)		—	(5)	40	2	
Investment securities												
Available-for-sale debt securities												
Mortgage-backed residential	1	—		—	—	—		—	—	1	—	
Asset-backed	—	—		23	94	—		—	—	117	—	
Total debt securities	1	—		23	94	—		—	—	118	—	
Mortgage loans held-for-sale, net (b)	4	—		—	14	—		—	—	18	—	
Consumer mortgage finance receivables and loans, net (b)	1,015	73	(b)	1	—	—		—	(118)	971	16	(b)
Mortgage servicing rights	3,738	116	(c)	—	2	(266)	(d)	184	—	3,774	116	(d)
Other assets												
Interests retained in financial asset sales	568	23	(e)	—	—	—		—	(22)	569	(6)	(e)
Derivative contracts, net (g)												
Interest rate	(13)	141	(f)	—	—	—		—	(17)	111	123	(f)
Foreign currency	—	2	(f)	—	—	—		—	—	2	2	(f)
Total derivative contracts in a (payable) receivable position, net	(13)	143		—	—	—		—	(17)	113	125	
Total assets	$ 5,451	$ 356		$ 24	$ 110	$ (360)		$ 184	$ (162)	$ 5,603	$ 253	
Liabilities												
Long-term debt												
On-balance sheet securitization debt (b)	$ (972)	$ (67)	(b)	$ 1	$ —	$ —		$ —	$ 116	$ (922)	$ 5	(b)
Accrued expenses and other liabilities												
Loan repurchase liabilities (b)	—	—		—	(14)	—		—	—	(14)	—	
Total liabilities	$ (972)	$ (67)		$ 1	$ (14)	$ —		$ —	$ 116	$ (936)	$ 5	

(a) The fair value adjustment was reported as other income, net of losses, and the related interest was reported as interest on trading assets in the Condensed Consolidated Statement of Comprehensive Income.
(b) Carried at fair value due to fair value option elections. Refer to the next section of this note titled *Fair Value Option for Financial Assets and Liabilities* for the location of the gains and losses in the Condensed Consolidated Statement of Comprehensive Income.
(c) Fair value adjustment was reported as servicing-asset valuation and hedge activities, net, in the Condensed Consolidated Statement of Comprehensive Income.
(d) Represents excess mortgage servicing rights transferred to an agency-controlled trust in exchange for trading securities. These securities were then sold instantaneously to third-party investors for $266 million.
(e) Reported as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income.
(f) Refer to Note 19 for information related to the location of the gains and losses on derivative instruments in the Condensed Consolidated Statement of Comprehensive Income.

Notes to Condensed Consolidated Financial Statements (unaudited)

Nonrecurring Fair Value

We may be required to measure certain assets and liabilities at fair value from time to time. These periodic fair value measures typically result from the application of lower-of-cost or fair value accounting or certain impairment measures. These items would constitute nonrecurring fair value measures.

The following tables display the assets and liabilities measured at fair value on a nonrecurring basis.

March 31, 2012 (*$ in millions*)	Nonrecurring fair value measures Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value or valuation reserve allowance	Total loss included in earnings for the three months ended
Assets						
Mortgage loans held-for-sale (a)	$ —	$ —	$ 580	$ 580	$ (57)	n/m (b)
Commercial finance receivables and loans, net (c)						
Automotive	—	—	122	122	(25)	n/m (b)
Mortgage	—	1	15	16	(11)	n/m (b)
Other	—	—	20	20	(10)	n/m (b)
Total commercial finance receivables and loans, net	—	1	157	158	(46)	n/m (b)
Other assets						
Repossessed and foreclosed assets (d)	—	62	21	83	(13)	n/m (b)
Total assets	$ —	$ 63	$ 758	$ 821	$ (116)	

n/m = not meaningful

(a) Represents loans held-for-sale that are required to be measured at the lower-of-cost or fair value. The table above includes only loans with fair values below cost during 2012. The related valuation allowance represents the cumulative adjustment to fair value of those specific assets.
(b) We consider the applicable valuation or loan loss allowance to be the most relevant indicator of the impact on earnings caused by the fair value measurement. Accordingly, the table above excludes total gains and losses included in earnings for these items. The carrying values are inclusive of the respective valuation or loan loss allowance.
(c) Represents the portion of the portfolio specifically impaired during 2012. The related valuation allowance represents the cumulative adjustment to fair value of those specific receivables.
(d) The allowance provided for repossessed and foreclosed assets represents any cumulative valuation adjustment recognized to adjust the assets to fair value.

March 31, 2011 (*$ in millions*)	Nonrecurring fair value measures Level 1	Level 2	Level 3	Total	Lower-of-cost or fair value or valuation reserve allowance	Total gains included in earnings for the three months ended
Assets						
Mortgage loans held-for-sale (a)	$ —	$ —	$ 597	$ 597	$ (50)	n/m (b)
Commercial finance receivables and loans, net (c)						
Automotive	—	—	416	416	(46)	n/m (b)
Mortgage	—	13	26	39	(15)	n/m (b)
Other	—	—	93	93	(41)	n/m (b)
Total commercial finance receivables and loans, net	—	13	535	548	(102)	n/m (b)
Other assets						
Real estate and other investments (d)	—	1	—	1	n/m	$ —
Repossessed and foreclosed assets (e)	—	44	37	81	(11)	n/m (b)
Total assets	$ —	$ 58	$ 1,169	$ 1,227	$ (163)	$ —

n/m = not meaningful

(a) Represents loans held-for-sale that are required to be measured at the lower-of-cost or fair value. The table above includes only loans with fair values below cost during 2011. The related valuation allowance represents the cumulative adjustment to fair value of those specific assets.
(b) We consider the applicable valuation or loan loss allowance to be the most relevant indicator of the impact on earnings caused by the fair value measurement. Accordingly, the table above excludes total gains and losses included in earnings for these items. The carrying values are inclusive of the respective valuation or loan loss allowance.
(c) Represents the portion of the portfolio specifically impaired during 2011. The related valuation allowance represents the cumulative adjustment to fair value of those specific receivables.
(d) Represents model homes impaired during 2011. The total gain included in earnings represents adjustments to the fair value of the portfolio based on the estimated fair value if the model home is under lease or the estimated value if the model home is marketed for sale.
(e) The allowance provided for repossessed and foreclosed assets represents any cumulative valuation adjustment recognized to adjust the assets to fair value.

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The following table presents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets measured at fair value on a nonrecurring basis.

March 31, 2012 *($ in millions)*	Level 3 nonrecurring measurements	Valuation technique	Unobservable input	Range/weighted average
Assets				
Mortgage loans held-for-sale, net	$ 580	Discounted cash flow	Prepayment rate	0-13.8%
			Default rate	2.2-17.4%
			Loss severity	47.5-98.5%
			Discount rate	14.6%

Fair Value Option for Financial Assets and Financial Liabilities

A description of the financial assets and liabilities elected to be measured at fair value is as follows. Our intent in electing fair value for all these items was to mitigate a divergence between accounting losses and economic exposure for certain assets and liabilities.

- ***On-balance sheet mortgage securitizations*** — We elected to measure at fair value certain domestic consumer mortgage finance receivables and loans and the related debt held in on-balance sheet mortgage securitization structures. The fair value-elected loans are classified as finance receivable and loans, net, on the Condensed Consolidated Balance Sheet. Our policy is to separately record interest income on the fair value-elected loans (unless the loans are placed on nonaccrual status); however, the accrued interest was excluded from the fair value presentation. We classified the fair value adjustment recorded for the loans as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income.

  We continued to record the fair value-elected debt balances as long-term debt on the Condensed Consolidated Balance Sheet. Our policy is to separately record interest expense on the fair value-elected debt, which continues to be classified as interest on long-term debt in the Condensed Consolidated Statement of Comprehensive Income. We classified the fair value adjustment recorded for this fair value-elected debt as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income.

- ***Conforming and government-insured mortgage loans held-for-sale*** — We elected the fair value option for conforming and government-insured mortgage loans held-for-sale funded after July 31, 2009. We elected the fair value option to mitigate earnings volatility by better matching the accounting for the assets with the related hedges.

  Excluded from the fair value option were conforming and government-insured loans funded on or prior to July 31, 2009, and those repurchased or rerecognized. The loans funded on or prior to July 31, 2009, were ineligible because the election must be made at the time of funding. Repurchased and rerecognized conforming and government-insured loans were not elected because the election will not mitigate earning volatility. We repurchase or rerecognize loans due to representation and warranty obligations or conditional repurchase options. Typically, we will be unable to resell these assets through regular channels due to characteristics of the assets. Since the fair value of these assets is influenced by factors that cannot be hedged, we did not elect the fair value option.

  We carry the fair value-elected conforming and government-insured loans as loans held-for-sale, net, on the Condensed Consolidated Balance Sheet. Our policy is to separately record interest income on the fair value-elected loans (unless they are placed on nonaccrual status); however, the accrued interest was excluded from the fair value presentation. Upfront fees and costs related to the fair value-elected loans were not deferred or capitalized. The fair value adjustment recorded for these loans is classified as gain (loss) on mortgage loans, net, in the Condensed Consolidated Statement of Comprehensive Income. In accordance with GAAP, the fair value option election is irrevocable once the asset is funded even if it is subsequently determined that a particular loan cannot be sold.

- ***Nongovernment-eligible mortgage loans held-for-sale subject to conditional repurchase options*** — As of January 1, 2011, we elected the fair value option for both nongovernment-eligible mortgage loans held-for-sale subject to conditional repurchase options and the related liability. These conditional repurchase options within our private label securitizations allow us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan if it exceeds a certain prespecified delinquency level. We have complete discretion regarding when or if we will exercise these options, but generally we would do so only when it is in our best interest. We record the asset and the corresponding liability on our balance sheet when the option becomes exercisable. The fair value option election must be made at initial recording. As such, the conditional repurchase option assets and liabilities recorded prior to January 1, 2011, were ineligible for the fair value election.

  We carry these fair value-elected optional repurchase loan balance as loans held-for-sale, net, on the Condensed Consolidated Balance Sheet. The fair value adjustment recorded for these loans is classified as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income. We carry the fair value-elected corresponding liability as accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. The fair value adjustment recorded for these liabilities are classified as other income, net of losses, in the Condensed Consolidated Statement of Comprehensive Income.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following tables summarize the fair value option elections and information regarding the amounts recorded as earnings for each fair value option-elected item.

Three months ended March 31, ($ in millions)	Interest and fees on finance receivables and loans (a)	Interest on loans held-for-sale (a)	Interest on long-term debt (b)	Gain on mortgage loans, net	Other income, net of losses	Total included in earnings	Change in fair value due to credit risk (c)	
	Changes included in the Condensed Consolidated Statement of Comprehensive Income							
2012								
Assets								
Mortgage loans held-for-sale, net	$ —	$ 26	$ —	$ 184	$ —	$ 210	$ (1)	(d)
Consumer mortgage finance receivables and loans, net	44	—	—	—	43	87	(27)	(e)
Liabilities								
Long-term debt								
On-balance sheet securitization debt	—	—	(26)	—	(57)	(83)	(7)	(f)
Total						$ 214		
2011								
Assets								
Mortgage loans held-for-sale, net	$ —	$ 41	$ —	$ 142	$ —	$ 183	$ —	(d)
Consumer mortgage finance receivables and loans, net	54	—	—	—	19	73	(17)	(e)
Liabilities								
Long-term debt								
On-balance sheet securitization debt	—	—	(31)	—	(36)	(67)	27	(f)
Total						$ 189		

(a) Interest income is measured by multiplying the unpaid principal balance on the loans by the coupon rate and the number of days of interest due.
(b) Interest expense is measured by multiplying bond principal by the coupon rate and the number of days of interest due to the investor.
(c) Factors other than credit quality that impact fair value include changes in market interest rates and the illiquidity or marketability in the current marketplace. Lower levels of observable data points in illiquid markets generally result in wide bid/offer spreads.
(d) The credit impact for loans held-for-sale is assumed to be zero because the loans are either suitable for sale or are covered by a government guarantee.
(e) The credit impact for consumer mortgage finance receivables and loans was quantified by applying internal credit loss assumptions to cash flow models.
(f) The credit impact for on-balance sheet securitization debt is assumed to be zero until our economic interests in a particular securitization is reduced to zero, at which point the losses on the underlying collateral will be expected to be passed through to third-party bondholders. Losses allocated to third-party bondholders, including changes in the amount of losses allocated, will result in fair value changes due to credit. We also monitor credit ratings and will make credit adjustments to the extent any bond classes are downgraded by rating agencies.

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Notes to Condensed Consolidated Financial Statements (unaudited)

The following table provides the aggregate fair value and the aggregate unpaid principal balance for the fair value option-elected loans and long-term debt instruments.

	March 31, 2012		December 31, 2011	
($ in millions)	Unpaid principal balance	Fair value (a)	Unpaid principal balance	Fair value (a)
Assets				
Mortgage loans held-for-sale, net				
Total loans	$ 1,781	$ 1,823	$ 3,766	$ 3,919
Nonaccrual loans	58	28	54	27
Loans 90+ days past due (b)	58	28	53	27
Consumer mortgage finance receivables and loans, net				
Total loans	2,386	832	2,436	835
Nonaccrual loans (c)	510	214	506	209
Loans 90+ days past due (b) (c)	384	173	362	163
Liabilities				
Long-term debt				
On-balance sheet securitization debt	$ (2,514)	$ (828)	$ (2,559)	$ (830)
Accrued expenses and other liabilities				
Loan repurchase liabilities	(61)	(30)	(57)	(29)

(a) Excludes accrued interest receivable.
(b) Loans 90+ days past due are also presented within the nonaccrual loan balance and the total loan balance; however, excludes government-insured loans that are still accruing interest.
(c) The fair value of consumer mortgage finance receivables and loans is calculated on a pooled basis; therefore, we allocated the fair value of nonaccrual loans and loans 90+ days past due to individual loans based on the unpaid principal balances. For further discussion regarding the pooled basis, refer to the previous section of this note titled *Consumer mortgage finance receivables and loans, net.*

Notes to Condensed Consolidated Financial Statements (unaudited)

Fair Value of Financial Instruments

The following table presents the carrying and estimated fair value of financial instruments, except for those recorded at fair value on a recurring basis presented in the previous section of this note titled *Recurring Fair Value.* When possible, we use quoted market prices to determine fair value. Where quoted market prices are not available, the fair value is internally derived based on appropriate valuation methodologies with respect to the amount and timing of future cash flows and estimated discount rates. However, considerable judgment is required in interpreting market data to develop estimates of fair value, so the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or estimation methodologies could be material to the estimated fair values. Fair value information presented herein was based on information available at March 31, 2012, and December 31, 2011.

	March 31, 2012					December 31, 2011	
		Estimated fair value					
($ in millions)	Carrying value	Level 1	Level 2	Level 3	Total	Carrying value	Estimated fair value
Financial assets							
Loans held-for-sale, net (a)	$ 6,670	$ —	$ 1,793	$ 5,035	$ 6,828	$ 8,557	$ 8,674
Finance receivables and loans, net (a)	118,272	—	2	118,960	118,962	113,252	113,576
Nonmarketable equity investments	394	—	365	31	396	419	423
Financial liabilities							
Deposit liabilities	$ 47,206	$ —	$ 3,522	$ 44,313	$ 47,835	$ 45,050	$ 45,696
Short-term borrowings	7,203	6	—	7,173	7,179	7,680	7,622
Long-term debt (a)(b)	94,648	—	44,117	51,073	95,190	93,434	92,142

(a) Includes financial instruments carried at fair value due to fair value option elections. Refer to the previous section of this note titled *Fair Value Option for Financial Assets and Liabilities* for further information about the fair value elections.
(b) The carrying value includes deferred interest for zero-coupon bonds of $658 million and $640 million at March 31, 2012, and December 31, 2011, respectively.

The following describes the methodologies and assumptions used to determine fair value for the significant classes of financial instruments. In addition to the valuation methods discussed below, we also followed guidelines for determining whether a market was not active and a transaction was not distressed. As such, we assumed the price that would be received in an orderly transaction (including a market-based return) and not in forced liquidation or distressed sale.

- *Loans held-for-sale, net* — Loans held-for-sale classified as Level 2 include all GSE-eligible mortgage loans valued predominantly using published forward agency prices. It also includes any domestic loans and foreign loans where recently negotiated market prices for the loan pool exist with a counterparty (which approximates fair value) or quoted market prices for similar loans are available. Loans held-for-sale classified as Level 3 include all loans valued using internally developed valuation models because observable market prices were not available. The loans are priced on a discounted cash flow basis utilizing cash flow projections from internally developed models that utilize prepayment, default, and discount rate assumptions. To the extent available, we will utilize market observable inputs such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates.

- *Finance receivables and loans, net* — With the exception of mortgage loans held-for-investment, the fair value of finance receivables was based on discounted future cash flows using applicable spreads to approximate current rates applicable to each category of finance receivables (an income approach using Level 3 inputs). The carrying value of commercial receivables in certain markets and certain other automotive- and mortgage-lending receivables for which interest rates reset on a short-term basis with applicable market indices are assumed to approximate fair value either because of the short-term nature or because of the interest rate adjustment feature. The fair value of commercial receivables in other markets was based on discounted future cash flows using applicable spreads to approximate current rates applicable to similar assets in those markets.

  For mortgage loans held-for-investment used as collateral for securitization debt, we used a portfolio approach with Level 3 inputs to measure these loans at fair value. The objective in fair valuing these loans (which are legally isolated and beyond the reach of our creditors) and the related collateralized borrowings is to reflect our retained economic position in the securitizations. For mortgage loans held-for-investment that are not securitized, we used valuation methods and assumptions similar to those used for mortgage loans held-for-sale. These valuations consider unique attributes of the loans such as geography, delinquency status, product type, and other factors. Refer to the section above titled *Loans held-for-sale, net,* for a description of methodologies and assumptions used to determine the fair value of mortgage loans held-for-sale.

- *Deposit liabilities* — Deposit liabilities represent certain consumer and brokered bank deposits, mortgage escrow deposits, and dealer deposits. Deposits classified as Level 2 was valued using quoted market prices from active markets for similar instruments. The fair value of deposits at Level 3 were estimated by discounting projected cash flows based on discount factors derived from the forward interest rate swap curve.

- *Debt* — Level 2 debt was valued using quoted market prices in inactive markets. Debt valued using internally derived inputs, such as prepayment speeds and discount rates, was classified as Level 3.

22. Segment and Geographic Information

Operating segments are defined as components of an enterprise that engage in business activity from which revenues are earned and expenses incurred for which discrete financial information is available that is evaluated regularly by our chief operating decision maker in deciding how to allocate resources and in assessing performance.

We report our results of operations on a line-of-business basis through five operating segments - North American Automotive Finance operations, International Automotive Finance operations, Insurance operations, Mortgage - Origination and Servicing operations, and Mortgage - Legacy Portfolio and Other operations, with the remaining activity reported in Corporate and Other. The operating segments are determined based on the products and services offered and geographic considerations, and reflect the manner in which financial information is currently evaluated by management. The following is a description of each of our reportable operating segments.

North American Automotive Finance operations — Provides automotive financing services to consumers and automotive dealers in the United States and Canada and includes the automotive activities of Ally Bank and ResMor Trust. For consumers, we offer retail automotive financing and leasing for new and used vehicles, and through our commercial automotive financing operations, we fund dealer purchases of new and used vehicles through wholesale or floorplan financing.

International Automotive Finance operations — Provides automotive financing and full-service leasing to consumers and dealers outside of the United States and Canada. Our International Automotive Finance operations will focus the majority of new originations in five core international markets: Germany, the United Kingdom, Brazil, Mexico, and China through our joint venture.

Insurance operations — Offers consumer finance and insurance products, and commercial insurance products sold primarily through the dealer channel including vehicle service contracts, commercial insurance coverage in the United States (primarily covering dealers' wholesale vehicle inventory), and personal automobile insurance in certain countries outside the United States.

Mortgage — Origination and Servicing operations —The principal activities include originating, purchasing, selling, and securitizing conforming and government-insured residential mortgage loans in the United States; servicing residential mortgage loans for ourselves and others; and providing collateralized lines of credit to other mortgage originators, which we refer to as warehouse lending. We also originate high-quality prime jumbo mortgage loans in the United States. We finance our mortgage loan originations primarily in Ally Bank in the United States.

Mortgage — Legacy Portfolio and Other operations — Primarily consists of loans originated prior to January 1, 2009, and includes noncore business activities including discontinued operations, portfolios in runoff, our mortgage reinsurance business, and cash held in the ResCap legal entity. These activities, all of which we have discontinued, included, among other things: lending to real estate developers and homebuilders in the United States and United Kingdom; and purchasing, selling, and securitizing nonconforming residential mortgage loans (with the exception of U.S. prime jumbo mortgage loans originated subsequent to January 1, 2009, which are included in our Origination and Servicing operations) in both the United States and internationally.

Corporate and Other primarily consists of our centralized corporate treasury and deposit gathering activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, and reclassifications and eliminations between the reportable operating segments.

We utilize an FTP methodology for the majority of our business operations. The FTP methodology assigns charge rates and credit rates to classes of assets and liabilities based on expected duration and the LIBOR swap curve plus an assumed credit spread. Matching duration allocates interest income and interest expense to these reportable segments so their respective results are insulated from interest rate risk. This methodology is consistent with our ALM practices, which includes managing interest rate risk centrally at a corporate level. The net residual impact of the FTP methodology is included within the results of Corporate and Other.

The information presented in our reportable operating segments and geographic areas tables that follow are based in part on internal allocations, which involve management judgment.

Change in Reportable Segment Information

Beginning in the fourth quarter of 2011, we began presenting our Canadian mortgage operations of ResMor Trust with Legacy Portfolio and Other operations. Previously these operations were included with Originations and Servicing operations. The change was made because the mortgage operations of ResMor Trust were classified as discontinued and held-for-sale.

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Financial information for our reportable operating segments is summarized as follows.

Three months ended March 31, ($ in millions)	Global Automotive Services: North American Automotive Finance operations	Global Automotive Services: International Automotive Finance operations (b)	Global Automotive Services: Insurance operations	Mortgage (a): Origination and Servicing operations	Mortgage (a): Legacy Portfolio and Other operations	Corporate and Other (c)	Consolidated (d)
2012							
Net financing revenue (loss)	$ 775	$ 164	$ 20	$ 7	$ 50	$ (347)	$ 669
Other revenue	79	66	448	547	—	47	1,187
Total net revenue (loss)	854	230	468	554	50	(300)	1,856
Provision for loan losses	78	47	—	1	26	(12)	140
Total noninterest expense	334	138	344	336	50	148	1,350
Income (loss) from continuing operations before income tax expense	$ 442	$ 45	$ 124	$ 217	$ (26)	$ (436)	$ 366
Total assets	$ 102,894	$ 16,054	$ 8,394	$ 19,556	$ 10,523	$ 28,929	$ 186,350
2011							
Net financing revenue (loss)	$ 818	$ 166	$ 22	$ (17)	$ 77	$ (522)	$ 544
Other revenue	109	58	463	340	13	25	1,008
Total net revenue (loss)	927	224	485	323	90	(497)	1,552
Provision for loan losses	46	37	—	2	45	(17)	113
Total noninterest expense	363	156	354	236	87	144	1,340
Income (loss) from continuing operations before income tax expense	$ 518	$ 31	$ 131	$ 85	$ (42)	$ (624)	$ 99
Total assets	$ 87,662	$ 16,295	$ 9,024	$ 18,714	$ 12,259	$ 29,750	$ 173,704

(a) Represents the ResCap legal entity and the mortgage activities of Ally Bank.
(b) Amounts include intrasegment eliminations between our North American Automotive Finance operations, International Automotive Finance operations, and Insurance operations.
(c) Total assets for the Commercial Finance Group were $1.2 billion and $1.4 billion at March 31, 2012 and 2011, respectively.
(d) Net financing revenue (loss) after the provision for loan losses totaled $529 million and $431 million for the three months ended March 31, 2012 and 2011, respectively.

Notes to Condensed Consolidated Financial Statements (unaudited)

Information concerning principal geographic areas was as follows.

Three months ended March 31, *($ in millions)*	Revenue (a)(b)	Income (loss) from continuing operations before income tax expense (a)(c)	Net income (loss) (a)(c)
2012			
Canada	$ 190	$ 114	$ 85
Europe (d)	88	31	22
Latin America	247	51	43
Asia-Pacific	28	27	27
Total foreign	553	223	177
Total domestic (e)	1,303	143	133
Total	$ 1,856	$ 366	$ 310
2011			
Canada	$ 190	$ 85	$ 176
Europe (d)	111	51	50
Latin America	237	73	32
Asia-Pacific	21	21	20
Total foreign	559	230	278
Total domestic (e)	993	(131)	(132)
Total	$ 1,552	$ 99	$ 146

(a) The 2011 balances for Asia-Pacific and domestic were reclassified to conform with the 2012 presentation. These reclassifications have no impact to our condensed consolidated results of operations.
(b) Revenue consists of net financing revenue and total other revenue as presented in our Condensed Consolidated Statement of Comprehensive Income.
(c) The domestic amounts include original discount amortization of $111 million and $299 million for the three months ended March 31, 2012 and 2011 respectively.
(d) Amounts include eliminations between our foreign operations.
(e) Amounts include eliminations between our domestic and foreign operations.

23. Parent and Guarantor Consolidating Financial Statements

Certain of our senior notes are guaranteed by a group of subsidiaries (the Guarantors). The Guarantors, each of which is a 100% directly owned subsidiary of Ally Financial Inc, are Ally US LLC, IB Finance Holding Company, LLC, GMAC Latin America Holdings LLC, GMAC International Holdings B.V., and GMAC Continental Corporation. The Guarantors fully and unconditionally guarantee the senior notes on a joint and several basis.

The following financial statements present condensed consolidating financial data for (i) Ally Financial Inc. (on a parent company-only basis), (ii) the Guarantors, (iii) the nonguarantor subsidiaries (all other subsidiaries), and (iv) an elimination column for adjustments to arrive at (v) the information for the parent company, Guarantors, and nonguarantors on a consolidated basis.

Investments in subsidiaries are accounted for by the parent company and the Guarantors using the equity method for this presentation. Results of operations of subsidiaries are therefore classified in the parent company's and Guarantors' investment in subsidiaries accounts. The elimination entries set forth in the following condensed consolidating financial statements eliminate distributed and undistributed income of subsidiaries, investments in subsidiaries, and intercompany balances and transactions between the parent, Guarantors, and nonguarantors.

Notes to Condensed Consolidated Financial Statements (unaudited)

Condensed Consolidating Statement of Income

Three months ended March 31, 2012 *($ in millions)*	Parent	Guarantors	Nonguarantors	Consolidating Adjustments	Ally consolidated
Financing revenue and other interest income					
Interest and fees on finance receivables and loans	$ 253	$ 8	$ 1,421	$ (4)	$ 1,678
Interest and fees on finance receivables and loans — intercompany	41	5	8	(54)	—
Interest on loans held-for-sale	5	—	68	—	73
Interest on trading securities	—	—	11	—	11
Interest and dividends on available-for-sale investment securities	—	—	84	—	84
Interest-bearing cash	1	—	13	—	14
Operating leases	52	—	488	—	540
Total financing revenue and other interest income	352	13	2,093	(58)	2,400
Interest expense					
Interest on deposits	17	—	169	—	186
Interest on short-term borrowings	16	1	58	—	75
Interest on long-term debt	726	2	449	—	1,177
Interest on intercompany debt	(1)	7	52	(58)	—
Total interest expense	758	10	728	(58)	1,438
Depreciation expense on operating lease assets	13	—	280	—	293
Net financing (loss) revenue	(419)	3	1,085	—	669
Dividends from subsidiaries					
Nonbank subsidiaries	141	5	—	(146)	—
Other revenue					
Servicing fees	52	—	258	—	310
Servicing asset valuation and hedge activities, net	—	—	9	—	9
Total servicing income, net	52	—	267	—	319
Insurance premiums and service revenue earned	—	—	375	—	375
(Loss) gain on mortgage and automotive loans, net	(1)	—	127	—	126
Other gain on investments, net	—	—	90	—	90
Other income, net of losses	59	145	387	(314)	277
Total other revenue	110	145	1,246	(314)	1,187
Total net (loss) revenue	(168)	153	2,331	(460)	1,856
Provision for loan losses	75	2	63	—	140
Noninterest expense					
Compensation and benefits expense	216	147	256	(144)	475
Insurance losses and loss adjustment expenses	—	—	159	—	159
Other operating expenses	93	1	792	(170)	716
Total noninterest expense	309	148	1,207	(314)	1,350
(Loss) income from continuing operations before income tax (benefit) expense and undistributed income of subsidiaries	(552)	3	1,061	(146)	366
Income tax (benefit) expense from continuing operations	(254)	—	318	—	64
Net (loss) income from continuing operations	(298)	3	743	(146)	302
Income from discontinued operations, net of tax	7	—	1	—	8
Undistributed income of subsidiaries					
Bank subsidiary	223	223	—	(446)	—
Nonbank subsidiaries	378	85	—	(463)	—
Net income	$ 310	$ 311	$ 744	$ (1,055)	$ 310

Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

Three months ended March 31, 2011 (*$ in millions*)	Parent	Guarantors	Nonguarantors	Consolidating Adjustments	Ally consolidated
Financing revenue and other interest income					
Interest and fees on finance receivables and loans	$ 252	$ 7	$ 1,362	$ —	$ 1,621
Interest and fees on finance receivables and loans — intercompany	91	5	7	(103)	—
Interest on loans held-for-sale	—	—	84	—	84
Interest on trading securities	—	—	3	—	3
Interest and dividends on available-for-sale investment securities	3	—	100	—	103
Interest and dividends on available-for-sale investment securities — intercompany	—	—	2	(2)	—
Interest-bearing cash	3	—	9	—	12
Operating leases	308	—	347	—	655
Total financing revenue and other interest income	657	12	1,914	(105)	2,478
Interest expense					
Interest on deposits	15	—	151	—	166
Interest on short-term borrowings	13	—	79	—	92
Interest on long-term debt	988	2	416	—	1,406
Interest on intercompany debt	(4)	7	102	(105)	—
Total interest expense	1,012	9	748	(105)	1,664
Depreciation expense on operating lease assets	131	—	139	—	270
Net financing (loss) revenue	(486)	3	1,027	—	544
Dividends from subsidiaries					
Nonbank subsidiaries	501	—	—	(501)	—
Other revenue					
Servicing fees	80	—	277	—	357
Servicing asset valuation and hedge activities, net	—	—	(87)	—	(87)
Total servicing income, net	80	—	190	—	270
Insurance premiums and service revenue earned	—	—	399	—	399
Gain on mortgage and automotive loans, net	—	—	90	—	90
Loss on extinguishment of debt	(39)	—	—	—	(39)
Other gain on investments, net	9	—	75	—	84
Other income, net of losses	15	—	337	(148)	204
Total other revenue	65	—	1,091	(148)	1,008
Total net revenue	80	3	2,118	(649)	1,552
Provision for loan losses	83	(1)	31	—	113
Noninterest expense					
Compensation and benefits expense	198	2	224	—	424
Insurance losses and loss adjustment expenses	—	—	170	—	170
Other operating expenses	118	1	775	(148)	746
Total noninterest expense	316	3	1,169	(148)	1,340
(Loss) income from continuing operations before income tax (benefit) expense and undistributed income of subsidiaries	(319)	1	918	(501)	99
Income tax (benefit) expense from continuing operations	(133)	—	63	—	(70)
Net (loss) income from continuing operations	(186)	1	855	(501)	169
Loss from discontinued operations, net of tax	(5)	—	(18)	—	(23)
Undistributed income of subsidiaries					
Bank subsidiary	251	251	—	(502)	—
Nonbank subsidiaries	86	197	—	(283)	—
Net income	$ 146	$ 449	$ 837	$ (1,286)	$ 146

Notes to Condensed Consolidated Financial Statements (unaudited)

Condensed Consolidating Balance Sheet

March 31, 2012 ($ in millions)	Parent	Guarantors	Nonguarantors	Consolidating adjustments	Ally consolidated
Assets					
Cash and cash equivalents					
Noninterest-bearing	$ 1,087	$ —	$ 1,192	$ —	$ 2,279
Interest-bearing	3,901	32	6,867	—	10,800
Interest-bearing — intercompany	—	—	930	(930)	—
Total cash and cash equivalents	4,988	32	8,989	(930)	13,079
Trading assets	—	—	895	—	895
Investment securities	—	—	14,942	—	14,942
Loans held-for-sale, net	623	—	6,047	—	6,670
Finance receivables and loans, net					
Finance receivables and loans, net	19,585	450	99,783	—	119,818
Intercompany loans to					
Bank subsidiary	2,950	—	—	(2,950)	—
Nonbank subsidiaries	5,521	366	518	(6,405)	—
Allowance for loan losses	(304)	(4)	(1,238)	—	(1,546)
Total finance receivables and loans, net	27,752	812	99,063	(9,355)	118,272
Investment in operating leases, net	512	—	9,536	—	10,048
Intercompany receivables from					
Bank subsidiary	206	—	—	(206)	—
Nonbank subsidiaries	491	556	154	(1,201)	—
Investment in subsidiaries					
Bank subsidiary	13,336	13,336	—	(26,672)	—
Nonbank subsidiaries	17,281	4,017	—	(21,298)	—
Mortgage servicing rights	—	—	2,595	—	2,595
Premiums receivable and other insurance assets	—	—	1,876	—	1,876
Other assets	2,414	3	15,016	(468)	16,965
Assets of operations held-for-sale	(34)	—	1,042	—	1,008
Total assets	$ 67,569	$ 18,756	$ 160,155	$ (60,130)	$ 186,350
Liabilities					
Deposit liabilities					
Noninterest-bearing	$ —	$ —	$ 2,314	$ —	$ 2,314
Interest-bearing	1,861	—	43,031	—	44,892
Total deposit liabilities	1,861	—	45,345	—	47,206
Short-term borrowings	2,987	139	4,077	—	7,203
Long-term debt	39,820	219	53,951	—	93,990
Intercompany debt to					
Nonbank subsidiaries	965	484	8,836	(10,285)	—
Intercompany payables to					
Bank subsidiary	213	—	—	(213)	—
Nonbank subsidiaries	627	272	294	(1,193)	—
Interest payable	1,126	4	545	—	1,675
Unearned insurance premiums and service revenue	—	—	2,632	—	2,632
Reserves for insurance losses and loss adjustment expenses	—	—	565	—	565
Accrued expenses and other liabilities	303	289	12,965	(468)	13,089
Liabilities of operations held-for-sale	—	—	323	—	323
Total liabilities	47,902	1,407	129,533	(12,159)	166,683
Total equity	19,667	17,349	30,622	(47,971)	19,667
Total liabilities and equity	$ 67,569	$ 18,756	$ 160,155	$ (60,130)	$ 186,350

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Ally Financial Inc. • Form 10-Q

December 31, 2011 (*$ in millions*)	Parent	Guarantors	Nonguarantors	Consolidating adjustments	Ally consolidated
Assets					
Cash and cash equivalents					
Noninterest-bearing	$ 1,413	$ —	$ 1,062	$ —	$ 2,475
Interest-bearing	4,848	14	5,698	—	10,560
Interest-bearing — intercompany	—	—	516	(516)	—
Total cash and cash equivalents	6,261	14	7,276	(516)	13,035
Trading assets	—	—	622	—	622
Investment securities	—	—	15,135	—	15,135
Loans held-for-sale, net	425	—	8,132	—	8,557
Finance receivables and loans, net					
Finance receivables and loans, net	15,151	476	99,128	—	114,755
Intercompany loans to					
Bank subsidiary	4,920	—	—	(4,920)	—
Nonbank subsidiaries	5,448	356	550	(6,354)	—
Allowance for loan losses	(245)	(2)	(1,256)	—	(1,503)
Total finance receivables and loans, net	25,274	830	98,422	(11,274)	113,252
Investment in operating leases, net	928	—	8,347	—	9,275
Intercompany receivables from					
Bank subsidiary	82	—	—	(82)	—
Nonbank subsidiaries	1,070	327	577	(1,974)	—
Investment in subsidiaries					
Bank subsidiary	13,061	13,061	—	(26,122)	—
Nonbank subsidiaries	17,433	3,809	—	(21,242)	—
Mortgage servicing rights	—	—	2,519	—	2,519
Premiums receivable and other insurance assets	—	—	1,853	—	1,853
Other assets	2,664	3	16,712	(638)	18,741
Assets of operations held-for-sale	(174)	—	1,244	—	1,070
Total assets	$ 67,024	$ 18,044	$ 160,839	$ (61,848)	$ 184,059
Liabilities					
Deposit liabilities					
Noninterest-bearing	$ —	$ —	$ 2,029	$ —	$ 2,029
Interest-bearing	1,768	—	41,253	—	43,021
Total deposit liabilities	1,768	—	43,282	—	45,050
Short-term borrowings	2,756	136	4,788	—	7,680
Long-term debt	39,524	214	53,056	—	92,794
Intercompany debt to					
Nonbank subsidiaries	574	492	10,724	(11,790)	—
Intercompany payables to					
Bank subsidiary	39	—	—	(39)	—
Nonbank subsidiaries	1,266	1	750	(2,017)	—
Interest payable	1,167	3	417	—	1,587
Unearned insurance premiums and service revenue	—	—	2,576	—	2,576
Reserves for insurance losses and loss adjustment expenses	—	—	580	—	580
Accrued expenses and other liabilities	559	323	13,839	(637)	14,084
Liabilities of operations held-for-sale	—	—	337	—	337
Total liabilities	47,653	1,169	130,349	(14,483)	164,688
Total equity	19,371	16,875	30,490	(47,365)	19,371
Total liabilities and equity	$ 67,024	$ 18,044	$ 160,839	$ (61,848)	$ 184,059

Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

Condensed Consolidating Statement of Cash Flows

Three months ended March 31, 2012 *($ in millions)*	Parent	Guarantors	Nonguarantors	Consolidating adjustments	Ally consolidated
Operating activities					
Net cash (used in) provided by operating activities	$ (412)	$ 12	$ 2,688	$ (146)	$ 2,142
Investing activities					
Purchases of available-for-sale securities	—	—	(3,172)	—	(3,172)
Proceeds from sales of available-for-sale securities	—	—	2,940	—	2,940
Proceeds from maturities of available-for-sale securities	—	—	1,222	—	1,222
Net (increase) decrease in finance receivables and loans	(3,691)	26	(744)	—	(4,409)
Net decrease (increase) in loans — intercompany	1,649	(9)	32	(1,672)	—
Net decrease (increase) in operating lease assets	216	—	(1,219)	—	(1,003)
Capital contributions to subsidiaries	(44)	—	—	44	—
Returns of contributed capital	366	—	—	(366)	—
Proceeds from sale of business units, net	29	—	—	—	29
Other, net	(48)	—	371	—	323
Net cash (used in) provided by investing activities	(1,523)	17	(570)	(1,994)	(4,070)
Financing activities					
Net change in short-term borrowings — third party	231	3	(780)	—	(546)
Net increase in bank deposits	—	—	1,737	—	1,737
Proceeds from issuance of long-term debt — third party	859	5	9,885	—	10,749
Repayments of long-term debt — third party	(574)	—	(9,450)	—	(10,024)
Net change in debt — intercompany	390	(8)	(1,640)	1,258	—
Dividends paid — third party	(200)	—	—	—	(200)
Dividends paid and returns of contributed capital — intercompany	—	(11)	(501)	512	—
Capital contributions from parent	—	—	44	(44)	—
Other, net	92	—	260	—	352
Net cash provided by (used in) financing activities	798	(11)	(445)	1,726	2,068
Effect of exchange-rate changes on cash and cash equivalents	(136)	—	(5)	—	(141)
Net (decrease) increase in cash and cash equivalents	(1,273)	18	1,668	(414)	(1)
Adjustment for change in cash and cash equivalents of operations held-for-sale	—	—	45	—	45
Cash and cash equivalents at beginning of year	6,261	14	7,276	(516)	13,035
Cash and cash equivalents at March 31	$ 4,988	$ 32	$ 8,989	$ (930)	$ 13,079

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Notes to Condensed Consolidated Financial Statements (unaudited)

Ally Financial Inc. • Form 10-Q

Three months ended March 31, 2011 (*$ in millions*)	Parent	Guarantors	Nonguarantors	Consolidating adjustments	Ally consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ 7,381	$ 5	$ (3,843)	$ (501)	$ 3,042
Investing activities					
Purchases of available-for-sale securities	—	—	(5,529)	—	(5,529)
Proceeds from sales of available-for-sale securities	1,494	—	2,981	—	4,475
Proceeds from maturities of available-for-sale securities	1	—	1,102	—	1,103
Net (increase) decrease in finance receivables and loans	(7,669)	35	3,385	—	(4,249)
Net decrease (increase) in loans — intercompany	1,578	(22)	2	(1,558)	—
Net (increase) decrease in operating lease assets	(1,293)	—	1,242	—	(51)
Capital contributions to subsidiaries	(50)	(50)	—	100	—
Proceeds from sale of business units, net	—	—	46	—	46
Other, net	(229)	2	818	—	591
Net cash (used in) provided by investing activities	(6,168)	(35)	4,047	(1,458)	(3,614)
Financing activities					
Net change in short-term borrowings — third party	312	(39)	(186)	—	87
Net increase in bank deposits	—	—	1,670	—	1,670
Proceeds from issuance of long-term debt — third party	2,088	28	11,688	—	13,804
Repayments of long-term debt — third party	(2,131)	(7)	(11,073)	—	(13,211)
Net change in debt — intercompany	(110)	(2)	(1,556)	1,668	—
Dividends paid — third party	(228)	—	—	—	(228)
Dividends paid and returns of contributed capital — intercompany	—	—	(501)	501	—
Capital contributions from parent	—	50	50	(100)	—
Other, net	131	—	(48)	—	83
Net cash provided by financing activities	62	30	44	2,069	2,205
Effect of exchange-rate changes on cash and cash equivalents	—	—	(266)	—	(266)
Net increase (decrease) in cash and cash equivalents	1,275	—	(18)	110	1,367
Adjustment for change in cash and cash equivalents of operations held-for-sale	—	—	(91)	—	(91)
Cash and cash equivalents at beginning of year	4,665	2	7,507	(504)	11,670
Cash and cash equivalents at March 31	$ 5,940	$ 2	$ 7,398	$ (394)	$ 12,946

24. Contingencies and Other Risks

In the normal course of business, we enter into transactions that expose us to varying degrees of risk. For additional information on contingencies and other risks arising from such transactions, refer to Note 31 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

Mortgage Foreclosure Matters

Settlements with Federal Government and State Attorneys General

Agreement

On February 9, 2012, we reached an agreement in principle with respect to investigations into procedures followed by mortgage servicing companies and banks in connection with mortgage origination and servicing activities and foreclosure home sales and evictions (Settlement). On March 12, 2012, the Settlement was filed as a consent judgment in the U.S. District Court for the District of Columbia.

The Settlement requires a payment by Residential Capital, LLC, one of our mortgage subsidiaries, of approximately $110 million to a trustee, who will then distribute these funds to federal and state governments. This payment was made on March 14, 2012. In addition, we are obligated to provide $200 million towards borrower relief, subject to possible upward adjustment as described below. This obligation for borrower relief will include loan modifications, including principal reduction and rate reduction refinancing programs for borrowers that meet certain requirements, and participation in certain other programs. Generally, if certain basic criteria are met, borrowers that are either delinquent or at imminent risk of default and owe more on their mortgages than their homes are worth could be eligible for principal reductions, and borrowers that are current on their mortgages but who owe more on their mortgage than their homes are worth could be eligible for refinancing opportunities. Further, we have agreed to solicit all borrowers that are eligible for rate and principal modifications as of March 1, 2012. We are committed to providing loan modifications to all eligible borrowers who accept a modification offer within three months of the solicitation. We have also agreed to provide loan modifications to borrowers who accept a modification offer within six months

Notes to Condensed Consolidated Financial Statements (unaudited)

of the solicitation, unless and until total borrower relief provided exceeds $250 million . As of March 31, 2012, no loan modifications have been completed. However, we are currently in the process of soliciting eligible borrowers and expect modifications to begin in the second quarter of 2012.

The Settlement provides incentives for borrower relief that is provided within the first twelve months, and all obligations must be met within three years from the date the consent judgment was filed. In addition to the foregoing, we are required to implement new servicing standards relating to matters such as foreclosure and bankruptcy information and documentation, oversight, loss mitigation, limitations on fees, and related procedural matters. Certain mortgage companies (Mortgage Companies) expect to implement the new servicing standards by the October 5, 2012 deadline. Compliance with these obligations are overseen by an independent monitor, who has authority to impose additional penalties and fines if we fail to meet established timelines or fail to implement required servicing standards.

The Settlement generally resolves potential claims arising out of origination and servicing activities and foreclosure matters, subject to certain exceptions. The Settlement does not prevent state and federal authorities from pursuing criminal enforcement actions, securities-related claims (including actions related to securitization activities and Mortgage Electronic Registration Systems, or MERS), loan origination claims, certain claims brought by the FDIC and the GSEs, and certain other matters. The Settlement also does not prevent claims that may be brought by individual borrowers.

Federal Reserve Board Civil Money Penalty

On February 9, 2012, we agreed with the Federal Reserve Board on a civil money penalty (CMP) of $207 million related to the same activities that were the subject of the Settlement. This amount will be reduced dollar-for-dollar in connection with certain aspects of our satisfaction of the required monetary payment and borrower relief obligations included within the Settlement, as well as our participation in other similar programs approved by the Federal Reserve Board. While additional future cash payments related to the CMP are possible if we are unable to satisfy the borrower relief requirements of the Settlement within two years, we currently expect that the full amount of the CMP will be satisfied through our commitments included within the Settlement.

Other Mortgage Foreclosure Matters

Commonwealth of Massachusetts

On December 1, 2011, the Commonwealth of Massachusetts filed an enforcement action in the Suffolk County Superior Court against GMAC Mortgage and several other lender/servicers. For further details, refer to Legal Proceedings below.

Consent Order

As a result of an examination conducted by the FRB and FDIC, on April 13, 2011, each of Ally Financial Inc., Ally Bank, Residential Capital, LLC and GMAC Mortgage, LLC (collectively, the Ally Entities) entered into a Consent Order (the Consent Order) with the FRB and the FDIC. The Consent Order requires the Ally Entities to make improvements to various aspects of Ally's residential mortgage loan-servicing business, including compliance programs, internal audit, communications with borrowers, vendor management, management information systems, employee training, and oversight by the boards of the Ally Entities.

The Consent Order further requires GMAC Mortgage, LLC to retain independent consultants to conduct a risk assessment related to mortgage servicing activities and, separately, to conduct a review of certain past residential mortgage foreclosure actions. We cannot reasonably estimate the ultimate impact of any deficiencies that have been or may be identified in our historical foreclosure procedures. There are potential risks related to these matters that extend beyond potential liability on individual foreclosure actions. Specific risks could include, for example, claims and litigation related to foreclosure remediation and resubmission; claims from investors that hold securities that become adversely impacted by continued delays in the foreclosure process; the reduction in foreclosure proceeds due to delay, or by challenges to completed foreclosure sales to the extent, if any, not covered by title insurance obtained in connection with such sales; actions by courts, state attorneys general, or regulators to delay further the foreclosure process after submission of corrected affidavits, or to facilitate claims by borrowers alleging that they were harmed by our foreclosure practices (by, for example, foreclosing without offering an appropriate range of alternative home preservation options); additional regulatory fines, sanctions, and other additional costs; and reputational risks. To date we have borne all out-of-pocket costs associated with the remediation rather than passing any such costs through to investors for whom we service the related mortgages, and we expect that we will continue to do so.

Notes to Condensed Consolidated Financial Statements (unaudited)

Loan Repurchases and Obligations Related to Loan Sales

Overview

Mortgage Companies within our Mortgage operations sell loans that take the form of securitizations guaranteed by the GSEs, securitizations to private investors, and to whole-loan investors. In connection with a portion of our Mortgage Companies' private-label securitizations, the monolines insured all or some of the related bonds and guaranteed timely repayment of bond principal and interest when the issuer defaults. In connection with securitizations and loan sales, the trustee for the benefit of the related security holders and, if applicable, the related monoline insurer, are provided various representations and warranties related to the loans sold. The specific representations and warranties vary among different transactions and investors but typically relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, the ability to deliver required documentation and compliance with applicable laws. In general, the representations and warranties described above may be enforced against the applicable Mortgage Companies at any time unless a sunset provision is in place. Upon discovery of a breach of a representation or warranty, the breach is corrected in a manner conforming to the provisions of the sale agreement. This may require the applicable Mortgage Companies to repurchase the loan, indemnify the investor for incurred losses, or otherwise make the investor whole. We have entered into settlement agreements with both Fannie Mae and Freddie Mac that, subject to certain exclusions, limit our remaining exposure with the GSEs. See Government-sponsored Enterprises below. ResCap assumes all of the customary mortgage representation and warranty obligations for loans purchased from Ally Bank and subsequently sold into the secondary market, generally through securitizations guaranteed by the GSEs. In the event ResCap fails to meet these obligations, Ally Financial Inc. has guaranteed Ally Bank coverage of certain of these liabilities.

Originations

The total exposure of the applicable Mortgage Companies to mortgage representation and warranty claims is most significant for loans originated and sold between 2004 through 2008, specifically the 2006 and 2007 vintages that were originated and sold prior to enhanced underwriting standards and risk-mitigation actions implemented in 2008 and forward. Since 2009, we have focused primarily on originating domestic prime conforming and government-insured mortgages. In addition, we ceased offering interest-only jumbo mortgages in 2010. Representation and warranty risk-mitigation strategies include, but are not limited to, pursuing settlements with investors where economically beneficial in order to resolve a pipeline of demands in lieu of loan-by-loan assessments that could result in repurchasing loans, aggressively contesting claims we do not consider valid (rescinding claims), or seeking recourse against correspondent lenders from whom we purchased loans wherever appropriate.

Repurchase Process

After receiving a claim under representation and warranty obligations, the applicable Mortgage Companies will review the claim to determine the appropriate response (e.g. appeal and provide or request additional information) and take appropriate action (rescind, repurchase the loan, or remit indemnification payment). Historically, repurchase demands were generally related to loans that became delinquent within the first few years following origination. As a result of market developments over the past several years, investor repurchase demand behavior has changed significantly. GSEs and investors are more likely to submit claims for loans at any point in the loan's life cycle, including requests for loans that become delinquent or loans that incur a loss. Representation and warranty claims are generally reviewed on a loan-by-loan basis to validate if there has been a breach requiring a potential repurchase or indemnification payment. The applicable Mortgage Companies actively contest claims to the extent they are not considered valid. The applicable Mortgage Companies are not required to repurchase a loan or provide an indemnification payment where claims are not valid.

The risk of repurchase or indemnification and the associated credit exposure is managed through underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards. We believe that, in general, the longer a loan performs prior to default the less likely it is that an alleged breach of representation and warranty will be found to have a material and adverse impact on the loan's performance. When loans are repurchased, the applicable Mortgage Companies bear the related credit loss on the loans. Repurchased loans are classified as held-for-sale and initially recorded at fair value.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table presents the total number and original unpaid principal balance of loans related to unresolved representation and warranty demands (indemnification claims or repurchase demands). The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

	March 31, 2012			December 31, 2011 (a)		
($ in millions)	Number of loans		Original UPB of loans	Number of loans		Original UPB of loans
GSEs	457	$	89	357	$	71
Insured PLS (monolines)						
MBIA	7,314		491	7,314		490
FGIC	4,826		382	4,608		369
Other	937		70	730		58
Uninsured PLS	294		78	38		7
Whole-loan/other	561		85	475		74
Total number of loans and unpaid principal balance	14,389	$	1,195	13,522	$	1,069

(a) Excludes certain populations where counterparties have requested additional documentation.

We are currently in litigation with MBIA Insurance Corporation (MBIA) and Financial Guaranty Insurance Company (FGIC) with respect to certain of their private-label securitizations. Historically we have requested that most of the repurchase demands presented to us by both MBIA and FGIC be rescinded, consistent with the repurchase process described above. As the litigation process proceeds, additional loan reviews are expected and will likely result in additional repurchase demands.

Representation and Warranty Obligation Reserve Methodology

The liability for representation and warranty obligations reflects management's best estimate of probable lifetime losses at the applicable Mortgage Companies. We consider historical and recent demand trends in establishing the reserve. The methodology used to estimate the reserve considers a variety of assumptions including borrower performance (both actual and estimated future defaults), repurchase demand behavior, historical loan defect experience, historical mortgage insurance rescission experience, and historical and estimated future loss experience, which includes projections of future home price changes as well as other qualitative factors including investor behavior. In cases where we do not have or have limited current or historical demand experience with an investor, it is difficult to predict and estimate the level and timing of any potential future demands. In such cases, we may not be able to reasonably estimate losses, and a liability is not recognized. Management monitors the adequacy of the overall reserve and makes adjustments to the level of reserve, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with counterparties.

At the time a loan is sold, an estimate of the fair value of the liability is recorded and classified in accrued expenses and other liabilities on our Condensed Consolidated Balance Sheet and recorded as a component of gain (loss) on mortgage and automotive loans, net, in our Condensed Consolidated Statement of Comprehensive Income . We recognize changes in the liability when additional relevant information becomes available. Changes in the estimate are recorded as other operating expenses in our Condensed Consolidated Statement of Comprehensive Income . The repurchase reserve at March 31, 2012 relates primarily to non-GSE exposure.

The following table summarizes the changes in our reserve for representation and warranty obligations.

Three months ended March 31, (*$ in millions*)		2012		2011
Balance at January 1,	$	825	$	830
Provision for mortgage representation and warranty expenses				
Loan sales		5		6
Change in estimate — continuing operations		19		26
Total additions		24		32
Resolved claims (a)		(42)		(34)
Recoveries		4		2
Balance at March 31,	$	811	$	830

(a) Includes principal losses and accrued interest on repurchased loans, indemnification payments, and settlements with counterparties.

Government-sponsored Enterprises

Between 2004 and 2008, the applicable Mortgage Companies sold $250.8 billion of loans to the GSEs. Each GSE has specific guidelines and criteria for sellers and servicers of loans underlying their securities. In addition, the risk of credit loss of the loan sold was generally transferred to investors upon sale of the securities into the secondary market. Conventional conforming loans were sold to either Freddie Mac or Fannie Mae, and government-insured loans were securitized with Ginnie Mae. For the three months ended March 31, 2012, the applicable Mortgage Companies received repurchase claims relating to $128 million of original unpaid principal balance of which $93 million are

Notes to Condensed Consolidated Financial Statements (unaudited)

associated with the 2004 through 2008 vintages. The remaining $35 million in repurchase claims relate to post-2008 vintages. During the three months ended March 31, 2012, the applicable Mortgage Companies resolved claims with respect to $110 million of original unpaid principal balance, including settlement, repurchase, or indemnification payments related to $60 million of original unpaid principal balance, and rescinded claims related to $50 million of original unpaid principal balance. The applicable Mortgage Companies' representation and warranty obligation liability with respect to the GSEs considers the existing unresolved claims and the best estimate of future claims that could be received. The Mortgage Companies consider their experience with the GSE in evaluating its liability. During 2010, we reached agreements with Freddie Mac and Fannie Mae that, subject to certain exclusions, limits the remaining exposure of the applicable Mortgage Companies to each counterparty.

In March 2010, certain of our Mortgage Companies entered into an agreement with Freddie Mac under which we made a one-time payment to Freddie Mac for the release of repurchase obligations relating to most of the mortgage loans sold to Freddie Mac prior to January 1, 2009. This agreement does not release obligations of the applicable Mortgage Companies with respect to exposure for private-label MBS in which Freddie Mac had previously invested, loans where Ally Bank is the owner of the servicing, as well as defects in certain other specified categories of loans. Further, the applicable Mortgage Companies continue to be responsible for other contractual obligations we have with Freddie Mac, including all indemnification obligations that may arise in connection with the servicing of the mortgages. The total original unpaid principal balance of loans originated prior to January 1, 2009 and where Ally Bank was the owner of the servicing was $10.9 billion. For the three months ended March 31, 2012, the amount of losses taken on loans repurchased relating to defects where Ally Bank was the owner of the servicing was $5 million and the amount of losses taken on loans that we have repurchased relating to defects in the other specified categories was $2 million. These other specified categories include (i) loans subject to certain state predatory lending and similar laws; (ii) groups of 25 or more mortgage loans purchased, originated, or serviced by one of our mortgage subsidiaries, the purchase, origination, or sale of which all involve a common actor who committed fraud; (iii) "non-loan-level" representations and warranties which refer to representations and warranties that do not relate to specific mortgage loans (examples of such non-loan-level representations and warranties include the requirement that our mortgage subsidiaries meet certain standards to be eligible to sell or service loans for Freddie Mac or our mortgage subsidiaries sold or serviced loans for market participants that were not acceptable to Freddie Mac); and (iv) mortgage loans that are ineligible for purchase by Freddie Mac under its charter and other applicable documents. If, however, a mortgage loan was ineligible under Freddie Mac's charter solely because mortgage insurance was rescinded (rather than for example, because the mortgage loan is secured by a commercial property), and Freddie Mac required our mortgage subsidiary to repurchase that loan because of the ineligibility, Freddie Mac would pay our mortgage subsidiary any net loss we suffered on any later liquidation of that mortgage loan.

Certain of our Mortgage Companies received subpoenas in July 2010 from the Federal Housing Finance Agency (FHFA), which is the conservator of Fannie Mae and Freddie Mac. The subpoenas relating to Fannie Mae investments have been withdrawn with prejudice. The FHFA indicated that documents provided in response to the remaining subpoenas will enable the FHFA to determine whether they believe issuers of private-label MBS are potentially liable to Freddie Mac for losses they might have incurred. Although Freddie Mac has not brought any representation and warranty claims against us with respect to private-label securities subsequent to the settlement, they may well do so in the future. The FHFA has commenced securities and related common law fraud litigation against Ally and certain of our Mortgage Companies with respect to certain of Freddie Mac's private-label securities investments. Refer to the Legal Proceedings described below for additional information.

On December 23, 2010, certain of our mortgage subsidiaries entered into an agreement with Fannie Mae under which we made a one-time payment to Fannie Mae for the release of repurchase obligations related to most of the mortgage loans we sold to Fannie Mae prior to June 30, 2010. The agreement also covers potential exposure for private-label MBS in which Fannie Mae had previously invested. This agreement does not release the obligations of the applicable Mortgage Companies with respect to loans where Ally Bank is the owner of the servicing, as well as for defects in certain other specified categories of loans. Further, the applicable Mortgage Companies continue to be responsible for other contractual obligations they have with Fannie Mae, including all indemnification obligations that may arise in connection with the servicing of the mortgages, and the applicable Mortgage Companies continue to be obligated to indemnify Fannie Mae for litigation or third-party claims (including by borrowers) for matters that may amount to breaches of selling representations and warranties. The total original unpaid principal balance of loans originated prior to January 1, 2009 and where Ally Bank was the owner of the servicing was $24.4 billion. For the three months ended March 31, 2012, the amount of losses we have taken on loans that we have repurchased relating to defects where Ally Bank was the owner of the servicing was $14 million and the amount of losses we have taken on loans that we have repurchased relating to defects in the other specified categories of loans was $10 million. These other specified categories include, among others, (i) those that violate anti-predatory laws or statutes or related regulations or that otherwise violate other applicable laws and regulations; (ii) those that have non-curable defects in title to the secured property, or that have curable title defects, to the extent our mortgage subsidiaries do not cure such defects at our subsidiary's expense; (iii) any mortgage loan in which title or ownership of the mortgage loan was defective; (iv) groups of 13 or more mortgage loans, the purchase, origination, sale, or servicing of which all involve a common actor who committed fraud; and (v) mortgage loans not in compliance with Fannie Mae Charter Act requirements (e.g., mortgage loans on commercial properties or mortgage loans without required mortgage insurance coverage). If a mortgage loan falls out of compliance with Fannie Mae Charter Act requirements because mortgage insurance coverage has been rescinded and not reinstated or replaced, upon the borrower's default our mortgage subsidiaries would have to pay to Fannie Mae the amount of insurance proceeds that would have been paid by the mortgage insurer with respect to such mortgage loan. If the amount of the loss exceeded the amount of insurance proceeds, Fannie Mae would be responsible for such excess.

Private-label Securitizations (PLS)

In general, representations and warranties provided as part of our securitization activities are less rigorous than those provided to the

GSEs and generally impose higher burdens on parties seeking repurchase. In order to successfully assert a claim, it is our position that a claimant must prove a breach of the representations and warranties that materially and adversely affects the interest of the investor in the allegedly defective loan. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate a repurchase claim. However, a class of investors generally is required to coordinate with other investors in that class comprising not less than 25%, and in some cases, 50%, of the percentage interest constituting a class of securities of that class issued by the trust to pursue claims for breach of representations and warranties. In addition, our private-label securitizations generally require that the servicer or trustee give notice to the other parties whenever it becomes aware of facts or circumstances that reveal a breach of representation that materially and adversely affects the interest of the certificate holders.

Regarding our securitization activities, certain of our Mortgage Companies have exposure to potential losses primarily through two avenues. First, investors, through trustees to the extent required by the applicable agreements (or monoline insurers in certain transactions), may request pursuant to applicable agreements that the applicable Mortgage Company repurchase loans or make the investor whole for losses incurred if it is determined that the applicable Mortgage Company violated representations and warranties made at the time of the sale, provided that such violations materially and adversely impacted the interests of the investor. Contractual representations and warranties are different based on the specific deal structure and investor. It is our position that litigation of these matters must proceed on a loan by loan basis. This issue is being disputed throughout the industry in various pending litigation matters. Similarly in dispute, as a matter of law, is the degree to which claimants will have to prove that the alleged breaches of representations and warranties actually caused the losses they claim to have suffered. Ultimate resolution by courts of these and other legal issues will impact litigation and treatment of non-litigated claims pursuant to similar contractual provisions. Second, investors in securitizations may attempt to achieve rescission of their investments or damages through litigation by claiming that the applicable offering documents were materially deficient. If an investor properly made and proved its allegations, the investor might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans.

Insured PLS (Monolines)

Historically, the applicable Mortgage Companies securitized loans where the monolines insured all or some of the related bonds and guaranteed the timely repayment of bond principal and interest when the issuer defaults. Typically, any alleged breach requires the insurer to have both the ability to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holders or the insurer. Generally, most claims in connection with private-label securitizations come from Monoline Insurers and continue to represent the majority of outstanding repurchase demands. For the period 2004 through 2007, the Mortgage Companies sold $42.7 billion of loans into these monoline-wrapped securitizations. During the three months ended March 31, 2012, the Mortgage Companies received repurchase claims related to $28 million of original unpaid principal balance from the monolines associated with the 2004 through 2007 securitizations. The Mortgage Companies have resolved repurchase demands through indemnification payments related to $2 million of original unpaid principal balance.

We are currently in litigation with MBIA and FGIC, and additional litigation with other monolines is likely.

Uninsured PLS

Historically, the applicable Mortgage Companies securitized loans where all or some of the related bonds were uninsured. These entities are required to make customary representations and warranties about the loans to the investor and/or securitization trust. Though particular application of the language is in dispute in various litigation, the contracts typically require claimants to demonstrate that an alleged breach of representations and warranties has had a material and adverse effect on the interest of the security holder. During the period 2004 through 2007, the Mortgage Companies sold $182.1 billion of loans into these uninsured private-label securitizations. Claims associated with uninsured PLS were historically self identified and constituted an immaterial portion of new claims. They historically were included within the Whole loan/other category. During the three months ended March 31, 2012, we received a repurchase request from a bond trustee with respect to one uninsured PLS deal for loans originated in 2006 relating to $70 million of original unpaid principal balance. The Mortgage Companies are currently reviewing this repurchase request.

Whole-loan Sales

In addition to the settlements with the GSEs noted earlier, certain of our Mortgage Companies have settled with whole-loan investors concerning alleged breaches of underwriting standards. For the three months ended March 31, 2012, certain of our Mortgage Companies have received $22 million of original unpaid principal balance in repurchase claims, all of which are associated with the 2004 through 2008 vintages of loans sold to whole-loan investors. Certain of our Mortgage Companies resolved claims related to $10 million of original unpaid principal balance, including settlements, repurchases, indemnification payments, and rescinded claims.

Private Mortgage Insurance

Mortgage insurance is required for certain consumer mortgage loans sold to the GSEs and certain securitization trusts and may have been in place for consumer mortgage loans sold to whole-loan investors. Mortgage insurance is typically required for first-lien consumer mortgage loans having a loan-to-value ratio at origination of greater than 80 percent. Mortgage insurers are, in certain circumstances, permitted to rescind existing mortgage insurance that covers consumer loans if they demonstrate certain loan underwriting requirements have not been met. Upon receipt of a rescission notice, the applicable Mortgage Companies will assess the notice and, if appropriate, refute the notice, or if the notice cannot be refuted, the applicable Mortgage Companies attempt to remedy the defect. In the event the mortgage insurance cannot be reinstated, the applicable Mortgage Companies may be obligated to repurchase the loan or provide an indemnification payment in the event of a loss, subject to contractual limitations. While the applicable Mortgage Companies make every effort to reinstate the mortgage insurance,

Notes to Condensed Consolidated Financial Statements (unaudited)

they have had limited success and as a result, most of these requests result in rescission of the mortgage insurance. At March 31, 2012, the applicable Mortgage Companies have approximately $173 million in original unpaid principal balance of outstanding mortgage insurance rescission notices where we have not received a repurchase demand. However, this unpaid principal amount is not representative of expected future losses.

Legal Proceedings

We are subject to potential liability under various governmental proceedings, claims, and legal actions that are pending or otherwise asserted against us. We are named as defendants in a number of legal actions, and we are involved in governmental proceedings arising in connection with our respective businesses. Some of the pending actions purport to be class actions, and certain legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We establish reserves for legal claims when payments associated with the claims become probable and the payments can be reasonably estimated. Given the inherent difficulty of predicting the outcome of litigation and regulatory matters, it is generally very difficult to predict what the eventual outcome will be, and when the matter will be resolved. The actual costs of resolving legal claims may be higher or lower than any amounts reserved for the claims. The following information supplements the disclosures in Note 31 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

FGIC Litigation

The Financial Guaranty Insurance Company (FGIC) filed three complaints on November 29, 2011, against several of Ally's mortgage subsidiaries in New York County Supreme Court. In two of these cases, both entitled Financial Guaranty Insurance Company v. Residential Funding Company LLC (RFC), et al., FGIC alleges that defendants RFC and ResCap breached their contractual representations and warranties relating to the characteristics of the mortgage loans contained in certain insured MBS offerings. FGIC further alleges that the defendants breached their contractual obligations to permit access to loan files and certain books and records.

In the third case, entitled Financial Guaranty Insurance Company v. GMAC Mortgage LLC (GMAC Mortgage), et al., FGIC makes similar contract allegations against GMAC Mortgage and ResCap, as well as a claim against GMAC Mortgage for fraudulent inducement. In addition, FGIC alleges aiding and abetting fraudulent inducement against Ally Bank, which originated a large portion of the loans in the disputed pool, and breach of the custodial agreement for failing to notify FGIC of the claimed breaches of representations and warranties. In each of these cases, FGIC seeks, among other relief, reimbursement of all sums it paid under the various policies and an award of legal, rescissory, equitable, and punitive damages.

On December 15, 2011, FGIC filed a fourth complaint in New York County Supreme Court related to insurance policies issued in connection with an RFC-sponsored transaction. This complaint, entitled Financial Guaranty Insurance Company v. Ally, et al., names Ally, RFC, and ResCap, and seeks various forms of declaratory and monetary relief. The complaint alleges that the defendants are alter egos of one another, fraudulently induced FGIC's agreement to provide insurance by misrepresenting the nature of RFC's business practices and the credit quality and characteristics of the underlying loans, and have now materially breached their agreement with FGIC by refusing its requests for information and documents.

On December 27, 2011, FGIC filed three additional complaints in New York County Supreme Court against Ally, RFC, and ResCap. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same.

Since January 1, 2012, FGIC has filed five new complaints in federal court naming some combination of Ally, ResCap, Ally Bank, RFC, and GMAC Mortgage. The five complaints were filed on January 31, 2012, March 5, 2012, March 6, 2012, March 12, 2012 and March 13, 2012, respectively. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same. In addition, FGIC amended its first-filed complaint to name Ally Financial as a defendant.

All of the FGIC cases are now venued in the U.S. District Court for the Southern District of New York, and the defendants have asked the Court for leave to file motions to dismiss each such case.

Mitchell Litigation

In this statewide class action, plaintiffs alleged that Mortgage Capital Resources, Inc. (MCR) violated the Missouri Second Mortgage Loan Act by charging Missouri borrowers fees and interest not permitted by the Act. RFC and Homecomings Financial LLC (HFN), among others, were named as defendants in their role as assignees of certain of the MCR loans. Following a trial concluded in January 2008, the jury returned verdicts against all defendants, including an award against RFC and HFN for $4 million in compensatory damages (plus pre- and post-judgment interest and attorneys' fees) and against RFC for $92 million in punitive damages. In a November 2010 decision, the Missouri Court of Appeals affirmed the compensatory damages but ordered a new trial on punitive damages. Upon remand, we paid $12.8 million in compensatory damages (including interest and attorneys' fees). At the end of February 2012, RFC entered into an agreement in principle to settle all of plaintiffs' remaining claims, including plaintiffs' already-awarded attorneys' fees on appeal, for a total of $17.3 million. The agreement was preliminarily approved on April 16, 2012. The hearing on final approval is scheduled for May 18, 2012.

Notes to Condensed Consolidated Financial Statements (unaudited)

Potential Losses - Litigation, Repurchase Obligations, and Related Claims

Litigation

As described under Legal Proceedings above, Ally and certain of its subsidiaries have been named as defendants in several cases relating to their various roles in MBS offerings.

Private-label Securitizations — Other Potential Repurchase Obligations

When our Mortgage Companies sell mortgage loans through whole-loan sales or securitizations, these entities are required to make customary representations and warranties about the loans to the purchaser and/or securitization trust. These representations and warranties relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, ability to deliver required documentation, and compliance with applicable laws. Generally, the representations and warranties described above may be enforced against the applicable Mortgage Companies at any time over the life of the loan, subject to applicable statutes of limitations and other similar limitations. Breaches of these representations and warranties have resulted in a requirement that the applicable Mortgage Companies repurchase mortgage loans. As the mortgage industry continues to experience higher repurchase requirements and additional investors begin to attempt to put back loans, a significant increase in activity beyond that experienced today could occur, resulting in additional future losses at our Mortgage Companies.

Potential Losses

We currently estimate that ResCap's reasonably possible losses over time related to the litigation matters and potential repurchase obligations and related claims described above could be between $0 and $4 billion over existing accruals. This estimated range is based on significant judgment and numerous assumptions that are subject to change, and which could be material. However, as a result of ResCap's current financial position, we believe ResCap's ability to pay for any such losses is very limited. Refer to Note 1 to the Condensed Consolidated Financial Statements for a discussion of reasonably possible losses in connection with a ResCap bankruptcy filing.

Other Contingencies

We are subject to potential liability under various other exposures including tax, nonrecourse loans, self-insurance, and other miscellaneous contingencies. We establish reserves for these contingencies when the item becomes probable and the costs can be reasonably estimated. The actual costs of resolving these items may be substantially higher or lower than the amounts reserved for any one item. Based on information currently available, it is the opinion of management that the eventual outcome of these items will not have a material adverse impact on our results of operations, financial position, or cash flows.

25. Subsequent Events

Declaration of Quarterly Dividend Payments

On April 4, 2012 , the Ally Board of Directors declared quarterly dividend payments on certain outstanding preferred stock. This included a cash dividend of $1.125 per share, or a total of $134 million , on Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series F-2; a cash dividend of $17.50 per share, or a total of $45 million , on Fixed Rate Cumulative Perpetual Preferred Stock, Series G; and a cash dividend of $0.53 per share, or a total of $22 million , on Fixed Rate/Floating Rate Perpetual Preferred Stock, Series A. The dividends are payable on May 15, 2012 .

Chrysler Exclusivity Agreement

We are currently party to an agreement with Chrysler, pursuant to which Chrysler is obligated to provide us with exclusivity privileges related to certain of its retail financing subvention programs. On April 25, 2012, Chrysler provided us with notification of non-renewal, and as a result the agreement will expire on April 30, 2013.

Management's Discussion and Analysis

Ally Financial Inc. • Form 10-Q

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

Selected Financial Data

The selected historical financial information set forth below should be read in conjunction with Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations, our Condensed Consolidated Financial Statements, and the Notes to Condensed Consolidated Financial Statements. The historical financial information presented may not be indicative of our future performance.

The following table presents selected statement of income data.

	Three months ended March 31,	
($ in millions)	2012	2011
Total financing revenue and other interest income	$ 2,400	$ 2,478
Interest expense	1,438	1,664
Depreciation expense on operating lease assets	293	270
Net financing revenue	669	544
Total other revenue	1,187	1,008
Total net revenue	1,856	1,552
Provision for loan losses	140	113
Total noninterest expense	1,350	1,340
Income from continuing operations before income tax expense (benefit)	366	99
Income tax expense (benefit) from continuing operations	64	(70)
Net income from continuing operations	302	169
Income (loss) from discontinued operations, net of tax	8	(23)
Net income	$ 310	$ 146
Basic and diluted earnings per common share:		
Net income (loss) from continuing operations	$ 76	$ (2)
Net income (loss)	82	(19)
Non-GAAP financial measures (a):		
Net income	$ 310	$ 146
Add: Original issue discount amortization expense (b)	108	326
Add: Income tax expense (benefit) from continuing operations	64	(70)
Less: Income (loss) from discontinued operations, net of tax	8	(23)
Core pretax income (a)	$ 474	$ 425

(a) Core pretax income is not a financial measure defined by accounting principles generally accepted in the United States of America (GAAP). We define core pretax income as earnings from continuing operations before income taxes, original issue discount amortization expense primarily associated with our 2008 bond exchange, and the gain on extinguishment of debt related to the 2008 bond exchange. We believe that the presentation of core pretax income is useful information for the users of our financial statements in understanding the earnings from our core businesses. In addition, core pretax income is the primary measure that management uses to assess the performance of our operations. We believe that core pretax income is a useful alternative measure of our ongoing profitability and performance, when viewed in conjunction with GAAP measures. The presentation of this additional information is not a substitute for net income determined in accordance with GAAP.

(b) Primarily represents original issue discount amortization expense associated with the 2008 bond exchange, including accelerated amortization of $30 million for the three months ended March 31, 2011 that was reported as a loss on extinguishment of debt in the Condensed Consolidated Statement of Comprehensive Income.

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The following table presents selected balance sheet and ratio data.

	At and for the three months ended March 31,	
($ in millions)	2012	2011
Selected period-end balance sheet data:		
Total assets	$ 186,350	$ 173,704
Long-term debt	$ 93,990	$ 88,139
Preferred stock/interests	$ 6,940	$ 6,940
Total equity	$ 19,667	$ 20,407
Financial ratios		
Efficiency ratio (a)	72.74%	86.34%
Core efficiency ratio (a)	68.74%	71.35%
Return on assets		
Net income from continuing operations	0.66%	0.39%
Net income	0.68%	0.34%
Core pretax income	1.03%	0.99%
Return on equity		
Net income from continuing operations	6.24%	3.36%
Net income	6.40%	2.90%
Core pretax income	9.78%	8.45%
Equity to assets	10.56%	11.72%
Net interest spread (b)	1.24%	0.85%
Net interest spread excluding original issue discount (b)	1.60%	1.86%
Net yield on interest-earning assets (c)	1.67%	1.46%
Net yield on interest-earning assets excluding original issue discount (c)	1.94%	2.26%
Regulatory capital ratios		
Tier 1 capital (to risk-weighted assets) (d)	13.50%	14.68%
Total risk-based capital (to risk-weighted assets) (e)	14.53%	15.97%
Tier 1 leverage (to adjusted quarterly average assets) (f)	11.65%	12.78%
Total equity	$ 19,667	$ 20,407
Goodwill and certain other intangibles	(494)	(533)
Unrealized gains and other adjustments	(317)	(272)
Trust preferred securities	2,542	2,541
Tier 1 capital (d)	21,398	22,143
Preferred equity	(6,940)	(6,940)
Trust preferred securities	(2,542)	(2,541)
Tier 1 common capital (non-GAAP) (g)	$ 11,916	$ 12,662
Risk-weighted assets (h)	$ 158,460	$ 150,814
Tier 1 common (to risk-weighted assets) (g)	7.52%	8.40%

(a) The efficiency ratio equals total other noninterest expense divided by total net revenue. The core efficiency ratio equals total other noninterest expense divided by total net revenue excluding original issue discount amortization expense.
(b) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the periods shown.
(c) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.
(d) Tier 1 capital generally consists of common equity, minority interests, qualifying noncumulative preferred stock, and the fixed rate cumulative preferred stock sold to Treasury under TARP, less goodwill and other adjustments.
(e) Total risk-based capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt and the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.
(f) Tier 1 leverage equals Tier 1 capital divided by adjusted quarterly average total assets (which reflects adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.
(g) We define Tier 1 common as Tier 1 capital less noncommon elements, including qualifying perpetual preferred stock, minority interest in subsidiaries, trust preferred securities, and mandatorily convertible preferred securities. Ally considers various measures when evaluating capital utilization and adequacy, including the Tier 1 common equity ratio, in addition to capital ratios defined by banking regulators. This calculation is intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because GAAP does not include capital ratio measures, Ally believes there are no comparable GAAP financial measures to these ratios. Tier 1 common equity is not formally defined by GAAP or codified in the federal banking regulations and, therefore, is considered to be a non-GAAP financial measure. Ally believes the Tier 1 common equity ratio is important because we believe analysts and banking regulators may assess our capital adequacy using this ratio. Additionally, presentation of this measure allows readers to compare certain aspects of our capital adequacy on the same basis to other companies in the industry.
(h) Risk-weighted assets are defined by regulation and are determined by allocating assets and specified off-balance sheet financial instruments into several broad risk categories.

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Management's Discussion and Analysis

Ally Financial Inc. • Form 10-Q

Overview

Ally Financial Inc. (formerly GMAC Inc.) is a leading, independent, globally diversified, financial services firm. Founded in 1919, we are a leading automotive financial services company with over 90 years experience providing a broad array of financial products and services to automotive dealers and their customers. We are also one of the largest residential mortgage companies in the United States. We became a bank holding company on December 24, 2008, under the Bank Holding Company Act of 1956, as amended. Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (online and telephonic) banking market.

Discontinued Operations

During 2011, we committed to sell certain operations of our International Automotive Finance operations, Insurance operations, and Mortgage Legacy Portfolio and Other operations, and have classified certain of these operations as discontinued. For all periods presented, all of the operating results for these operations were removed from continuing operations. Refer to Note 2 to the Condensed Consolidated Financial Statements for additional information regarding our discontinued operations.

Primary Lines of Business

Our primary lines of business are Global Automotive Services and Mortgage operations. The following table summarizes the operating results excluding discontinued operations of each line of business for the three months ended March 31, 2012 and 2011. Operating results for each of the lines of business are more fully described in the MD&A sections that follow.

	Three months ended March 31,		
($ in millions)	**2012**	2011	**Favorable/ (unfavorable) % change**
Total net revenue (expense)			
Global Automotive Services			
North American Automotive Finance operations	**$ 854**	$ 927	**(8)**
International Automotive Finance operations	**230**	224	**3**
Insurance operations	**468**	485	**(4)**
Mortgage			
Origination and Servicing operations	**554**	323	**72**
Legacy Portfolio and Other operations	**50**	90	**(44)**
Corporate and Other	**(300)**	(497)	**40**
Total	**$ 1,856**	$ 1,552	**20**
Income (loss) from continuing operations before income tax expense (benefit)			
Global Automotive Services			
North American Automotive Finance operations	**$ 442**	$ 518	**(15)**
International Automotive Finance operations	**45**	31	**45**
Insurance operations	**124**	131	**(5)**
Mortgage			
Origination and Servicing operations	**217**	85	**155**
Legacy Portfolio and Other operations	**(26)**	(42)	**38**
Corporate and Other	**(436)**	(624)	**30**
Total	**$ 366**	$ 99	**n/m**

n/m = not meaningful

- Our Global Automotive Services operations offer a wide range of financial services and products to retail automotive consumers and automotive dealerships. Our Global Automotive Services consist of three separate reportable segments — North American Automotive Finance operations, International Automotive Finance operations, and Insurance operations. Our North American Automotive Finance operations include the automotive activities of Ally Bank and ResMor Trust. Our automotive finance services include acquiring or providing retail installment sales contracts, loans, and leases, offering term loans to dealers, financing dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services.

  Our Insurance operations offer both consumer finance and insurance products sold primarily through the automotive dealer channel and commercial insurance products sold to dealers. As part of our focus on offering dealers a broad range of consumer finance and insurance products, we provide vehicle service contracts, and maintenance coverage.

  We have significantly streamlined our international presence to focus on strategic operations in five core markets: Germany, the United Kingdom, Brazil, Mexico, and China through our joint venture, GMAC-SAIC Automotive Finance Company Limited (GMAC-SAIC).

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On April 25, 2012, Chrysler provided us with notification of nonrenewal for the existing agreement governing the exclusivity privileges related to certain of its retail financing subvention programs (for further discussion on our agreement, refer to our Annual Report on Form 10-K for the year ended December 31, 2011, Item 1, Business - Manufacturer Relationships). As a result of this notification, the agreement will expire on April 30, 2013. The nonrenewal of the existing contract does not preclude the two companies from continuing to work together in the future.

On March 22, 2012, we announced that MG Motor UK selected Ally as the preferred wholesale provider for dealerships in the United Kingdom. This agreement expands on the existing preferred retail financing relationship established in 2011.

- Our mortgage business is a leading originator and servicer of residential mortgage loans in the United States. We report our Mortgage operations as two distinct segments: (1) Origination and Servicing operations and (2) Legacy Portfolio and Other operations. These operations are conducted through the mortgage operations of Ally Bank and subsidiaries of the Residential Capital, LLC (ResCap) legal entity.

  Our Origination and Servicing operations consist of originating, purchasing, selling, and securitizing conforming and government-insured residential mortgage loans in the United States. We are one of the largest residential mortgage loan servicers in the United States, and we provide collateralized lines of credit to other mortgage originators, which we refer to as warehouse lending. We finance our mortgage loan originations primarily in Ally Bank. We sell the conforming mortgages we originate or purchase in sales that take the form of securitizations guaranteed by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), and we sell government-insured mortgage loans we originate or purchase in securitizations guaranteed by the Government National Mortgage Association (Ginnie Mae). We also selectively originate prime jumbo mortgage loans.

  Our Legacy Portfolio and Other operations primarily consist of loans originated prior to January 1, 2009, and includes noncore business activities including discontinued operations, portfolios in runoff, our mortgage reinsurance business, and cash held in the ResCap legal entity. These activities, all of which we have discontinued, included, among other things: lending to real estate developers and homebuilders in the United States and the United Kingdom; and purchasing, selling, and securitizing nonconforming residential mortgage loans (with the exception of U.S. prime jumbo mortgage loans originated subsequent to January 1, 2009, which are included in our Origination and Servicing operations) in both the United States and internationally.

  ResCap did not make a semi-annual interest payment that was due on April 17, 2012, related to $473 million of unsecured debt principal, which matures in 2013. The interest due was $20 million. The indenture provides that a failure to pay interest on an interest payment date does not become an event of default unless such failure continues for a period of 30 days. ResCap has significant additional near-term interest and principal payments on its outstanding debt securities and credit facilities. Ally or ResCap may take additional actions with respect to ResCap as each party deems appropriate. These actions may include, among others, Ally providing or declining to provide additional liquidity and capital support for ResCap; Ally purchasing assets from ResCap; asset sales by ResCap to third parties, or other business reorganization or similar action by ResCap with respect to all or part of ResCap and/or its affiliates. This may include a reorganization under bankruptcy laws, which ResCap is actively considering. Refer to Note 1 for further details on ResCap.

- Corporate and Other primarily consists of our centralized corporate treasury and deposit gathering activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, and reclassifications and eliminations between the reportable operating segments. Our Commercial Finance Group provides senior secured commercial-lending products to small and medium sized businesses primarily in the United States.

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Management's Discussion and Analysis

Consolidated Results of Operations

The following table summarizes our consolidated operating results excluding discontinued operations for the periods shown.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing revenue			
Total financing revenue and other interest income	$ 2,400	$ 2,478	(3)
Interest expense	1,438	1,664	14
Depreciation expense on operating lease assets	293	270	(9)
Net financing revenue	669	544	23
Other revenue			
Net servicing income	319	270	18
Insurance premiums and service revenue earned	375	399	(6)
Gain on mortgage and automotive loans, net	126	90	40
Loss on extinguishment of debt	—	(39)	100
Other gain on investments, net	90	84	7
Other income, net of losses	277	204	36
Total other revenue	1,187	1,008	18
Total net revenue	1,856	1,552	20
Provision for loan losses	140	113	(24)
Noninterest expense			
Compensation and benefits expense	475	424	(12)
Insurance losses and loss adjustment expenses	159	170	6
Other operating expenses	716	746	4
Total noninterest expense	1,350	1,340	(1)
Income from continuing operations before income tax expense (benefit)	366	99	n/m
Income tax expense (benefit) from continuing operations	64	(70)	(191)
Net income from continuing operations	$ 302	$ 169	79

n/m = not meaningful

We earned net income from continuing operations of $302 million for the three months ended March 31, 2012, compared to net income from continuing operations of $169 million for the three months ended March 31, 2011. Net income from continuing operations for the three months ended March 31, 2012, was favorably impacted by a decrease in interest expense related to bond maturities and normal monthly amortization, an increase in consumer automotive financing revenue driven primarily by strong origination volume during 2011, and higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs. The increase was partially offset by higher income tax expense.

Total financing revenue and other interest income decreased by 3% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease at our Mortgage Legacy Portfolio and Other operations resulted from a decline in average asset levels due to portfolio runoff and loan sales. Operating lease revenue at our North Automotive Finance operations decreased due to lower levels of lease units outstanding during the quarter, primarily driven by the continued wind-down of legacy lease assets. These declines were partially offset by an increase in consumer financing revenue at our North American Automotive operations driven primarily by strong loan origination volume during 2011, resulting primarily from increased volumes of used vehicle automotive financing and higher automotive industry sales.

Interest expense decreased 14% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower OID amortization expense of $188 million related to bond maturities and normal monthly amortization.

Depreciation expense on operating lease assets increased 9% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to lower lease remarketing gains as a result of lower lease termination volume.

Net servicing income was $319 million for the three months ended March 31, 2012, compared to $270 million for the same period in 2011. The servicing valuation in 2011 was unfavorably impacted by an adjustment related to higher servicing costs related to enhanced foreclosure procedures, establishment of single point of contact, and other processes to comply with the Consent Order. The increase was also due to favorable market movement.

Insurance premiums and service revenue earned decreased 6% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower insurance premiums and service revenue earned resulting from declining U.S. extended service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Gain on mortgage and automotive loans increased 40% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to higher mortgage loan margins due to change in channel mix.

Loss on extinguishment of debt decreased $39 million for the three months ended March 31, 2012, compared to the same period in 2011. The activity in 2011 included $30 million of accelerated amortization of original issue discount related to the extinguishment of certain Ally debt.

Other income, net of losses, increased 36% for the three months ended March 31, 2012, compared to the same period in 2011. The increase for the three months ended March 31, 2012, was primarily due to higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs.

The provision for loan losses was $140 million for the three months ended March 31, 2012, compared to $113 million for the same period in 2011. The increase in the three months ended March 31, 2012, reflected continued growth in the consumer and commercial automotive portfolios and a lower reserve release from the ongoing runoff of our legacy mortgage portfolio.

Compensation and benefits expense increased 12% for the three months ended March 31, 2012, compared to the same period in 2011. The increase was primarily related to a revaluation adjustment of our share-based compensation awards and an increase in headcount at Mortgage Origination and Servicing operations due to higher consumer-lending production.

Other operating expenses decreased 4% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to lower advertising and marketing expenses and lower vehicle remarketing and repossession expense, partially offset by higher professional services expense.

Income tax expense from continuing operations was $64 million for the three months ended March 31, 2012, compared to an income tax benefit of $70 million for the same period in 2011. The increase in income tax expense during the three months ended March 31, 2012, compared to the same period in 2011, was due to the 2011 benefit being largely driven by a $101 million income tax benefit on a reversal of valuation allowance on net deferred tax assets in one of our Canadian subsidiaries that was not a recurring event in 2012.

In calculating the provision for income taxes, we apply an estimated annual effective tax rate to year-to-date ordinary income. We have a full valuation allowance against our domestic net deferred tax assets and certain international net deferred tax assets. Accordingly, tax expense is driven by foreign income taxes on pretax profits within our foreign operations and U.S. state income taxes in states where profitable subsidiaries are required to file separately from other loss companies in the group or where the use of prior losses is restricted.

Management's Discussion and Analysis

Global Automotive Services

Results for Global Automotive Services are presented by reportable segment, which includes our North American Automotive Finance operations, our International Automotive Finance operations, and our Insurance operations.

Our Global Automotive Services operations offer a wide range of financial services and insurance products to retail automotive consumers and automotive dealerships. Our automotive finance services include acquiring or providing retail installment sales contracts, loans and leases, offering term loans to dealers, financing dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. We also are a leading provider of vehicle service contracts with mechanical breakdown and maintenance coverages, and we provide commercial insurance primarily covering dealers' wholesale vehicle inventory.

North American Automotive Finance Operations

Results of Operations

The following table summarizes the operating results of our North American Automotive Finance operations for the periods shown. North American Automotive Finance operations consist of automotive financing in the United States and Canada and include the automotive activities of Ally Bank and ResMor Trust. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing revenue			
Consumer	$ 763	$ 668	14
Commercial	322	326	(1)
Loans held-for-sale	5	—	100
Operating leases	536	651	(18)
Other interest income	18	23	(22)
Total financing revenue and other interest income	1,644	1,668	(1)
Interest expense	578	582	1
Depreciation expense on operating lease assets	291	268	(9)
Net financing revenue	775	818	(5)
Other revenue			
Servicing fees	30	45	(33)
Other income	49	64	(23)
Total other revenue	79	109	(28)
Total net revenue	854	927	(8)
Provision for loan losses	78	46	(70)
Noninterest expense			
Compensation and benefits expense	119	116	(3)
Other operating expenses	215	247	13
Total noninterest expense	334	363	8
Income before income tax expense (benefit)	$ 442	$ 518	(15)
Total assets	$ 102,894	$ 87,662	17
Operating data			
Retail Originations	$ 8,927	$ 10,140	(12)
Lease Originations	1,619	2,219	(27)

Our North American Automotive Finance operations earned income before income tax expense of $442 million for the three months ended March 31, 2012, compared to $518 million for the three months ended March 31, 2011. The decrease in 2012 was primarily driven by lower operating lease remarketing gains due to lower termination volume, the run-off of legacy lease assets, lower servicing fees and remarketing fee income, and higher provision expense for loan losses. These declines were partially offset by increased consumer financing revenue driven by strong origination volume and lower operating expenses.

Consumer financing revenue increased 14% for the three months ended March 31, 2012, compared to the same period in 2011, due to an increase in consumer asset levels primarily related to strong loan origination volume, resulting primarily from increased volumes of used vehicle automotive financing and higher automotive industry sales. Additionally, we continue to prudently expand our nonprime origination volume. The increase in consumer revenue from volume was partially offset by lower yields as a result of the competitive market environment for automotive financing.

Operating lease revenue decreased 18% for the three months ended March 31, 2012 , compared to the same period in 2011 , due to lower levels of lease units outstanding during the quarter, primarily driven by the continued wind-down of legacy lease assets.

Depreciation expense on operating lease assets increased 9% for the three months ended March 31, 2012 , compared to the same period in 2011 , primarily due to lower lease remarketing gains as a result of lower lease termination volume.

Servicing fee income decreased 33% for the three months ended March 31, 2012 compared to the same period in 2011 , due to lower levels of off-balance sheet retail serviced assets driven by a reduction of whole-loan sales.

Other income decreased 23% for the three months ended March 31, 2012 , compared to the same period in 2011 , primarily due to lower remarketing fee income driven by lower remarketing volumes through our proprietary SmartAuction platform. While we continue to grow our diversified remarketing volumes with third parties, the growth was offset by reductions in remarketing volume from our off-lease vehicles and repossessed assets.

The provision for loan losses was $78 million for the three months ended March 31, 2012 , compared to $46 million for the same period in 2011 . The increase for the three months ended March 31, 2012 , was primarily due to continued growth in consumer and commercial loans. Overall portfolio credit quality remains strong and continues to benefit from favorable pricing in the used vehicle market.

Other operating expenses decreased 13% for the three months ended March 31, 2012 , compared to the same period in 2011 . The decrease was a result of lower expense related to automotive manufacturer exclusivity arrangements and lower costs associated with reduced lease termination volumes, including lower vehicle remarketing expenses.

Management's Discussion and Analysis

International Automotive Finance Operations

Results of Operations

The following table summarizes the operating results of our International Automotive Finance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments and include eliminations of balances and transactions among our North American Automotive Finance operations and Insurance operations.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing revenue			
Consumer	$ 304	$ 287	6
Commercial	93	104	(11)
Operating leases	4	4	—
Other interest income	17	26	(35)
Total financing revenue and other interest income	418	421	(1)
Interest expense	252	253	—
Depreciation expense on operating lease assets	2	2	—
Net financing revenue	164	166	(1)
Other revenue			
Other income	66	58	14
Total other revenue	66	58	14
Total net revenue	230	224	3
Provision for loan losses	47	37	(27)
Noninterest expense			
Compensation and benefits expense	44	44	—
Other operating expenses	94	112	16
Total noninterest expense	138	156	12
Income from continuing operations before income tax expense (benefit)	$ 45	$ 31	45
Total assets	$ 16,054	$ 16,295	(1)
Operating data			
Consumer originations (a) (b)	$ 2,294	$ 1,898	21

(a) Represents consumer originations for continuing operations only.
(b) Includes vehicles financed through our joint venture GMAC-SAIC, which is recorded as other income. We own 40% of GMAC-SAIC alongside Shanghai Automotive Group Finance Company LTD and Shanghai General Motors Corporation LTD.

Our International Automotive Finance operations earned income from continuing operations before income tax expense of $45 million during the three months ended March 31, 2012 , compared to $31 million during the three months ended March 31, 2011 . The increase for the three months ended March 31, 2012 , was primarily a result of lower operating expenses driven by lower legal costs in Latin America, our continued focus on cost reduction, and higher income earned from our China joint venture.

Total financing revenue and other interest income decreased $3 million during the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to unfavorable movements in foreign-currency exchange rates on our consumer and commercial portfolios, which were partially offset by stronger originations, primarily in Brazil.

Other income increased 14% for the three months ended March 31, 2012 , compared to the same period in 2011 , primarily due to higher earnings from our China joint venture and higher income on other assets in Brazil.

The provision for loan losses increased $10 million for the three months ended March 31, 2012 , compared to the same period in 2011 . The increase in provision is related to increased reserves as a result of a cautious economic outlook in Europe and Latin America.

Other operating expenses decreased 16% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to lower legal expenses in Latin America.

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Management's Discussion and Analysis

Ally Financial Inc. • Form 10-Q

Automotive Financing Volume

Consumer Automotive Financing Volume

The following table summarizes our new and used vehicle consumer financing volume and our share of consumer sales.

	Ally consumer automotive financing volume		% Share of consumer sales	
Three months ended March 31, (*units in thousands*)	2012	2011	2012	2011
GM new vehicles				
North America	157	266	32	51
International (excluding China) (a)	97	75	30	24
China (b)	24	25	8	10
Total GM new units financed	278	366		
Chrysler new vehicles				
North America	82	75	26	30
International (excluding China)	—	—		
Total Chrysler new units financed	82	75		
Other non-GM / Chrysler new vehicles				
North America	21	19		
International (excluding China)	1	1		
China (b)	23	21		
Total other non-GM / Chrysler new units financed	45	41		
Used vehicles				
North America	141	125		
International (excluding China)	10	9		
China (b)	—	—		
Total used units financed	151	134		
Total consumer automotive financing volume	556	616		

(a) Excludes financing volume and GM consumer sales of discontinued operations, as well as GM consumer sales for other countries in which GM operates and in which we have no financing volume.
(b) Represents vehicles financed through our joint venture GMAC-SAIC. We own 40% of GMAC-SAIC alongside Shanghai Automotive Group Finance Company LTD and Shanghai General Motors Corporation LTD.

The decline in consumer automotive financing volume during the three months ended March 31, 2012, compared to the same period in 2011, was primarily driven by lower retail penetration at both GM and Chrysler in North America. Despite the overall decrease between periods, both used and diversified originations increased due to our continued strategic focus within these markets. The decrease in North American GM penetration was due to a change in automotive manufacturers' incentive strategy and a decrease in Ally-exclusive incentives. The decrease in North American Chrysler penetration was the result of increased competition. The increases and favorable penetration levels in our International operations were primarily due to aggressive manufacturer marketing incentive programs coupled with existing Ally campaigns and more competitive pricing.

Management's Discussion and Analysis

Manufacturer Marketing Incentives

The following table presents the percentage of retail and lease contracts acquired by us that included rate support from GM.

Three months ended March 31,	2012	2011
GM subvented volume in North America		
As % of GM North American new retail and lease volume acquired by Ally	62%	46%
As % of total North American new and used retail and lease volume acquired by Ally	24%	25%
GM subvented International (excluding China) volume (a)		
As % of GM International new retail and lease volume acquired by Ally	71%	61%
As % of total International new and used retail and lease volume acquired by Ally	64%	54%
GM subvented volume in China (b)		
As % of GM China new retail and lease volume acquired by Ally	2%	1%
As % of total China new and used retail and lease volume acquired by Ally	1%	1%

(a) Represents subvention for continuing operations only.
(b) Represents vehicles financed through our joint venture GMAC-SAIC. We own 40% of GMAC-SAIC alongside Shanghai Automotive Group Finance Company LTD and Shanghai General Motors Corporation LTD.

The following table presents the percentage of Chrysler subvented retail and lease volume acquired by Ally.

Three months ended March 31,	2012	2011
Chrysler subvented volume in North America		
As % of Chrysler North American new retail and lease volume acquired by Ally	50%	48%
As % of total North American new and used retail and lease volume acquired by Ally	10%	7%

During the three months ended March 31, 2012, North American retail contracts acquired that included rate subvention from GM and Chrysler increased as a percentage of total new retail contracts acquired as compared to the same period in 2011 due to a change in the mix of manufacturer marketing incentives away from non-rate programs. International retail contracts acquired from GM that included rate and residual subvention increased as a result of aggressive GM campaigns in various international markets.

For further discussion of our manufacturing marketing incentives, refer to our Annual Report on Form 10-K for the year ended December 31, 2011, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Automotive Finance Operations.

Management's Discussion and Analysis

Commercial Wholesale Financing Volume

The following table summarizes the average balances of our commercial wholesale floorplan finance receivables of new and used vehicles and share of dealer inventory in markets where we operate.

	Average balance		% Share of dealer inventory	
Three months ended March 31, (*$ in millions*)	**2012**	2011	**2012**	2011
GM new vehicles				
North America (a)	**$ 16,243**	$ 15,413	**72**	84
International (excluding China) (b) (c)	**4,204**	3,830	**77**	76
China (b) (d)	**1,443**	884	**80**	81
Total GM new vehicles financed	**21,890**	20,127		
Chrysler new vehicles				
North America (a)	**7,755**	7,182	**60**	68
International	**20**	21		
Total Chrysler new vehicles financed	**7,775**	7,203		
Other non-GM / Chrysler new vehicles				
North America	**2,365**	2,215		
International (excluding China)	**72**	131		
China (d)	**5**	—		
Total other non-GM / Chrysler new vehicles financed	**2,442**	2,346		
Used vehicles				
North America	**3,215**	3,076		
International (excluding China)	**169**	135		
Total used vehicles financed	**3,384**	3,211		
Total commercial wholesale finance receivables	**$ 35,491**	$ 32,887		

(a) Share of dealer inventory based on a 4 month average of dealer inventory (excludes in-transit units).
(b) Share of dealer inventory based on wholesale financing share of GM shipments.
(c) Excludes commercial wholesale finance receivables and dealer inventory of discontinued and wind-down operations as well as dealer inventory for other countries in which GM operates and we had no commercial wholesale finance receivables.
(d) Represents vehicles financed through our joint venture GMAC-SAIC. We own 40% of GMAC-SAIC alongside Shanghai Automotive Group Finance Company LTD and Shanghai General Motors Corporation LTD.

Commercial wholesale financing average volume increased for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to growing dealer inventories required to support increasing global automobile sales. North American GM and Chrysler wholesale penetration decreased for the three months ended March 31, 2012, compared to the same period in 2011, due to increased competition in the wholesale marketplace.

Insurance Operations

Results of Operations

The following table summarizes the operating results of our Insurance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other operating segments.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Insurance premiums and other income			
Insurance premiums and service revenue earned	$ 371	$ 393	(6)
Investment income	82	79	4
Other income	15	13	15
Total insurance premiums and other income	468	485	(4)
Expense			
Insurance losses and loss adjustment expenses	155	157	1
Acquisition and underwriting expense			
Compensation and benefits expense	25	27	7
Insurance commissions expense	116	122	5
Other expenses	48	48	—
Total acquisition and underwriting expense	189	197	4
Total expense	344	354	3
Income from continuing operations before income tax expense (benefit)	$ 124	$ 131	(5)
Total assets	$ 8,394	$ 9,024	(7)
Insurance premiums and service revenue written	$ 373	$ 374	—
Combined ratio (a)	89.7%	87.4%	

(a) Management uses a combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

Our Insurance operations earned income from continuing operations before income tax expense of $124 million for the three months ended March 31, 2012, compared to $131 million for the three months ended March 31, 2011. The decrease was primarily attributable to lower insurance premiums and service revenue earned.

Total insurance premiums and other income decreased 4% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower insurance premiums and service revenue earned resulting from declining U.S. extended service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Insurance losses and loss adjustment expenses totaled $155 million for the three months ended March 31, 2012, compared to $157 million for the three months ended March 31, 2011. The decrease was driven primarily by decreased volume of our U.S. extended service contracts. This decrease was partially offset by higher weather-related losses in the United States on our dealer inventory insurance products.

Acquisition and underwriting expense decreased 4% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily due to lower commissions expense in our U.S. dealership-related products matching our decrease in earned premiums.

Management's Discussion and Analysis

The following table shows premium and service revenue written by insurance product.

	Three months ended March 31,	
($ in millions)	**2012**	2011
Vehicle service contracts		
New retail	$ 94	$ 90
Used retail	134	129
Reinsurance	(31)	(25)
Total vehicle service contracts	197	194
Wholesale	20	22
Other finance and insurance (a)	33	30
North American operations	250	246
International operations	123	128
Total	$ 373	$ 374

(a) Other finance and insurance includes Guaranteed Automobile Protection (GAP) coverage, excess wear and tear, and other ancillary products.

Insurance premiums and service revenue written was $373 million for the three months ended March 31, 2012, compared to $374 million for the same period in 2011. Vehicle service contract revenue is earned over the life of the service contract on a basis proportionate to the anticipated cost pattern. As such, the majority of earnings from vehicle service contracts written during the three months ended March 31, 2012, will be recognized as income in future periods.

Cash and Investments

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We use these investments to satisfy our obligations related to future claims at the time these claims are settled. Our Insurance operations have an Investment Committee, which develops guidelines and strategies for these investments. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agency considerations, among other factors.

The following table summarizes the composition of our Insurance operations cash and investment portfolio at fair value.

($ in millions)	**March 31, 2012**	December 31, 2011
Cash		
Noninterest-bearing cash	$ 234	$ 211
Interest-bearing cash	1,053	629
Total cash	1,287	840
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	398	496
Foreign government	758	678
Mortgage-backed	466	590
Asset-backed	137	95
Corporate debt	1,551	1,491
Other debt	21	23
Total debt securities	3,331	3,373
Equity securities	969	1,054
Total available-for-sale securities	4,300	4,427
Total cash and securities	$ 5,587	$ 5,267

Management's Discussion and Analysis

Mortgage Operations

Our Mortgage operations include the ResCap legal entity and the mortgage operations of Ally Bank (Refer to Note 1 for further details on ResCap). Results from continuing operations for our Mortgage operations are presented by reportable segment, which includes our Origination and Servicing operations and our Legacy Portfolio and Other operations.

Origination and Servicing Operations

Results of Operations

The following table summarizes the operating results for our Origination and Servicing operations for the periods shown. Our Origination and Servicing operations principal activities include originating, purchasing, selling, and securitizing conforming and government-insured residential mortgage loans in the United States; servicing residential mortgage loans for ourselves and others; and providing collateralized lines of credit to other mortgage originators, which we refer to as warehouse lending. We also originate high-quality prime jumbo mortgage loans in the United States. We finance our mortgage loan originations primarily in Ally Bank.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing revenue (loss)			
Total financing revenue and other interest income	$ 104	$ 101	3
Interest expense	97	118	18
Net financing revenue (loss)	7	(17)	141
Servicing fees	281	312	(10)
Servicing asset valuation and hedge activities, net	9	(87)	110
Total servicing income, net	290	225	29
Gain on mortgage loans, net	126	72	75
Other income, net of losses	131	43	n/m
Total other revenue	547	340	61
Total net revenue	554	323	72
Provision for loan losses	1	2	50
Noninterest expense			
Compensation and benefits expense	86	65	(32)
Representation and warranty expense	11	(2)	n/m
Other operating expenses	239	173	(38)
Total noninterest expense	336	236	(42)
Income before income tax expense (benefit)	$ 217	$ 85	155
Total assets	$ 19,556	$ 18,714	4

n/m = not meaningful

Our Origination and Servicing operations earned income before income tax expense of $217 million for the three months ended March 31, 2012, compared to income before income tax expense of $85 million for the three months ended March 31, 2011. The increase was primarily driven by favorable servicing asset valuation, net of hedge, higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, and higher net gains on the sale of mortgage loans.

Net financing revenue was $7 million for the three months ended March 31, 2012, compared to net financing loss of $17 million for the same period in 2011. The increase in net financing revenue was primarily due to lower funding costs.

Total servicing income, net was $290 million for the three months ended March 31, 2012, compared to $225 million for the same period in 2011. The servicing valuation in 2011 was unfavorably impacted by an adjustment related to higher servicing costs related to enhanced foreclosure procedures, establishment of single point of contact, and other processes to comply with the Consent Order. The increase was also due to favorable market movement.

The net gain on mortgage loans increased 75% for the three months ended March 31, 2012, compared to the same period in 2011, primarily due to higher margins due to change in channel mix.

Other income, net of losses, was $131 million for the three months ended March 31, 2012, compared to $43 million for the same period in 2011. The increase was primarily due to higher fee income and net origination revenue related to increased consumer mortgage lending-production associated with government-sponsored refinancing programs.

Total noninterest expense increased 42% for the three months ended March 31, 2012, compared to the same periods in 2011. The increase was primarily driven by higher compensation and benefits expense related to an increase in headcount due to higher consumer mortgage-lending production, higher consulting charges related to the foreclosure review process, and higher legal fees.

Management's Discussion and Analysis

Legacy Portfolio and Other Operations

Results of Operations

The following table summarizes the operating results for our Legacy Portfolio and Other operations excluding discontinued operations for the periods shown. Our Legacy Portfolio and Other operations primarily consists of loans originated prior to January 1, 2009, and includes noncore business activities, portfolios in runoff, and cash held in the ResCap legal entity (Refer to Note 1 for further details on ResCap). These activities included, among other things: lending to real estate developers and homebuilders in the United States and United Kingdom; purchasing, selling and securitizing nonconforming residential mortgage loans (with the exception of U.S. prime jumbo mortgage loans) in both the United States and internationally; certain conforming origination channels closed in 2008; and our mortgage reinsurance business.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing revenue			
Total financing revenue and other interest income	$ 155	$ 198	(22)
Interest expense	105	121	13
Net financing revenue	50	77	(35)
Servicing fees	(1)	(1)	—
Servicing asset valuation and hedge activities, net	—	—	—
Total servicing income, net	(1)	(1)	—
Gain on mortgage loans, net	5	18	(72)
Other income, net of losses	(4)	(4)	—
Total other revenue	—	13	(100)
Total net revenue	50	90	(44)
Provision for loan losses	26	45	42
Noninterest expense			
Compensation and benefits expense	38	36	(6)
Representation and warranty expense	8	28	71
Other operating expenses	4	23	83
Total noninterest expense	50	87	43
Loss from continuing operations before income tax expense (benefit)	$ (26)	$ (42)	38
Total assets	$ 10,523	$ 12,259	(14)

Our Legacy Portfolio and Other operations incurred a loss from continuing operations before income tax expense of $26 million for the three months ended March 31, 2012, compared to a loss from continuing operations before income tax expense of $42 million for the three months ended March 31, 2011. The loss during 2012 was favorably impacted by lower representation and warranty expense and a lower provision for loan losses. Offsetting the improvement during the three months ended March 31, 2012, was lower net financing revenue related to a decline in asset levels.

Net financing revenue was $50 million for the three months ended March 31, 2012, compared to $77 million for the same period in 2011. The decrease was driven by lower financing revenue and other interest income due primarily to a decline in average asset levels due to portfolio runoff and loan sales in 2011. The decrease was partially offset by lower interest expense related to a reduction in average borrowings commensurate with a smaller asset base.

The net gain on mortgage loans was $5 million for the three months ended March 31, 2012 compared to $18 million for the same period in 2011. The decrease during 2012 was primarily due to lower sales of domestic legacy assets and lower volume of mortgage loan resolutions.

The provision for loan losses was $26 million for the three months ended March 31, 2012, compared to $45 million for the same period in 2011. The decrease in the provision for the three months ended March 31, 2012, reflected improved credit performance, partially offset by a lower reserve release.

Total noninterest expense decreased 43% for the three months ended March 31, 2012, compared to the same period in 2011. The decrease was primarily driven by lower representation and warranty expense and lower losses related to captive reinsurance activities.

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Mortgage Loan Production and Servicing

Mortgage loan production for our Origination and Servicing operations was $8.6 billion for the three months ended March 31, 2012, compared to $11.8 billion for the same period in 2011. Loan production decreased $3.3 billion, or 27%, for the three months ended March 31, 2012, compared to the same period in 2011. The decline in loan production was largely driven by our reduced presence in the correspondent lending channel, partially offset by increased volume in our direct channels associated with government-sponsored refinancing programs.

The following tables summarize consumer mortgage loan production for our Origination and Servicing operations.

	2012			2011		
Three months ended March 31, *($ in millions)*	**Number of loans**	**Dollar amount of loans**		Number of loans	Dollar amount of loans	
Production by product type						
Prime conforming	**31,031**	**$**	**6,643**	45,431	$	9,926
Prime nonconforming	**578**		**464**	455		384
Prime second-lien	**—**		**—**	—		—
Government	**6,821**		**1,489**	7,537		1,537
Nonprime	**—**		**—**	—		—
Total U.S. production by product type	**38,430**	**$**	**8,596**	53,423	$	11,847
U.S. production by channel						
Direct lending	**17,792**	**$**	**3,690**	7,014	$	1,369
Correspondent lender and secondary market purchases	**17,029**		**3,953**	45,543		10,270
Mortgage brokers	**3,609**		**953**	866		208
Total U.S. production by channel	**38,430**	**$**	**8,596**	53,423	$	11,847

The following table summarizes the primary mortgage loan-servicing portfolio.

($ in millions)	**March 31, 2012**		December 31, 2011	
U.S. primary servicing portfolio				
Prime conforming	**$**	**217,682**	$	226,239
Prime nonconforming		**46,051**		47,767
Prime second-lien		**6,069**		6,871
Government		**48,033**		49,027
Nonprime		**20,147**		20,753
International primary servicing portfolio		**5,922**		5,773
Total primary servicing portfolio (a)	**$**	**343,904**	$	356,430

(a) Excludes loans for which we acted as a subservicer. Subserviced loans totaled $28.4 billion and $26.4 billion at March 31, 2012, and December 31, 2011, respectively.

For more information regarding our serviced mortgage assets, refer to Note 11 to the Condensed Consolidated Financial Statements.

Loans Outstanding

Consumer mortgage loans held-for-sale for our Origination and Servicing operations were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Prime conforming	$ 1,402	$ 3,034
Prime nonconforming	—	—
Prime second-lien	—	—
Government (a)	2,969	3,274
Nonprime	—	—
International	—	—
Total	4,371	6,308
Net premiums	30	80
Fair value option election adjustment	28	87
Lower-of-cost or fair value adjustment	(6)	(5)
Total, net	$ 4,423	$ 6,470

(a) Includes loans subject to conditional repurchase options of $2.3 billion and $2.3 billion sold to Ginnie Mae-guaranteed securitizations at March 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

Consumer mortgage loans held-for-investment for our Origination and Servicing operations were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Prime conforming	$ —	$ —
Prime nonconforming	3,013	2,815
Prime second-lien	—	—
Government	—	—
Nonprime	—	—
International	—	—
Total	3,013	2,815
Net premiums	23	20
Fair value option election adjustment	—	—
Allowance for loan losses	(18)	(16)
Total, net	$ 3,018	$ 2,819

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Consumer mortgage loans held-for-sale for our Legacy Portfolio and Other operations were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Prime conforming	$ 312	$ 311
Prime nonconforming	562	571
Prime second-lien	527	545
Government	22	20
Nonprime	546	561
International	43	17
Total (a)	2,012	2,025
Net discounts	(306)	(301)
Fair value option election adjustment	(32)	(27)
Lower-of-cost or fair value adjustment	(50)	(55)
Total, net (b)	$ 1,624	$ 1,642

(a) Includes unpaid principal write-down of $1.4 billion and $1.5 billion at March 31, 2012, and December 31, 2011, respectively. The amounts are write-downs taken upon the transfer of mortgage loans from held-for-investment to held-for-sale during the fourth quarter of 2009 and charge-offs taken in accordance with our charge-off policy.

(b) Includes loans subject to conditional repurchase options of $99 million and $106 million sold to off-balance sheet private-label securitizations at March 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

Consumer mortgage loans held-for-investment for our Legacy Portfolio and Other operations were as follows.

($ in millions)	March 31, 2012	December 31, 2011
Prime conforming	$ 268	$ 278
Prime nonconforming	5,108	5,254
Prime second-lien	2,104	2,200
Government	—	—
Nonprime	1,299	1,349
International	441	422
Total	9,220	9,503
Net premiums	17	18
Fair value option election adjustment	(1,554)	(1,601)
Allowance for loan losses	(463)	(479)
Total, net (a)	$ 7,220	$ 7,441

(a) At March 31, 2012, and December 31, 2011, the carrying value of mortgage loans held-for-investment relating to securitization transactions accounted for as on-balance sheet securitizations and pledged as collateral totaled $832 million and $837 million, respectively. The investors in these on-balance sheet securitizations have no recourse to our other assets beyond the loans pledged as collateral other than market customary representation and warranty provisions.

Mortgage Foreclosure Matters

Refer to Note 24 to the Condensed Consolidated Financial Statements for information related to these matters.

Corporate and Other

The following table summarizes the activities of Corporate and Other excluding discontinued operations for the periods shown. Corporate and Other primarily consists of our centralized corporate treasury and deposit gathering activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing and treasury ALM activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, and reclassifications and eliminations between the reportable operating segments.

	Three months ended March 31,		
($ in millions)	2012	2011	Favorable/ (unfavorable) % change
Net financing loss			
Total financing revenue and other interest income	$ 38	$ 47	(19)
Interest expense			
Original issue discount amortization	111	299	63
Other interest expense	274	270	(1)
Total interest expense	385	569	32
Net financing loss	(347)	(522)	34
Other revenue			
Loss on extinguishment of debt	—	(39)	100
Other gain on investments, net	24	25	(4)
Other income, net of losses	23	39	(41)
Total other revenue	47	25	88
Total net expense	(300)	(497)	40
Provision for loan losses	(12)	(17)	(29)
Noninterest expense			
Compensation and benefits expense	163	136	(20)
Other operating expense	(15)	8	n/m
Total noninterest expense	148	144	(3)
Loss from continuing operations before income tax expense (benefit)	$ (436)	$ (624)	30
Total assets	$ 28,929	$ 29,750	(3)

n/m = not meaningful

The following table summarizes the components of net financing losses for Corporate and Other.

	Three months ended March 31,	
($ in millions)	2012	2011
Original issue discount amortization		
2008 bond exchange amortization	$ (104)	$ (286)
Other debt issuance discount amortization	(7)	(13)
Total original issue discount amortization (a)	(111)	(299)
Net impact of the funds transfer pricing methodology		
Cost of liquidity	(166)	(184)
Funds-transfer pricing / cost of funds mismatch	(147)	(109)
Benefit of net non-earning assets	58	41
Total net impact of the funds transfer pricing methodology	(255)	(252)
Other (including Commercial Finance Group net financing revenue)	19	29
Total net financing losses for Corporate and Other	$ (347)	$ (522)
Outstanding original issue discount balance	$ 2,093	$ 2,840

(a) Amortization is included as interest on long-term debt in the Condensed Consolidated Statement of Comprehensive Income.

Management's Discussion and Analysis

The following table presents the scheduled remaining amortization of the original issue discount at March 31, 2012.

Year ended December 31, *($ in millions)*	2012 (a)	2013	2014	2015	2016	2017 and thereafter (b)	Total
Original issue discount							
Outstanding balance	$ 1,853	$ 1,588	$ 1,396	$ 1,336	$ 1,272	$ —	
Total amortization (c)	240	265	192	60	64	1,272	$ 2,093
2008 bond exchange amortization (d)	216	241	166	43	53	1,125	1,844

(a) Represents the remaining future original issue discount amortization expense to be taken during 2012.
(b) The maximum annual scheduled amortization for any individual year is $158 million in 2030 of which $152 million is related to 2008 bond exchange amortization.
(c) The amortization is included as interest on long-term debt on the Condensed Consolidated Statement of Comprehensive Income.
(d) 2008 bond exchange amortization is included in total amortization.

Loss from continuing operations before income tax expense for Corporate and Other was $436 million for the three months ended March 31, 2012, compared to $624 million for the three months ended March 31, 2011. Corporate and Other's loss from continuing operations before income tax expense is driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios and other unassigned funding costs and unassigned equity.

The improvement in the loss from continuing operations before income tax expense for the three months ended March 31, 2012, was primarily due to a decrease in OID amortization expense related to bond maturities and normal monthly amortization. Additionally, we incurred no accelerated amortization of OID for the three months ended March 31, 2012, compared to $30 million for the three months ended March 31, 2011. The improvement was partially offset by an increase in compensation and benefits expense related to a revaluation adjustment of our share-based compensation awards.

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of $31 million for the three months ended March 31, 2012, compared to $51 million for the three months ended March 31, 2011. The decrease was primarily due to lower net financing revenue driven by lower average asset levels.

Cash and Securities

The following table summarizes the composition of the cash and securities portfolio held at fair value by Corporate and Other.

($ in millions)	March 31, 2012	December 31, 2011
Cash		
Noninterest-bearing cash	$ 1,541	$ 1,768
Interest-bearing cash	9,577	9,781
Total cash	11,118	11,549
Trading securities		
Mortgage-backed	863	589
Total trading securities	863	589
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	1,046	1,051
States and political subdivisions	1	1
Foreign government	107	106
Mortgage-backed	6,353	6,722
Asset-backed	2,570	2,520
Other debt (a)	561	305
Total debt securities	10,638	10,705
Equity securities	4	4
Total available-for-sale securities	10,642	10,709
Total cash and securities	$ 22,623	$ 22,847

(a) Includes intersegment eliminations.

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Management's Discussion and Analysis

Ally Financial Inc. • Form 10-Q

Risk Management

Managing the risk to reward trade-off is a fundamental component of operating our businesses. Our risk management process is overseen by the Ally Board of Directors (the Board), various risk committees, and the executive leadership team. The Board sets the risk appetite across our company while the risk committees and executive leadership team identify and monitor potential risks and manage the risk to be within our risk appetite. Ally's primary risks include credit, market, lease residual, operational, liquidity, country and legal and compliance risk. For more information on our risk management process, refer to the Risk Management MD&A section of our 2011 Annual Report on Form 10-K.

Loan and Lease Exposure

The following table summarizes the exposures from our loan and lease activities.

($ in millions)	**March 31, 2012**	December 31, 2011
Finance receivables and loans		
Global Automotive Services	**$ 106,321**	$ 100,734
Mortgage operations	**12,208**	12,753
Corporate and Other	**1,289**	1,268
Total finance receivables and loans	**119,818**	114,755
Held-for-sale loans		
Global Automotive Services	**623**	425
Mortgage operations	**6,047**	8,112
Corporate and Other	**—**	20
Total held-for-sale loans	**6,670**	8,557
Total on-balance sheet loans	**$ 126,488**	$ 123,312
Off-balance sheet securitized loans		
Global Automotive Services	**$ —**	$ —
Mortgage operations	**316,846**	326,975
Corporate and Other	**—**	—
Total off-balance sheet securitized loans	**$ 316,846**	$ 326,975
Operating lease assets		
Global Automotive Services	**$ 10,048**	$ 9,275
Mortgage operations	**—**	—
Corporate and Other	**—**	—
Total operating lease assets	**$ 10,048**	$ 9,275
Serviced loans and leases		
Global Automotive Services	**$ 127,545**	$ 122,881
Mortgage operations (a)	**343,904**	356,430
Corporate and Other	**1,709**	1,762
Total serviced loans and leases	**$ 473,158**	$ 481,073

(a) Includes primary mortgage loan-servicing portfolio only.

The risks inherent in our loan and lease exposures are largely driven by changes in the overall economy, used vehicle and housing pricing, unemployment levels, and its impact to our borrowers. The potential financial statement impact of these exposures varies depending on the accounting classification and future expected disposition strategy. We retain the majority of our automobile loans as they complement our core business model, but we do sell loans from time to time on an opportunistic basis. We primarily originate mortgage loans with the intent to sell them and, as such, retain only a small percentage of the loans that we originate or purchase. Loans that we do not intend to retain are sold to investors, primarily securitizations guaranteed by GSEs. However, we may retain an interest or right to service these loans. We ultimately manage the associated risks based on the underlying economics of the exposure.

Credit Risk Management

Credit risk is defined as the potential failure to receive payments when due from a borrower in accordance with contractual obligations. Therefore, credit risk is a major source of potential economic loss to us. To mitigate the risk, we have implemented specific processes across all lines of business utilizing both qualitative and quantitative analyses and have committees in place to oversee all aspects of the credit decisioning and management processes. The Ally Global Credit Risk Committee (GCRC) is chaired by the Chief Risk Officer and is responsible for identifying, measuring, monitoring, and controlling the credit risks while also permitting acceptable variations for a specific line of business with proper approval. The GCRC reports to the Ally Risk and Compliance Committee (RCC), which is chaired by an

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independent member of the Board. The Global Risk organization is responsible for managing credit risk exposures in a safe-and-sound manner within the guidelines and targets jointly approved by the GCRC and RCC. In addition, our Global Loan Review Group provides an independent assessment of the quality of our credit risk portfolios and credit risk management practices by directly reporting its findings to the RCC on recurring basis.

We have policies and practices that are committed to maintaining an independent and ongoing assessment of credit risk and quality. Our policies require an objective and timely assessment of the overall quality of the consumer and commercial loan and lease portfolios. This includes the identification of relevant trends that affect the collectability of the portfolios, segments of the portfolios that are potential problem areas, loans and leases with potential credit weaknesses, and assessment of the adequacy of internal credit risk policies and procedures to monitor compliance with relevant laws and regulations. In addition, we maintain limits and underwriting guidelines that reflect our risk appetite.

We manage credit risk based on the risk profile of the borrower, the source of repayment, the underlying collateral, and current market conditions. Our business is primarily focused on consumer automobile loans and leases and mortgage loans in addition to automobile-related commercial lending. We monitor the credit risk profile of individual borrowers and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. To mitigate risk concentrations, we may take part in loan sales and syndications.

Additionally, we have implemented numerous initiatives in an effort to mitigate loss and provide ongoing support to customers in financial distress. For automobile loans, we offer several types of assistance to aid our customers. Loss mitigation includes changing the due date, extending payments, and rewriting the loan terms. We have implemented these actions with the intent to provide the borrower with additional options in lieu of repossessing their vehicle. For mortgage loans, as part of our participation in certain governmental programs, we offer mortgage loan modifications to qualified borrowers.

During the first three months of 2012, the U.S. economy continued to expand modestly and the labor market further recovered. Within the U.S. automotive and mortgage portfolios, encouraging trends include increased industry sales and strong pricing in used vehicles. We continue to be cautious due to higher average gasoline prices and their effect on automobile sales and the uncertainty emanating from weaker economic growth in Europe and other key international markets. However, we have seen signs of economic stabilization in housing, and have also seen improvement in our loan portfolio as a result of our proactive credit risk initiatives.

On-balance Sheet Portfolio

Our on-balance sheet portfolio includes both finance receivables and loans and held-for-sale loans. At March 31, 2012, this primarily included $ 107.0 billion of automobile finance receivables and loans and $ 18.3 billion of mortgage finance receivables and loans. Within our on-balance sheet portfolio, we have elected to account for certain mortgage loans at fair value. The valuation allowance recorded on fair value-elected loans is separate from the allowance for loan losses. Changes in the fair value of loans are classified as gain on mortgage and automotive loans, net, in the Condensed Consolidated Statement of Comprehensive Income.

During the three months ended March 31, 2012, we further executed on our strategy of discontinuing and selling or liquidating nonstrategic operations. Refer to Note 2 to the Condensed Consolidated Financial Statements for additional information.

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The following table presents our total on-balance sheet consumer and commercial finance receivables and loans reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
($ in millions)	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Consumer						
Finance receivables and loans						
Loans at historical cost	$ 77,172	$ 73,452	$ 543	$ 567	$ 4	$ 4
Loans at fair value	832	835	214	210	—	—
Total finance receivables and loans	78,004	74,287	757	777	4	4
Loans held-for-sale	6,670	8,537	2,768	2,820	73	73
Total consumer loans	84,674	82,824	3,525	3,597	77	77
Commercial						
Finance receivables and loans						
Loans at historical cost	41,814	40,468	302	339	—	—
Loans at fair value	—	—	—	—	—	—
Total finance receivables and loans	41,814	40,468	302	339	—	—
Loans held-for-sale	—	20	—	—	—	—
Total commercial loans	41,814	40,488	302	339	—	—
Total on-balance sheet loans	$ 126,488	$ 123,312	$ 3,827	$ 3,936	$ 77	$ 77

(a) Includes nonaccrual troubled debt restructured loans of $1.0 billion and $934 million at March 31, 2012, and December 31, 2011, respectively.
(b) Generally, loans that are 90 days past due and still accruing represent loans with government guarantees. This includes troubled debt restructured loans classified as 90 days past due and still accruing of $45 million and $42 million at March 31, 2012 , and December 31, 2011 , respectively.

Total on-balance sheet loans outstanding at March 31, 2012, increased $3.2 billion to $126.5 billion from December 31, 2011 reflecting an increase of $1.9 billion in the consumer portfolio and a increase of $1.3 billion in the commercial portfolio. The increase in total on-balance sheet loans outstanding was primarily driven by strong automobile consumer loan originations which outpaced portfolio runoff and higher dealer floorplan loans, both primarily due to increased automotive industry sales.

The total TDRs outstanding at March 31, 2012, increased $207 million to $2.2 billion from December 31, 2011. This increase was driven primarily by our continued foreclosure prevention and loss mitigation procedures along with our participation in a variety of government-sponsored refinancing programs. Refer to Note 8 to the Condensed Consolidated Financial Statements for additional information.

Total nonperforming loans at March 31, 2012, decreased $109 million to $3.8 billion from December 31, 2011, reflecting a decrease of $72 million of consumer nonperforming loans and a decrease of $37 million of commercial nonperforming loans. The decrease in total nonperforming loans from December 31, 2011, was largely due to seasonal improvements within our consumer mortgage portfolio and continued improvement in the performance of our commercial automobile dealers.

The following table includes consumer and commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Three months ended March 31,			
	Net charge-offs (recoveries)		Net charge-off ratios (a)	
($ in millions)	2012	2011	2012	2011
Consumer				
Finance receivables and loans at historical cost	$ 117	$ 169	0.6 %	1.0%
Commercial				
Finance receivables and loans at historical cost	(10)	20	(0.1)	0.2
Total finance receivables and loans at historical cost	$ 107	$ 189	0.4	0.7

(a) Net charge-off ratios are calculated as annualized net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Our net charge-offs were $107 million for the three months ended March 31, 2012, compared to $189 million for the three months ended March 31, 2011. This decline was primarily due to reduced net charge-offs in the consumer automobile portfolio. Loans held-for-sale are

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accounted for at the lower-of-cost or fair value, and therefore we do not record charge-offs.

The *Consumer Credit Portfolio* and *Commercial Credit Portfolio* discussions that follow relate to consumer and commercial finance receivables and loans recorded at historical cost. Finance receivables and loans recorded at historical cost have an associated allowance for loan losses. Finance receivables and loans measured at fair value were excluded from these discussions since those exposures are not accounted for within our allowance for loan losses.

Consumer Credit Portfolio

During the three months ended March 31, 2012 , the credit performance of the consumer portfolio continued to improve overall as our nonperforming finance receivables and loans and charge-offs declined. For information on our consumer credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

The following table includes consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
($ in millions)	**March 31, 2012**	December 31, 2011	**March 31, 2012**	December 31, 2011	**March 31, 2012**	December 31, 2011
Domestic						
Consumer automobile	**$ 49,444**	$ 46,576	**$ 135**	$ 139	**$ —**	$ —
Consumer mortgage						
1st Mortgage	**6,929**	6,867	**238**	258	**1**	1
Home equity	**3,020**	3,102	**52**	58	**—**	—
Total domestic	**59,393**	56,545	**425**	455	**1**	1
Foreign						
Consumer automobile	**17,770**	16,883	**110**	89	**3**	3
Consumer mortgage						
1st Mortgage	**9**	24	**8**	23	**—**	—
Home equity	**—**	—	**—**	—	**—**	—
Total foreign	**17,779**	16,907	**118**	112	**3**	3
Total consumer finance receivables and loans	**$ 77,172**	$ 73,452	**$ 543**	$ 567	**$ 4**	$ 4

(a) Includes nonaccrual troubled debt restructured loans of $170 million and $180 million at March 31, 2012, and December 31, 2011, respectively.
(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at March 31, 2012, and December 31, 2011.

Total consumer outstanding finance receivables and loans increased $3.7 billion at March 31, 2012 compared with December 31, 2011 . This increase was driven by automobile consumer loan originations, which outpaced portfolio runoff, primarily due to increased industry sales.

Total consumer nonperforming finance receivables and loans at March 31, 2012 , decreased $24 million to $543 million from December 31, 2011 , reflecting a decrease of $42 million of consumer mortgage nonperforming finance receivables and loans and an increase of $18 million of consumer automobile nonperforming finance receivables and loans. Nonperforming consumer mortgage finance receivables and loans decreased primarily due to seasonal improvements. Nonperforming consumer automotive finance receivables and loans increased largely due to economic stresses in certain areas in Latin America. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans were 0.7% and 0.8% at March 31, 2012 and December 31, 2011 , respectively.

Consumer domestic automotive loans accruing and past due 30 days or more decreased $240 million to $543 million at March 31, 2012 , compared with December 31, 2011 , primarily due to seasonality.

The following table includes consumer net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Three months ended March 31,			
	Net charge-offs		Net charge-off ratios (a)	
($ in millions)	2012	2011	2012	2011
Domestic				
Consumer automobile	$ 54	$ 89	0.4%	1.0%
Consumer mortgage				
1st Mortgage	23	36	1.4	2.1
Home equity	20	21	2.6	2.5
Total domestic	97	146	0.7	1.2
Foreign				
Consumer automobile	20	23	0.4	0.6
Consumer mortgage				
1st Mortgage	—	—	—	—
Home equity	—	—	—	—
Total foreign	20	23	0.5	0.5
Total consumer finance receivables and loans	$ 117	$ 169	0.6	1.0

(a) Net charge-off ratios are calculated as annualized net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Our net charge-offs from total consumer automobile finance receivables and loans decreased $38 million for the three months ended March 31, 2012, compared to the same period in 2011. The decrease in net charge-offs was primarily due to lower loss frequency reflecting the modest U.S. economic improvements and reduced loss severity due to strong used vehicle pricing.

Our net charge-offs from total consumer mortgage receivables and loans were $43 million for the three months ended March 31, 2012, compared to $57 million for the same period in 2011. The decrease was driven by the improved mix of remaining loans as the lower quality legacy loans continued to runoff.

The following table summarizes the unpaid principal balance of total consumer loan originations for the periods shown. Total consumer loan originations include loans classified as finance receivables and loans and loans held-for-sale during the period.

	Three months ended March 31,	
($ in millions)	2012	2011
Domestic		
Consumer automobile	$ 8,108	$ 9,384
Consumer mortgage		
1st Mortgage	8,596	11,847
Home equity	—	—
Total domestic	16,704	21,231
Foreign		
Consumer automobile	2,544	2,064
Consumer mortgage		
1st Mortgage	—	312
Home equity	—	—
Total foreign	2,544	2,376
Total consumer loan originations	$ 19,248	$ 23,607

Total domestic automobile-originated loans decreased $1.3 billion for the three months ended March 31, 2012, respectively, compared to the same period in 2011, primarily due to lower retail penetration and manufacturer incentives at both GM and Chrysler.

Total domestic mortgage-originated loans decreased $3.3 billion for the three months ended March 31, 2012. The decrease for the three months ended March 31, 2012 was driven by the reduction in correspondent lending.

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Consumer loan originations retained on-balance sheet as held-for-investment were $11.1 billion for the three months ended March 31, 2012 , and $11.8 billion for the three months ended March 31, 2011 . The decrease was primarily due to lower retail penetration and manufacturer incentives at both GM and Chrysler.

The following table shows the percentage of total consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses by state and foreign concentration. Total automobile loans were $67.2 billion and $63.5 billion at March 31, 2012 , and December 31, 2011 , respectively. Total mortgage and home equity loans were $10.0 billion at both March 31, 2012 , and December 31, 2011 .

	March 31, 2012 (a)		December 31, 2011	
	Automobile	1st Mortgage and home equity	Automobile	1st Mortgage and home equity
Texas	9.5%	5.7%	9.5%	5.5%
California	4.4	26.4	4.6	25.7
Florida	4.8	3.9	4.8	4.0
Michigan	3.9	4.7	4.0	4.8
Pennsylvania	3.6	1.6	3.6	1.6
Illinois	3.1	4.9	3.1	5.0
New York	3.5	2.2	3.5	2.3
Ohio	2.9	1.0	2.9	1.0
Georgia	2.5	1.8	2.5	1.8
North Carolina	2.2	2.0	2.2	2.1
Other United States	33.0	45.7	32.9	45.9
Canada	11.4	—	11.8	0.2
Brazil	4.8	—	4.7	—
Germany	4.1	—	4.3	—
Other foreign	6.3	0.1	5.6	0.1
Total consumer loans	100.0%	100.0%	100.0%	100.0%

(a) Presentation is in descending order as a percentage of total consumer finance receivables and loans at March 31, 2012.

We monitor our consumer loan portfolio for concentration risk across the geographies in which we lend. The highest concentrations of loans in the United States are in Texas and California, which represented an aggregate of 16.3% of our total outstanding consumer finance receivables and loans at March 31, 2012.

Concentrations in our Mortgage operations are closely monitored given the volatility of the housing markets. Our consumer mortgage loan concentrations in California, Florida, and Michigan receive particular attention as the real estate value depreciation in these states has been the most severe.

Repossessed and Foreclosed Assets

We classify an asset as repossessed or foreclosed (included in other assets on the Condensed Consolidated Balance Sheet) when physical possession of the collateral is taken. We dispose of the acquired collateral in a timely fashion in accordance with regulatory requirements. For more information on repossessed and foreclosed assets, refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

Repossessed assets in our Automotive Finance operations at March 31, 2012, decreased $4 million to $52 million from December 31, 2011. Foreclosed mortgage assets at March 31, 2012, decreased $9 million to $68 million from December 31, 2011.

Higher-Risk Mortgage Loans

Since 2009, we primarily focused our origination efforts on prime conforming and government-insured residential mortgages in the United States. However, we continued to hold mortgage loans originated in prior years that have features that expose us to potentially higher credit risk including high original loan-to-value mortgage loans (prime or nonprime), payment-option adjustable-rate mortgage loans (prime nonconforming), interest-only mortgage loans (classified as prime conforming or nonconforming for domestic production and prime nonconforming or nonprime for international production), and teaser-rate mortgages (prime or nonprime).

In circumstances when a loan has features such that it falls into multiple categories, it is classified to a category only once based on the following hierarchy: (1) high original loan-to-value mortgage loans, (2) payment-option adjustable-rate mortgage loans, (3) interest-only mortgage loans, and (4) below-market rate (teaser) mortgages. Given the continued stress within the housing market, we believe this hierarchy provides the most relevant risk assessment of our nontraditional products.

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Management's Discussion and Analysis

The following table summarizes mortgage finance receivables and loans by higher-risk loan type. These finance receivables and loans are recorded at historical cost and reported at carrying value before allowance for loan losses.

($ in millions)	Outstanding		Nonperforming		Accruing past due 90 days or more	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Interest-only mortgage loans (a)	$ 2,828	$ 2,947	$ 130	$ 147	$ —	$ —
Below-market rate (teaser) mortgages	240	248	6	6	—	—
Total higher-risk mortgage loans	$ 3,068	$ 3,195	$ 136	$ 153	$ —	$ —

(a) The majority of the interest-only mortgage loans are expected to start principal amortization in 2015 or beyond.

The allowance for loan losses was $153 million or 4.98% of total higher-risk held-for-investment mortgage loans recorded at historical cost based on carrying value outstanding before allowance for loans losses at March 31, 2012 .

The following table includes our five largest state concentrations based on our higher-risk mortgage finance receivables and loans recorded at historical cost and reported at carrying value before allowance for loan losses.

($ in millions)	Interest-only mortgage loans	Below-market rate (teaser) mortgages	All higher-risk mortgage loans
March 31, 2012			
California	$ 708	$ 76	$ 784
Virginia	270	11	281
Maryland	208	6	214
Michigan	194	8	202
Illinois	148	7	155
Other United States	1,300	132	1,432
Total higher-risk mortgage loans	$ 2,828	$ 240	$ 3,068
December 31, 2011			
California	$ 748	$ 78	$ 826
Virginia	274	10	284
Maryland	217	6	223
Michigan	199	9	208
Illinois	153	8	161
Other United States	1,356	137	1,493
Total higher-risk mortgage loans	$ 2,947	$ 248	$ 3,195

Management's Discussion and Analysis

Commercial Credit Portfolio

During the three months ended March 31, 2012 , the credit performance of the commercial portfolio improved as nonperforming finance receivables and loans and net charge-offs declined. For information on our commercial credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

The following table includes total commercial finance receivables and loans reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
($ in millions)	**March 31, 2012**	December 31, 2011	**March 31, 2012**	December 31, 2011	**March 31, 2012**	December 31, 2011
Domestic						
Commercial and industrial						
Automobile	**$ 28,197**	$ 26,552	**$ 109**	$ 105	**$ —**	$ —
Mortgage	**1,377**	1,887	**—**	—	**—**	—
Other (c)	**1,204**	1,178	**21**	22	**—**	—
Commercial real estate						
Automobile	**2,372**	2,331	**49**	56	**—**	—
Mortgage	**—**	—	**—**	—	**—**	—
Total domestic	**33,150**	31,948	**179**	183	**—**	—
Foreign						
Commercial and industrial						
Automobile	**8,407**	8,265	**65**	118	**—**	—
Mortgage	**26**	24	**26**	—	**—**	—
Other (c)	**56**	63	**12**	15	**—**	—
Commercial real estate						
Automobile	**160**	154	**5**	11	**—**	—
Mortgage	**15**	14	**15**	12	**—**	—
Total foreign	**8,664**	8,520	**123**	156	**—**	—
Total commercial finance receivables and loans	**$ 41,814**	$ 40,468	**$ 302**	$ 339	**$ —**	$ —

(a) Includes nonaccrual troubled debt restructured loans of $52 million and $21 million at March 31, 2012, and December 31, 2011, respectively.
(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at March 31, 2012 and December 31, 2011.
(c) Other commercial primarily includes senior secured commercial lending.

Total commercial finance receivables and loans outstanding increased $1.3 billion to $41.8 billion at March 31, 2012, from December 31, 2011. Commercial and industrial outstandings increased $1.3 billion primarily due to increased automotive industry sales and corresponding rise in inventories partially offset by mortgage warehouse lending declines in line utilization due to seasonality.

Total commercial nonperforming finance receivables and loans were $302 million at March 31, 2012, a decrease of $37 million compared to December 31, 2011, primarily due to improvement in dealer performance and continued wind-down on non-core commercial assets. Total nonperforming commercial finance receivables and loans as a percentage of outstanding commercial finance receivables and loans were 0.7% and 0.8% at March 31, 2012, and December 31, 2011, respectively.

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Management's Discussion and Analysis

The following table includes total commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Three months ended March 31,			
	Net charge-offs (recoveries)		Net charge-off ratios (a)	
($ in millions)	2012	2011	2012	2011
Domestic				
Commercial and industrial				
Automobile	$ —	$ 2	— %	n/m
Mortgage	—	2	—	0.8
Other	(5)	(2)	(1.5)	(0.5)
Commercial real estate				
Automobile	—	(1)	—	(0.2)
Mortgage	—	(1)	—	n/m
Total domestic	(5)	—	(0.1)	—
Foreign				
Commercial and industrial				
Automobile	—	2	—	0.1
Mortgage	—	1	—	9.7
Other	(4)	3	(28.8)	4.3
Commercial real estate				
Automobile	—	—	—	—
Mortgage	(1)	14	(22.6)	78.4
Total foreign	(5)	20	(0.2)	0.9
Total commercial finance receivables and loans	$ (10)	$ 20	(0.1)	0.2

n/m = not meaningful
(a) Net charge-off ratios are calculated as annualized net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Our net charge-offs from commercial finance receivables and loans resulted in recoveries of $10 million for the three months ended March 31, 2012, compared to net charge-offs of $20 million for the same period in 2011. The decrease in net charge-offs were largely driven by an improved mix of loans in the existing portfolio and strong recoveries in certain wind-down portfolios.

Commercial Real Estate

The commercial real estate portfolio consists of finance receivables and loans issued primarily to automotive dealers. Commercial real estate finance receivables and loans remained flat at $2.5 billion at March 31, 2012, and December 31, 2011.

The following table presents the percentage of total commercial real estate finance receivables and loans by geographic region and property type. These finance receivables and loans are reported at carrying value before allowance for loan losses.

	March 31, 2012	December 31, 2011
Geographic region		
Michigan	**12.7%**	14.1%
Texas	**12.5**	12.4
Florida	**12.4**	12.4
California	**9.4**	9.3
Virginia	**4.0**	4.1
New York	**3.3**	3.5
Pennsylvania	**2.9**	2.9
Alabama	**2.5**	2.6
Georgia	**2.5**	2.5
North Carolina	**2.1**	2.1
Other United States	**28.9**	27.5
Canada	**3.8**	3.5
United Kingdom	**1.7**	1.8
Mexico	**1.0**	1.0
Other foreign	**0.3**	0.3
Total commercial real estate finance receivables and loans	**100.0%**	100.0%
Property type		
Automotive dealers	**99.4%**	99.4%
Other	**0.6**	0.6
Total commercial real estate finance receivables and loans	**100.0%**	100.0%

Commercial Criticized Exposure

Finance receivables and loans classified as special mention, substandard, or doubtful are deemed criticized. These classifications are based on regulatory definitions and generally represent finance receivables and loans within our portfolio that have a higher default risk or have already defaulted. These finance receivables and loans require additional monitoring and review including specific actions to mitigate our potential economic loss.

The following table presents the percentage of total commercial criticized finance receivables and loans by industry concentrations. These finance receivables and loans are reported at carrying value before allowance for loan losses.

	March 31, 2012	December 31, 2011
Industry		
Automotive	**83.0%**	82.9%
Banks and finance companies	**4.3**	4.2
Real Estate	**3.6**	4.5
Other	**9.1**	8.4
Total commercial criticized finance receivables and loans	**100.0%**	100.0%

Total criticized exposures declined $97 million to $3.0 billion at March 31, 2012 from December 31, 2011, primarily due to improvements in the automotive industry as well as the continued wind-down of commercial assets in the real estate industry.

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Allowance for Loan Losses

The following tables present an analysis of the activity in the allowance for loan losses on finance receivables and loans.

Three months ended March 31, 2012 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2012	$ 766	$ 516	$ 1,282	$ 221	$1,503
Charge-offs					
Domestic	(100)	(45)	(145)	(2)	(147)
Foreign	(36)	—	(36)	—	(36)
Total charge-offs	(136)	(45)	(181)	(2)	(183)
Recoveries					
Domestic	46	2	48	7	55
Foreign	16	—	16	5	21
Total recoveries	62	2	64	12	76
Net charge-offs	(74)	(43)	(117)	10	(107)
Provision for loan losses	133	28	161	(21)	140
Other	7	—	7	3	10
Allowance at March 31, 2012	$ 832	$ 501	$ 1,333	$ 213	$1,546
Allowance for loan losses to finance receivables and loans outstanding at March 31, 2012 (a)	1.2%	5.0%	1.7%	0.5 %	1.3%
Net charge-offs to average finance receivables and loans outstanding at March 31, 2012 (a)	0.5%	1.7%	0.6%	(0.1)%	0.4%
Allowance for loan losses to total nonperforming finance receivables and loans at March 31, 2012 (a)	339.2%	168.2%	245.4%	70.5 %	182.9%
Ratio of allowance for loans losses to net charge-offs at March 31, 2012	2.8	2.9	2.9	(5.4)	3.6

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

Three months ended March 31, 2011 ($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2011	$ 970	$ 580	$ 1,550	$ 323	$1,873
Charge-offs					
Domestic	(139)	(60)	(199)	(6)	(205)
Foreign	(42)	—	(42)	(31)	(73)
Total charge-offs	(181)	(60)	(241)	(37)	(278)
Recoveries					
Domestic	50	3	53	6	59
Foreign	19	—	19	11	30
Total recoveries	69	3	72	17	89
Net charge-offs	(112)	(57)	(169)	(20)	(189)
Provision for loan losses	53	40	93	20	113
Other	5	—	5	4	9
Allowance at March 31, 2011	$ 916	$ 563	$ 1,479	$ 327	$1,806
Allowance for loan losses to finance receivables and loans outstanding at March 31, 2011 (a)	1.6%	5.3%	2.2%	0.8%	1.7%
Net charge-offs to average finance receivables and loans outstanding at March 31, 2011 (a)	0.8%	2.1%	1.0%	0.2%	0.7%
Allowance for loan losses to total nonperforming finance receivables and loans at March 31, 2011 (a)	488.9%	136.7%	246.7%	50.7%	145.2%
Ratio of allowance for loans losses to net charge-offs at March 31, 2011	2.0	2.5	2.2	4.1	2.4

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

Management's Discussion and Analysis

The allowance for consumer loan losses at March 31, 2012, declined $146 million compared to March 31, 2011. The decline reflected overall improved credit quality of newer vintages combined with the run-off of legacy vintages, which was partially offset by an increase in loans outstanding.

The allowance for commercial loan losses declined $114 million at March 31, 2012, compared to March 31, 2011, primarily related to ongoing strength in dealer performance and the continued wind-down of non-core commercial assets.

Allowance for Loan Losses by Type

The following table summarizes the allocation of the allowance for loan losses by product type.

	2012			2011		
March 31, (*$ in millions*)	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses
Consumer						
Domestic						
Consumer automobile	$ 628	1.3%	40.6%	$ 727	1.8%	40.2%
Consumer mortgage						
1st Mortgage	262	3.8	16.9	304	4.4	16.8
Home equity	236	7.8	15.3	258	7.7	14.3
Total domestic	1,126	1.9	72.8	1,289	2.6	71.3
Foreign						
Consumer automobile	204	1.1	13.2	189	1.1	10.5
Consumer mortgage						
1st Mortgage	3	38.6	0.2	1	0.3	0.1
Home equity	—	—	—	—	—	—
Total foreign	207	1.2	13.4	190	1.1	10.6
Total consumer loans	1,333	1.7	86.2	1,479	2.2	81.9
Commercial						
Domestic						
Commercial and industrial						
Automobile	62	0.2	4.0	70	0.3	3.9
Mortgage	1	—	0.1	—	—	—
Other	49	4.1	3.2	92	5.7	5.1
Commercial real estate						
Automobile	35	1.5	2.2	54	2.6	3.0
Mortgage	—	—	—	—	—	—
Total domestic	147	0.4	9.5	216	0.7	12.0
Foreign						
Commercial and industrial						
Automobile	46	0.5	3.0	63	0.7	3.5
Mortgage	11	43.8	0.7	15	37.0	0.8
Other	1	1.2	0.1	28	9.3	1.5
Commercial real estate						
Automobile	3	1.7	0.2	2	0.8	0.1
Mortgage	5	34.3	0.3	3	6.4	0.2
Total foreign	66	0.8	4.3	111	1.1	6.1
Total commercial loans	213	0.5	13.8	327	0.8	18.1
Total allowance for loan losses	$ 1,546	1.3	100.0%	$ 1,806	1.7	100.0%

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Provision for Loan Losses

The following table summarizes the provision for loan losses by product type.

	Three months ended March 31,	
($ in millions)	2012	2011
Consumer		
Domestic		
Consumer automobile	$ 83	$ 46
Consumer mortgage		
1st Mortgage	10	17
Home equity	18	23
Total domestic	111	86
Foreign		
Consumer automobile	50	7
Consumer mortgage		
1st Mortgage	—	—
Home equity	—	—
Total foreign	50	7
Total consumer loans	161	93
Commercial		
Domestic		
Commercial and industrial		
Automobile	—	—
Mortgage	—	1
Other	(7)	(8)
Commercial real estate		
Automobile	(5)	(1)
Mortgage	—	—
Total domestic	(12)	(8)
Foreign		
Commercial and industrial		
Automobile	(4)	31
Mortgage	—	1
Other	(4)	(9)
Commercial real estate		
Automobile	—	—
Mortgage	(1)	5
Total foreign	(9)	28
Total commercial loans	(21)	20
Total provision for loan losses	$ 140	$ 113

Management's Discussion and Analysis

Market Risk

Our automotive financing, mortgage, and insurance activities give rise to market risk representing the potential loss in the fair value of assets or liabilities and earnings caused by movements in market variables, such as interest rates, foreign-exchange rates, equity prices, market perceptions of credit risk, and other market fluctuations that affect the value of securities and assets held-for-sale. We are primarily exposed to interest rate risk arising from changes in interest rates related to financing, investing, and cash management activities. More specifically, we have entered into contracts to provide financing, to retain mortgage servicing rights, and to retain various assets related to securitization activities all of which are exposed in varying degrees to changes in value due to movements in interest rates. Interest rate risk arises from the mismatch between assets and the related liabilities used for funding. We enter into various financial instruments, including derivatives, to maintain the desired level of exposure to the risk of interest rate fluctuations. Refer to Note 19 to the Condensed Consolidated Financial Statements for further information.

We are also exposed to foreign-currency risk arising from the possibility that fluctuations in foreign-exchange rates will affect future earnings or asset and liability values related to our global operations. We enter into hedges to mitigate foreign exchange risk.

We also have exposure to equity price risk, primarily in our Insurance operations, which invests in equity securities that are subject to price risk influenced by capital market movements. We enter into equity options to economically hedge our exposure to the equity markets.

Although the diversity of our activities from our complementary lines of business may partially mitigate market risk, we also actively manage this risk. We maintain risk management control systems to monitor interest rates, foreign-currency exchange rates, equity price risks, and any of their related hedge positions. Positions are monitored using a variety of analytical techniques including market value, sensitivity analysis, and value at risk models.

Since December 31, 2011 , there have been no material changes in these market risks. Refer to our Annual Report on Form 10-K for the year ended December 31, 2011 , Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further discussion on value at risk and sensitivity analysis.

Liquidity Management, Funding, and Regulatory Capital

Overview

The purpose of liquidity management is to ensure our ability to meet changes in loan and lease demand, debt maturities, deposit withdrawals, and other cash commitments under both normal operating conditions as well as periods of economic or financial stress. Our primary objective is to maintain cost-effective, stable and diverse sources of funding capable of sustaining the organization throughout all market cycles. Sources of liquidity include both retail and brokered deposits and secured and unsecured market-based funding across various maturity, interest rate, currency, and investor profiles. Further liquidity is available through a pool of unencumbered highly liquid securities, borrowing facilities, whole-loan asset sales, repurchase agreements, as well as funding programs supported by the Federal Reserve and the Federal Home Loan Bank of Pittsburgh (FHLB).

We define liquidity risk as the risk that an institution's financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its financial obligations, and to withstand unforeseen liquidity stress events. Liquidity risk can arise from a variety of institution specific or market-related events that could negatively impact the cash flows available to the organization. Effective management of liquidity risk helps ensure an organization's ability to meet cash flow obligations that are uncertain as they are affected by external events. The ability of financial institutions to manage liquidity needs and contingent funding exposures has proven essential to the solvency of these same financial institutions.

The Asset-Liability Committee (ALCO) is chaired by the Corporate Treasurer and is responsible for monitoring Ally's liquidity position, funding strategies and plans, contingency funding plans, and counterparty credit exposure arising from financial transactions. Corporate Treasury is responsible for managing the liquidity positions of Ally within prudent operating guidelines and targets approved by ALCO. We manage liquidity risk at the business segment, legal entity, and consolidated levels. Each business segment, along with Ally Bank and ResMor Trust, prepares periodic forecasts depicting anticipated funding needs and sources of funds with oversight and monitoring by Corporate Treasury. Corporate Treasury manages liquidity under baseline projected economic scenarios as well as more severe economically stressed environments. Corporate Treasury, in turn, plans, and executes our funding strategies.

Ally uses multiple measures to frame the level of liquidity risk, manage the liquidity position, or identify related trends as early warning indicators. These measures include coverage ratios that measure the sufficiency of the liquidity portfolio and stability ratios that measure longer- term structural liquidity. In addition, we have established several internal management routines designed to review all aspects of liquidity and funding plans, evaluate the adequacy of liquidity buffers, review stress testing results, and assist senior management in the execution of its structured funding strategy and risk management accountabilities.

We maintain available liquidity in the form of cash, unencumbered highly liquid securities, and available credit facility capacity that, taken together, are intended to allow us to operate and to meet our contractual and contingent obligations in the event of market-wide disruptions and enterprise-specific events. We maintain available liquidity at various entities and consider regulatory restrictions and tax implications that may limit our ability to transfer funds across entities. At March 31, 2012, we maintained $24.5 billion of total available parent company liquidity and $13.5 billion of total available liquidity at Ally Bank. Parent company liquidity is defined as our consolidated operations less our Insurance operations, ResCap, and Ally Bank. To optimize cash and secured facility capacity between entities, the parent company lends cash to Ally Bank from time to time under an intercompany loan agreement. At March 31, 2012, $3.0 billion was outstanding under the intercompany loan agreement. Amounts outstanding are repayable to the parent company upon demand, subject to five days notice. As a result, this amount is included in the parent company available liquidity and excluded from the available liquidity at Ally Bank in the above amounts.

In December 2010, the Basel Committee on Banking Supervision issued "Basel III: International framework for liquidity risk measurement, standards and monitoring", which includes two minimum liquidity risk standards. The first standard is the Liquidity Coverage Ratio (LCR). The LCR measures the ratio of unencumbered, high-quality liquid assets to liquidity needs for a 30-calendar-day time horizon under a severe liquidity stress scenario. The second standard is the Net Stable Funding Ratio (NSFR). The NSFR measures the ratio of stable funding with a maturity greater than one year to the liquidity characteristics of assets plus contingent exposures. The Basel Committee on Banking Supervision expects the LCR to be implemented beginning in January 2015 and the NSFR beginning in January 2018. We continue to monitor the potential impacts of these developments and expect to be able to meet the final requirements.

Funding Strategy

Our liquidity and ongoing profitability are largely dependent on our timely access to funding and the costs associated with raising funds in different segments of the capital markets and raising deposits. We continue to be focused on maintaining and enhancing our liquidity. Our funding strategy largely focuses on the development of diversified funding sources across a global investor base to meet all our liquidity needs throughout different market cycles, including periods of financial distress. These funding sources include unsecured debt capital markets, public and private asset-backed securitizations, whole-loan asset sales, domestic and international committed and uncommitted credit facilities, brokered certificates of deposits, and retail deposits. We also supplement these sources with a modest amount of short-term borrowings, including Demand Notes, unsecured bank loans, and repurchase arrangements. The diversity of our funding sources enhances funding flexibility, limits dependence on any one source, and results in a more cost-effective funding strategy over the long term. We evaluate funding markets on an ongoing basis to achieve an appropriate balance of unsecured and secured funding sources and the maturity profiles of both. In addition, we further distinguish our funding strategy between Ally Bank funding and parent company or nonbank funding.

The FDIC indicated that it expected us to diversify Ally Bank's overall funding in order to reduce reliance on any one source of funding

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and to achieve a well-balanced funding portfolio across a spectrum of risk, duration, and cost of funds characteristics. Over the past few years, we have been focused on diversifying our funding sources, in particular at Ally Bank by expanding public and private securitization programs, extending the maturity profile of our brokered deposit portfolio while not exceeding a $10 billion portfolio, establishing repurchase agreements, and continuing to access funds from the Federal Home Loan Banks.

Since 2009, we have been directing new bank-eligible assets in the United States to Ally Bank in order to reduce and minimize our nonbanking exposures and funding requirements and utilize our growing consumer deposit-taking capabilities. This has allowed us to use bank funding for a wider array of our automotive finance assets and to provide a sustainable long-term funding channel for the business, while also improving the cost of funds for the enterprise.

Ally Bank

Ally Bank raises deposits directly from customers through the direct banking channel via the internet and over the telephone. These deposits provide our automotive finance and mortgage loan operations with a stable and low-cost funding source. At March 31, 2012, Ally Bank had $41.5 billion of total external deposits, including $29.3 billion of retail deposits.

At March 31, 2012, Ally Bank maintained cash liquidity of $4.4 billion and highly liquid U.S. federal government and U.S. agency securities of $5.4 billion, excluding certain securities that were encumbered at March 31, 2012. In addition, at March 31, 2012, Ally Bank had unused capacity in committed secured funding facilities of $6.7 billion, including an equal allocation of shared unused capacity of $3.8 billion from a facility also available to the parent company. Our ability to access this unused capacity depends on having eligible assets to collateralize the incremental funding and, in some instances, the execution of interest rate hedges.

Maximizing bank funding continues to be a key part of our long-term liquidity strategy. We have made significant progress in migrating assets to Ally Bank and growing our retail deposit base since becoming a bank holding company in December 2008. Retail deposit growth is key to further reducing our cost of funds and decreasing our reliance on the capital markets. We believe deposits provide a low-cost source of funds that are less sensitive to interest rate changes, market volatility, or changes in our credit ratings when compared to other funding sources. We have continued to expand our deposit gathering efforts through our direct and indirect marketing channels. Current retail product offerings consist of a variety of savings products including certificates of deposits (CDs), savings accounts, money market accounts, IRA deposit products, as well as an online checking product. In addition, we utilize brokered deposits, which are obtained through third-party intermediaries. In the first three months of 2012, the deposit base at Ally Bank grew $1.9 billion, ending the quarter at $41.5 billion from $39.6 billion at December 31, 2011. The growth in deposits has been primarily attributable to our retail deposit portfolio. Strong retention rates continue to materially contribute to our growth in retail deposits. In the first quarter of 2012, we retained 91% of maturing CD balances up for renewal in the same period. In addition to retail and brokered deposits, Ally Bank had access to funding through a variety of other sources including FHLB advances, public securitizations, private secured funding arrangements, and the Federal Reserve's Discount Window. At March 31, 2012, debt outstanding from the FHLB totaled $5.0 billion with no debt outstanding from the Federal Reserve. Also, as part of our liquidity and funding plans, Ally Bank utilizes certain securities as collateral to access funding from repurchase agreements with third parties. Repurchase agreements are generally short-term. Funding from repurchase agreements is accounted for as debt on our Condensed Consolidated Balance Sheet. At March 31, 2012, Ally Bank had $561 million of debt outstanding under repurchase agreements.

Refer to Note 13 to the Condensed Consolidated Financial Statements for a summary of deposit funding by type.

The following table shows Ally Bank's number of accounts and deposit balances by type as of the end of each quarter since 2011.

($ in millions)	**1st Quarter 2012**	4th Quarter 2011	3rd Quarter 2011	2nd Quarter 2011	1st Quarter 2011
Number of retail accounts	**1,036,468**	976,877	919,670	851,991	798,622
Deposits					
Retail	$ **29,323**	$ 27,685	$ 26,254	$ 24,562	$ 23,469
Brokered	**9,884**	9,890	9,911	9,903	9,836
Other (a)	**2,314**	2,029	2,704	2,405	2,064
Total deposits	$ **41,521**	$ 39,604	$ 38,869	$ 36,870	$ 35,369

(a) Other deposits include mortgage escrow and other deposits (excluding intercompany deposits).

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance our Ally Bank automotive loan portfolios. During the first quarter of 2012 , Ally Bank completed three public term securitization transactions and raised $4.2 billion of secured funding backed by retail automotive loans as well as dealer floorplan automotive loans. Continued structural efficiencies in securitizations combined with improving capital market conditions have resulted in a reduction in the cost of funds achieved through secured funding transactions, making them a very attractive source of funding. Additionally, for retail automotive loans and leases, the term structure of the transaction locks in funding for a specified pool of loans and leases for the life of the underlying asset making a very effective funding program. We manage the execution risk arising from secured funding by maintaining a diverse investor base and maintaining capacity in our committed secured facilities. At March 31, 2012 , Ally Bank had exclusive access to $9.5 billion of funding capacity from committed credit facilities. Ally Bank also had access to a $3.9 billion committed facility that is shared with the parent company.

Nonbank Funding

At March 31, 2012, the parent company maintained cash liquidity in the amount of $6.8 billion and available liquidity from unused capacity in committed credit facilities of $14.5 billion, including an equal allocation of shared unused capacity of $3.8 billion from a facility also available to Ally Bank. Parent company funding is defined as our consolidated operations less our Insurance operations, ResCap, and Ally Bank. The unused capacity amount at March 31, 2012 also includes $2.5 billion of availability that is sourced from certain committed funding arrangements generally reliant upon the origination of future automotive receivables over the next twelve months. Our ability to access unused capacity in secured facilities depends on the availability of eligible assets to collateralize the incremental funding and, in some instances, the execution of interest rate hedges. Funding sources at the parent company generally consist of longer-term unsecured debt, committed credit facilities, asset-backed securitizations, and a modest amount of short-term borrowings.

In the first three months of 2012, we completed a total of $1.0 billion in funding through the debt capital markets. We will continue to access the unsecured debt capital markets on an opportunistic basis to help pre-fund upcoming debt maturities. In addition, we have short-term and long-term unsecured debt outstanding from a retail debt program known as SmartNotes. SmartNotes are generally fixed-rate instruments with fixed-maturity dates ranging from 9 months to 30 years that we have issued through a network of participating broker-dealers. There were $8.9 billion and $9.0 billion of SmartNotes outstanding at March 31, 2012, and December 31, 2011, respectively.

We also obtain unsecured funding from the sale of floating-rate demand notes under our Demand Notes program. The holder has the option to require us to redeem these notes at any time without restriction. Demand Notes outstanding were $3.0 billion at March 31, 2012, compared to $2.8 billion at December 31, 2011. Unsecured short-term bank loans also provide short-term funding. At March 31, 2012, we had $5.0 billion in short-term unsecured debt outstanding, an increase of $0.5 billion from December 31, 2011. Refer to Note 14 and Note 15 to the Condensed Consolidated Financial Statements for additional information about our outstanding short-term borrowings and long-term unsecured debt, respectively.

Secured funding continues to be a significant source of financing at the parent company. In the first quarter, the parent company completed automotive-related transactions that included a $516 million public term securitization in Canada, the renewal and extension of $8.3 billion of committed secured funding capacity and the creation of incremental private secured funding capacity totaling $492 million. We continue to maintain significant funding capacity at the parent company to fund automotive-related assets, including a $7.5 billion syndicated facility that can fund U.S. and Canadian automotive retail and commercial loans, as well as leases. On March 19, 2012, this facility was renewed by a syndicate of nineteen lenders and extended such that half of the capacity will mature in March 2013 and the other half will mature in March 2014. In addition to this facility, there are a variety of others that provide funding in various countries. At March 31, 2012, the parent company had $27.5 billion of commitments globally in various facilities secured by automotive assets.

Recent Funding Developments

During the first three months of 2012, we completed funding transactions totaling $7 billion and we renewed key existing funding facilities as we realized access to both the public and private markets. Key funding highlights from 2012 were as follows:

- In February 2012, we accessed the unsecured debt capital markets for the first time since the first half of 2011 and raised $1.0 billion.
- In the first three months of 2012, we have continued to access the public asset backed securitization markets completing three U.S. transactions that raised $4.2 billion and a Canadian transaction that raised $516 million . Also, in April we completed a fourth U.S. transaction that provided an incremental $625 million of funding, as well as our first-ever public European dealer floorplan automotive securitization that raised $646 million .
- We created $492 million of new private capacity to fund automotive assets as well as $450 million of private funding capacity for mortgage servicer advances.
- We renewed and extended $16.4 billion of key automotive funding facilities and $508 million of private capacity that funds our Mortgage operations. The automotive facility renewal amount includes the March 2012 refinancing of $15.0 billion in credit facilities at both the parent company and Ally Bank with a syndicate of nineteen lenders. The $15.0 billion capacity is secured by retail, lease and dealer floorplan automotive assets and is allocated to two separate $7.5 billion facilities, one of which is available to the parent company and a Canadian subsidiary while the other is available to Ally Bank. After the refinancing, half of the capacity matures in March 2013 and the other half matures in March 2014.

Management's Discussion and Analysis

Funding Sources

The following table summarizes debt and other sources of funding and the amount outstanding under each category for the periods shown.

As a result of our funding strategy to maximize funding sources at Ally Bank and grow our retail deposit base, the percentage of funding sources from Ally Bank has increased in 2012 from 2011 levels. In addition, deposits represent a larger portion of the overall funding mix.

($ in millions)	Bank	Nonbank	Total	%
March 31, 2012				
Secured financings	$ 27,133	$ 24,933	$ 52,066	35
Institutional term debt	—	23,036	23,036	16
Retail debt programs (a)	—	14,289	14,289	10
Temporary Liquidity Guarantee Program (TLGP)	—	7,400	7,400	5
Bank loans and other	562	2,898	3,460	2
Total debt (b)	27,695	72,556	100,251	68
Deposits (c)	41,521	5,685	47,206	32
Total on-balance sheet funding	$ 69,216	$ 78,241	$ 147,457	100
Off-balance sheet securitizations				
Mortgage loans	$ —	$ 58,390	$ 58,390	
Total off-balance sheet securitizations	$ —	$ 58,390	$ 58,390	
December 31, 2011				
Secured financings	$ 25,533	$ 27,432	$ 52,965	37
Institutional term debt	—	22,456	22,456	15
Retail debt programs (a)	—	14,148	14,148	10
Temporary Liquidity Guarantee Program (TLGP)	—	7,400	7,400	5
Bank loans and other	1	2,446	2,447	2
Total debt (b)	25,534	73,882	99,416	69
Deposits (c)	39,604	5,446	45,050	31
Total on-balance sheet funding	$ 65,138	$ 79,328	$ 144,466	100
Off-balance sheet securitizations				
Mortgage loans	$ —	$ 60,630	$ 60,630	
Total off-balance sheet securitizations	$ —	$ 60,630	$ 60,630	

(a) Primarily includes $8.9 billion and $9.0 billion of Ally SmartNotes at March 31, 2012 and December 31, 2011, respectively.
(b) Excludes fair value adjustment as described in Note 15 to the Condensed Consolidated Financial Statements.
(c) Bank deposits include retail, brokered, mortgage escrow, and other deposits. Nonbank deposits include dealer wholesale deposits and deposits at ResMor Trust. Intercompany deposits are not included.

Refer to Note 15 to the Condensed Consolidated Financial Statements for a summary of the scheduled maturity of long-term debt at March 31, 2012.

Funding Facilities

We utilize both committed and uncommitted credit facilities. The financial institutions providing the uncommitted facilities are not contractually obligated to advance funds under them. The amounts outstanding under our various funding facilities are included on our Condensed Consolidated Balance Sheet.

The total capacity in our committed funding facilities is provided by banks and other financial institutions through private transactions. The committed secured funding facilities can be revolving in nature and allow for additional funding during the commitment period, or they can be amortizing and do not allow for any further funding after the closing date. At March 31, 2012, $32.5 billion of our $42.9 billion of committed capacity was revolving. Our revolving facilities generally have an original tenor ranging from 364 days to two years. As of March 31, 2012, we had $18.2 billion of committed funding capacity from revolving facilities with a remaining tenor greater than 364 days.

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Committed Funding Facilities

	Outstanding		Unused capacity (a)		Total capacity	
($ in billions)	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011
Bank funding						
Secured	$ **4.7**	$ 5.8	$ **4.8**	$ 3.7	$ **9.5**	$ 9.5
Nonbank funding						
Unsecured						
Automotive Finance operations	**0.5**	0.3	**0.4**	0.5	**0.9**	0.8
Secured						
Automotive Finance operations (b)	**13.9**	14.3	**13.6**	13.2	**27.5**	27.5
Mortgage operations	**0.9**	0.7	**0.2**	0.5	**1.1**	1.2
Total nonbank funding	**15.3**	15.3	**14.2**	14.2	**29.5**	29.5
Shared capacity (c)	**0.1**	1.6	**3.8**	2.5	**3.9**	4.1
Total committed facilities	$ **20.1**	$ 22.7	$ **22.8**	$ 20.4	$ **42.9**	$ 43.1

(a) Funding from committed secured facilities is available on request in the event excess collateral resides in certain facilities or is available to the extent incremental collateral is available and contributed to the facilities.
(b) Total unused capacity includes $4.0 billion as of March 31, 2012, and $4.9 billion as of December 31, 2011, from certain committed funding arrangements that are generally reliant upon the origination of future automotive receivables and that are available in 2012 and 2013.
(c) Funding is generally available for assets originated by Ally Bank or the parent company, Ally Financial Inc.

Uncommitted Funding Facilities

	Outstanding		Unused capacity		Total capacity	
($ in billions)	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011	**Mar. 31, 2012**	Dec. 31, 2011
Bank funding						
Secured						
Federal Reserve funding programs	$ **—**	$ —	$ **2.9**	$ 3.2	$ **2.9**	$ 3.2
FHLB advances	**5.0**	5.4	**0.3**	—	**5.3**	5.4
Repurchase agreements	**0.6**	—	**—**	—	**0.6**	—
Total bank funding	**5.6**	5.4	**3.2**	3.2	**8.8**	8.6
Nonbank funding						
Unsecured						
Automotive Finance operations	**2.2**	1.9	**0.4**	0.5	**2.6**	2.4
Secured						
Automotive Finance operations	**0.1**	0.1	**0.1**	0.1	**0.2**	0.2
Mortgage operations	**—**	—	**—**	0.1	**—**	0.1
Total nonbank funding	**2.3**	2.0	**0.5**	0.7	**2.8**	2.7
Total uncommitted facilities	$ **7.9**	$ 7.4	$ **3.7**	$ 3.9	$ **11.6**	$ 11.3

Ally Bank Funding Facilities

Facilities for Automotive Finance Operations — Secured

At March 31, 2012 , Ally Bank had exclusive access to $9.5 billion of funding capacity from committed credit facilities. Ally Bank's largest facility is a $7.5 billion revolving syndicated credit facility secured by automotive receivables. During the first quarter of 2012, we successfully renewed this facility with half of this facility maturing in March 2013, and the remainder maturing in March 2014. At March 31, 2012 , the amount outstanding under this facility was $3.9 billion . Ally Bank also had access to a $3.9 billion committed facility that is shared with the parent company. In the event these facilities are not renewed, the outstanding debt will be repaid over time as the underlying collateral amortizes.

Nonbank Funding Facilities

Facilities for Automotive Finance Operations — Unsecured

Revolving credit facilities — At March 31, 2012, we maintained $486 million of commitments in our U.S. unsecured revolving credit

Management's Discussion and Analysis

facility maturing June 2012. We also maintained $273 million of committed unsecured bank facilities in Canada and $113 million in Europe. The Canadian facilities expire in June 2012 and the European facilities expire in March 2013.

Facilities for Automotive Finance Operations — Secured

The parent company's largest facility is a $7.5 billion revolving syndicated credit facility secured by U.S. and Canadian automotive receivables. During the first quarter of 2012, we successfully renewed this facility with half of this facility maturing in March 2013, and the remainder maturing in March 2014. In the event this facility is not renewed at maturity, the outstanding debt will be repaid over time as the underlying collateral amortizes. At March 31, 2012, there was no debt outstanding under this facility. Subsequently, in early April, we borrowed $3.8 billion under this facility.

In addition to our syndicated revolving credit facility, we also maintain various bilateral and multilateral secured credit facilities in multiple countries that fund our Automotive Finance operations. These are primarily private securitization facilities that fund a specific pool of automotive assets. Many of the facilities have revolving commitments and allow for the funding of additional assets during the commitment period. At March 31, 2012, the parent company maintained exclusive access to $27.5 billion of committed secured credit facilities and forward purchase commitments to fund automotive assets, and also had access to a $3.9 billion committed facility that is shared with Ally Bank.

Facilities for Mortgage Operations — Secured

At March 31, 2012, we had capacity of $158 million to fund eligible mortgage servicing rights and capacity of $925 million to fund mortgage servicer advances.

Cash Flows

Net cash provided by operating activities was $2.1 billion for the three months ended March 31, 2012, compared to $3.0 billion for the same period in 2011. During the three months ended March 31, 2012, the net cash inflow from sales and repayment of mortgage and automotive loans held-for-sale exceeded cash outflow from new originations and purchases of such loans by $1.5 billion. During the three months ended March 31, 2011, this activity resulted in a net cash inflow of $3.2 billion.

Net cash used in investing activities was $4.1 billion for the three months ended March 31, 2012, compared to $3.6 billion for the same period in 2011. The net cash outflow from finance receivables and loans increased $0.2 billion for the three months ended March 31, 2012, compared to the same period in 2011. The cash outflow to purchase operating lease assets exceeded cash inflows from disposals of such assets by $1.0 billion for the three months ended March 31, 2012, compared to a net cash outflow of $51 million for the three months ended March 31, 2011. The increase in net cash outflows associated with leasing activities compared to the prior year was primarily due to a decrease in cash received on lease dispositions. Cash received from sales and maturities of available-for-sale investment securities, net of purchases, increased $0.9 billion during the three months ended March 31, 2012, compared to the same period in 2011.

Net cash provided by financing activities for the three months ended March 31, 2012, totaled $2.1 billion, compared to $2.2 billion in the same period in 2011. Cash generated from long-term debt issuances exceeded cash used to repay such debt by $0.7 billion for the three months ended March 31, 2012, compared to $0.6 billion for the same period in 2011.

Capital Planning and Stress Tests

As a bank holding company with $50 billion or more of consolidated assets, Ally is required to conduct periodic stress tests and submit a proposed capital action plan to the FRB every January, which the FRB must take action on by the following March. The proposed capital action plan must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution, and any similar action that the FRB determines could have an impact on Ally's consolidated capital. The proposed capital action plan must also include a discussion of how Ally will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common equity-to-total risk-weighted assets ratio of 5 percent, and serve as a source of strength to Ally Bank. The FRB must approve Ally's proposed capital action plan before Ally may take any proposed capital action covered by the new regime. Ally submitted its capital plan in January 2012, and on March 13, 2012, the FRB released its Comprehensive Capital Analysis and Review. The FRB objected to Ally's capital plan; however, the FRB did provide notice of non-objection to Ally's planned preferred dividends and interest on the trust preferred securities and subordinated debt. Ally will submit a revised capital plan in mid-June, as required. It is unknown whether the FRB will accept Ally's revised plan as submitted or require further revisions.

Regulatory Capital

Refer to Note 18 to the Condensed Consolidated Financial Statements.

Management's Discussion and Analysis

Credit Ratings

The cost and availability of unsecured financing are influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security, or obligation. Lower ratings result in higher borrowing costs and reduced access to capital markets. This is particularly true for certain institutional investors whose investment guidelines require investment-grade ratings on term debt and the two highest rating categories for short-term debt (particularly money market investors).

Nationally recognized statistical rating organizations rate substantially all our debt. The following table summarizes our current ratings and outlook by the respective nationally recognized rating agencies.

Rating agency	Short-term	Senior debt	Outlook	Date of last action
Fitch	B	BB-	Rating Watch Negative	April 18, 2012 (a)
Moody's	Not-Prime	B1	Stable	February 7, 2011 (b)
S&P	C	B+	Stable	May 4, 2011 (c)
DBRS	R-4	BB-Low	Positive	February 4, 2011 (d)

(a) Fitch placed our senior debt on Rating Watch Negative due to potential negative implications if ResCap were placed into bankruptcy and affirmed the short term rating of B on April 18, 2012.
(b) Moody's upgraded our senior debt rating to B1 from B3, affirmed the short-term rating of Not-Prime, and affirmed the outlook of Stable on February 7, 2011.
(c) Standard & Poor's upgraded our senior debt rating to B+ from B, affirmed the short-term rating of C, and affirmed the outlook of Stable on May 4, 2011.
(d) DBRS affirmed our senior debt rating of BB-Low, affirmed the short-term rating of R-4, and changed the outlook to Positive on February 4, 2011.

Off-balance Sheet Arrangements

Refer to Note 10 to the Condensed Consolidated Financial Statements .

Purchase Obligations

Certain of the structures related to whole-loan sales, securitization transactions, and other off-balance sheet activities contain provisions that are standard in the whole-loan sale and securitization markets where we may (or, in certain limited circumstances, are obligated to) purchase specific assets from entities. Our obligations are as follows.

Loan Repurchases and Obligations Related to Loan Sales

Overview

Certain mortgage companies (Mortgage Companies) within our Mortgage operations sell loans that take the form of securitizations guaranteed by the GSEs, securitizations to private investors, and to whole-loan investors. In connection with a portion of our Mortgage Companies' private-label securitizations, the monolines insured all or some of the related bonds and guaranteed timely repayment of bond principal and interest when the issuer defaults. In connection with securitizations and loan sales, the trustee for the benefit of the related security holders and, if applicable, the related monoline insurer, are provided various representations and warranties related to the loans sold. The specific representations and warranties vary among different transactions and investors but typically relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, the ability to deliver required documentation and compliance with applicable laws. In general, the representations and warranties described above may be enforced against the applicable Mortgage Companies at any time unless a sunset provision is in place. Upon discovery of a breach of a representation or warranty, the breach is corrected in a manner conforming to the provisions of the sale agreement. This may require the applicable Mortgage Companies to repurchase the loan, indemnify the investor for incurred losses, or otherwise make the investor whole. We have entered into settlement agreements with both Fannie Mae and Freddie Mac that, subject to certain exclusions, limit our remaining exposure with the GSEs. See Government-sponsored Enterprises below. ResCap assumes all of the customary mortgage representation and warranty obligations for loans purchased from Ally Bank and subsequently sold into the secondary market, generally through securitizations guaranteed by the GSEs. In the event ResCap fails to meet these obligations, Ally Financial Inc. has guaranteed Ally Bank coverage of certain of these liabilities.

Originations

The total exposure of the applicable Mortgage Companies to mortgage representation and warranty claims is most significant for loans originated and sold between 2004 through 2008, specifically the 2006 and 2007 vintages that were originated and sold prior to enhanced underwriting standards and risk-mitigation actions implemented in 2008 and forward. Since 2009, we have focused primarily on originating domestic prime conforming and government-insured mortgages. In addition, we ceased offering interest-only jumbo mortgages in 2010. Representation and warranty risk-mitigation strategies include, but are not limited to, pursuing settlements with investors where economically beneficial in order to resolve a pipeline of demands in lieu of loan-by-loan assessments that could result in repurchasing loans, aggressively contesting claims we do not consider valid (rescinding claims), or seeking recourse against correspondent lenders from whom we purchased loans wherever appropriate.

Management's Discussion and Analysis

The following table summarizes domestic mortgage loans sold with contractual representation and warranty obligations by the type of investor (original unpaid principal balance).

	Three months ended March 31,	Year ended December 31,							
($ in billions)	2012	2011	2010	2009	2008	2007	2006	2005	2004
GSEs									
Fannie Mae	$ 5.7	$ 33.9	$ 35.3	$ 21.2	$ 24.9	$ 31.6	$ 33.5	$ 31.8	$ 30.5
Freddie Mac	2.5	15.8	15.7	8.7	12.3	15.5	12.6	16.1	13.7
Ginnie Mae	1.9	8.1	16.2	24.9	12.5	3.2	3.6	4.2	4.8
Private-label securitizations									
Insured (monolines)	—	—	—	—	—	6.5	10.7	10.4	15.1
Uninsured	—	—	0.3	—	—	29.1	63.6	53.5	35.9
Whole-loan/other	0.1	0.4	1.6	0.1	2.2	8.2	23.9	17.4	10.9
Total sales	$ 10.2	$ 58.2	$ 69.1	$ 54.9	$ 51.9	$ 94.1	$ 147.9	$ 133.4	$ 110.9

Repurchase Process

After receiving a claim under representation and warranty obligations, the applicable Mortgage Companies will review the claim to determine the appropriate response (e.g. appeal and provide or request additional information) and take appropriate action (rescind, repurchase the loan, or remit indemnification payment). Historically, repurchase demands were generally related to loans that became delinquent within the first few years following origination. As a result of market developments over the past several years, investor repurchase demand behavior has changed significantly. GSEs and investors are more likely to submit claims for loans at any point in the loan's life cycle, including requests for loans that become delinquent or loans that incur a loss. Representation and warranty claims are generally reviewed on a loan-by-loan basis to validate if there has been a breach requiring a potential repurchase or indemnification payment. The applicable Mortgage Companies actively contest claims to the extent they are not considered valid. The applicable Mortgage Companies are not required to repurchase a loan or provide an indemnification payment where claims are not valid.

During the three months ended March 31, 2012, we experienced an increase in new claims compared to the same period in 2011, primarily due to an increase in repurchase requests relating to uninsured PLS. The following table presents new claims by vintage (original unpaid principal balance).

	Three months ended March 31,	
($ in millions)	2012	2011 (a)
2004 and prior period	$ 17	$ 7
2005	21	7
2006	95	15
2007	41	24
2008	44	25
Post 2008	35	53
Unspecified	—	2
Total claims	$ 253	$ 133

(a) Excludes certain populations where counterparties have requested additional documentation.

The risk of repurchase or indemnification and the associated credit exposure is managed through underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards. We believe that, in general, the longer a loan performs prior to default the less likely it is that an alleged breach of representation and warranty will be found to have a material and adverse impact on the loan's performance. When loans are repurchased, the applicable Mortgage Companies bear the related credit loss on the loans. Repurchased loans are classified as held-for-sale and initially recorded at fair value.

Management's Discussion and Analysis

The following table summarizes the unpaid principal balance on mortgage loans repurchased in connection with our representation and warranty obligations.

	Three months ended March 31,	
($ in millions)	2012	2011
GSEs	$ 19	$ 43
Private-label securitizations		
Insured (monolines)	4	—
Uninsured	—	—
Whole-loan/other	3	5
Total loan repurchases	$ 26	$ 48

The following table summarizes indemnification payments made in connection with our representation and warranty obligations.

	Three months ended March 31,	
($ in millions)	2012	2011
GSEs	$ 21	$ 15
Private-label securitizations		
Insured (monolines)	—	2
Uninsured	—	—
Whole-loan/other	6	—
Total indemnification payments	$ 27	$ 17

The following table presents the total number and original unpaid principal balance of loans related to unresolved representation and warranty demands (indemnification claims or repurchase demands). The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

	March 31, 2012		December 31, 2011 (a)	
($ in millions)	Number of loans	Original UPB of loans	Number of loans	Original UPB of loans
GSEs	457	$ 89	357	$ 71
Insured PLS (monolines)	7,314	491	7,314	490
MBIA	4,826	382	4,608	369
FGIC	937	70	730	58
Other	294	78	38	7
Uninsured PLS	561	85	475	74
Whole-loan/other				
Total number of loans and unpaid principal balance	14,389	$ 1,195	13,522	$ 1,069

(a) Excludes certain populations where counterparties have requested additional documentation.

We are currently in litigation with MBIA Insurance Corporation (MBIA) and Financial Guaranty Insurance Company (FGIC) with respect to certain of their private-label securitizations. Historically we have requested that most of the repurchase demands presented to us by both MBIA and FGIC be rescinded, consistent with the repurchase process described above. As the litigation process proceeds, additional loan reviews are expected and will likely result in additional repurchase demands.

Representation and Warranty Obligation Reserve Methodology

The liability for representation and warranty obligations reflects management's best estimate of probable lifetime losses at the applicable Mortgage Companies. We consider historical and recent demand trends in establishing the reserve. The methodology used to estimate the reserve considers a variety of assumptions including borrower performance (both actual and estimated future defaults), repurchase demand behavior, historical loan defect experience, historical mortgage insurance rescission experience, and historical and estimated future loss experience, which includes projections of future home price changes as well as other qualitative factors including investor behavior. In cases where we do not have or have limited current or historical demand experience with an investor, it is difficult to predict and estimate the level and timing of any potential future demands. In such cases, we may not be able to reasonably estimate losses, and a liability is not recognized. Management monitors the adequacy of the overall reserve and makes adjustments to the level of reserve, as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with counterparties.

At the time a loan is sold, an estimate of the fair value of the liability is recorded and classified in accrued expenses and other liabilities on our Condensed Consolidated Balance Sheet and recorded as a component of gain (loss) on mortgage and automotive loans, net, in our Condensed Consolidated Statement of Comprehensive Income . We recognize changes in the liability when additional relevant information becomes available. Changes in the estimate are recorded as other operating expenses in our Condensed Consolidated Statement of Comprehensive Income . The repurchase reserve at March 31, 2012 , relates primarily to non-GSE exposure.

Government-sponsored Enterprises

Between 2004 and 2008, the applicable Mortgage Companies sold $250.8 billion of loans to the GSEs. Each GSE has specific guidelines and criteria for sellers and servicers of loans underlying their securities. In addition, the risk of credit loss of the loan sold was generally transferred to investors upon sale of the securities into the secondary market. Conventional conforming loans were sold to either Freddie Mac or Fannie Mae, and government-insured loans were securitized with Ginnie Mae. For the three months ended March 31, 2012, the applicable Mortgage Companies received repurchase claims relating to $128 million of original unpaid principal balance of which $93 million are associated with the 2004 through 2008 vintages. The remaining $35 million in repurchase claims relate to post-2008 vintages. During the three months ended March 31, 2012 , the applicable Mortgage Companies resolved claims with respect to $110 million of original unpaid principal balance, including settlement, repurchase, or indemnification payments related to $60 million of original unpaid principal balance, and rescinded claims related to $50 million of original unpaid principal balance. The applicable Mortgage Companies' representation and warranty obligation liability with respect to the GSEs considers the existing unresolved claims and the best estimate of future claims that could be received. The Mortgage Companies consider their experience with the GSE in evaluating its liability. During 2010, we reached agreements with Freddie Mac and Fannie Mae that, subject to certain exclusions, limits the remaining exposure of the applicable Mortgage Companies to each counterparty.

In March 2010, certain of our Mortgage Companies entered into an agreement with Freddie Mac under which we made a one-time payment to Freddie Mac for the release of repurchase obligations relating to most of the mortgage loans sold to Freddie Mac prior to January 1, 2009. This agreement does not release obligations of the applicable Mortgage Companies with respect to exposure for private-label mortgage-backed securities (MBS) in which Freddie Mac had previously invested, loans where Ally Bank is the owner of the servicing, as well as defects in certain other specified categories of loans. Further, the applicable Mortgage Companies continue to be responsible for other contractual obligations we have with Freddie Mac, including all indemnification obligations that may arise in connection with the servicing of the mortgages. The total original unpaid principal balance of loans originated prior to January 1, 2009 and where Ally Bank was the owner of the servicing was $10.9 billion. For the three months ended March 31, 2012, the amount of losses taken on loans repurchased relating to defects where Ally Bank was the owner of the servicing was $5 million and the amount of losses taken on loans that we have repurchased relating to defects in the other specified categories was $2 million . These other specified categories include (i) loans subject to certain state predatory lending and similar laws; (ii) groups of 25 or more mortgage loans purchased, originated, or serviced by one of our mortgage subsidiaries, the purchase, origination, or sale of which all involve a common actor who committed fraud; (iii) "non-loan-level" representations and warranties which refer to representations and warranties that do not relate to specific mortgage loans (examples of such non-loan-level representations and warranties include the requirement that our mortgage subsidiaries meet certain standards to be eligible to sell or service loans for Freddie Mac or our mortgage subsidiaries sold or serviced loans for market participants that were not acceptable to Freddie Mac); and (iv) mortgage loans that are ineligible for purchase by Freddie Mac under its charter and other applicable documents. If, however, a mortgage loan was ineligible under Freddie Mac's charter solely because mortgage insurance was rescinded (rather than for example, because the mortgage loan is secured by a commercial property), and Freddie Mac required our mortgage subsidiary to repurchase that loan because of the ineligibility, Freddie Mac would pay our mortgage subsidiary any net loss we suffered on any later liquidation of that mortgage loan.

Certain of our Mortgage Companies received subpoenas in July 2010 from the Federal Housing Finance Agency (FHFA), which is the conservator of Fannie Mae and Freddie Mac. The subpoenas relating to Fannie Mae investments have been withdrawn with prejudice. The FHFA indicated that documents provided in response to the remaining subpoenas will enable the FHFA to determine whether they believe issuers of private-label MBS are potentially liable to Freddie Mac for losses they might have incurred. Although Freddie Mac has not brought any representation and warranty claims against us with respect to private-label securities subsequent to the settlement, they may well do so in the future. The FHFA has commenced securities and related common law fraud litigation against Ally and certain of our Mortgage Companies with respect to certain of Freddie Mac's private-label securities investments. Refer to the Legal Proceedings described in Note 24 to the Condensed Consolidated Financial Statements for additional information.

On December 23, 2010, certain of our mortgage subsidiaries entered into an agreement with Fannie Mae under which we made a one-time payment to Fannie Mae for the release of repurchase obligations related to most of the mortgage loans we sold to Fannie Mae prior to June 30, 2010. The agreement also covers potential exposure for private-label MBS in which Fannie Mae had previously invested. This agreement does not release the obligations of the applicable Mortgage Companies with respect to loans where Ally Bank is the owner of the servicing, as well as for defects in certain other specified categories of loans. Further, the applicable Mortgage Companies continue to be responsible for other contractual obligations they have with Fannie Mae, including all indemnification obligations that may arise in connection with the servicing of the mortgages, and the applicable Mortgage Companies continue to be obligated to indemnify Fannie Mae for litigation or third-party claims (including by borrowers) for matters that may amount to breaches of selling representations and warranties. The total original unpaid principal balance of loans originated prior to January 1, 2009 and where Ally Bank was the owner of the servicing was $24.4 billion . For the three months ended March 31, 2012 , the amount of losses we have taken on loans that we have repurchased relating to defects where Ally Bank was the owner of the servicing was $14 million and the amount of losses we have taken on loans that we have repurchased relating to defects in the other specified categories of loans was $10 million. These other specified categories include, among

Management's Discussion and Analysis

others, (i) those that violate anti-predatory laws or statutes or related regulations or that otherwise violate other applicable laws and regulations; (ii) those that have non-curable defects in title to the secured property, or that have curable title defects, to the extent our mortgage subsidiaries do not cure such defects at our subsidiary's expense; (iii) any mortgage loan in which title or ownership of the mortgage loan was defective; (iv) groups of 13 or more mortgage loans, the purchase, origination, sale, or servicing of which all involve a common actor who committed fraud; and (v) mortgage loans not in compliance with Fannie Mae Charter Act requirements (e.g., mortgage loans on commercial properties or mortgage loans without required mortgage insurance coverage). If a mortgage loan falls out of compliance with Fannie Mae Charter Act requirements because mortgage insurance coverage has been rescinded and not reinstated or replaced, upon the borrower's default our mortgage subsidiaries would have to pay to Fannie Mae the amount of insurance proceeds that would have been paid by the mortgage insurer with respect to such mortgage loan. If the amount of the loss exceeded the amount of insurance proceeds, Fannie Mae would be responsible for such excess.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our GSE exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

Three months ended March 31, (*$ in millions*)	**2012**	2011 (a)
Balance at January 1,	**$ 71**	$ 170
New claims	**128**	102
Resolved claims (b)	**(60)**	(133)
Rescinded claims/other	**(50)**	(41)
Balance at March 31,	**$ 89**	$ 98

(a) Excludes certain populations where counterparties have requested additional documentation.
(b) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

Private-label Securitizations (PLS)

In general, representations and warranties provided as part of our securitization activities are less rigorous than those provided to the GSEs and generally impose higher burdens on parties seeking repurchase. In order to successfully assert a claim, it is our position that a claimant must prove a breach of the representations and warranties that materially and adversely affects the interest of the investor in the allegedly defective loan. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate a repurchase claim. However, a class of investors generally is required to coordinate with other investors in that class comprising not less than 25%, and in some cases, 50%, of the percentage interest constituting a class of securities of that class issued by the trust to pursue claims for breach of representations and warranties. In addition, our private-label securitizations generally require that the servicer or trustee give notice to the other parties whenever it becomes aware of facts or circumstances that reveal a breach of representation that materially and adversely affects the interest of the certificate holders.

Regarding our securitization activities, certain of our Mortgage Companies have exposure to potential losses primarily through two avenues. First, investors, through trustees to the extent required by the applicable agreements (or monoline insurers in certain transactions), may request pursuant to applicable agreements that the applicable Mortgage Company repurchase loans or make the investor whole for losses incurred if it is determined that the applicable Mortgage Company violated representations and warranties made at the time of the sale, provided that such violations materially and adversely impacted the interests of the investor. Contractual representations and warranties are different based on the specific deal structure and investor. It is our position that litigation of these matters must proceed on a loan by loan basis. This issue is being disputed throughout the industry in various pending litigation matters. Similarly in dispute, as a matter of law, is the degree to which claimants will have to prove that the alleged breaches of representations and warranties actually caused the losses they claim to have suffered. Ultimate resolution by courts of these and other legal issues will impact litigation and treatment of non-litigated claims pursuant to similar contractual provisions. Second, investors in securitizations may attempt to achieve rescission of their investments or damages through litigation by claiming that the applicable offering documents were materially deficient. If an investor properly made and proved its allegations, the investor might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans.

Insured Private-label Securitizations (Monolines)

Historically, the applicable Mortgage Companies securitized loans where the monolines insured all or some of the related bonds and guaranteed the timely repayment of bond principal and interest when the issuer defaults. Typically, any alleged breach requires the insurer to have both the ability to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holders or the insurer. Generally, most claims in connection with private-label securitizations come from Monoline Insurers and continue to represent the majority of outstanding repurchase demands. For the period 2004 through 2007, the Mortgage Companies sold $42.7 billion of loans into these monoline-wrapped securitizations. During the three months ended March 31, 2012 , the Mortgage Companies received repurchase claims related to $28 million of original unpaid principal balance from the monolines associated with the 2004 through 2007 securitizations. The Mortgage Companies have resolved repurchase demands through indemnification payments related to $2 million of original unpaid principal balance.

We are currently in litigation with MBIA and FGIC, and additional litigation with other monolines is likely. Refer to Note 24 to the Condensed Consolidated Financial Statements for information with respect to pending litigation.

Management's Discussion and Analysis

The following table summarizes the changes in our original unpaid principal balance related to unresolved repurchase demands with respect to our monoline exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

Three months ended March 31, (*$ in millions*)	2012	2011 (a)
Balance at January 1,	$ 917	$ 661
New claims	28	14
Resolved claims (b)	(2)	(8)
Rescinded claims/other	—	—
Balance at March 31,	$ 943	$ 667

(a) Excludes certain populations where counterparties have requested additional documentation.
(b) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

The following table summarizes the original unpaid principal balance of our domestic insured private-label mortgage securitization activity issued from various shelf registration statements of our Mortgage Subsidiaries and its corresponding majority product type and current unpaid principal balance for securitizations completed during 2004 through 2007.

(*$ in billions*)	Original UPB	Current UPB at March 31, 2012	UPB at December 31, 2011
RFMSI (Prime)	$ 1.7	$ 0.5	$ 0.5
RALI (Option ARM and Alt-A)	1.4	0.6	0.6
RAMP (HELOC and Subprime)	26.5	6.0	6.3
RASC (Subprime)	3.6	0.6	0.6
RFMSII (HELOC)	9.5	2.0	2.1
Total	$ 42.7	$ 9.7	$ 10.1

Uninsured Private-label Securitizations

Historically, the applicable Mortgage Companies securitized loans where all or some of the related bonds were uninsured. These entities are required to make customary representations and warranties about the loans to the investor and/or securitization trust. Though particular application of the language is in dispute in various litigation, the contracts typically require claimants to demonstrate that an alleged breach of representations and warranties has had a material and adverse effect on the interest of the security holder. During the period 2004 through 2007, the Mortgage Companies sold $182.1 billion of loans into these uninsured private-label securitizations. Claims associated with uninsured PLS were historically self identified and constituted an immaterial portion of new claims. They historically were included within the Whole loan/other category. During the three months ended March 31, 2012, we received a repurchase request from a bond trustee with respect to one uninsured PLS deal for loans originated in 2006 relating to $70 million of original unpaid principal balance. The Mortgage Companies are currently reviewing this repurchase request.

The following table summarizes the changes in our original unpaid principal balance related to unresolved repurchase demands with respect to our uninsured PLS exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

Three months ended March 31, (*$ in millions*)	2012	2011 (a)
Balance at January 1,	$ 8	$ 3
New claims	75	3
Resolved claims (b)	(4)	—
Rescinded claims/other	(1)	—
Balance at March 31,	$ 78	$ 6

(a) Excludes certain populations where counterparties have requested additional documentation.
(b) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

Management's Discussion and Analysis

Historically, our Mortgage operations were very active in the securitization market, selling whole loans into special-purpose entities and selling these private-label MBS to investors. The following table summarizes the original unpaid principal balance of our domestic uninsured private-label mortgage securitization activity issued from various shelf registration statements of our Mortgage Subsidiaries and its corresponding majority product type and current unpaid principal balance for securitizations completed during 2004 through 2007.

($ in billions)	Original UPB		Current UPB at March 31, 2012	UPB at December 31, 2011
RFMSI (Prime)	$ 21.8		$ 7.9	$ 8.3
RALI (Option ARM and Alt-A)	66.7		25.4	26.2
RAMP (HELOC and Subprime)	55.9	(a)	12.5	12.9
RASC (Subprime)	36.8		7.8	8.0
RFMSII (HELOC)	0.9		0.2	0.3
Total	$ 182.1		$ 53.8	$ 55.7

(a) RAMP original unpaid principal balance comprises $37.7 billion subprime, $8.8 billion prime, and $9.4 billion other.

Whole-loan Sales

In addition to the settlements with the GSEs noted earlier, certain of our Mortgage Companies have settled with whole-loan investors concerning alleged breaches of underwriting standards. For the three months ended March 31, 2012, certain of our Mortgage Companies have received $22 million of original unpaid principal balance in repurchase claims, all of which are associated with the 2004 through 2008 vintages of loans sold to whole-loan investors. Certain of our Mortgage Companies resolved claims related to $10 million of original unpaid principal balance, including settlements, repurchases, indemnification payments, and rescinded claims.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our whole-loan sales exposure.

Three months ended March 31, (*$ in millions*)	2012	2011 (a)
Balance at January 1,	$ 73	$ 85
New claims	22	13
Resolved claims (b)	(6)	(7)
Rescinded claims/other	(4)	(24)
Balance at March 31,	$ 85	$ 67

(a) Excludes certain populations where counterparties have requested additional documentation.
(b) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

Private Mortgage Insurance

Mortgage insurance is required for certain consumer mortgage loans sold to the GSEs and certain securitization trusts and may have been in place for consumer mortgage loans sold to whole-loan investors. Mortgage insurance is typically required for first-lien consumer mortgage loans having a loan-to-value ratio at origination of greater than 80 percent. Mortgage insurers are, in certain circumstances, permitted to rescind existing mortgage insurance that covers consumer loans if they demonstrate certain loan underwriting requirements have not been met. Upon receipt of a rescission notice, the applicable Mortgage Companies will assess the notice and, if appropriate, refute the notice, or if the notice cannot be refuted, the applicable Mortgage Companies attempt to remedy the defect. In the event the mortgage insurance cannot be reinstated, the applicable Mortgage Companies may be obligated to repurchase the loan or provide an indemnification payment in the event of a loss, subject to contractual limitations. While the applicable Mortgage Companies make every effort to reinstate the mortgage insurance, they have had limited success and as a result, most of these requests result in rescission of the mortgage insurance. At March 31, 2012, the applicable Mortgage Companies have approximately $173 million in original unpaid principal balance of outstanding mortgage insurance rescission notices where we have not received a repurchase demand. However, this unpaid principal amount is not representative of expected future losses.

Private-label Mortgage-backed Securities Litigation, Repurchase Obligations, and Related Claims

We believe it is reasonably possible that losses beyond amounts currently reserved for the litigation matters described in Note 24 to the Condensed Consolidated Financial Statements and potential repurchase obligations and related claims with respect to our Mortgage Companies discussed above could occur, and such losses could have a material adverse impact on our results of operations, financial position, or cash flows. However, based on currently available information, we are unable to estimate a range of reasonably possible losses above reserves that have been established.

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Management's Discussion and Analysis

Critical Accounting Estimates

We identified critical accounting estimates that, as a result of judgments, uncertainties, uniqueness, and complexities of the underlying accounting standards and operations involved could result in material changes to our financial condition, results of operations, or cash flows under different conditions or using different assumptions.

Our most critical accounting estimates are as follows.

- Fair value measurements
- Allowance for loan losses
- Valuation of automobile lease assets and residuals
- Valuation of mortgage servicing rights
- Goodwill
- Determination of reserves for insurance losses and loss adjustment expenses
- Legal and regulatory reserves
- Loan repurchase and obligations related to loan sales
- Determination of provision for income taxes

As part of our quarterly assessment of critical accounting estimates, we concluded that in accordance with Accounting Standards Codification 740, *Income Taxes*, there was a change in the methodologies and processes used in developing the provision for income taxes from what was described in our 2011 Annual Report on Form 10-K. Refer to Note 1 to the Condensed Consolidated Financial Statements for further discussion regarding the methodology and process used in the determination of provision for income taxes. There have been no other significant changes in the methodologies and processes used in developing these estimates from what was described in our 2011 Annual Report on Form 10-K.

Fair Value of Financial Instruments

We use fair value measurements to record fair value adjustments to certain instruments and to determine fair value disclosures. Refer to Note 21 to the Condensed Consolidated Financial Statements for description of valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models, and significant assumptions utilized. We follow the fair value hierarchy set forth in Note 21 to the Condensed Consolidated Financial Statements in order to prioritize the inputs utilized to measure fair value. We review and modify, as necessary, our fair value hierarchy classifications on a quarterly basis. As such, there may be reclassifications between hierarchy levels.

The following table summarizes assets and liabilities measured at fair value and the amounts measured using Level 3 inputs. The table includes recurring and nonrecurring measurements.

($ in millions)	March 31, 2012	December 31, 2011
Assets at fair value	$ 26,568	$ 30,172
As a percentage of total assets	14%	16%
Liabilities at fair value	$ 5,092	$ 6,299
As a percentage of total liabilities	3%	4%
Assets at fair value using Level 3 inputs	$ 4,570	$ 4,666
As a percentage of assets at fair value	17%	15%
Liabilities at fair value using Level 3 inputs	$ 875	$ 878
As a percentage of liabilities at fair value	17%	14%

We have numerous internal controls in place to ensure the appropriateness of fair value measurements. Significant fair value measures are subject to detailed analytics and management review and approval. We have an established model validation policy and program in place that covers all models used to generate fair value measurements. This model validation program ensures a controlled environment is used for the development, implementation, and use of the models and change procedures. Further, this program uses a risk-based approach to select models to be reviewed and validated by an independent internal risk group to ensure the models are consistent with their intended use, the logic within the models is reliable, and the inputs and outputs from these models are appropriate. Additionally, a wide array of operational controls are in place to ensure the fair value measurements are reasonable, including controls over the inputs into and the outputs from the fair value measurement models. For example, we backtest the internal assumptions used within models against actual performance. We also monitor the market for recent trades, market surveys, or other market information that may be used to benchmark model inputs or outputs. Certain valuations will also be benchmarked to market indices when appropriate and available. We have scheduled model and/or input recalibrations that occur on a periodic basis but will recalibrate earlier if significant variances are observed as part of the backtesting or benchmarking noted above.

Considerable judgment is used in forming conclusions from market observable data used to estimate our Level 2 fair value measurements and in estimating inputs to our internal valuation models used to estimate our Level 3 fair value measurements. Level 3 inputs such as interest rate movements, prepayment speeds, credit losses, and discount rates are inherently difficult to estimate. Changes to these inputs can have a significant effect on fair value measurements. Accordingly, our estimates of fair value are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

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Management's Discussion and Analysis

Statistical Table

The accompanying supplemental information should be read in conjunction with the more detailed information, including our Condensed Consolidated Financial Statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Net Interest Margin Table

The following table presents an analysis of net interest margin excluding discontinued operations for the periods shown.

	2012			2011			Increase (decrease) due to (a)		
Three months ended March 31, (*$ in millions*)	Average balance (b)	Interest income/ interest expense	Yield/ rate	Average balance (b)	Interest income/ interest expense	Yield/ rate	Volume	Yield/Rate	Total
Assets									
Interest-bearing cash and cash equivalents	$ 10,641	$ 14	0.53%	$ 13,041	$ 12	0.37%	$ (2)	$ 4	$ 2
Trading assets	990	11	4.47	318	3	3.83	7	1	8
Investment securities (c)	13,704	79	2.32	14,591	98	2.72	(6)	(13)	(19)
Loans held-for-sale, net	7,754	73	3.79	8,877	84	3.84	(11)	—	(11)
Finance receivables and loans, net (d)	117,482	1,678	5.74	104,385	1,621	6.30	193	(136)	57
Investment in operating leases, net (e)	9,649	247	10.30	8,947	385	17.45	28	(166)	(138)
Total interest-earning assets	160,220	2,102	5.28	150,159	2,203	5.95	209	(310)	(101)
Noninterest-bearing cash and cash equivalents	2,004			1,032					
Other assets	23,796			24,898					
Allowance for loan losses	(1,528)			(1,864)					
Total assets	$ 184,492			$ 174,225					
Liabilities									
Interest-bearing deposit liabilities	$ 44,796	$ 186	1.67%	$ 38,156	$ 166	1.76%	$ 28	$ (8)	$ 20
Short-term borrowings	6,905	75	4.37	7,107	92	5.25	(3)	(14)	(17)
Long-term debt (f) (g) (h)	91,558	1,177	5.17	87,060	1,406	6.55	70	(299)	(229)
Total interest-bearing liabilities (f) (g) (i)	143,259	1,438	4.04	132,323	1,664	5.10	95	(321)	(226)
Noninterest-bearing deposit liabilities	2,141			2,017					
Total funding sources (g) (j)	145,400	1,438	3.98	134,340	1,664	5.02			
Other liabilities	19,612			19,473					
Total liabilities	165,012			153,813					
Total equity	19,480			20,412					
Total liabilities and equity	$ 184,492			$ 174,225					
Net financing revenue		$ 664			$ 539		$ 114	$ 11	$ 125
Net interest spread (k)			1.24%			0.85%			
Net interest spread excluding original issue discount (k)			1.60			1.86			
Net interest spread excluding original issue discount and including noninterest bearing deposit liabilities (k)			1.65			1.92			
Net yield on interest-earning assets (l)			1.67			1.46			
Net yield on interest-earning assets excluding original issue discount (l)			1.94			2.26			

(a) Changes in interest not solely due to volume or yield/rate are allocated in proportion to the absolute dollar amount of change in volume and yield/rate.
(b) Average balances are calculated using a combination of monthly and daily average methodologies.
(c) Excludes income on equity investments of $5 million during the three months ended March 31, 2012 and 2011, respectively. Yields on available-for-sale debt securities are based on fair value as opposed to historical cost.
(d) Nonperforming finance receivables and loans are included in the average balances. For information on our accounting policies regarding nonperforming status, refer to Note 1 to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.
(e) Includes gains on sale of $54 million and $120 million during the three months ended March 31, 2012 and 2011, respectively. Excluding these gains on sale, the annualized yield would be 8.04% and 12.01% at March 31, 2012 and 2011, respectively.
(f) Includes the effects of derivative financial instruments designated as hedges.
(g) Average balance includes $2,062 million and $3,000 million related to original issue discount at March 31, 2012 and 2011, respectively. Interest expense includes original issue discount amortization of $108 million and $299 million during the three months ended March 31, 2012 and 2011, respectively.
(h) Excluding original issue discount the rate on long-term debt was 4.59% and 4.99% at March 31, 2012 and 2011, respectively.
(i) Excluding original issue discount the rate on total interest-bearing liabilities was 3.68% and 4.09% at March 31, 2012 and 2011, respectively.
(j) Excluding original issue discount the rate on total funding sources was 3.63% and 4.03% at March 31, 2012 and 2011, respectively.
(k) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities.
(l) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.

Recently Issued Accounting Standards

Refer to Note 1 to the Condensed Consolidated Financial Statements.

Forward-looking Statements

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this Form 10-Q contain various forward-looking statements within the meaning of applicable federal securities laws, including the Private Securities Litigation Reform Act of 1995, that are based upon our current expectations and assumptions concerning future events that are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

The words "expect," "anticipate," "estimate," "forecast," "initiative," "objective," "plan," "goal," "project," "outlook," "priorities," "target," "intend," "evaluate," "pursue," "seek," "may," "would," "could," "should," "believe," "potential," "continue," or the negative of any of these words or similar expressions is intended to identify forward-looking statements. All statements herein, other than statements of historical fact, including without limitation statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties.

While these statements represent our current judgment on what the future may hold and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results, and Ally's actual results may differ materially due to numerous important factors that are described in the most recent reports on Forms 10-K and 10-Q for Ally, each of which may be revised or supplemented in subsequent reports on Forms 10-Q and 8-K. Such factors include, among others, the following: maintaining the mutually beneficial relationship between Ally and General Motors (GM), and Ally and Chrysler; the profitability and financial condition of GM and Chrysler; securing low-cost funding for us and Residential Capital, LLC (ResCap); our ability to realize the anticipated benefits associated with being a bank holding company, and the increased regulation and restrictions that we are now subject to; any impact resulting from delayed foreclosure sales or related matters; the potential for legal liability resulting from claims related to the sale of private-label mortgage-backed securities; risks related to potential repurchase obligations due to alleged breaches of representations and warranties in mortgage securitization transactions; changes in U.S. government-sponsored mortgage programs or disruptions in the markets in which our mortgage subsidiaries operate; continued challenges in the residential mortgage markets; the continuing negative impact on ResCap and our mortgage business generally due to the recent decline in the U.S. housing market; uncertainty of our ability to enter into transactions or execute strategic alternatives to realize the value of our ResCap operations; the potential for deterioration in the residual value of off-lease vehicles; disruptions in the market in which we fund our operations, with resulting negative impact on our liquidity; changes in our accounting assumptions that may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; changes in the credit ratings of Ally, ResCap, Chrysler, or GM; changes in economic conditions, currency exchange rates or political stability in the markets in which we operate; and changes in the existing or the adoption of new laws, regulations, policies or other activities of governments, agencies, and similar organizations (including as a result of the Dodd-Frank Act).

Use of the term "loans" describes products associated with direct and indirect lending activities of Ally's global operations. The specific products include retail installment sales contracts, loans, lines of credit, leases or other financing products. The term "originate" refers to Ally's purchase, acquisition, or direct origination of various "loan" products.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to the Market Risk section of Item 2, Management's Discussion and Analysis.

Controls and Procedures

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized, and reported within the specified time periods. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer (Principal Executive Officer) and Senior Executive Vice President of Finance and Corporate Planning (Principal Financial Officer), to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Ally have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 24 to the Condensed Consolidated Financial Statements (incorporated herein by reference) for a discussion related to our legal proceedings, which supplements the discussion of legal proceedings set forth in Note 31 to our 2011 Annual Report on Form 10-K.

Item 1A. Risk Factors

Other than with respect to the risk factor provided below, there have been no material changes to the Risk Factors described in our 2011 Annual Report on Form 10-K.

Risks Related to Our Business

There is substantial doubt about ResCap's ability to continue as a going concern, and ResCap is actively considering reorganization under bankruptcy laws.

ResCap may not be able to meet its debt service obligations. ResCap did not make a $20 million semi-annual interest payment that was due on April 17, 2012, related to $473 million of unsecured debt principal, which matures in 2013. Further, ResCap was in default on certain of its financial covenants as of December 31, 2011, due to insufficient equity levels, and it is possible that further defaults could occur in the future due to insufficient capital or liquidity.

ResCap remains heavily dependent on Ally and its affiliates for funding and capital support. While Ally has agreed to extend the maturity date for certain existing intercompany facilities on a short-term basis until May 14, 2012, there can be no assurance that Ally or its affiliates will continue any such support or that Ally will choose to execute any further strategic transactions with respect to ResCap or that any transactions undertaken will be successful.

ResCap is actively considering reorganization under bankruptcy laws. If this were to occur, we could incur significant charges, substantial litigation could result, and repayment of our credit exposure to ResCap could be at risk. We currently estimate a range of reasonably possible losses arising at the time of a ResCap bankruptcy filing, including our investment in ResCap, to be between $400 million and $1.25 billion. This estimated range is based on significant judgment and numerous assumptions that are subject to change, and which could be material.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the accompanying Index of Exhibits are filed as a part of this report. This Index is incorporated herein by reference.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this 27th day of April, 2012.

Ally Financial Inc.
(Registrant)

/s/ JEFFREY J. BROWN

Jeffrey J. Brown
Senior Executive Vice President of
Finance and Corporate Planning

/s/ DAVID J. DEBRUNNER

David J. DeBrunner
Vice President, Chief Accounting Officer, and
Corporate Controller

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INDEX OF EXHIBITS

Exhibit	Description	Method of Filing
10	Consent Judgment, dated March 12, 2012	Filed Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated as of March 14, 2012 (File No. 1-3754), incorporated herein by reference.
12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a)	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/ 15d-14(a)	Filed herewith.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Filed herewith.
101	Interactive Data File	Filed herewith.

Exhibit 12

Ally Financial Inc.

Ratio of Earnings to Fixed Charges

	Three months ended March 31,	Year ended December 31,				
($ in millions)	2012 (a)	2011 (a)	2010 (a)	2009 (a)	2008 (a)	2007 (a)
Earnings						
Consolidated net income (loss) from continuing operations	302	(112)	986	(6,983)	4,863	(1,950)
Income tax expense (benefit) from continuing operations	64	179	153	74	(150)	477
Equity-method investee distribution	—	—	—	—	111	65
Equity-method investee (earnings) losses	(29)	(87)	(57)	(10)	533	5
Minority interest expense	—	1	1	1	1	2
Consolidated income (loss) from continuing operations before income taxes, minority interest, and income or loss from equity investees	337	(19)	1,083	(6,918)	5,358	(1,401)
Fixed charges	1,419	6,298	6,743	7,017	10,041	13,592
Earnings available for fixed charges	1,756	6,279	7,826	99	15,399	12,191
Fixed charges						
Interest, discount, and issuance expense on debt	1,411	6,266	6,712	6,984	9,991	13,533
Portion of rentals representative of the interest factor	8	32	31	33	50	59
Total fixed charges	1,419	6,298	6,743	7,017	10,041	13,592
Preferred dividend requirements (b)	243	763	2,149	1,224	—	192
Total fixed charges and preferred dividend requirements	1,662	7,061	8,892	8,241	10,041	13,784
Ratio of earning to fixed charges (c)	1.24	0.99	1.16	0.01	1.53	0.90
Ratio of earnings to fixed charges and preferred dividend requirements (d)	1.06	0.89	0.88	0.01	1.53	0.88

(a) During 2011, 2010, and 2009, we committed to sell certain operations of our International Automotive Finance operations, Insurance operations, Mortgage operations, and Commercial Finance Group. We report these businesses separately as discontinued operations in the Condensed Consolidated Financial Statements. Refer to Note 2 to the Condensed Consolidated Financial Statements for further discussion of our discontinued operations. All reported periods of the calculation of the ratio of earnings to fixed charges exclude discontinued operations.

(b) Amount for 2010 includes a $616 million reduction to retained earnings (accumulated deficit) related to a conversion of preferred stock and related amendment that occurred on December 30, 2010.

(c) The ratio indicates a less than one-to-one coverage for the years ended December 31, 2011, 2009, and 2007. Earnings for the years ended December 31, 2011, 2009, and 2007 were inadequate to cover fixed charges. The deficient amounts for the ratio were $19 million, $6,918 million, and $1,401 million for the years ended December 31, 2011, 2009, and 2007, respectively.

(d) The ratio indicates a less than one-to-one coverage for the years ended December 31, 2011, 2010, 2009, and 2007. Earnings for the years ended December 31, 2011, 2010, 2009, and 2007 were inadequate to cover total fixed charges and preferred dividend requirements. The deficient amounts for the ratio were $782 million , $1,066 million , $8,142 million , and $1,593 million for the years ended December 31, 2011, 2010, 2009, and 2007, respectively.

Exhibit 31.1

Ally Financial Inc.

I, Michael A. Carpenter, certify that:

1. I have reviewed this report on Form 10-Q of Ally Financial Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2012

/ S/ M ICHAEL A. C ARPENTER

Michael A. Carpenter
Chief Executive Officer

Exhibit 31.2

Ally Financial Inc.

I, Jeffrey J. Brown, certify that:

1. I have reviewed this report on Form 10-Q of Ally Financial Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2012

/S/ JEFFREY J. BROWN

Jeffrey J. Brown
Senior Executive Vice President of
Finance and Corporate Planning

Exhibit 32

Ally Financial Inc.

Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350

In connection with the Quarterly Report of Ally Financial Inc. (the Company) on Form 10-Q for the period ending March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M ICHAEL A. C ARPENTER

Michael A. Carpenter
Chief Executive Officer
April 27, 2012

/ S/ J EFFREY J. BROWN

Jeffrey J. Brown
Senior Executive Vice President of Finance and Corporate Planning
April 27, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Ally Financial Inc. and will be furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT T

Outlook E-mail

From: Levitt, Jamie A.
Sent: 5/10/2012 7:02:56 AM
To: 'Timothy.Devine@ally.com'; Lee, Gary S.; 'rcieri@kirkland.com'; Nashelsky, Larren M.; 'nornstein@kirkland.com'
Cc: 'William.b.Solomon@ally.com'
Subject: Re: RMBS Stipulated Claim

I apologize, but with the lateness of the hour I believe I sent a confusing email, so I will clarify:

1. First, we have NOT sent anything back yet to Ropes or KP re these revisions. They are for your review and further revision.

2. Although we know we will have to eventually trade this point, based on the deal Gary discussed with KP, the agreement currently makes the $8.7B a cap, such that all claims including securities claims, come out of it.

3. Once we reach agreement on the rest of the terms, we will eventually give on the point that KP's clients are not releasing securities claims, but for now we are going to put the full release back into the draft settlement agreement. In other words we will, for this turn state that all claims, including securities claims are released.

Sorry if I created any confusion.

Jamie

From: Levitt, Jamie A.
To: 'Timothy.Devine@ally.com' ; Lee, Gary S.; 'rcieri@kirkland.com' ; Nashelsky, Larren M.; 'nornstein@kirkland.com'
Cc: 'William.b.Solomon@ally.com'
Sent: Thu May 10 02:01:17 2012
Subject: Re: RMBS Stipulated Claim

Tim,

Consistent with what you state below, we have accepted their revision to the release in the settlement agreement to exclude securities law claims. We are marking up the settlement agr and PSA based on our discussions tonight with Ropes and will circulate internally before sending back to them.

Assume we should agree to the same change for Talcott when we talk to them tomorrow?

Jamie

From: Devine, Timothy
To: Lee, Gary S.; rcieri@kirkland.com ; Nashelsky, Larren M.; nornstein@kirkland.com ; Levitt, Jamie A.
Cc: Solomon, William Legal
Sent: Thu May 10 01:55:08 2012
Subject: RE: RMBS Stipulated Claim

CONFIDENTIAL

Folks:

The KP settlement is for *everything* except securities claims. And we can define securities claims narrowly.

Is that what the language in the current/final draft settlement agreement reads? Remember, we talked about this in some detail.

Please let me know what the main remaining arguments are and I will weigh in. I want to read the drafts before Ally agrees to them.

The circle is squared at the Plan. KP can only get us the "everything-but-securities" settlement release because that is the full extent of her representation. She has been clear about that. Same as in her BoA/BoNYM work. Etc.

But notice: though her clients don't release securities claims, they sign Plan Support Agreements, and the Plan includes very simple comprehensive releases, which of course include third party release of all claims, which of course includes securities

EXHIBIT
PENGAD 800-631-6989
9019-151
11/19/12

claims.

Presto.

So while she can't represent parties in giving up their securities claims, clients face a choice: either sign up with the settlement to make sure your trust receives monies under the waterfall, in which case you need to sign the Plan Support Agreement and support the Plan. And the Plan wipes out all their claims of any sort.

This is the beauty of it.

It is also the reason that FHFA/Freddie probably can't sign the settlement agreement. They believe their securities law claims are worth something, even in the filing; and they are also hedging against the contingency that the Plan fails, in which case they would like to be able to get on with a lawsuit against Ally Financial Inc. on the $1 billion loss on Freddie's securities.

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Wednesday, May 09, 2012 11:35 PM
To: Devine, Timothy; rcieri@kirkland.com; Nashelsky, Larren M.; nornstein@kirkland.com; Levitt, Jamie A.
Subject: Re: RMBS Stipulated Claim

I'm around.

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Devine, Timothy
To: Lee, Gary S.; rcieri@kirkland.com ; Nashelsky, Larren M.; nornstein@kirkland.com
Sent: Wed May 09 23:26:53 2012
Subject: RE: RMBS Stipulated Claim
Can we pull a call together this evening?

Would folks be available at 11:45?

Tim

Timothy A. Devine
Chief Counsel - Litigation
Ally Financial Inc. Legal Staff
200 Renaissance Center
M/C: 482-B09-B11
Detroit, MI 48265
(313) 656-3477

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Wednesday, May 09, 2012 11:17 PM
To: rcieri@kirkland.com; Nashelsky, Larren M.; Devine, Timothy; nornstein@kirkland.com

REDACTED

Subject: Fw: RMBS Stipulated Claim

Fyi

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Lee, Gary S.
To: 'Kathy D. Patrick'
Sent: Wed May 09 23:08:24 2012
Subject: RMBS Stipulated Claim

Kathy, the waterfall is attached. It is not yet ready for distribution beyond the two of us. [redacted] That is clearly and materially better than where we were.

There seems to be disagreement (based on our call with Ropes) on one fundamental point. So we are clear, I am writing it down so you and I can discuss.

My understanding of our deal is that the $8.7bn number settles all claims arising from the sale and servicing of the RMBS. That's what I was agreeing to when I said "8.7 to be all deals wrapped and unwrapped as per all our waterfalls" in response to your email to me. The waterfall clearly delineates and separates pls and rw claims from all other unsecured claims (that's the purpose of the separate categories). The pls and rw lines cover all claims of any kind by that creditor class - we don't distinguish between servicing claims, contract breach claims, fraud claims or securities. These claims are - simply - claims arising from wrapped and unwrapped securitisations and nothing more. That's why I said everyone gets one claim full stop.

So if your clients do not or can not release their securities claims through you, and we cannot defeat them entirely in the bk court, then they get a share in the $8.7bn. But either way, the $8.7bn is the number for wrapped and unwrapped deals.

So when Ross tells me an unknown amount of securities claims comes on top of this I get spooked - because that renders a deal at $8.7bn illusory. And if you ask why I care - which is what Ross screamed at me this evening - beyond the fact that this is the deal I sold to our board and thought we had, it (a) gives everyone an incentive to manage attacks by other claimants to get into the class or attempt to get a bigger share and (b) is consistent with the need to maintain recoveries for other constituents who are key to the success of the plan.

Aside from my lack of interest in aggressive behavior from counsel, I like you don't expect to be re-traded. I remind you I said I would get you $8.7bn and that's what I did. Please call me after you have reviewed. There are some other smaller points that fall into this category and we can discuss those as well.

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Kathy D. Patrick [mailto:kpatrick@gibbsbruns.com]
Sent: Wednesday, May 09, 2012 8:52 PM
To: Ross.Martin@ropesgray.com; Lee, Gary S.; Wishnew, Jordan A.; Kathy D. Patrick
Cc: Keith.Wofford@ropesgray.com; Levitt, Jamie A.; David Sheeren
Subject: Re: RMBS Stipulated Claim

We do. David, what's the total holdings number (not just our holdings in deals where we have 25 per cent)?

Kathy D. Patrick
Gibbs & Bruns, L.L.P.

From: Martin, D. Ross [mailto:Ross.Martin@ropesgray.com]
Sent: Wednesday, May 09, 2012 04:57 PM
To: 'Lee, Gary S.' <GLee@mofo.com>; Wishnew, Jordan A. <JWishnew@mofo.com>; Kathy D. Patrick
Cc: Wofford, Keith H. <Keith.Wofford@ropesgray.com>; Levitt, Jamie A. <JLevitt@mofo.com>
Subject: RE: RMBS Stipulated Claim

I think Kathy is in transit at the moment, but I do believe we have a number like that.

D. Ross Martin
ROPES & GRAY LLP
T(BOS) +1 617 951 7266 | T(NY) +1 212 596 9177 | M +1 617 872 1574 | F +1 617 235 0454
Prudential Tower, 800 Boylston Street
Boston, MA 02199-3600
ross.martin@ropesgray.com
www.ropesgray.com

From: Lee, Gary S. [mailto:GLee@mofo.com]
Sent: Wednesday, May 09, 2012 5:56 PM
To: Wishnew, Jordan A.; kpatrick@gibbsbruns.com; Martin, D. Ross
Cc: Wofford, Keith H.; Levitt, Jamie A.; Lee, Gary S.
Subject: Re: RMBS Stipulated Claim

If possible we would like to say investors holding x dollars in aggregate.

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

----- Original Message -----
From: Wishnew, Jordan A.
To: 'kpatrick@gibbsbruns.com' <kpatrick@gibbsbruns.com>; 'ross.martin@ropesgray.com' <ross.martin@ropesgray.com>
Cc: 'Keith.Wofford@ropesgray.com' <Keith.Wofford@ropesgray.com>; Levitt, Jamie A.; Lee, Gary S.
Sent: Wed May 09 17:47:33 2012
Subject: RE: RMBS Stipulated Claim

Kathy:

One question - in our documents, we want to note that the Debtors have come to terms with your clients as memorialized in a plan support agreement. We would propose to refer to your clients as "investors in residential mortgage-backed securities", but are open to any other suggestions that you may have or prefer.

The sentence would read, in part, "The debtors intend to implement a comprehensive reorganization by consummating the Asset Sales through a plan of reorganization consistent with the terms of a plan support agreement with ...[ ]."

We look forward to hearing from you.

Thank you.

Regards,

Jordan

Jordan A. Wishnew
jwishnew@mofo.com
212-336-4328

-----Original Message-----
From: Lee, Gary S.
Sent: Wednesday, May 09, 2012 4:28 PM
To: 'kpatrick@gibbsbruns.com'; 'ross.martin@ropesgray.com'
Cc: 'Keith.Wofford@ropesgray.com'; Levitt, Jamie A.; Wishnew, Jordan A.; Lee, Gary S.
Subject: Re: RMBS Stipulated Claim

Jordan, let Kathy and Ross know when we get a time. Kathy, we will want to talk about messaging and preparation for your remarks at the hearing. Pick a time saturday afternoon.
------Original Message------
From: Kathy D. Patrick
To: Gary Lee
To: Ross Martin
To: Kathy D. Patrick
Cc: Keith.Wofford@ropesgray.com
Cc: Jamie A. Levitt
Subject: Re: RMBS Stipulated Claim
Sent: May 9, 2012 4:13 PM

Before you do, who on your team will let us know time to show up for first day? Thanks. Kathy D. Patrick Gibbs & Bruns, L.L.P. From: Lee, Gary S. [mailto:GLee@mofo.com] Sent: Wednesday, May 09, 2012 03:10 PM To: ross.martin@ropesgray.com <ross.martin@ropesgray.com>; Kathy D. Patrick Cc: Keith.Wofford@ropesgray.com <Keith.Wofford@ropesgray.com>; Levitt, Jamie A. <JLevitt@mofo.com> Subject: Re: RMBS Stipulated Claim Jamie and Tony Princi. I am slowly vanishing. Gary S. Lee Morrison & Foerster LLP 1290 Avenue of the Americas New York, NY 10104-0050 T. 212.468.8042 F. 212.468.7900 glee@mofo.com
From: Martin, D. Ross To: Lee, Gary S.; kpatrick@gibbsbruns.com Cc: Wofford, Keith H. Sent: Wed May 09 16:05:44 2012 Subject: RE: RMBS Stipulated Claim Obviously you've been tied up; just let us know when (and with whom) you want to discuss the Plan Support Agreement.

D. Ross Martin ROPES & GRAY LLP T(BOS) +1 617 951 7266 | T(NY) +1 212 596 9177 | M +1 617 872 1574 | F +1 617 235 0454 Prudential Tower, 800 Boylston Street Boston, MA 02199-3600 ross.martin@ropesgray.com www.ropesgray.com Circular 230 Disclosure (R&G): To ensure compliance with Treasury Department regulations, we inform you that any U.S. tax advice contained in this communication (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

This message

Gary S. Lee
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New York, NY 10104-0050
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glee@mofo.com

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EXHIBIT U

ResCap

To: Members of the Residential Capital, LLC Audit Committee:

Jonathan Ilany
John Mack
Ted Smith
Pam West

cc: Steve Abreu
Tom Marano
Jim Whitlinger

Residential Capital, LLC Audit Committee Meeting
Tuesday, May 1, 2012, 12:00 – 2:00 pm (ET)
Dial-in No.: 866-203-0920 / International No.: 206-445-0056
Access Code: 53396-93036

A telephonic meeting of the ResCap Audit Committee will be held Tuesday, May 1, 2012, from 12:00 to 2:00 pm (ET). The purpose of the meeting is to review 2012 first quarter financial statements. An agenda and supporting materials are attached.

All directors are invited to attend the meeting. Please let me know if you are unable to participate. Feel free to contact me by phone (313-656-6301) or email (cathy.quenneville@ally.com) should you have any questions. Thank you.

Cathy Quenneville
Secretary
4/30/12

Attachments

Additional cc:	Ann Cummings	Jim Mackey
	Cathy Dondzila	Joe Moldovan
	Tammy Hamzehpour	Tom Robinson
	Carol Larson	Bill Solomon
	David Lerner	Brad Stevenson
	Jack Levy	Dan Tucci

EXHIBIT
PENGAD 800-631-6989
9019-55
11/12/12

ResCap Audit Committee
May 1, 2012
12:00 – 2:00 pm (Eastern)

AGENDA

			Start Time
1.	**Update on R&W Obligations, Litigation and Related Matters** *Tim Devine and Todd Kushman*	(20 min)	12:00 pm
2.	**Approval of 2012 First Quarter Private Financial Statements and Review of Related Accounting Matters** *Cathy Dondzila*	(60 min)	12:20 pm
3.	**Deloitte Report on 2012 First Quarter Review** *Tom Robinson and Brad Stevenson*	(20 min)	1:20 pm
4.	**Executive Session:** i. Management ii. Deloitte iii. Audit Director	(20 min)	1:40 pm

Audit Committee

Supplemental Materials

April 27, 2012

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RESIDENTIAL CAPITAL, LLC

Condensed Consolidated Financial Statements for the Periods Ended March 31, 2012 and 2011
(Unaudited)

Condensed Consolidated Balance Sheet (unaudited)

Residential Capital, LLC

($ in thousands)	**March 31, 2012**	December 31, 2011
Assets		
Cash and cash equivalents	**$652,704**	$618,699
Mortgage loans held–for–sale ($46,419 and $56,976 fair value elected)	**4,270,826**	4,249,625
Finance receivables and loans, net		
Consumer ($832,094 and $835,192 fair value elected)	**996,559**	1,022,730
Commercial	**41,145**	38,017
Allowance for loan losses	**(28,788)**	(28,616)
Total finance receivables and loans, net	**1,008,916**	1,032,131
Mortgage servicing rights	**1,254,497**	1,233,107
Accounts receivable, net	**3,157,256**	3,051,748
Other assets	**5,331,372**	6,628,152
Total assets	**$15,675,571**	$16,813,462
Liabilities		
Borrowings		
Borrowings from parent and affiliate	**$1,409,873**	$1,189,364
Collateralized borrowings in securitization trusts ($828,418 and $829,940 fair value elected)	**828,418**	830,318
Other borrowings	**4,468,776**	4,705,404
Total borrowings	**6,707,067**	6,725,086
Other liabilities	**8,569,161**	9,996,026
Total liabilities	**15,276,228**	16,721,112
Equity		
Member's interest	**11,630,276**	11,433,776
Accumulated deficit	**(11,166,544)**	(11,279,560)
Accumulated other comprehensive loss	**(64,389)**	(61,866)
Total equity	**399,343**	92,350
Total liabilities and equity	**$15,675,571**	$16,813,462

The assets of consolidated variable interest entities that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) did not have recourse to our general credit at March 31, 2012 and December 31, 2011, were as follows.

($ in thousands)	**March 31, 2012**	December 31, 2011
Assets		
Mortgage loans held–for–sale	**$7,944**	$8,658
Finance receivables and loans, net		
Consumer ($832,094 and $835,192 fair value elected)	**987,869**	998,509
Allowance for loan losses	**(8,732)**	(10,126)
Total finance receivables and loans, net	**979,137**	988,383
Accounts receivable, net	**1,026,867**	1,027,411
Other assets	**32,934**	29,494
Total assets	**$2,046,882**	$2,053,946
Liabilities		
Borrowings		
Collateralized borrowings in securitization trusts ($828,418 and $829,940 fair value elected)	**$828,418**	$830,318
Other borrowings	**806,292**	855,631
Total borrowings	**1,634,710**	1,685,949
Other liabilities	**28,833**	29,099
Total liabilities	**$1,663,543**	$1,715,048

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Condensed Consolidated Statement of Comprehensive Income (unaudited)

Residential Capital, LLC

Three months ended March 31, *($ in thousands)*	**2012**	2011
Revenue		
Interest income	**$94,605**	$110,240
Interest expense	**103,218**	116,991
Net financing revenue	**(8,613)**	(6,751)
Other revenue		
Servicing fees	**188,941**	217,664
Servicing asset valuation and hedge activities, net	**115,316**	48,911
Total servicing income, net	**304,257**	266,575
Gain on mortgage loans, net	**106,493**	35,200
Gain (loss) on foreclosed real estate	**4,488**	(2,702)
Other revenue, net	**20,032**	6,031
Total other revenue	**435,270**	305,104
Total net revenue	**426,657**	298,353
Provision for loan losses	**(1,302)**	5,632
Noninterest expense		
Representation and warranty expense, net	**19,459**	26,000
Compensation and benefits	**103,233**	81,676
Professional fees	**57,343**	18,962
Data processing and telecommunications	**20,363**	20,203
Occupancy	**7,115**	5,633
Advertising	**2,046**	8,747
Other noninterest expense, net	**99,504**	82,101
Total noninterest expense	**309,063**	243,322
Income before income taxes	**118,896**	49,399
Income tax expense	**5,880**	8,946
Net income	**$113,016**	$40,453
Other comprehensive income, net of tax	**(2,523)**	(2,397)
Comprehensive income	**$110,493**	$38,056

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Condensed Consolidated Statement of Changes in Equity (unaudited)

Residential Capital, LLC

($ in thousands)	Member's interest	Accumulated deficit	Accumulated other comprehensive income	Total equity
Balance at January 1, 2011	$11,324,371	($10,434,497)	($43,710)	$846,164
Net income	—	40,453	—	40,453
Capital contribution	—	—	—	—
Other comprehensive income, net of tax	—	—	(2,397)	(2,397)
Balance at March 31, 2011	$11,324,371	($10,394,044)	($46,107)	$884,220
Balance at January 1, 2012	**$11,433,776**	**($11,279,560)**	**($61,866)**	**$92,350**
Net income	—	**113,016**	—	**113,016**
Capital contribution	**196,500**	—	—	**196,500**
Other comprehensive income, net of tax	—	—	**(2,523)**	**(2,523)**
Balance at March 31, 2012	**$11,630,276**	**($11,166,544)**	**($64,389)**	**$399,343**

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Condensed Consolidated Statement of Cash Flows (unaudited)

Residential Capital, LLC

Three months ended March 31, *($ in thousands)*	**2012**	2011
Operating activities		
Net income	**$113,016**	$40,453
Reconciliation of net income to net cash (used in) provided by operating activities		
Depreciation and amortization	**10,449**	7,004
Accretion of deferred concession on secured notes	**(25,921)**	(24,898)
Provision for loan losses	**(1,302)**	5,632
Gain on mortgage loans, net	**(106,493)**	(35,200)
Net (gain) loss on other assets	**(1,861)**	3,345
Change in fair value of mortgage servicing rights	**(10,817)**	(36,488)
Originations and purchases of mortgage loans held-for-sale	**(10,908,385)**	(15,483,820)
Proceeds from sales and repayments of mortgage loans held-for-sale	**10,666,109**	15,204,714
Net change in		
Deferred income taxes	**1,251**	(2,004)
Accounts receivable	**244,337**	250,806
Other assets	**1,112,423**	1,170,188
Other liabilities	**(1,336,152)**	(787,829)
Net cash (used in) provided by operating activities	**(243,346)**	311,903
Investing activities		
Net (increase) decrease in commercial finance receivables and loans	**(497)**	11,412
Net decrease in consumer mortgage finance receivables and loans	**77,133**	187,378
Net decrease in investments in real estate and other	**—**	3,085
Proceeds from sales of foreclosed and owned real estate	**22,890**	44,363
Other, net	**72,016**	(9,072)
Net cash provided by investing activities	**171,542**	237,166
Financing activities		
Net increase (decrease) in borrowings from parent and affiliate	**417,009**	(187,146)
Repayments of collateralized borrowings in securitization trusts	**(82,842)**	(140,203)
Proceeds from other long-term borrowings	**849,685**	519,362
Repayments of other long-term borrowings	**(923,285)**	(796,606)
Net (decrease) increase in other short-term borrowings	**(165,464)**	91,776
Net cash provided by (used in) financing activities	**95,103**	(512,817)
Effect of changes in foreign exchange rates on cash and cash equivalents	**10,706**	10,254
Net increase in cash and cash equivalents	**34,005**	46,506
Cash and cash equivalents at beginning of year	**618,699**	672,204
Cash and cash equivalents at March 31,	**$652,704**	$718,710

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

Condensed Consolidated Statement of Cash Flows (unaudited)

Residential Capital, LLC

Three months ended March 31, *($ in thousands)*	**2012**	2011
Supplemental disclosures		
Cash paid for		
Interest	**$38,443**	$91,379
Income taxes	**18**	17,642
Non cash items		
Mortgage loans held-for-sale transferred to consumer finance receivables and loans	**461**	1,113
Consumer finance receivables and loans transferred to mortgage loans held-for-sale	**40,407**	53,688
Consumer finance receivables and loans transferred to other assets	**2,571**	3,585
Mortgage loans held for sale transferred to other assets	**47,073**	15,637
Mortgage loans held-for-sale transferred to accounts receivable	**349,436**	214,932
Mortgage servicing rights recognized upon the transfer of financial assets	**10,573**	18,370
Capital contributions through forgiveness of borrowings from Ally Inc.	**196,500**	—
Other disclosures		
Proceeds from sales and repayments of consumer finance receivables and loans originally designated as mortgage loans held for sale	**$33,219**	$41,929

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

1. Description of Business, Basis of Presentation and Changes in Significant Accounting Policies

Residential Capital, LLC (ResCap, we, our, or us) is a wholly owned subsidiary of GMAC Mortgage Group, LLC (GMAC Mortgage Group) which is a wholly owned subsidiary of Ally Financial Inc. (Ally Inc.). Our operations are principally conducted through our subsidiaries Residential Funding Company, LLC (RFC) and GMAC Mortgage, LLC (GMAC Mortgage). We broker, originate, purchase, sell, securitize, and service residential mortgage loans in the United States. We broker virtually all of the loan production from our origination channels to our affiliate, Ally Bank. Virtually all of our purchases are also executed with our affiliate, Ally Bank. Purchased loans are primarily agency eligible or government insured loans. Prime credit quality loans originated in conformity with the underwriting guidelines of Fannie Mae (formerly known as Federal National Mortgage Association) and Freddie Mac (formerly known as Federal Home Loan Mortgage Corporation) are generally sold to one of these government-sponsored entities in the form of agency-sponsored securitizations. Prime credit quality loans originated in conformity with the underwriting guidelines of the Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) are generally sold into securitizations guaranteed by the Government National Mortgage Association (Ginnie Mae with Fannie Mae and Freddie Mac, collectively, the GSEs).

Ally Bank has recently undertaken actions that are expected to have a material adverse impact on our financial condition, results of operations and cash flows. These include the November 2011 decision to reduce its focus on its correspondent mortgage lending channel, and the decisions in April 2012 to significantly reduce its government production, including FHA and VA loans, from its correspondent mortgage lending channel, to become a direct seller of eligible loans to Fannie Mae and Freddie Mac effective May 1, 2012, and to terminate a number of its affiliate agreements with GMAC Mortgage effective April 30, 2012. We expect the level of mortgage loan purchases from Ally Bank to decline significantly in future periods. GMAC Mortgage will continue to purchase Ginnie Mae eligible loans from Ally Bank under the terms of an amended and restated master mortgage loan purchase and sale agreement executed in April 2012 effective May 1, 2012. Refer to Note 17 - Related Party Transactions for additional information.

Our legacy business included non-conforming domestic and international residential mortgage loan originations, purchases, sales, and securitization activities; our captive mortgage reinsurance portfolio; and our domestic and international commercial lending activities. The remaining legacy portfolios, which include limited international operations in Mexico, Canada and the United Kingdom, are being run-off, with periodic asset sales, workouts, or consideration and execution of other strategic disposition transactions to maximize our return.

We did not make a $20.1 million semi-annual interest payment that was due on April 17, 2012, related to $473.0 million outstanding senior unsecured notes maturing in June 2013. The indenture for the senior unsecured notes provides that a failure to pay interest on an interest payment date does not become an event of default unless such failure continues for a period of 30 days. We have projected interest payments due in May 2012 of $136.5 million, including the $20.1 interest payment due on April 17, 2012. We also have $2.0 billion of debt maturing in 2012, including our $158.0 million mortgage servicing rights secured funding facility, $131.2 million in euro-denominated notes and $1.4 billion in secured borrowings from Ally Inc. and its subsidiaries, all of which mature in May 2012.

We have been, and expect to continue to be, negatively impacted by exposure to representation and warranty obligations, adverse outcomes with respect to current or future litigation, fines, penalties or settlements related to our business activities and additional expenses to address regulatory requirements. We currently estimate that our reasonably possible losses related to litigation matters and potential repurchase obligations and related claims could be between $0.0 billion and $4.0 billion in excess of amounts recorded. See Note 16 – Contingencies and Other Risks for additional information. There can be no assurance that we will have the capital or liquidity sufficient to pay any significant portion of such estimated possible losses.

We remain heavily dependent on Ally Inc. and affiliates for funding and capital support. While Ally Inc. agreed to extend the maturity date for certain of its facilities with us until May 14, 2012, there can be no assurance that they will continue any such support or that they will choose to execute any further strategic transactions with respect to us or that any transactions undertaken will be successful. Should Ally Inc. no longer continue to support our capital or liquidity needs or should we be unable to successfully execute other initiatives, it would have a material adverse effect on our business, financial condition and results of operations. Consequently, there remains substantial doubt about our ability to continue as a going concern. If we do not receive the necessary support, we are determining whether it would be in the best interests of our creditors and other stakeholders to file for protection under the federal bankruptcy laws.

All of our credit facilities and certain other agreements contain covenants that require us to maintain consolidated tangible net worth of $250.0 million as of each month end. At December 31, 2011, we were in default of this covenant, which was subsequently cured but it is possible defaults could occur in the future due to insufficient capital or liquidity. Failure to meet this covenant is an event of default and may result in, amoung other things, an acceleration of the facility's maturity and/or may trigger an early

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

amortization event, under certain facilities. There are also cross default and cross acceleration provisions in our credit facilities, our junior secured debt and certain other agreements. A default under any one of these agreements can, through cross default and cross acceleration provisions create defaults in all of our other agreements. See Note 8 - Borrowings for additional information related to our financial covenants and counterparties remedies in an event of default.

Our consolidated tangible net worth, as defined, as of March 31, 2012 was $399.3 million in compliance with our financial covenants. Our consolidated tangible net worth, as defined, as of December 31, 2011, was $92.4 million, which constituted an event of default under our credit facilities and certain other agreements. We obtained waivers or acknowledgment letters from each of our liquidity providers in connection with our credit facilities and counterparties to agreements with financial covenants under which they agreed not to pursue their contractual remedies with respect to the default. These waivers were predicated, in part, on a January 30, 2012 capital contribution in the amount of $196.5 million that we received from Ally Inc. We are in compliance with any conditions with respect to these waivers and acknowledgment letters.

Consolidation and Basis of Presentation

The accompanying Condensed Consolidated Financial Statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Condensed Consolidated Financial Statements include our accounts and accounts of our majority-owned subsidiaries after eliminating all significant intercompany balances and transactions and include all variable interest entities (VIEs) in which we are the primary beneficiary. See Note 4 — Securitization and Variable Interest Entities for additional information.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and that affect income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence; however, actual results could differ because of uncertainties associated with estimating the amounts, timing, and likelihood of possible outcomes.

The Condensed Consolidated Financial Statements at March 31, 2012 and for the three months ended March 31, 2012 and 2011, are unaudited but reflect all adjustments that are, in management's opinion, necessary for the fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements (and the related notes) for the year ended December 31, 2011.

We operate our international subsidiaries in a similar manner as we operate in the United States of America (U.S. or United States), subject to local laws or other circumstances that may cause us to modify our procedures accordingly. The financial statements of subsidiaries that operate outside of the United States are measured using the local currency as the functional currency. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars using the period end exchange rates. The resulting translation adjustments are recorded in accumulated other comprehensive income, a component of equity. Income and expense items are translated at average exchange rates prevailing during the reporting period.

Recently Adopted Accounting Standards

Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04)

As of January 1, 2012, we adopted Accounting Standards Update (ASU) 2011-04, which amends ASC 820, *Fair Value Measurements*. The amendments in this ASU clarify how to measure fair value and it contains new disclosure requirements to provide more transparency into Level 3 fair value measurements. It is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU must be applied prospectively. The adoption did not have a material impact to our consolidated financial condition or results of operations.

Recently Issued Accounting Standards

Balance Sheet - Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the Financial Asset Standards Board (FASB) issued ASU 2011-11, which amends ASC 210, *Balance Sheet*. This ASU contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures will give financial statement users information about both gross and net exposures. ASU 2011-11 is effective for us on January 1, 2013, and retrospective application is required. Since the guidance relates only to disclosures, adoption is not expected to have a material effect on our consolidated financial condition or results of operations.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

2. Mortgage Loans Held–for–sale

The composition of residential mortgage loans held–for–sale reported at carrying value, were as follows.

	March 31, 2012			December 31, 2011		
($ in thousands)	**Domestic (a) (b)**	**Foreign**	**Total**	Domestic (a) (b)	Foreign	Total
1st Mortgage	**$3,523,013**	**$35,297**	**$3,558,310**	$3,497,392	$12,011	$3,509,403
Home equity	**712,516**	**—**	**712,516**	740,222	—	740,222
Total loans held–for–sale (c)	**$4,235,529**	**$35,297**	**$4,270,826**	$4,237,614	$12,011	$4,249,625

(a) Includes mortgage loans subject to conditional repurchase options of $2.3 billion and $2.3 billion sold to Ginnie Mae guaranteed securitizations and $99.3 million and $105.8 million sold to off-balance sheet private-label securitization trusts at March 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in other liabilities. See Note 4 — Securitizations and Variable Interest Entities for additional information.

(b) Includes mortgage loans for which we have elected the fair value option of $46.4 million and $57.0 million at March 31, 2012 and December 31, 2011 respectively. See Note 13 — Fair Value for additional information.

(c) The carrying values are net of discounts of $320.4 million and $313.1 million, fair value adjustments of $(30.8) million and $(28.0) million, lower of cost or fair value adjustments of $56.8 million and $60.2 million, and UPB write-downs of $1.4 billion and $1.5 billion at March 31, 2012 and December 31, 2011, respectively.

3. Finance Receivables and Loans, Net

The composition of finance receivables and loans, net reported at carrying value before allowance for loan losses, were as follows.

	March 31, 2012			December 31, 2011		
($ in thousands)	**Domestic**	**Foreign**	**Total**	Domestic	Foreign	Total
Consumer						
1st Mortgage	**$128,220**	**$251,423**	**$379,643**	$130,024	$256,494	$386,518
Home equity	**616,916**	**—**	**616,916**	636,212	—	636,212
Total consumer (a) (b)	**745,136**	**251,423**	**996,559**	766,236	256,494	1,022,730
Commercial						
Commercial and industrial	**—**	**26,232**	**26,232**	—	23,860	23,860
Commercial real estate	**—**	**14,913**	**14,913**	—	14,157	14,157
Total commercial	**—**	**41,145**	**41,145**	—	38,017	38,017
Total finance receivables and loans	**$745,136**	**$292,568**	**$1,037,704**	$766,236	$294,511	$1,060,747

(a) Consumer mortgages include $832.1 million and $835.2 million at fair value as a result of fair value option elections as of March 31, 2012 and December 31, 2011, respectively. See Note 13 — Fair Value for additional information.

(b) The gross carrying value is net of fair value adjustments of $1.6 billion and $1.6 billion and UPB write-downs of $8.8 million and $8.0 million at March 31, 2012 and December 31, 2011, respectively.

Notes to Condensed Consolidated Financial Statements

Residential Capital, LLC

The following table presents an analysis of the activity in the allowance for loan losses on finance receivables and loans, net.

	2012			2011		
($ in thousands)	**Consumer**	**Commercial**	**Total**	Consumer	Commercial	Total
Allowance at January 1,	**$13,638**	**$14,978**	**$28,616**	$17,681	$25,129	$42,810
Provision for loan losses	**(548)**	**(754)**	**(1,302)**	447	5,185	5,632
Charge-offs						
Domestic	**(1,123)**	**—**	**(1,123)**	(2,212)	—	(2,212)
Foreign	**116**	**1,327**	**1,443**	(218)	(14,579)	(14,797)
Total charge-offs	**(1,007)**	**1,327**	**320**	(2,430)	(14,579)	(17,009)
Recoveries						
Domestic	**100**	**195**	**295**	1,263	937	2,200
Foreign	**—**	**859**	**859**	—	781	781
Total recoveries	**100**	**1,054**	**1,154**	1,263	1,718	2,981
Net charge-offs	**(907)**	**2,381**	**1,474**	(1,167)	(12,861)	(14,028)
Allowance at March 31,	**$12,183**	**$16,605**	**$28,788**	$16,961	$17,453	$34,414
Allowance for loan losses						
Individually evaluated for	**$2,910**	**$16,605**	**$19,515**	$3,838	$16,137	$19,975
Collectively evaluated for	**$9,273**	**$—**	**$9,273**	$13,123	$1,316	$14,439
Finance receivables and loans						
Individually evaluated for	**$8,018**	**$41,145**	**$49,163**	$7,818	$88,972	$96,790
Collectively evaluated for impairment	**$156,447**	**$—**	**$156,447**	$232,724	$3,279	$236,003

The following table presents an analysis of our past due finance receivables and loans at gross carrying value.

($ in thousands)	**30-59 days past due**	**60-89 days past due**	**90 days or more past due**	**Total past due**	**Current**	**Total**
March 31, 2012						
Consumer mortgage						
1st Mortgage	**$30,346**	**$13,857**	**$170,051**	**$214,254**	**$165,389**	**$379,643**
Home equity	**11,122**	**5,208**	**10,813**	**27,143**	**589,773**	**616,916**
Total consumer	**41,468**	**19,065**	**180,864**	**241,397**	**755,162**	**996,559**
Commercial						
Commercial and industrial	**25,881**	**—**	**351**	**26,232**	**—**	**26,232**
Commercial real estate	**—**	**—**	**14,913**	**14,913**	**—**	**14,913**
Total commercial	**25,881**	**—**	**15,264**	**41,145**	**—**	**41,145**
Total	**$67,349**	**$19,065**	**$196,128**	**$282,542**	**$755,162**	**$1,037,704**
December 31, 2011						
Consumer mortgage						
1st Mortgage	$29,730	$14,664	$158,255	$202,649	$183,869	$386,518
Home equity	13,064	6,488	11,850	31,402	604,810	636,212
Total consumer	42,794	21,152	170,105	234,051	788,679	1,022,730
Commercial						
Commercial and industrial	—	—	322	322	23,538	23,860
Commercial real estate	—	1,736	12,212	13,948	209	14,157
Total commercial	—	1,736	12,534	14,270	23,747	38,017
Total	$42,794	$22,888	$182,639	$248,321	$812,426	$1,060,747

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

The following table presents the gross carrying value of our finance receivables and loans in nonaccrual status.

($ in thousands)	March 31, 2012	December 31, 2011
Consumer mortgage		
1st Mortgage	**$193,981**	$199,702
Home equity	**30,329**	36,651
Total consumer	**224,310**	236,353
Commercial		
Commercial and industrial	**26,232**	322
Commercial real estate	**14,913**	12,212
Total commercial	**41,145**	12,534
Total	**$265,455**	$248,887

Management performs a quarterly analysis of its consumer and commercial finance receivable and loan portfolios using a range of credit quality indicators to assess the adequacy of the allowance based on historical and current trends. Based on our allowance methodology, our credit quality indicators for consumer mortgage loans are performing and nonperforming and for commercial mortgage finance receivables and loans are pass and criticized.

The following table presents the credit quality indicators for our consumer mortgage loan portfolio at gross carrying value.

	March 31, 2012			December 31, 2011		
($ in thousands)	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Consumer mortgage						
1st Mortgage	**$185,662**	**$193,981**	**$379,643**	$186,816	$199,702	$386,518
Home equity	**586,587**	**30,329**	**616,916**	599,561	36,651	636,212
Total consumer mortgage	**$772,249**	**$224,310**	**$996,559**	$786,377	$236,353	$1,022,730

The following table presents the credit quality indicators for our commercial finance receivable and loan portfolio at gross carrying value.

	March 31, 2012			December 31, 2011		
($ in thousands)	Pass	Criticized (a)	Total	Pass	Criticized (a)	Total
Commercial						
Commercial and industrial	**$—**	**$26,232**	**$26,232**	$—	$23,860	$23,860
Commercial real estate	**—**	**14,913**	**14,913**	209	13,948	14,157
Total commercial	**$—**	**$41,145**	**$41,145**	$209	$37,808	$38,017

(a) Includes loans classified as special mention, substandard, or doubtful. These classifications are based on regulatory definitions and generally represent loans in our portfolio that are of higher default risk.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

Impaired Loans and Troubled Debt Restructurings

Impaired Loans

Loans are considered impaired when we determine it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement or if the loan has been modified under a troubled debt restructuring.

The following table presents information about our impaired finance receivables and loans recorded at historical cost.

($ in thousands)	Unpaid principal balance (a)	Carrying value before allowance	Impaired with no allowance	Impaired with an allowance	Allowance for impaired loans
March 31, 2012					
Consumer mortgage					
1st Mortgage	$409	$409	$—	$409	$103
Home equity	7,609	7,609	160	7,450	2,807
Total consumer	8,018	8,018	160	7,859	2,910
Commercial					
Commercial and industrial	26,232	26,232	—	26,232	11,485
Commercial real estate	14,973	14,913	1,591	13,322	5,120
Total commercial	41,205	41,145	1,591	39,554	16,605
Total	$49,223	$49,163	$1,751	$47,413	$19,515
December 31, 2011					
Consumer mortgage					
1st Mortgage	$436	$436	$—	$436	$109
Home equity	7,619	7,619	173	7,446	2,926
Total consumer	8,055	8,055	173	7,882	3,035
Commercial					
Commercial and industrial	322	322		322	202
Commercial real estate	12,271	12,212	1,442	10,770	4,592
Total commercial	12,593	12,534	1,442	11,092	4,794
Total	$20,648	$20,589	$1,615	$18,974	$7,829

(a) Unpaid principal balance represents the contractual principal balance adjusted for UPB write-downs on transfers or charge offs in accordance with our policy.

The following table presents information about our impaired finance receivables and loans excluding loans carried at fair value due to fair value option elections.

	2012			2011		
Three months ended March 31, *($ in thousands)*	**Consumer**	**Commercial**	**Total**	Consumer	Commercial	Total
Average balance of impaired loans	$7,999	$21,855	$29,854	$7,395	$102,497	$109,892
Interest income recognized on impaired loans	$95	$8	$103	$90	$5,574	$5,664

At March 31, 2012 and December 31, 2011, there were no commercial commitments to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.

Troubled Debt Restructurings

As part of our loss mitigation efforts and participation in certain governmental programs (e.g., the Making Home Affordable Program), we may offer loan modifications to borrowers experiencing financial difficulties (TDRs). Loan modifications can include any or all of the following; principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates. Modifications can be either temporary or permanent. Temporary loan modifications are generally used to monitor the borrower's ability to perform under the revised terms over a specified trial period; if the borrower performs, it may become a permanent loan modification. Total TDRs recorded at historical cost and reported at gross carrying value are $35.8 million and $33.6 million at March 31, 2012 and December 31, 2011, respectively.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

The following table presents information related to finance receivables and loans recorded at historical cost modified in connection with a troubled debt restructuring during the period.

Three months ended March 31, 2012 *($ in thousands)*	**Number of Loans**	**Pre-modification gross carrying value**	**Post-modification gross carrying value**
Consumer mortgage			
1st Mortgage	—	$—	$—
Home equity	11	507	504
Total consumer mortgage	11	$507	$504

The following table presents information related to finance receivables and loans recorded at gross carrying value that redefaulted (180 days or more delinquent) on or before the one year anniversary of being modified. The charge-off amount is determined in accordance with our charge-off policy.

Three months ended March 31, 2012 *($ in thousands)*	**Number of Loans**	**Gross carrying value**	**Charge-off amount**
Consumer mortgage			
1st Mortgage	—	$—	$—
Home equity	1	10	10
Total consumer mortgage	1	$10	$10

4. Securitizations and Variable Interest Entities

Overview

We are involved in several types of securitization and financing transactions that utilize special-purpose entities (SPEs). A SPE is an entity that is designed to fulfill a specified limited need of the sponsor. Our principal use of SPEs is to obtain liquidity by securitizing certain of our financial assets.

The SPEs involved in securitization and other financing transactions are generally considered variable interest entities (VIEs). VIEs are entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the ability to control the entity's activities.

Securitizations

We provide a wide range of consumer mortgage loan products to a diverse customer base. We often securitize these loans through the use of securitization entities, which may or may not be consolidated on our Condensed Consolidated Balance Sheet. We securitize consumer mortgage loans through either the GSEs or private-label (nonagency) securitizations. For the periods presented, our consumer mortgage loans were securitized through the GSEs.

In executing a securitization transaction, we sell pools of financial assets to a wholly owned, bankruptcy-remote SPE, which then transfers the financial assets to a separate, transaction-specific securitization entity for cash, servicing rights, and in some transactions, other retained interests. The securitization entity is funded through the issuance of beneficial interests in the securitized financial assets. The beneficial interests take the form of either notes or trust certificates that are sold to investors and/or retained by us. These beneficial interests are collateralized by the transferred loans and entitle the investors to specified cash flows generated from the securitized loans. In the aggregate, these beneficial interests have the same average life as the transferred financial assets. In addition to providing a source of liquidity and cost-efficient funding, securitizing these financial assets also reduces our credit exposure to the borrowers beyond any economic interest we may retain. We securitize conforming residential mortgage loans through GSE securitizations and we historically securitized nonconforming mortgage loans through private-label securitizations.

Each securitization is governed by various legal documents that limit and specify the activities of the securitization entity. The securitization entity is generally allowed to acquire the loans, to issue beneficial interests to investors to fund the acquisition of the loans, and to enter into derivatives or other yield maintenance contracts (e.g., coverage by monoline bond insurers) to hedge or mitigate certain risks related to the financial assets or beneficial interests of the entity. A servicer, who is generally us, is appointed pursuant to the underlying legal documents to service the assets the securitization entity holds and the beneficial interests it issues. Servicing functions include, but are not limited to, making certain payments of property taxes and insurance premiums, default and property maintenance payments, as well as advancing principal and interest payments before collecting them from individual borrowers. Our servicing responsibilities, which constitute continued involvement in the transferred financial assets, consist of primary servicing (i.e., servicing the underlying transferred financial assets) and/or master servicing (i.e., servicing the beneficial interests that result from the securitization transactions). Certain securitization entities also require the servicer to advance scheduled principal and interest payments due on the beneficial interests issued by the entity regardless of whether cash payments are received on the underlying transferred financial assets. Accordingly, we are required to provide these servicing advances when applicable. See Note 5 — Servicing Activities for additional information regarding our servicing rights.

The GSEs provide a guarantee of the payment of principal and interest on the beneficial interests issued in securitizations. In private-label securitizations, cash flows from the assets initially transferred into the securitization entity represent the sole source for payment of distributions on the beneficial interests issued by the securitization entity and for payments to the parties that perform services for the securitization entity, such as the servicer or the trustee. In certain private-label securitization transactions, a liquidity facility may exist to provide temporary liquidity to the entity. The liquidity provider generally is reimbursed prior to other parties in subsequent distribution periods. Monoline insurance may also exist to cover certain shortfalls to certain investors in the beneficial interests issued by the securitization entity. As noted above, in certain private-label securitizations, the servicer is required to advance scheduled principal and interest payments due on the beneficial interests regardless of whether cash payments are received on the underlying transferred financial assets. The servicer is allowed to reimburse itself for these servicing advances. Additionally, certain private-label securitization transactions may allow for the acquisition of additional loans subsequent to the initial loan transfer. Principal collections on other loans and/or the issuance of new beneficial interests, such as variable funding notes, generally fund these loans; we are often contractually required to invest in these new interests.

We may retain beneficial interests in our private-label securitizations, which may represent a form of significant continuing economic interest. These retained interests include, but are not limited to, senior or subordinate mortgage– or asset–backed securities, interest–only strips, principal–only strips, and residuals. Certain of these retained interests provide credit enhancement to the trust as they may absorb credit losses or other cash shortfalls. Additionally, the securitization agreements may require cash flows to be directed away from certain of our retained interests due to specific over–collateralization requirements, which may or may not be performance–driven.

We generally hold certain conditional repurchase options that allow us to repurchase assets from the securitization entity. The majority of the securitizations provide us, as servicer, with a call option that allows us to repurchase the remaining transferred financial assets or outstanding beneficial interests at our discretion once the asset pool reaches a predefined level, which represents the point where servicing becomes burdensome (a clean–up call option). The repurchase price is typically the par amount of the loans plus accrued interest. Additionally, we may hold other conditional repurchase options that allow us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan if it exceeds a certain prespecified delinquency level. We have discretion regarding when or if we will exercise these options, but generally, we would do so only when it is in our best interest.

Other than our customary representation and warranty obligations, these securitizations are nonrecourse to us, thereby transferring the risk of future credit losses to the extent the beneficial interests in the securitization entities are held by third parties. Representation and warranty provisions generally require us to repurchase loans or indemnify the investor or other party for incurred losses to the extent it is determined that the loans were ineligible or were otherwise defective at the time of sale. See Note 16 — Contingencies and Other Risks for detail on representation and warranty provisions. We did not provide any noncontractual financial support to any of these entities during the three months ended March 31, 2012 and 2011.

Other Variable Interest Entities

Servicer Advance Funding Entity — To assist in the financing of our servicer advance receivables, we formed a SPE that issues term notes and variable funding notes to third–party investors that are collateralized by servicer advance receivables. These servicer advance receivables are transferred to the SPE and consist of delinquent principal and interest advances we made as servicer to various investors; property taxes and insurance premiums advanced to taxing authorities and insurance companies on behalf of borrowers; and amounts advanced for mortgages in foreclosure. The SPE funds the purchase of the receivables through financing obtained from the third–party investors and subordinated loans or an equity contribution from us. This SPE is consolidated on our balance sheet at March 31, 2012 and December 31, 2011. The beneficial interest holder of this SPE does not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support to the entity during the three months ended March 31, 2012 and 2011.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

Home Equity Funding Entity — To assist in the financing of certain of our home equity mortgage loans, we formed a SPE that issued variable funding notes to third–party investors that are collateralized by home equity loans and revolving lines of credit. This SPE is consolidated on our balance sheet at March 31, 2012 and December 31, 2011. The beneficial interest holder of this VIE does not have legal recourse to our general credit. We do not have a contractual obligation to provide any type of financial support in the future, nor have we provided noncontractual financial support to the entity during the three months ended March 31, 2012 and 2011.

Other — We have involvement with other immaterial on-balance sheet VIEs. Most of these VIEs are used for additional liquidity whereby we sell certain financial assets to the VIE and issue beneficial interests to third parties for cash.

Involvement with Variable Interest Entities

The determination of whether financial assets transferred by us to VIEs (and related liabilities) are consolidated on our balance sheet (also referred to as on–balance sheet) or not consolidated on our balance sheet (also referred to as off–balance sheet) depends on the terms of the related transaction and our continuing involvement (if any) with the SPE. We are deemed the primary beneficiary and, therefore, consolidate VIEs for which we have both (a) the power through voting rights or similar rights to direct the activities that most significantly impact the VIE's economic performance, and (b) a variable interest (or variable interests) that (i) obligates us to absorb losses that could potentially be significant to the VIE and/or (ii) provides us the right to receive residual returns of the VIE that could potentially be significant to the VIE. We determine whether we hold a significant variable interest in a VIE based on a consideration of both qualitative and quantitative factors regarding the nature, size, and form of our involvement with the VIE. We assess whether we are the primary beneficiary of a VIE on an ongoing basis.

Our involvement with consolidated and nonconsolidated VIEs in which we hold a variable interest as of March 31, 2012 and December 31, 2011, is presented below.

($ in thousands)	**Consolidated involvement with VIEs**	**Assets of nonconsolidated VIEs, net (a)**	**Maximum exposure to loss in nonconsolidated VIEs (b)**
March 31, 2012			
On–balance sheet variable interest entities			
Private-label securitizations	**$933,317**	$—	$—
Servicer Advance Funding	**960,480**	—	—
Home Equity Funding	**150,607**	—	—
Other	**2,478**	—	—
Off–balance sheet variable interest entities			
Ginnie Mae securitizations	**2,664,512 (c)**	43,317,031	43,317,031
Private-label securitizations	**132,455 (d)**	4,193,506	4,193,506
Total	**$4,843,849**	$47,510,537	$47,510,537
December 31, 2011			
On–balance sheet variable interest entities			
Private-label securitizations	$939,159	$—	$—
Servicer Advance Funding	955,823	—	—
Home Equity Funding	156,423	—	—
Other	2,541	—	—
Off–balance sheet variable interest entities			
Ginnie Mae securitizations	2,651,939 (c)	44,126,607	44,126,607
Private-label securitizations	140,709 (d)	4,408,206	4,408,206
Total	$4,846,594	$48,534,813	$48,534,813

(a) Asset values represent the current UPB of outstanding consumer mortgage loans within the VIEs.

(b) Maximum exposure to loss represents the current UPB of outstanding consumer mortgage loans based on our customary representation and warranty provisions. This measure is based on the unlikely event that all of the loans have underwriting defects or other defects that trigger a representation and warranty provision and the collateral supporting the loans are worthless. This required disclosure is not an indication of our expected loss.

(c) Includes $411.2 million and $377.8 million classified as mortgage servicing rights and $2.3 billion and $2.3 billion of mortgage loans held–for–sale that are subject to conditional repurchase options at March 31, 2012 and December 31, 2011, respectively. The corresponding liability related to conditional repurchase option loans is recorded in other liabilities.

(d) Includes $25.3 million and $26.5 million classified as other assets, $7.8 million and $8.4 million classified as mortgage servicing rights and $99.3 million and $105.8 million of mortgage loans held–for–sale that are subject to conditional repurchase options at March 31, 2012 and December 31, 2011, respectively. The corresponding liability related to conditional repurchase option loans is recorded in other liabilities.

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Residential Capital, LLC

On–balance Sheet Variable Interest Entities

We engage in securitization and other financing transactions that do not qualify for off–balance sheet treatment. In these situations, we hold beneficial interests or other interests in the VIE, which represents a form of significant continuing economic interest. The interests held include, but are not limited to, senior or subordinate mortgage– or asset–backed securities, interest–only strips, principal–only strips, residuals, and servicing rights. Certain of these retained interests provide credit enhancement to the securitization entity as they may absorb credit losses or other cash shortfalls. Additionally, the securitization documents may require cash flows to be directed away from certain of our retained interests due to specific over–collateralization requirements, which may or may not be performance–driven. Because these securitization entities are consolidated, these retained interests and servicing rights are not recognized as separate assets on our Condensed Consolidated Balance Sheet.

We consolidate certain of these entities because we have a controlling financial interest in the VIE, primarily due to our servicing activities, and because we hold a significant variable interest in the VIE. We are the primary beneficiary of certain private-label securitization entities for which we perform servicing activities and have retained a significant variable interest in the form of a beneficial interest. In cases where we did not meet sale accounting under previous guidance, unless we have made modifications to the overall transaction, we do not meet sale accounting under current guidance as we are not permitted to revisit sale accounting guidelines under the current guidance. In cases where substantive modifications are made, we then reassess the transaction under the amended guidance based on the new circumstances.

Consolidated VIEs represent separate entities with which we are involved. The third–party investors in the obligations of consolidated VIEs have legal recourse only to the assets of the VIEs and do not have recourse to us, except for customary representation and warranty provisions or situations where we are the counterparty to certain derivative transactions involving the VIE. Cash flows from the assets are restricted only to pay such liabilities. Thus, our economic exposure to loss from outstanding third–party financing related to consolidated VIEs is significantly less than the carrying value of the consolidated VIE assets. All assets are restricted for the benefit of the beneficial interest holders. See Note 13 — Fair Value for discussion of the assets and liabilities for which the fair value option has been elected.

Off-balance Sheet Variable Interest Entities

The nature, purpose, and activities of nonconsolidated securitization entities are similar to those of our consolidated securitization entities with the primary difference being the nature and extent of our continuing involvement. The cash flows from the assets of nonconsolidated securitization entities generally are the sole source of payment on the securitization entities' liabilities. The creditors of these securitization entities have no recourse to us with the exception of market customary representation and warranty provisions as described in Note 16 — Contingencies and Other Risks.

Nonconsolidated VIEs include entities for which we either do not hold significant variable interests or do not provide servicing or asset management functions for the financial assets held by the securitization entity. Additionally, to qualify for off–balance sheet treatment, transfers of financial assets must meet sale accounting conditions in ASC 860. Our residential mortgage loan securitizations consist of GSE and private-label securitizations. We are not the primary beneficiary of any GSE loan securitization transaction because we do not have the power to direct the significant activities of such entities. Additionally, we do not consolidate certain private-label securitizations because we do not have a variable interest that could potentially be significant or we do not have power to direct the activities that most significantly impact the performance of the VIE.

For nonconsolidated securitization entities, the transferred financial assets are removed from our balance sheet provided the conditions for sale accounting are met. The financial assets obtained from the securitization are primarily reported as cash, servicing rights, or retained interests (if applicable). As an accounting policy election, we elected fair value treatment for our MSR portfolio. Liabilities incurred as part of these securitization transactions, such as representation and warranty provisions, are recorded at fair value at the time of sale and are reported as other liabilities on our Condensed Consolidated Balance Sheet. Upon the sale of the loans, we recognize a gain or loss on sale for the difference between the assets recognized, the assets derecognized, and the liabilities recognized as part of the transaction.

The following summarizes the pretax gains and losses recognized on financial assets sold into nonconsolidated securitization and similar asset-backed financing entities.

Three months ended March 31, *($ in thousands)*	**2012**	2011
Consumer mortgage — GSEs	$251,693	($61,504)
Total pretax gain (loss)	$251,693	($61,504)

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

The following table summarizes cash flows received from and paid to securitization entities that are accounted for as a sale and in which we have a continuing involvement with the transferred assets (e.g., servicing) that were outstanding during the three months ended March 31, 2012 and 2011. This table contains information regarding cash flows received from and paid to nonconsolidated securitization entities that existed during each period.

	Consumer mortgage	
Three months ended March 31, ($ in thousands)	GSEs	Private-Label
2012		
Cash proceeds from transfers completed during the period	**$10,645,441**	**$—**
Cash flows received on retained interests in securitization entities	—	**3,747**
Servicing fees	**117,166**	**43,182**
Purchases of previously transferred financial assets		
Representation and warranty obligations	**(19,005)**	**(4,038)**
Other repurchases	**(579,948)**	**(7,517) (a)**
Other cash flows	**8,596**	**23,100**
Total net cash flows	**$10,172,250**	**$58,474**
2011		
Cash proceeds from transfers completed during the period	$15,153,060	$—
Cash flows received on retained interests in securitization entities	—	5,254
Servicing fees	103,041	41,720
Purchases of previously transferred financial assets		
Representation and warranty obligations	(43,582)	(14)
Other repurchases	(554,409)	
Other cash flows	67,929	62,014
Total net cash flows	$14,726,039	$108,974

(a) Includes repurchases in connection with clean up call options.

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The following table represents on–balance sheet mortgage loans held–for–sale and consumer finance receivable and loans, off–balance sheet securitizations, and whole–loan sales where we have continuing involvement. The table presents information about delinquencies and net credit losses. See Note 5 — Servicing Activities for further detail on total serviced assets.

	Total UPB		Amount 60 days or more past due		Net credit losses (recoveries)	
					Three months ended March 31,	
($ in thousands)	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	2012	2011
On–balance sheet loans						
Consumer mortgage held–for–sale	**$4,678,850 (a)**	$4,650,917 (a)	**$3,004,991 (a)**	$3,049,234 (a)	**$2,374**	$7,205 (b)
Consumer mortgage finance receivables and loans	**2,550,117**	2,623,763	**440,072**	422,017	**26,454**	37,634
Total on–balance sheet loans	**7,228,967**	7,274,680	**3,445,063**	3,471,251	**28,828**	44,839
Off–balance sheet securitization entities						
Consumer mortgage — GSEs (c)	**124,446,063**	131,751,844	**7,155,304**	7,675,811	**n/m (c)**	n/m (c)
Consumer mortgage — nonagency	**58,555,428**	60,768,935	**11,027,854**	11,232,126	**749,429**	1,288,842
Total off–balance sheet securitization entities	**183,001,491**	192,520,779	**18,183,158**	18,907,937	**749,429**	1,288,842
Whole-loan transactions (d)	**16,628,200**	17,516,446	**2,080,368**	2,209,088	**133,919**	188,971
Total	**$206,858,658**	$217,311,905	**$23,708,589**	$24,588,276	**$912,176**	$1,522,652

n/m = not meaningful

(a) Includes loans subject to conditional repurchase options of $2.3 billion and $2.3 billion guaranteed by Ginnie Mae, and $128.9 million and $131.8 million sold to certain nonagency mortgage securitization entities at March 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in other liabilities.

(b) We determined the amount previously disclosed related to net credit losses for the three months ended March 31, 2011, were misstated. Previously disclosed net credit losses were $37.3 million for on-balance sheet mortgage loans held for sale. These amounts were corrected in the presentation above. The misstatement had no impact on our consolidated financial conditions or results of operations.

(c) Anticipated credit losses are not meaningful due to the GSEs guarantees.

(d) Whole-loan transactions are not part of a securitization transaction, but represent pools of consumer mortgage loans sold to investors.

5. Servicing Activities

Mortgage Servicing Rights

The following table summarizes our activity related to MSRs. Although there are limited market transactions that are directly observable, management estimates fair value based on the price it believes would be received to sell the MSR asset in an orderly transaction under current market conditions.

($ in thousands)	2012	2011
Estimated fair value at January 1,	**$1,233,107**	$1,991,586
Additions recognized on sale of mortgage loans	**10,573**	18,370
Subtractions from sales of servicing assets	**—**	(139)
Changes in fair value		
Due to changes in valuation inputs or assumptions used in the valuation model	**86,900**	120,806
Other changes in fair value	**(76,083)**	(84,318)
Estimated fair value at March 31,	**$1,254,497**	$2,046,305

Changes in fair value due to changes in valuation inputs or assumptions used in the valuation models include all changes due to a revaluation by a model or by a benchmarking exercise. Other changes in fair value primarily include the accretion of the present

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value of the discount related to forecasted cash flows and the economic run-off of the portfolio.

The key economic assumptions and the sensitivity of the fair value of MSRs to immediate 10% and 20% adverse changes in those assumptions were as follows.

($ in thousands)	**March 31, 2012**	December 31, 2011
Weighted average life *(in years)*	4.7	4.3
Weighted average prepayment speed	**15.1%**	18.0%
Impact on fair value of 10% adverse change	**$(111,808)**	$(71,223)
Impact on fair value of 20% adverse change	**(211,799)**	(135,292)
Weighted average discount rate	**10.8%**	9.5%
Impact on fair value of 10% adverse change	**$(24,107)**	$(25,396)
Impact on fair value of 20% adverse change	**(46,384)**	(48,913)

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected change in the fair value of the instruments used to manage the interest rate and prepayment risks associated with these assets. Refer to Note 1– Description of Business and Significant Accounting Policies, in our 2011 Annual Report for additional information regarding our significant assumptions and valuation techniques used in the valuation of mortgage servicing rights.

Risk–mitigation Activities

The primary economic risk related to our MSR is interest rate risk and the resulting impact on prepayment speeds. A significant decline in interest rates could lead to higher than expected prepayments that could reduce the value of the MSRs. We economically hedge the impact of this risk with both derivative and nonderivative financial instruments. These instruments include interest rate swaps, caps and floors, options to purchase these items, futures and forward contracts, constant monthly maturity (index trades), synthetic interest only and principal only securities and/or to–be–announced (TBAs) securities. The net fair value of derivative financial instruments used to mitigate this risk was $(339.5) million and $(199.8) million at March 31, 2012 and December 31, 2011, respectively. See Note 14 — Derivative Instruments and Hedging Activities for additional information.

The components of servicing valuation and hedge activities, net, were as follows.

Three months ended March 31, *($ in thousands)*	**2012**	2011
Change in estimated fair value of mortgage servicing rights	**$10,817**	$36,488
Change in fair value of derivative financial instruments	**104,499**	12,423
Servicing valuation and hedge activities, net	**$115,316**	$48,911

Mortgage Servicing Fees

The components of servicing fees were as follows.

Three months ended March 31, *($ in thousands)*	**2012**	2011
Contractual servicing fees (net of guarantee fees and including sub-servicing)	**$140,375**	$167,384
Late fees	**16,806**	18,991
Ancillary fees	**31,760**	31,289
Total	**$188,941**	$217,664

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Mortgage Servicer Advances

In connection with our primary servicing activities (i.e., servicing of mortgage loans), we make certain payments for property taxes and insurance premiums, default and property maintenance payments, as well as advances of principal and interest payments before collecting them from individual borrowers. Servicer advances, including contractual interest are priority cash flows in the event of a loan principal reduction or foreclosure and ultimate liquidation of the real estate owned property, thus making their collection reasonably assured. These servicer advances are included in accounts receivable and totaled $1.8 billion and $1.8 billion at March 31, 2012 and December 31, 2011, respectively. We maintain an allowance for uncollectible primary servicer advances, which totaled $42.5 million and $42.5 million at March 31, 2012 and December 31, 2011, respectively. Our potential advance obligation is influenced by a borrower's performance and credit quality.

We advance funds for various activities related to the foreclosure process principally related to attorney fees and costs, appraisals, escrow, insurance and property preservation, in the event we, or the investor, determine foreclosure is the most appropriate loss mitigation strategy. In the current environment, many states and local jurisdictions are requiring us to alter our processes in connection with foreclosures and in some circumstances this can result in restarting the foreclosure process entirely or repeating certain of the required steps (foreclosure restarts). To the extent we restart the process, in whole or in part, we will not be reimbursed for advances in connection with the original activities. The circumstances and extent of any foreclosure restart are specific and unique to each state and/or local jurisdiction. At March 31, 2012, we had an allowance for uncollectible advances in connection with estimated foreclosure restarts of $10.4 million.

At March 31, 2012 and December 31, 2011 we had an allowance for uncollectible primary servicer advances of $7.5 million, respectively, related to expected loan modification activities. See Note 16 — Contingencies and Other Risks for additional information. To the extent amounts had been advanced for loans that are expected to be modified in connection with our Settlement, these amounts will not be collected. The amount of this allowance is management's best estimate given the anticipated modification activity.

When we act as a subservicer of mortgage loans we perform the responsibilities of a primary servicer but do not own the corresponding primary servicing rights. We receive a fee from the primary servicer for such services. As the subservicer, we would have the same responsibilities of a primary servicer in that we would make certain payments of property taxes and insurance premiums, default and property maintenance, as well as advances of principal and interest payments before collecting them from individual borrowers. As of March 31, 2012 and December 31, 2011, outstanding servicer advances related to subserviced loans were $127.1 million and $124.9 million and we had a reserve for uncollectible subservicer advances of $1.0 million and $1.1 million, respectively.

In many cases where we act as master servicer we also act as primary servicer. In connection with our master servicing activities, we service the mortgage-backed and mortgage-related asset-backed securities and whole-loan packages sold to investors. As the master servicer, we collect mortgage loan payments from primary servicers and distribute those funds to investors in mortgage-backed and asset-backed securities and whole-loan packages. As the master servicer, we are required to advance scheduled payments to the securitization trust or whole-loan investors. To the extent the primary servicer does not advance the payments, we are responsible for advancing the payment to the trust or whole-loan investors. Master servicer advances, including contractual interest, are priority cash flows in the event of a default, thus making their collection reasonably assured. In most cases, we are required to advance these payments to the point of liquidation of the loan or reimbursement of the trust or whole loan investors. We had outstanding master servicer advances of $189.9 million and $158.2 million as of March 31, 2012 and December 31, 2011, respectively. We had no reserve for uncollectible master servicer advances at March 31, 2012 and December 31, 2011.

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Serviced Mortgage Assets

In many cases, we act as both the primary and master servicer. However, in certain cases, we also service loans that have been purchased and subsequently sold through a securitization trust or whole-loan sale whereby the originator retained the primary servicing rights and we retained the master servicing rights.

The unpaid principal balance of total serviced mortgage assets was as follows.

($ in millions)	**March 31, 2012**	December 31, 2011
On-balance sheet mortgage loans (a)		
Held-for-sale and investment	**$7,018**	$6,828
Off-balance sheet mortgage loans		
Loans held by third-party investors		
Consumer mortgage private-label	**48,514**	50,886
Consumer mortgage agency	**124,339**	131,635
Consumer mortgage whole-loan portfolios	**14,484**	15,104
Purchased servicing rights (b)	**3,089**	3,247
Total primary serviced mortgage loans	**197,444**	207,700
Subserviced mortgage loans (c)	**169,223**	169,531
Master servicing only mortgage loans	**8,225**	8,557
Total serviced mortgage loans	**$374,892**	$385,788

(a) Includes on-balance sheet securitization consumer finance receivables and loans. See Note 3 — Finance Receivables and Loans, net, for additional information.

(b) There is no recourse to us outside of customary contractual provisions relating to the execution of the services we provide.

(c) Includes loans where we act as a subservicer under contractual agreements with the primary servicer. As subservicer, there is no recourse to us outside of customary contractual provisions relating to the execution of the services we provide, except for loans subserviced on behalf of Ally Bank. See Note 17 — Related Party Transactions for additional information.

The following table sets forth information concerning the delinquency experience in our domestic consumer mortgage loan primary servicing portfolio, including pending foreclosures.

	March 31, 2012		December 31, 2011	
($ in millions)	**Number of loans**	**Unpaid principal balance**	Number of loans	Unpaid principal balance
Total U.S. mortgage loans primary serviced	**1,517,358**	**$197,171**	1,587,113	$207,380
Period of delinquency				
30 to 59 days	**53,549**	**$7,559**	67,239	$9,289
60 to 89 days	**19,427**	**3,024**	25,138	3,695
90 days or more	**25,521**	**4,310**	27,570	4,467
Foreclosures pending	**67,843**	**12,947**	68,166	13,018
Bankruptcies	**33,807**	**4,758**	34,956	4,869
Total delinquent loans	**200,147**	**$32,598**	223,069	$35,338
Percent of U.S. mortgage loans primary serviced	**13.2%**	**16.5%**	14.1%	17.0%

Certain of our subsidiaries which conduct our primary and master servicing activities are required to maintain certain servicer ratings in accordance with master agreements entered into with a GSE. At March 31, 2012, we are in compliance with the servicer rating requirements of the master agreements.

We are also required to maintain consolidated tangible net worth, as defined, of $250.0 million, under our agreements with a GSE. In the event of default, the GSE could require posting collateral in an amount based on repurchase demands outstanding plus recourse obligations; termination or suspension of our selling and servicing contract; require additional or more frequent financial and operational reporting; limit early funding programs or trading desk transactions; accelerate rebuttal time periods for outstanding repurchase demands; or take other actions permitted by law. Should we or our subsidiaries fail to remain in compliance with these requirements and as a result should our mortgage selling and servicing contract be terminated, cross default provisions within certain credit and bilateral facilities could be triggered. At March 31, 2012, we had consolidated tangible net worth of $399.3 million in compliance with our contractual covenant.

At March 31, 2012, domestic insured private-label securitizations with an unpaid principal balance of $5.4 billion contain provisions entitling the monoline or other provider of contractual credit support (surety providers) to declare a servicer default and terminate the servicer upon the failure of the loans to meet certain portfolio delinquency and/or cumulative loss thresholds. Securitizations with an unpaid principal balance of $4.8 billion had breached a delinquency and/or cumulative loss threshold. While we continue to service these loans and receive service fee income with respect to these securitizations, the value of the related MSR is zero at March 31, 2012. Securitizations with an unpaid principal balance of $574.0 million have not yet breached a delinquency or cumulative loss threshold. The value of the related MSR is $4.0 million at March 31, 2012.

6. Accounts Receivable, Net

($ in thousands)	**March 31, 2012**	December 31, 2011
Servicer advances, net (a)	**$2,050,651**	$2,045,446
Loan insurance guarantee receivable, net (b)	**874,985**	745,396
Servicing fees receivable	**87,402**	87,208
Due from brokers for derivative trades	**54,294**	94,024
Accrued interest receivable	**36,883**	37,962
Other	**53,041**	41,712
Total accounts receivable, net	**$3,157,256**	$3,051,748

(a) The allowance for uncollectible servicer advances was $43.5 million and $43.7 million at March 31, 2012 and December 31, 2011, respectively.
(b) Represents mortgage loans in foreclosure for which a guarantee from Ginnie Mae exists, net of a reserve for uncollectible guaranteed receivables of $28.0 million and $21.8 million at March 31, 2012 and December 31, 2011, respectively.

7. Other Assets

($ in thousands)	**March 31, 2012**	December 31, 2011
Property and equipment at cost	**$255,750**	$252,890
Accumulated depreciation and amortization	**(212,771)**	(207,645)
Net property and equipment	**42,979**	45,245
Fair value of derivative contracts in receivable position	**3,621,448**	4,877,197
Collateral placed with derivative counterparties	**1,110,251**	1,095,287
Restricted cash	**397,494**	448,819
Foreclosed assets	**63,987**	71,485
Receivables from Ally Bank	**37,045**	—
Trading securities	**32,302**	33,303
Interests retained in financial asset sales	**—**	23,102
Income taxes receivable	**—**	5,111
Other	**25,866**	28,603
Total other assets	**$5,331,372**	$6,628,152

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8. Borrowings

Borrowings were as follows.

	Weighted average end of period interest rates		March 31, 2012			December 31, 2011		
($ in thousands)	March 31, 2012	December 31, 2011	Unsecured	Secured	Total	Unsecured	Secured	Total
Short-term borrowings								
Borrowings from parent	3.0%	3.0%	$—	$410,000	$410,000	$—	$183,595	$183,595
Borrowings from affiliate	5.0%	5.1%	—	250,000	250,000	—	250,000	250,000
Other short-term borrowings	6.3%	6.3%	—	158,000	158,000	—	323,000	323,000
Total short-term borrowings	4.3%	5.1%	—	818,000	818,000	—	756,595	756,595
Long-term borrowings								
Borrowings from parent	3.0%	3.0%	—	749,873	749,873	—	755,769	755,769
Collateralized borrowings in securitization trusts (a)	4.6%	4.7%	—	828,418	828,418	—	830,318	830,318
Other long-term borrowings	8.2%	8.0%	1,112,587	3,198,189	4,310,776	1,096,789	3,285,615	4,382,404
Total long-term borrowings	7.0%	6.9%	1,112,587	4,776,480	5,889,067	1,096,789	4,871,702	5,968,491
Total borrowings	6.7%	6.7%	$1,112,587	$5,594,480	$6,707,067	$1,096,789	$5,628,297	$6,725,086

(a) Collateralized borrowings with an outstanding balance of $2.5 billion and $2.6 billion were recorded at fair value of $828.4 million and $829.9 million as of March 31, 2012 and December 31, 2011, respectively. See Note 13 — Fair Value for additional information.

The following table summarizes the maturity profile of our borrowings by type. Amounts represent the scheduled maturity of debt, assuming no early redemptions occur. For sources of borrowings without a stated maturity date (as is the case with uncommitted agreements), the maturities are assumed to occur within 2012.

($ in millions)	2012	2013	2014	2015	2016	2017 and thereafter	Total
Secured borrowings							
Borrowings from parent	$1,159.9	$—	$—	$—	$—	$—	$1,159.9
Borrowings from affiliate	250.0	—	—	—	—	—	250.0
Collateralized borrowings in securitization trusts (a)	—	—	—	—	—	828.4	828.4
Other secured borrowings	239.7	789.3	805.1	719.3	—	802.8	3,356.2
Total secured borrowings	1,649.6	789.3	805.1	719.3	—	1,631.2	5,594.5
Unsecured borrowings	351.6	537.3	109.5	114.2	—	—	1,112.6
Total borrowings	$2,001.2	$1,326.6	$914.6	$833.5	$—	$1,631.2	$6,707.1

(a) The principal on the debt securities is paid using cash flows from underlying collateral (mortgage loans). Accordingly, the timing of the principal payments on these debt securities is dependent on the payments received, and as such, we elected to represent the full term of the securities in the 2017 and thereafter time frame.

We did not make a $20.1 million semi-annual interest payment that was due on April 17, 2012, related to $473.0 million outstanding senior unsecured notes maturing in June 2013. The indenture provides that a failure to pay interest on an interest payment date does not become an event of default unless such failure continues for a period of 30 days.

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The most restrictive financial covenants in our credit facilities require us to maintain consolidated tangible net worth of $250.0 million as of the end of each month, consolidated liquidity of $250.0 million daily, and unrestricted liquidity of $250.0 million daily. For these purposes, consolidated tangible net worth is defined as our consolidated equity excluding intangible assets. Unrestricted liquidity is defined as certain unrestricted and unencumbered cash balances in U.S. dollars and cash equivalents on a consolidated basis. We view unrestricted liquidity as cash readily available to cover operating demands across our business operations. These financial covenants are included in certain of our bilateral facilities. Should we fail to remain in compliance with these requirements, remedies include but are not limited to, at the option of the facility provider, termination of further funding, acceleration of outstanding obligations, rights to realize against the assets securing or otherwise supporting the facility, and other legal remedies. Our liquidity providers can waive their contractual rights in the event of a default.

We are required to maintain consolidated tangible net worth, as defined, of $250.0 million, under our agreements with a GSE. In the event of default, the GSE could require posting collateral in an amount based on repurchase demands outstanding plus recourse obligations; termination or suspension of our selling and servicing contract; require additional or more frequent financial and operational reporting; limit early funding programs or trading desk transactions; accelerate rebuttal time periods for outstanding repurchase demands; or take other actions permitted by law. We and certain of our subsidiaries are also required to maintain certain servicer ratings. Should we or our subsidiaries fail to remain in compliance with these requirements and as a result should our mortgage selling and servicing contract be terminated, cross default provisions within certain credit and bilateral facilities could be triggered.

At March 31, 2012, our consolidated tangible net worth, as defined, was $399.3 million, in compliance with all of our consolidated tangible net worth covenants. In addition we are in compliance with our consolidated and unrestricted liquidity requirements and required servicer ratings as of March 31, 2012. Refer to Note 1 – Description of Business, Basis of Presentation and Changes in Significant Accounting Policies for additional information.

The following table summarizes the outstanding, unused, and total capacity of our funding facilities at March 31, 2012. We use both committed and uncommitted credit facilities. The financial institutions providing the uncommitted facilities are not legally obligated to advance funds under them.

March 31, 2012 *($ in thousands)*	**Outstanding**	**Unused capacity**	**Total capacity**
Facilities with parent			
Ally Inc. Senior Secured Credit Facility	$749,873	$—	$749,873
Ally Inc. LOC	410,000	1,190,000	1,600,000
Total facilities with parent	1,159,873	1,190,000	2,349,873
Facilities with affiliate			
Secured financing agreement - BMMZ	250,000	—	250,000
Secured funding facilities - committed			
Mortgage servicing rights facility	158,000	—	158,000
Servicer advance funding facilities	727,838	197,162	925,000
Home equity funding facility	127,294	—	127,294
Other funding facilities	—	11,000	11,000
Total committed	1,263,132	208,162	1,471,294
Total funding facilities	$2,423,005	$1,398,162	$3,821,167

Facilities with Parent and Affiliates

Ally Inc. Senior Secured Credit Facility

On April 10, 2012, this facility was amended and the maturity date was extended to May 14, 2012. The borrowers, RFC and GMAC Mortgage (collectively, the Borrowers), no longer have the ability to request revolving loans under the facility. The facility is secured by certain domestic whole loans, accounts receivable, notes receivable, securities, and equity investments of the Borrowers. The facility contains limitations on the use of proceeds from sales of pledged collateral with any such proceeds required to be paid to Ally Inc. to reduce the balance outstanding.

Ally Inc. Line of Credit (LOC)

At March 31, 2012, the maximum capacity of the LOC was $1.6 billion, comprised of $1.1 billion of secured capacity and $500.0 million of unsecured capacity. On April 10, 2012, this facility was amended, extending the maturity date to May 14, 2012 and the $500.0 million of unsecured capacity was terminated. Certain domestic whole loans, accounts receivable, notes receivable, mortgage servicing rights, securities, and equity investments of the Borrowers secure draws under the LOC, which are available to

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the extent there is sufficient collateral securing the draw. Draws under the LOC are available only if certain unrestricted and unencumbered balances in U.S. dollars and cash equivalents of us and our subsidiaries are less than $300.0 million. The available amount and the borrowing base of the LOC will both be reduced by the amount of any collateral posted or delivered by Ally IM to the Borrowers or us pursuant to certain derivative transaction agreements with Ally IM. The obligations under the LOC and the Ally IM Derivative Agreements are cross-collateralized for the benefit of Ally Inc.

BMMZ Holdings, LLC Secured Financing Agreement (BMMZ Repo)

BMMZ Holdings LLC (BMMZ) is a wholly owned subsidiary of Ally Inc. The aggregate facility amount is $250.0 million. The secured financing agreement is collateralized by domestic mortgage loan assets. The maturity date is the earlier of the maturity date of the LOC or December 19, 2012.

Secured Funding Facilities

Mortgage Servicing Rights Facility

On March 31, 2012, the facility was amended such that no additional draws can be made after that date, effectively reducing the maximum capacity to $158.0 million. The facility maturity date was amended to the earlier of two days prior to the maturity of the Ally Inc. LOC or May 30, 2012.

Servicer Advance Funding Facilities

At March 30, 2012, the secured facility to fund mortgage servicer advances had total capacity of $800.0 million, consisting of an $800.0 million variable funding note which will begin amortizing on March 12, 2013 and has a stated final maturity of March 12, 2020. On March 13, 2012, the facility was amended whereby the new variable funding note was issued with the proceeds being used to pay down the then outstanding variable funding and term notes.

A second secured facility to fund mortgage servicer advances has capacity of $125.0 million. On August 1, 2012, the scheduled revolving period will end, after which date no new advances will be funded and the 18-month repayment period will begin. Termination will occur upon the earlier of the end of the repayment period or the date the outstanding loan amount is paid in full.

Home Equity Funding Facility

The secured facility to fund home equity mortgage loans consisted of $127.3 million in variable funding notes due to mature on February 25, 2031.

Collateralized Borrowings in Securitization Trusts

We previously sold pools of consumer mortgage loans through private-label securitization transactions. The purpose of these securitizations was to provide permanent funding and exit for these assets. Certain of these securitizations were accounted for as secured borrowings, and therefore, the debt is reflected on our Condensed Consolidated Balance Sheet.

Other Borrowings

Junior Secured Notes

The outstanding balance of the Junior Secured Notes at March 31, 2012, was $2.1 billion with a final maturity on May 15, 2015. The unamortized balance of deferred concession recognized as a result of our 2008 exchange offer was $220.2 million. The deferred concession is being amortized over the life of the secured notes using the effective yield method. For the three months ended March 31, 2012 and 2011, $25.9 million and $24.9 million, respectively, of deferred concession was amortized into earnings as a reduction of interest expense.

GMAC Mortgage, its immediate parent, GMAC Residential Holding Company, LLC (Res Holdings), RFC, its immediate parent, GMAC-RFC Holding Company, LLC (RFC Holdings), and Homecomings Financial, LLC (Homecomings), a wholly owned subsidiary of RFC, are all guarantors with respect to the junior secured notes.

Upon repayment in full of the Ally Inc. Senior Secured Credit Facility, net cash proceeds from sales of assets that were previously pledged as collateral to the Ally Inc. Senior Secured Credit Facility may be used to repurchase, optionally redeem or optionally prepay the junior secured notes. In the event net cash proceeds are not used to repurchase or optionally redeem or prepay the junior secured notes, or to reinvest in permissible collateral with a fair value substantially equivalent to the net cash proceeds (collectively, the Reinvested Proceeds), under certain circumstances, we may be required to make an offer to all holders of the junior secured notes to purchase notes in an amount equal to the excess of the net cash proceeds over the Reinvested Proceeds.

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Unsecured Notes

As of March 31, 2012, unsecured notes include $673.3 million of U.S. dollar-denominated senior notes maturing between June 2012 and June 2015, $131.2 million euro-denominated notes maturing in May 2012 and $167.7 million U.K. sterling-denominated notes maturing between May 2013 and July 2014. We hedge a portion of the interest rate risk associated with our fixed-rate euro and U.K. sterling notes. As of March 31, 2012, we had interest rate swap agreements in place with notional amounts of $147.2 million and $103.9 million for our euro and U.K sterling denominated notes, respectively.

We did not make a $20.1 million semi-annual interest payment that was due on April 17, 2012, related to $473.0 million outstanding senior unsecured notes maturing in June 2013. The indenture provides that a failure to pay interest on an interest payment date does not become an event of default unless such failure continues for a period of 30 days.

Medium-term Unsecured Notes

Represents $140.4 million of peso-denominated notes issued by our wholly owned subsidiary GMAC Financiera S.A de C.V., SOFOM, ENR (GMAC Financiera) that mature in June 2012. ResCap, GMAC Mortgage, Res Holdings, RFC, RFC Holdings, and Homecomings are guarantors of the medium-term unsecured notes.

Collateral for Secured Debt

The following table summarizes the carrying value of assets that are restricted, pledged, or for which a security interest has been granted as collateral for the payment of certain debt obligations.

($ in thousands)	**March 31, 2012**	December 31, 2011
Cash and cash equivalents	**$85,628**	$82,389
Mortgage loans held–for–sale	**1,610,350**	1,688,037
Finance receivables and loans, net		
Consumer	**979,137**	1,005,982
Commercial	**4,205**	4,226
Total finance receivables and loans, net	**983,342**	1,010,208
Mortgage servicing rights	**843,299**	855,343
Accounts receivable, net	**2,481,190**	2,404,231
Other assets	**77,676**	81,960
Total assets restricted as collateral	**$6,081,485**	$6,122,168
Related secured debt	**$5,594,480**	$5,628,297

A portion of the assets included in the table above represent assets of subsidiaries whose equity has been pledged to secure the Ally Inc. Senior Secured Credit Facility and the Ally Inc. LOC. At March 31, 2012, there were $3.0 million of equity interests of these subsidiaries pledged to the Ally Inc. Senior Secured Credit Facility. We have also provided a lien on certain of our consolidated assets, as specified in the Ally Inc. Senior Secured Credit Facility agreements, for the benefit of the Ally Inc. Senior Secured Credit Facility and the Junior Secured Notes. Included in the table above is $1.9 billion and $2.0 billion at March 31, 2012 and December 31, 2011, respectively, of collateral pledged that can be re–hypothecated or re–pledged by the secured party.

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The following table summarizes the carrying value of assets pledged and the amount of related debt outstanding by our secured borrowing types.

($ in thousands)	March 31, 2012 Total assets restricted as collateral	March 31, 2012 Related secured debt	December 31, 2011 Total assets restricted as collateral	December 31, 2011 Related secured debt
Borrowings from parent and affiliate				
Ally Inc. Senior Secured Credit facility	**$1,326,032**	**$749,873**	$1,340,954	$755,769
Ally Inc. LOC	**1,553,328**	**410,000**	1,582,033	183,595
BMMZ Repo	**377,645**	**250,000**	401,118	250,000
Collateralized borrowings in securitization trusts	**912,434**	**828,418**	918,232	830,318
Other secured borrowings				
Junior Secured Notes (a)	**—**	**2,340,680**	—	2,366,600
Mortgage servicing rights facility	**675,544**	**158,000**	634,345	323,000
Servicer advance funding facilities	**1,083,408**	**727,838**	1,086,011	780,385
Home equity funding facility	**147,042**	**127,294**	153,191	135,800
Other secured facility	**6,052**	**2,377**	6,284	2,830
Total	**$6,081,485**	**$5,594,480**	$6,122,168	$5,628,297

(a) The Junior Secured Notes are secured by the same collateral that secures the Ally Inc. Senior Secured Credit facility.

9. Other Liabilities

($ in thousands)	March 31, 2012	December 31, 2011
Fair value of derivative instruments	**$3,928,437**	$5,113,531
Liability for option to repurchase assets (a)	**2,359,323**	2,386,734
Liability for representation and warranty obligations	**810,805**	824,776
Collateral received from derivative counterparties	**604,836**	656,109
Accounts payable	**317,493**	360,726
Interest payable	**126,803**	62,225
Reserve for legal proceedings	**99,646**	94,516
Mortgage foreclosure settlement	**92,061**	204,000
Reserve for insurance losses	**86,716**	91,615
Employee compensation and benefits	**67,966**	87,542
Liability for assets sold with recourse	**32,592**	32,156
Ally Inc. management fee (b)	**14,878**	31,020
Income taxes	**3,899**	—
Restructuring reserve	**1,901**	4,342
Payable to Ally Bank	**—**	21,001
Other	**21,805**	25,733
Total other liabilities	**$8,569,161**	$9,996,026

(a) We recognize a liability for the conditional repurchase option on certain assets held by off-balance sheet securitization trusts. The corresponding asset is recorded in mortgage loans held for sale. See Note 2 — Mortgage Loans Held-for-Sale and Note 4 — Securitizations and Variable Interest Entities for additional information.

(b) Includes costs for personnel, information technology, communications, corporate marketing, procurement, and services related to facilities incurred by Ally Inc. and allocated to us. See Note 17 — Related Party Transactions for additional information.

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10. Other Revenue, net

Three months ended March 31, *($ in thousands)*	2012	2011
Change due to fair value option elections		
Consumer mortgage finance receivables and loans, net	$36,037	$19,246
Collateralized borrowings	(52,127)	(36,148)
Loan broker fee from Ally Bank	23,343	9,496
Insurance income	4,343	6,357
Gain on interests retained in financial assets sales	—	3,430
Other	8,436	3,650
Total other revenue, net	$20,032	$6,031

11. Other Noninterest Expense, net

Three months ended March 31, *($ in thousands)*	2012	2011
Ally Inc. management fees (a)	$29,053	$16,915
Legal fees	23,473	10,191
Loan administration fees	22,928	18,244
Equipment and supplies	6,868	8,126
Insurance losses	4,126	12,577
Other	13,056	16,048
Total other noninterest expense, net	$99,504	$82,101

(a) Includes allocated costs for personnel, information technology, communication, corporate marketing, procurement, and services related to facilities incurred by Ally Inc. and allocated to us. See Note 17 — Related Party Transactions for additional information.

12. Income Tax

We are a division of Ally Inc, a corporation, for income tax purposes. We are subject to corporate U.S. Federal, state and local taxes and are included in the consolidated Ally Inc. U.S Federal and unitary and/or consolidated state income tax returns. We provide for our U.S. Federal and state taxes on a stand alone basis, which is consistent with the applicable tax sharing agreements with direct and indirect parent companies up through Ally Inc. The tax sharing agreement requires taxes to be based on the income tax liability determined as if we were a separate affiliated group of corporations filing consolidated U.S. Federal and state income tax returns. Our foreign businesses have been and continue to operate as corporations and are subject to, and provide for, U.S. Federal, state, and/or foreign income tax.

At March 31, 2012 and December 31, 2011 we have current income taxes payable of $11.1 million and $(1.7) million, respectively, to Ally Inc. pursuant to the tax sharing agreements.

We continue to be in a net deferred tax asset position, which is fully offset by a deferred tax asset valuation allowance. The net deferred tax asset includes a significant tax net operating loss carryforward. Thus, the year to date tax expense has been largely offset by the decrease of the applicable deferred tax asset valuation allowance. Tax expense from continuing operations of $5.9 million and $8.9 million for the three months ended March 31, 2012 and 2011 relates primarily to certain taxes that are not eligible for offset by U.S. net operating losses, including those on foreign income.

Gross unrecognized tax benefits totaled $7.6 million and $11.7 million at March 31, 2012 and 2011. The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate at March 31, 2012 and 2011 is approximately $5.3 million and $9.4 million, respectively. Related interest and penalties accrued for uncertain income tax positions are recorded in interest expense and other operating expenses, respectively. As of March 31, 2012 and 2011, we had approximately $2.3 million and $2.3 million, respectively, accrued for the payment of interest and penalties. We are generally no longer subject to U.S. federal, state, local, or foreign income tax examinations by tax authorities for years before 2007. A significant change in the unrecognized tax benefits is not expected within the next 12 months.

13. Fair Value

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability. Additionally, entities are required to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

A three–level hierarchy is used when measuring and disclosing fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels.

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities at the measurement date. Additionally, we must have the ability to access the active market, and the quoted prices cannot be adjusted by us.

Level 2 Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

Transfers Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfer occurred. There were no material transfers between any levels during the three months ended March 31, 2012.

Following are descriptions of the valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models and significant assumptions utilized.

- ***Mortgage loans held–for–sale*** – We originate and purchase residential mortgage loans that we intend to sell to the GSEs. We also own nonagency eligible residential mortgage loans that were originated or purchased in prior years. Consumer mortgage loans we intend to sell to the GSEs are carried at fair value as a result of a fair value election. Our nonagency eligible residential mortgage loans are accounted for at the lower of cost or fair value. We elected to fair value nongovernment eligible mortgage loans held–for–sale subject to conditional repurchase options recognized on or after January 1, 2011. Only those non-fair value elected loans that are currently being carried at fair value are included within our nonrecurring fair value measurement tables. Mortgage loans held–for–sale account for 9.7% of all recurring and nonrecurring assets reported at fair value at March 31, 2012.

  Mortgage loans held–for–sale are typically pooled together and sold into certain exit markets, depending upon underlying attributes of the loan, such as agency eligibility, product type, interest rate, and credit quality. Two valuation methodologies are used to determine the fair value of mortgage loans held–for–sale. The methodology used depends on the exit market as described below.

  Loans valued using observable market prices for identical or similar assets (a Level 2 fair value) - Includes all agency–eligible mortgage loans carried at fair value due to fair value option election, which are valued predominantly using published forward agency prices. Also includes any domestic loans and foreign loans where recently negotiated market prices for the loan pool exist with a counterparty (which approximates fair value) or quoted market prices for similar loans are available. As of March 31, 2012, we classified 34.3% of our mortgage loans held–for–sale that are being carried at fair value on a recurring basis as Level 2.

  Loans valued using internal models (a Level 3 fair value) - Includes all conditional repurchase option loans carried at fair value due to the fair value option election and all nonagency eligible residential mortgage loans that are accounted for at the lower of cost or fair value. The fair value of these residential mortgage loans are determined using internally developed valuation models because observable market prices were not available. The loans are priced on a discounted cash flow basis utilizing cash flow projections from internally developed models that utilize prepayment, default, and discount rate assumptions. To the extent available, we utilize market observable inputs

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such as interest rates and market spreads. If market observable inputs are not available, we are required to utilize internal inputs, such as prepayment speeds, credit losses, and discount rates. While numerous controls exist to calibrate, corroborate, and validate the internal inputs, they require the use of judgment by us and can have a significant impact on the determination of the loan's fair value. As of March 31, 2012, 100.0% of our mortgage loans held–for–sale that are currently being carried at fair value on a nonrecurring basis and 65.7% of our mortgage loans held-for-sale that are carried at fair value on a recurring basis are classified as Level 3.

- *Consumer Finance receivables and loans, net* — We elected the fair value option for consumer mortgage finance receivables and loans related to our on–balance sheet securitizations. A complete description of these securitizations is provided in the *On-balance sheet securitization debt* section later in this Note. The remaining balance of our consumer finance receivables and loans are reported on the balance sheet at their principal amount outstanding, net of charge-offs, allowance for loan losses, and net premiums/discounts.

  For the securitization trusts for which we elected fair value option, the loans are measured at fair value using a portfolio approach. The values for loans held on an in-use basis may differ considerably from loans held–for–sale that can be sold in the whole-loan market. This difference arises primarily due to the liquidity of the ABS/MBS market and is evident in the fact that spreads applied to lower rated ABS/MBS are considerably wider than spreads observed on senior bond classes and in the whole-loan market. The objective in linking the fair value of these loans to the fair value of the related securitization debt is to properly account for our retained economic interest in the securitizations. As of March 31, 2012, we classified 100.0% of our fair value elected consumer mortgage finance receivables and loans as Level 3. These loans account for 12.9% of all recurring and nonrecurring assets reported at fair value at March 31, 2012.

- *Mortgage servicing rights* — MSRs currently do not trade in an active market with observable prices, therefore we use internally developed discounted cash flow models to estimate the fair value of MSRs. These internal valuation models estimate net cash flows based on internal operating assumptions that we believe would be used by market participants combined with market-based assumptions for loan prepayment rates, interest rates, and discount rates that management believes approximate yields required by investors in this asset. Cash flows primarily include servicing fees, float income, and late fees, in each case less estimated operating costs to service the loans. The estimated cash flows are discounted using an option-adjusted spread derived discount rate. At March 31, 2012, 100.0% of our MSRs are classified as Level 3 and account for 19.5% of all recurring and nonrecurring assets reported at fair value.

- *Derivative instruments* — We enter into a variety of derivative financial instruments as part of our risk management strategies. Derivative assets account for 56.3% of all recurring and nonrecurring assets and derivative liabilities account for 82.1% of all recurring and nonrecurring liabilities reported at fair value at March 31, 2012.

  Certain of these derivatives are exchange traded, such as Eurodollar futures. To determine the fair value of these instruments, we utilize the exchange prices for the particular derivative contract; therefore, we classified these contracts as Level 1. We classified less than 1% of the derivative assets and less than 1% of the derivative liabilities reported at fair value as Level 1 at March 31, 2012.

  We also execute over–the–counter derivative contracts, such as interest rate swaps, swaptions, forwards, caps, floors and agency-to-be-announced (TBAs) securities. We utilize third–party–developed valuation models that are widely accepted in the market to value our over–the–counter derivative contracts. The specific terms of the contract and market observable inputs (such as interest rate forward curves and interpolated volatility assumptions) are used in the model. We classified 99.1% of the derivative assets and 98.8% of the derivative liabilities reported at fair value as Level 2 at March 31, 2012.

  We also hold certain derivative contracts that are structured specifically to meet a particular hedging objective. These derivative contracts often are utilized to hedge risks inherent within certain on–balance sheet securitizations. To hedge risks on particular bond classes or securitization collateral, the derivative's notional amount is often indexed to the hedged item. As a result, we typically are required to use internally developed prepayment assumptions as an input into the model to forecast future notional amounts on these structured derivative contracts. Accordingly, we classified these derivative contracts as Level 3. These derivative contracts accounted for less than 1% of the derivative assets and less than 1% of the derivative liabilities reported at fair value at March 31, 2012.

  At March 31, 2012, we were counterparty to a forward flow agreement with Ally Bank, which effectively transfers the exposure to changes in fair value of specified pools of Ally Bank's mortgage loans held–for–sale and interest rate lock commitments to us. In addition, at March 31, 2012 we were counterparty to a total return swap agreement with Ally Bank that effectively transfers the total economic return of a specified portfolio of mortgage servicing rights owned by Ally Bank to us in exchange for a variable payment based on a fixed spread to LIBOR. The underlying reference assets that

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support the value of the swap agreements are valued using internally developed valuation assumptions; therefore the swaps are classified as Level 3. These agreements accounted for less than 1% of the derivative assets and less than 1% of the derivative liabilities reported at fair value at March 31, 2012. Both of these agreements were terminated on April 30, 2012. See Note 17 — Related Party Transactions for additional information.

We are required to consider all aspects of nonperformance risk, including our own credit standing, when measuring fair value of a liability. We reduce credit risk on the majority of our derivatives by entering into legally enforceable agreements that enable the posting and receiving of collateral associated with the fair value of our derivative positions on an ongoing basis. In the event that we do not enter into legally enforceable agreements that enable the posting and receiving of collateral, we will consider our credit risk and the credit risk of our counterparties in the valuation of derivative instruments through a credit valuation adjustment (CVA), if warranted.

- ***On-balance sheet securitizations*** — We elected the fair value option for certain consumer mortgage finance receivables and loans, and securitization debt for certain of our on-balance sheet securitizations. The objective in measuring these loans and related securitization debt at fair value is to approximate our economic exposure to the collateral securing the securitization debt. The remaining on-balance sheet securitization debt that was not fair value option–elected is reported on the balance sheet at cost, net of premiums or discounts and all issuance costs.

  We value securitization debt that was fair value option–elected, as well as any trading securities or interests retained in financial asset sales, using market observable prices whenever possible. The securitization debt is principally in the form of asset-backed and mortgage-backed securities collateralized by the underlying consumer mortgage finance receivables and loans. Due to the attributes of the underlying collateral and current capital market conditions, observable prices for these instruments are typically not available in active markets. We base valuations on internally developed discounted cash flow models that use a market-based discount rate. In order to estimate cash flows, we utilize various significant assumptions, including market observable inputs such as forward interest rates, as well as internally developed inputs such as prepayment speeds, delinquency levels, and credit losses. As a result of the reliance on significant assumptions and estimates for model inputs, at March 31, 2012, 100.0% of fair value option–elected securitization debt is classified as Level 3. On-balance sheet securitization debt accounts for 17.3% of all recurring and nonrecurring liabilities reported at fair value at March 31, 2012.

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Recurring Fair Value

The following tables display the assets and liabilities measured at fair value on a recurring basis, including financial instruments for which we elected the fair value option. In certain cases we economically hedge the fair value change of our assets or liabilities with derivatives and other financial instruments. The table below displays the hedges separately from the hedged items and, therefore, does not directly display the impact of our risk management activities.

	Recurring fair value measurements			
March 31, 2012 *($ in thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Mortgage loans held–for–sale (a)	$—	$15,925	$30,494	$46,419
Consumer mortgage finance receivables and loans, net (a)	—	—	832,094	832,094
Mortgage servicing rights	—	—	1,254,497	1,254,497
Other assets				
Fair value of derivative contracts in receivable position				
Interest rate contracts	3,145	3,588,513	29,790	3,621,448
Trading securities				
Mortgage and asset backed residential	—	417	31,885	32,302
Total assets	$3,145	$3,604,855	$2,178,760	$5,786,760
Liabilities				
Collateralized borrowings				
On-balance sheet securitization debt (a)	$—	$—	($828,418)	($828,418)
Other liabilities				
Fair value of derivative contracts in liability position				
Interest rate contracts	(18,708)	(3,882,257)	(27,107)	(3,928,072)
Foreign currency contracts	—	(365)	—	(365)
Liability for option to repurchase assets (a)	—	—	(29,603)	(29,603)
Total liabilities	($18,708)	($3,882,622)	($885,128)	($4,786,458)

(a) Carried at fair value due to fair value option election.

	Recurring fair value measurements			
December 31, 2011 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Assets				
Mortgage loans held–for–sale (a)	$—	$27,253	$29,723	$56,976
Consumer mortgage finance receivables and loans, net (a)	—	—	835,192	835,192
Mortgage servicing rights	—	—	1,233,107	1,233,107
Other assets				
Fair value of derivative contracts in receivable position				
Interest rate contracts	61,025	4,780,995	35,038	4,877,058
Foreign currency contracts	—	139	—	139
Trading securities				
Mortgage and asset backed residential	—	434	32,869	33,303
Interests retained in financial asset sales	—	—	23,102	23,102
Total assets	$61,025	$4,808,821	$2,189,031	$7,058,877
Liabilities				
Collateralized borrowings				
On-balance sheet securitization debt (a)	$—	$—	($829,940)	($829,940)
Other liabilities				
Fair value of derivative contracts in liability position				
Interest rate contracts	(18,445)	(5,089,201)	(24)	(5,107,670)
Foreign currency contracts	—	(5,861)	—	(5,861)
Liability for option to repurchase assets (a)	—	—	(28,504)	(28,504)
Total liabilities	($18,445)	($5,095,062)	($28,528)	($5,142,035)

(a) Carried at fair value due to fair value option election.

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The following table presents quantitative information regarding the significant unobservable inputs used in material Level 3 assets and liabilities measured at fair value on a recurring basis.

March 31, 2012 *($ in thousands)*	Level 3 recurring measurements	Valuation technique	Unobservable input	Range
Assets				
Consumer mortgage finance receivables and loans, net (a)	**$832,094**	Discounted cash flow	Prepayment rate	2.52-12.91%
			Default rate	1.08-34.75%
			Loss severity	40.0-100.0%
Mortgage servicing rights	**1,254,497**	(b)	(b)	(b)
Liabilities				
Collaterlized borrowings				
On-balance sheet securitization debt (a)	**($828,418)**	(a)	(a)	(a)

(a) A portfolio approach links the value of the consumer mortgage finance receivables and loans, net to the on-balance sheet securitization debt; therefore, the valuation technique, unobservable inputs, and related range for the debt is the same as the loans. Increases in prepayments, which would primarily be driven by any combination of lower projected mortgage rates and higher projected home values, would result in higher fair value measurement. These drivers of higher prepayments (increased ability to refinance due to lower rates and higher property values) have an opposite impact on the default rate, creating an inverse relationship between prepayments and default frequency on the fair value measurements. Generally factors that contribute to higher default frequency also contribute to higher loss severity.

(b) Refer to Note 5 – Servicing Activities for information related to the significant unobservable inputs and valuation techniques used in the mortgage servicing rights fair value measurement.

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The following tables present the reconciliation for all Level 3 assets and liabilities measured at fair value on a recurring basis. Transfers into or out of Level 3 are recognized as of the end of the reporting period in which the transfer occurred. In certain cases we economically hedge the fair value change of our assets or liabilities with derivatives and other financial instruments. The Level 3 items presented below may be hedged by derivatives and other financial instruments that are classified as Level 1 or Level 2. Thus, the following tables do not fully reflect the impact of our risk management activities.

	Level 3 recurring fair value measurements								
		Net gains/(losses) included in earnings							
($ in thousands)	January 1, 2012 Level 3 fair value	realized gains (losses)	unrealized gains (losses)	Other comprehensive income (loss)	Purchases	Sales	Issuances	Settlements	March 31, 2012 Level 3 fair value
Assets									
Mortgage loans held-for-sale	$29,723	($37)	$250	$—	$8,923 (a)	$—	$—	($8,365)	$30,494
Consumer mortgage finance receivables and loans, net	835,192	51,328 (b)	35,448 (b)	—	—	—	—	(89,874)	832,094
Mortgage servicing rights	1,233,107	—	10,817 (c)	—	—	—	10,573	—	1,254,497
Other assets									
Fair value of derivative contracts in receivable position, net									
Interest rate contracts	35,014	66,983 (d)	(58,479) (d)	—	—	—	—	(40,835)	2,683
Trading securities									
Mortgage and asset backed residential	32,869	(1,214) (e)	3,627 (e)	—	—	—	103	(3,500)	31,885
Interests retained in financial asset sales	23,102	(501) (f)	(5) (f)	—	—	—	—	(22,596)	—
Total assets	$2,189,007	$116,559	($8,342)	$—	$8,923	$—	$10,676	($165,170)	$2,151,653
Liabilities									
Collateralized borrowings									
On-balance sheet securitization debt	($829,940) $	(43,820) (b) $	(39,386) (b)	$—	$—	$—	$—	$84,728	($828,418)
Other liabilities									
Liability for option to repurchase assets	(28,504)	37	(250)	—	(8,923) (a)	—	—	8,037	(29,603)
Total liabilities	($858,444)	($43,783)	($39,636)	$—	($8,923)	$—	$—	$92,765	($858,021)

(a) Includes newly recognized fair value option elected conditional repurchase loans and the related liability. See Note 4 Securitizations and Variable Interest Entities for additional information.
(b) Fair value adjustment reported in other revenue, net, and related interest on loans and debt are reported in interest income and interest expense, respectively.
(c) Fair value adjustment reported in servicing asset valuation and hedge activities, net.
(d) See Note 14 — Derivative Instruments and Hedging Activities for location of fair value adjustments in our Condensed Consolidated Statement of Income.
(e) Fair value adjustment reported in gain (loss) on investment securities, net. Interest accretion on these assets is reported in interest income.
(f) Fair value adjustment reported in other revenue, net, and interest accretion on these assets is reported in interest income.

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	Level 3 recurring fair value measurements								
		Net gains/(losses) included in earnings							
($ in thousands)	January 1, 2011 Level 3 fair value	realized gains (losses)	unrealized gains (losses)	Other comprehensive income (loss)	Purchases	Sales	Issuances	Settlements	March 31, 2011 Level 3 fair value
Assets									
Mortgage loans held–for–sale	$4,084	($27)	$98	$—	$14,189 (a)	($388)	$—	$—	$17,956
Consumer mortgage finance receivables and loans, net	1,014,703	57,458 (b)	15,809 (b)	—	—	—	—	(117,313)	970,657
Mortgage servicing rights	1,991,586	66 (c)	36,489 (c)	—	—	(139)	18,370	(67)	2,046,305
Other assets									
Fair value of derivative contracts in receivable (liability) position, net									
Interest rate contracts	69,353	212,905 (d)	137,723 (d)	—	—	—	—	(422,563)	(2,582)
Trading securities									
Mortgage– and asset–backed residential	44,128	(1,362) (e)	2,052 (e)	—	—	—	131	(4,871)	40,078
Available for sale securities									
Debt securities									
Mortgage-backed residential	989	—	—	543	—	—	—	(104)	1,428
Interests retained in financial asset sales	20,588	—	4,353 (f)	—	—	—	—	(599)	24,342
Total assets	$3,145,431	$269,040	$196,524	$543	$14,189	($527)	$18,501	($545,517)	$3,098,184
Liabilities									
Collateralized borrowings									
On-balance sheet securitization debt	($972,068)	$ (71,650) (b)	$4,702 (b)	$—	$—	$—	$—	$117,413	($921,603)
Other liabilities									
Liability for option to repurchase assets	—	—	—	—	(14,284) (a)	—	—	—	(14,284)
Total liabilities	($972,068)	($71,650)	$4,702	$—	($14,284)	$—	$—	$117,413	($935,887)

(a) Includes newly recognized fair value option elected conditional repurchase loans and the related liability. See Note 4 — Securitizations and Variable Interest Entities for additional information.
(b) Fair value adjustment reported in other revenue, net, and related interest on loans and debt are reported in interest income and interest expense, respectively.
(c) Fair value adjustment reported in servicing asset valuation and hedge activities, net.
(d) See Note 14 — Derivative Instruments and Hedging Activities for location of fair value adjustments in our Condensed Consolidated Statement of Income.
(e) Fair value adjustment reported in gain (loss) on investment securities, net. Interest accretion on these assets is reported in interest income.
(f) Fair value adjustment reported in other revenue, net, and interest accretion on these assets is reported in interest income.

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Nonrecurring Fair Value

We may be required to measure certain assets or liabilities at fair value from time-to-time. These periodic fair value measures typically result from application of lower of cost or fair value or certain impairment measures. These items would constitute nonrecurring fair value measures. The table below presents those items which we measured at fair value on a nonrecurring basis.

March 31, *($ in thousands)*	Nonrecurring fair value measures Level 1	Level 2	Level 3	Total estimated fair value	Lower of cost or fair value or valuation allowance	Total gains included in income from continuing operations for the three months ended
2012						
Mortgage loans held–for–sale (a)	$—	$—	$579,914	$579,914	($56,780)	n/m (e)
Commercial finance receivables and loans, net (b)	—	1,591	22,949	24,540	(16,605)	n/m (e)
Other assets						
Foreclosed assets (c)	—	30,091	13,830	43,921	(12,050)	n/m (e)
Total	$—	$31,682	$616,693	$648,375	($85,435)	$—
2011						
Mortgage loans held–for–sale (a)	$—	$—	$597,363	$597,363	($50,477)	n/m (e)
Commercial finance receivables and loans, net (b)	—	13,042	59,793	72,835	(16,137)	n/m (e)
Other assets						
Foreclosed assets (c)	—	38,160	22,918	61,078	(8,776)	n/m (e)
Real estate and other investments (d)	—	1,579	—	1,579	n/m	16 (f)
Total	$—	$52,781	$680,074	$732,855	($75,390)	$16

n/m = not meaningful

(a) Represents loans or pools of loans held–for–sale that are required to be measured at lower of cost or fair value. Only loans or pools of loans with fair values below cost are included in the table above. The related valuation allowance represents the cumulative adjustment to fair value of those loans and pool of loans.

(b) Represents the portion of the commercial portfolio that has been specifically impaired. The related valuation allowance represents the cumulative adjustment to fair value of those specific commercial finance receivables and loans and represents the most relevant indicator of the impact on earnings caused by the fair value measurement. The carrying values are inclusive of the respective loan loss allowance.

(c) The allowance provided for foreclosed assets represents any cumulative valuation adjustments recognized to adjust the assets to fair value less costs to sell.

(d) Certain assets within the model home portfolio have been impaired and are being carried at (a) estimated fair value if the model home is under lease or (b) estimated fair value less costs to sell if the model home is being marketed for sale.

(e) We consider the applicable valuation to be the most relevant indicator of the impact on earnings caused by the fair value measurement. Accordingly, the table above excludes total gains and losses included in earnings for these items. The carrying values are inclusive of the respective valuation.

(f) The total loss included in earnings is the most relevant indicator of the impact on earnings caused by the fair value measurement.

The following table presents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets measured at fair value on a nonrecurring basis.

March 31, 2012 *($ in thousands)*	Level 3 nonrecurring measurements	Valuation technique	Unobservable input	Range (weighted average)
Assets				
Mortgage loans held-for-sale, net	$ 579,914	Discounted cash flow	Prepayment speeds	0.0-13.8%
			Default rate	2.2-17.4%
			Loss severity	47.5-98.5%
			Discount Rate	14.55%

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

Fair Value Option for Financial Assets and Financial Liabilities

We have elected to value certain financial assets and liabilities at fair value consistent with our intent to mitigate a divergence between our accounting results and our retained economic exposure related to these assets and liabilities.

Financial assets and liabilities elected to be measured at fair value are as follows.

- *On-balance sheet securitizations* – We elected the fair value option for domestic on-balance sheet securitization trusts in which we estimated that the credit reserves pertaining to securitized assets could have exceeded or already had exceeded our economic exposure or were required to be consolidated upon the adoption of ASU 2009-17. The fair value option election was made at a securitization level and thus the election was made for both the consumer mortgage finance receivable and loans and the related securitization debt.

  The fair value elected loan balances are recorded within consumer finance receivables and loans, net, unless they are repurchased from a securitization trust in which case they are recorded in mortgage loans held-for-sale. Our policy is to separately record interest income on these fair value elected loans. The fair value adjustment recorded for consumer finance receivables and loans is classified as other revenue, net, and the fair value adjustment for mortgage loans held-for-sale is classified as gain on mortgage loans.

  The fair value elected securitization debt balances are recorded within collateralized borrowings in securitization trusts. Our policy is to separately record interest expense on the fair value elected securitization debt, which is classified as interest expense. The fair value adjustment recorded for this debt is classified as other revenue, net.

- *Government – and agency – eligible loans* – We elected the fair value option for government– and agency–eligible consumer mortgage loans held–for–sale. This election includes government– and agency–eligible loans we fund directly to borrowers and government– and agency–eligible loans we purchase from Ally Bank. The fair value option was elected to mitigate earnings volatility by better matching the accounting for the assets with the related hedges and to maintain consistency with the fair value option election by Ally Bank given the level of affiliate loan purchase and sale activity between the entities. See Note 17 — Related Party Transactions for additional information.

  We carry fair value option–elected government– and agency–eligible loans within mortgage loans held–for–sale. Our policy is to separately record interest income on these fair value elected loans. Upfront fees and costs related to the fair value elected loans are not deferred or capitalized. The fair value adjustment recorded for these fair value option–elected loans is reported in gain on mortgage loans, net. The fair value option election is irrevocable once the loan is funded even if it is subsequently determined that a particular loan cannot be sold.

- *Conditional repurchase option loans and liabilities* – As of January 1, 2011, we elected the fair value option for both nongovernment eligible mortgage loans held–for–sale subject to conditional repurchase options and the related liability. The conditional repurchase option allows us to repurchase a transferred financial asset if certain events outside our control are met. The typical conditional repurchase option is a delinquent loan repurchase option that gives us the option to purchase the loan if it exceeds a prespecified delinquency level. We have complete discretion regarding when or if we will exercise these options, but generally, we would do so only when it is in our best interest. We are required to record the asset and the corresponding liability on our balance sheet when the option becomes exercisable. The fair value option election must be made at initial recording. As such, the conditional repurchase option loans and liabilities that were recorded prior to January 1, 2011, were not fair value elected.

  The fair value elected conditional repurchase option loans are recorded within mortgage loans held–for–sale. The fair value adjustment is classified as other revenue, net. We do not recognize interest income on conditional repurchase option loans until the option is exercised and the loan is repurchased.

  The corresponding fair value elected liability is recorded in other liabilities. The fair value adjustment recorded for this liability is classified as other revenue, net.

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The following table summarizes the fair value option elections and information regarding the amounts recognized in earnings for each fair value option-elected item.

March 31, *($ in thousands)*	Changes included in our Condensed Consolidated Statement of Income: Interest income (expense) (a)	Gain on mortgage loans, net	Other revenue, net	Total included in net income	Change in fair value due to credit risk	(b)
2012						
Assets						
Mortgage loans held–for–sale (c)	$286	$243,407	$—	$243,693	($490)	(d)
Consumer mortgage finance receivables and loans, net	44,139	—	42,637	86,776	(27,220)	(e)
Liabilities						
Collateralized borrowings						
On-balance sheet securitizations	(25,900)	—	(57,306)	(83,206)	(7,306)	(f)
Liability for option to repurchase assets	—	—	(213)	(213)	490	(f)
Total				$247,050		
2011						
Assets						
Mortgage loans held–for–sale (c)	$221	$51,498	$98	$51,817	($18)	(d)
Consumer mortgage finance receivables and loans, net	54,021	—	19,246	73,267	(17,444)	(e)
Liabilities						
Collateralized borrowings	(30,801)	—	(36,148)	(66,949)	26,927	(f)
Total				$58,135		

(a) Interest income on consumer mortgage finance receivables and loans and mortgage loans held–for–sale is measured by multiplying the unpaid principal balance on the loans by the coupon rate and the number of days of interest due. Interest expense on the on-balance sheet securitizations is measured by multiplying the bond principal by the coupon rate and days interest due to the investor.
(b) Factors other than credit quality that impact the fair value include changes in market interest rates and the liquidity or marketability in the current marketplace. Lower levels of observable data points in illiquid markets generally result in wide bid/offer spreads.
(c) Includes the gain/loss recognized on fair value option–elected government– and agency–eligible assets purchased from Ally Bank.
(d) The credit impact for mortgage loans held–for–sale that are currently agency eligible is currently zero because the fair value option–elected GSE loans are salable, and any unsalable assets are currently covered by a government guarantee. The credit impact for non-agency eligible loans and related liability was quantified by applying internal credit loss assumptions to cash flow models.
(e) The credit impact for consumer mortgage finance receivables and loans was quantified by applying internal credit loss assumptions to cash flow models.
(f) The credit impact for on-balance sheet securitization debt is assumed to be zero until our economic interests in a particular securitization is reduced to zero, at which point the losses in the underlying collateral will be expected to be passed through to third-party bondholders. Losses allocated to third-party bondholders, including changes in the amount of losses allocated, will result in fair value changes due to credit. We also monitor credit ratings and may make credit adjustments to the extent any bond classes are downgraded by rating agencies.

Notes to Condensed Consolidated Financial Statements
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The table below provides the fair value and the unpaid principal balance for our fair value option–elected loans and related collateralized borrowings.

($ in thousands)	March 31, 2012 Unpaid principal balance	March 31, 2012 Fair value (a)	December 31, 2011 Unpaid principal balance	December 31, 2011 Fair value (a)
Mortgage loans held–for–sale				
Total loans	$76,796	$46,419	$84,099	$56,975
Nonaccrual loans	57,916	28,293	53,502	27,297
Loans 90+ days past due (b)	57,789	28,140	53,312	27,179
Consumer mortgage finance receivables and loans, net				
Total loans	$2,385,658	$832,094	$2,436,218	$835,192
Nonaccrual loans	510,437	213,935 (c)	506,300	209,371 (c)
Loans 90+ days past due (b)	383,837	172,611 (c)	362,002	162,548 (c)
Collateralized borrowings				
On-balance sheet securitizations	($2,513,734)	($828,418)	($2,559,093)	($829,940)
Other liabilities				
Liability for option to repurchase assets	($61,490)	($29,603)	($56,568)	($28,504)

(a) Excludes accrued interest receivable.
(b) Loans 90+ days past due are also presented within the nonaccrual loans and total loans except those that are government insured and still accruing.
(c) The fair value of consumer mortgage finance receivables and loans is calculated on a pooled basis; therefore, we allocated the fair value of nonaccrual loans and 90+ days past due to individual loans based on the unpaid principal balances.

14. Derivative Instruments and Hedging Activities

We transact interest rate and foreign currency swaps, futures, forwards, options, swaptions, and TBAs in connection with our risk management activities. Our primary objective for executing these financial instruments is to mitigate our economic exposure to future events that are outside our control. These financial instruments are utilized principally to manage market risk and cash flow volatility associated with mortgage loans held–for–sale and MSRs, including our total return and forward flow agreements with Ally Bank. See Note 17 — Related Party Transactions for additional information. We do not transact derivative instruments for reasons beyond risk management.

In addition to derivatives transacted as part of our risk management activities, we create derivative contracts as part of our ongoing operations. In particular, we frequently execute forward mortgage loan purchase and sale commitments with Ally Bank and financial institutions, respectively, principally to provide a future source of mortgage volume and dedicated exit channels.

Additionally, we enter into commitments with mortgage borrowers that require us to originate a mortgage at a stated amount and rate; these are derivative contracts if our intent is ultimately to hold the originated loan for sale. We refer to commitments to purchase mortgage loans from Ally Bank and commitments to originate mortgage loans held–for–sale, collectively, as interest rate lock commitments (IRLCs).

The following summarizes our significant asset and liability classes, the risk exposures for these classes, and our risk management activities utilized to mitigate certain of these risks. The discussion includes both derivative and nonderivative financial instruments utilized as part of these risk management activities.

Interest Rate Sensitive Assets/Liabilities

- *Mortgage loan commitments and loans held–for–sale* — We are exposed to interest rate risk from the time an IRLC is made, either directly or indirectly through the forward flow agreement with Ally Bank, until the time the mortgage loan is sold. Changes in interest rates impact the market price for the mortgage loan; as market interest rates decline, the value of existing IRLCs and mortgage loans held–for–sale increase and vice versa. The primary objective of our risk management activities related to IRLCs and mortgage loans held–for–sale is to eliminate or reduce any interest rate risk associated with these assets.

  We enter into forward sale contracts of mortgage-backed securities, primarily agency TBAs, as our primary strategy to mitigate this risk. These contracts are typically entered into at the time the interest rate lock commitment is made. The value of the forward sales contracts moves in the opposite direction of the value of our IRLCs and mortgage loans held–for–sale. We may also use other derivatives, such as options, and futures, to economically hedge certain portions of the portfolio. Nonderivative instruments, such as short positions on U.S. Treasuries, may also be used to economically hedge

Notes to Condensed Consolidated Financial Statements
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the portfolio. We monitor and actively manage our risk on a daily basis; therefore trading volume can be significant.

We do not apply hedge accounting to our derivative portfolio held to economically hedge our IRLCs and mortgage loans held–for–sale. Included in the derivatives on IRLCs and mortgage loans held–for–sale is the forward flow agreement with Ally Bank having a fair value of $(27.1) million and an outstanding notional of $6.3 billion at March 31, 2012. Under the terms of the forward flow agreement, Ally Bank transfers the exposure to changes in fair value of specified pools of assets, in this case IRLCs and mortgage loans held–for–sale, to us. This agreement was terminated on April 30, 2012. See Note 17 — Related Party Transactions for additional information.

- *Mortgage servicing rights and other retained interests* — Our MSRs and retained interests are generally subject to loss in value when mortgage rates decline. Declining mortgage rates generally result in an increase in refinancing activity, which increases prepayments and results in a decline in the value of MSRs and other retained interests. To mitigate the impact of this risk, we maintain a portfolio of financial instruments, primarily derivatives, which increase in value when interest rates decline. The primary objective is to minimize the overall risk of loss in the value of MSRs and other retained interests due to the change in fair value caused by interest rate changes and their interrelated impact to prepayments.

  We use a variety of derivative instruments to manage the interest rate risk related to MSRs and other retained interests. These include, but are not limited to, interest rate futures, call or put options on U.S. Treasuries, swaptions, mortgage-backed securities (MBS) futures, U.S. Treasury futures, interest rate swaps, interest rate floors and caps. While we do not currently utilize nonderivative instruments (i.e., U.S. Treasuries) to hedge this portfolio, we have utilized them in the past and may utilize them again in the future. We monitor and actively manage our risk on a daily basis, and therefore trading volume can be significant.

  Included in the derivatives hedging MSRs and retained interests is a total return swap with Ally Bank having a fair value of $29.4 million at March 31, 2012. Under the terms of the total return swap, Ally Bank transfers the total economic return of a specified portfolio of mortgage servicing rights owned by Ally Bank to us in exchange for a variable payment based on a fixed spread to LIBOR. This agreement was terminated on April 30, 2012. See Note 17 — Related Party Transactions for additional information.

- *Debt* — We monitor our mix of fixed and floating rate debt in relation to the rate profile of our assets. When it is cost effective to do so, we may enter into interest rate swaps to manage the interest rate composition of our debt portfolio. Typically, the significant terms of the interest rate swaps match the terms of the underlying debt resulting in an effective conversion of the rate of the related debt.

  In addition to these economic hedges, we also hold interest rate swaps that are hedging a portion of our fixed-rate senior unsecured notes. We utilize the interest rate swaps to hedge the fair value of the hedged debt balances. We elected to designate these as fair value hedges at inception. At December 31, 2011, we dedesignated our fair value swaps due to ineffectiveness.

Foreign Currency Risk

We have operations outside the United States. Our foreign subsidiaries maintain both assets and liabilities in local currencies that are deemed to be the functional currencies of these subsidiaries for accounting purposes. Foreign currency exchange rate gains and losses arise when assets or liabilities are denominated in currencies that differ from the entities functional currency and are revalued into the functional currency. In addition, our equity is impacted by the cumulative translation adjustments recognized in other comprehensive income resulting from the translation of foreign subsidiary results to U.S. dollars. Foreign currency risk is reviewed as part of our risk management process. The principal currencies creating foreign exchange risk are the U.K. Sterling and the Euro.

Our current strategy is to economically hedge foreign currency risk related to assets and liabilities that are denominated in currencies on our U.S. dollar functional currency entities. The principal objective of the foreign currency hedges is to mitigate the earnings volatility specifically created by foreign currency exchange rate gains and losses. We hold forward currency contracts to mitigate risk against currency fluctuation in the U.K. Sterling and the Euro. We have not elected to treat any foreign currency swaps as hedges for accounting purposes, principally because the changes in the fair values of the foreign currency swaps are substantially offset by the foreign currency revaluation gains and losses of the underlying assets and liabilities.

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Credit Risk and Collateral Arrangements

Derivative financial instruments contain an element of credit risk if counterparties, including affiliates, are unable to meet the terms of their agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties that owe us under the contracts completely fail to perform under the terms of those contracts, assuming there are no recoveries of underlying collateral, as measured by the fair value of the derivative financial instruments. At March 31, 2012 and December 31, 2011, the fair value of derivative financial instruments in an asset, or receivable position, were $3.6 billion and $4.9 billion, including $2.2 billion and $3.2 billion with affiliates, respectively. See Note 17 — Related Party Transactions for additional information.

We minimize the credit risk exposure by limiting our counterparties to those major banks and financial institutions that meet established credit guidelines and transacting with and through affiliates. Additionally, we reduce credit risk on the majority of our derivative financial instruments by entering into legally enforceable agreements that permit the closeout and netting of transactions with the same counterparty upon occurrence of certain events. To further mitigate the risk of counterparty default, we execute collateral agreements with counterparties. The agreements require both parties to maintain cash deposits in the event the fair values of the derivative financial instruments meet established thresholds. We have received cash deposits from counterparties totaling $578.7 million and $656.1 million at March 31, 2012 and, December 31, 2011, respectively, for derivative positions in an asset position to us. We have placed cash deposits totaling $1.1 billion and $1.1 billion at March 31, 2012 and December 31, 2011, respectively, in accounts maintained by counterparties for derivative positions in a liability position to us. The cash deposits placed and received are included in accounts receivable, other assets, and other liabilities.

We are not exposed to credit risk related contingent features in any of our derivative contracts that could be triggered and potentially could expose us to future loss.

Condensed Consolidated Balance Sheet Presentation

The following table summarizes the location and fair value amounts of derivative instruments reported on our Condensed Consolidated Balance Sheet. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualifying as hedging instruments and those that are not and further segregated by type of contract within those two categories.

	March 31, 2012			December 31, 2011		
	Fair value of derivative contracts in			Fair value of derivative contracts in		
($ in thousands)	receivable position (a)	payable position (b)	Notional amount	receivable position (a)	payable position (b)	Notional amount
Economic hedges						
Interest rate risk						
MSRs and retained interests	$3,554,216	($3,893,704)	$418,931,706	$4,811,804	($5,011,576)	$523,142,192
Mortgage loans held-for-sale	16,115	(7,260)	9,040,618	8,770	(96,077)	17,323,000
Debt	18,887	—	251,122	21,066	—	251,790
Total interest rate risk	3,589,218	(3,900,964)	428,223,446	4,841,640	(5,107,653)	540,716,982
Foreign exchange risk	2,439	(365)	160,748	520	(5,873)	3,157,000
Non-risk management derivatives						
Bank MSR swap	29,442	—	1,407,351	17,681	—	1,384,835
Bank forward flow agreement	—	(27,105)	6,269,576	16,423	—	9,825,783
Mortgage loan commitments	349	(3)	27,542	933	(5)	77,633
Total derivatives	$3,621,448	($3,928,437)	$436,088,663	$4,877,197	($5,113,531)	$555,162,233

(a) Presented in other assets.
(b) Presented in other liabilities.

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Condensed Consolidated Statement of Income Presentation

The following table summarizes the location and amount of gains and losses from continuing operations reported in our Condensed Consolidated Statement of Income related to derivative instruments. Gains and losses are presented separately for derivative instruments designated and qualifying as hedging instruments in fair value hedges and non-designated hedging instruments. We currently do not have qualifying cash flow or foreign currency hedges.

Three months ended March 31, *($ in thousands)*	**2012**	2011
Qualifying accounting hedges		
Gain (loss) recognized in earnings on derivatives		
Interest rate contracts		
Interest income	$—	($1,535)
Gain (loss) recognized in earnings on hedged item		
Interest rate contracts		
Interest expense	—	1,813
Total qualifying accounting hedges	—	278
Economic hedges		
Risk management derivatives		
Gain (loss) recognized in earnings on derivatives		
Interest rate contracts		
Interest expense	**(1,633)**	(1,672)
Gain on mortgage loans, net	**(52,099)**	(43,622)
Servicing asset valuation and hedge activities, net	**8,075**	(203,625)
Other revenue, net	**(369)**	—
Total interest rate contracts	**(46,026)**	(248,919)
Foreign exchange contracts		
Other noninterest expense, net	**6,274**	(1,298)
Non-risk management derivatives		
Gain on mortgage loans, net	**(87,921)**	134,512
Servicing asset valuation and hedge activities, net	**96,424**	216,048
Total derivatives	**($31,249)**	$100,621

Our derivative portfolios generally are reflected in the operating activities section of our Condensed Consolidated Statement of Cash Flows. Derivative fair value adjustments are captured in our Condensed Consolidated Statement of Income line items described in the table above and, accordingly, are generally reflected within the respective line items within the reconciliation of net income (loss) to net cash provided by operating activities section of our Condensed Consolidated Statement of Cash Flows. The remaining changes in derivative portfolio values are generally reflected within the "net change in other assets" or "net change in other liabilities" line items on our Condensed Consolidated Statement of Cash Flows.

15. Higher Risk Mortgage Loans and Credit Quality

Historically, we originated and purchased mortgage loans that had contractual features that may increase our exposure to credit risk and thereby result in a concentration of credit risk. These mortgage loans include loans that may subject borrowers to significant payment increases in the future, have negative amortization of the principal balance or have high loan-to-value ratios.

The following table summarizes the gross carrying value of our higher-risk mortgage loans classified as held-for-sale and finance receivables and loans.

($ in thousands)	**March 31, 2012**	December 31, 2011
High loan-to-value (greater than 100%) mortgage loans	**$475,415**	$488,627
Payment option adjustable rate mortgage loans	**13,176**	12,140
Interest-only mortgage loans	**286,740**	293,975
Below market initial rate mortgage loans	**250,517**	259,177
Total carrying value of higher-risk mortgages	**$1,025,848**	$1,053,919

Included in the table above are $350.7 million and $362.5 million of high-risk mortgage loans held in on-balance sheet securitizations at March 31, 2012 and December 31, 2011, respectively. Our exposure on these loans is limited to the value of our retained interest.

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As part of our loss mitigation efforts and participation in certain governmental programs (e.g., the Making Home Affordable program), we may offer loan restructurings to borrowers. Due to the nature of restructurings, these loans are generally considered higher risk. Loan modifications can include any or all of the following; principal forgiveness, maturity extensions, delinquent interest capitalization and changes to contractual interest rates. Modifications can be either temporary or permanent. Temporary loan modifications are generally used to monitor the borrower's ability to perform under the revised terms over a specified trial period; if the borrower performs, it may become a permanent loan modification. We have historically performed loan modifications under our private modification program; however, more recently the majority of loan modifications are completed under government programs. The carrying value of our on-balance sheet modified mortgage loans was $1.4 billion and $1.2 billion as of March 31, 2012 and December 31, 2011, respectively. These modified mortgage loans are included within mortgage loans held–for–sale and consumer finance receivables and loans.

Nonperforming Assets

Nonperforming assets include nonaccrual loans and foreclosed assets. The classification of a loan as nonperforming does not necessarily indicate that the principal amount of the loan is ultimately uncollectible in whole or in part. In certain cases, borrowers make payments to bring their loans contractually current and, in all cases, our mortgage loans are collateralized by residential real estate. As a result, our experience has been that any amount of ultimate loss for mortgage loans other than home equity loans is substantially less than the unpaid principal balance of a nonperforming loan.

Delinquent loans expose us to higher levels of credit losses and therefore are considered higher risk loans. The determination as to whether a loan falls into a particular delinquency category is made as of the close of business on the balance sheet date. The following table sets forth information concerning the delinquency experience in our mortgage loans held–for–sale and consumer finance receivable and loans at carrying value.

	March 31, 2012		December 31, 2011	
($ in thousands)	**Amount**	**% of total**	Amount	% of total
Current	**$2,065,619**	**39.2%**	$2,003,928	38.0%
Past due				
30 to 89 days	**136,907**	**2.6%**	137,590	2.6%
90 days or more and still accruing interest (a)	**72,727**	**1.4%**	73,661	1.4%
90 days or more conditional repurchase option loans (b)	**2,352,657**	**44.7%**	2,379,926	45.1%
Nonaccrual	**639,475**	**12.1%**	677,250	12.9%
Total	**5,267,385**	**100%**	5,272,355	100%
Allowance for loan losses	**(12,183)**		(13,638)	
Total, net	**$5,255,202**		$5,258,717	

(a) Loans that are 90 days or more delinquent and still accruing interest are government insured.
(b) We do not record interest income on conditional repurchase option loans. If these options were exercised and we acquired the loans, $2.3 billion and $2.3 billion would be classified as 90 days or more and still accruing due to government guarantees at March 31, 2012 and December 31, 2011, respectively. The private-label conditional repurchase option loans of $99.3 million and $105.8 million would be classified as nonaccrual at March 31, 2012 and December 31, 2011, respectively.

The following table presents the net carrying value of nonperforming assets.

($ in thousands)	**March 31, 2012**	December 31, 2011
Nonaccrual consumer		
1st Mortgage	**$440,963**	$462,275
Home equity	**57,823**	71,787
Foreign	**140,689**	143,188
Total nonaccrual consumer (a)	**639,475**	677,250
Nonaccrual commercial		
Domestic	**—**	—
Foreign	**41,145**	12,534
Total nonaccrual commercial	**41,145**	12,534
Foreclosed assets	**63,987**	71,485
Total nonperforming assets	**$744,607**	$761,269

(a) Excludes loans subject to conditional repurchase options of $2.3 billion and $2.3 billion sold to Ginnie Mae guaranteed securitizations and $99.3 million and $105.8 million sold to off-balance sheet private-label securitization trusts at March 31, 2012 and December 31, 2011, respectively. The corresponding liability is recorded in other liabilities. See Note 5 — Securitizations and Variable Interest Entities for additional information.

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16. Contingencies and Other Risks

We currently estimate that it is reasonably possible losses over time related to the litigation matters and potential repurchase obligations and related claims described herein could be between $0.0 billion and $4.0 billion over amounts already recorded. This estimate is based on significant judgment and numerous assumptions that are subject to change, which could be material.

Mortgage Foreclosure Matters

Settlements with Federal Government and State Attorneys General

Agreement

On February 9, 2012, Ally Inc., ResCap, and certain of our subsidiaries reached an agreement in principle with respect to investigations into procedures followed by mortgage servicing companies and banks in connection with mortgage origination and servicing activities and foreclosure home sales and evictions (the Settlement). On March 12, 2012, the Settlement was filed as a consent judgment in the U.S. District Court for the District of Columbia. In addition, we separately reached an independent settlement with Oklahoma, which did not participate in the broader settlement described below, and agreements with two other states for other releases.

In connection with the settlement we paid $109.6 million to a trustee, for distribution to federal and state governments in March 2012. In addition, we also paid $2.3 million in connection with the separate state agreements. We are also obligated to provide $200.0 million towards borrower relief, subject to possible upward adjustments as described below. This obligation for borrower relief will include loan modifications, including principal reductions, rate modifications, and refinancing for borrowers that meet certain requirements, and participation in certain other programs. Generally, if certain basic criteria are met, borrowers that are either delinquent or at imminent risk of default and owe more on their mortgages than their homes are worth could be eligible for principle reductions, and borrowers that are current on their mortgages but who owe more on their mortgage than their homes are worth could be eligible for refinancing opportunities. Further, we have agreed to solicit borrowers that are eligible for rate and principal modifications as of March 1, 2012. We are committed to provide loan modifications to all borrowers who accept a modification offer within three months of the solicitation. We have also agreed to provide loan modifications to borrowers who accept a modification offer within six months of the solicitation, unless and until total borrower relief provided exceeds $250.0 million. As of March 31, 2012, no loan modifications have been completed. However, we are currently in the process of soliciting eligible borrowers and expect modifications to begin in the second quarter of 2012.

The Settlement provides incentives for borrower relief that is provided within the first twelve months, and all obligations must be met within three years from the date the consent judgment is filed. In addition to the foregoing, we will be required to implement new servicing standards relating to matters such as foreclosure and bankruptcy information and documentation, oversight, loss mitigation, limitations on fees, and related procedural matters. Compliance with these obligations will be overseen by an independent monitor, who will have authority to impose additional penalties and fines if we fail to meet established timelines or fail to implement required servicing standards.

The Settlement generally resolves potential claims arising out of origination and servicing activities and foreclosure matters, subject to certain exceptions. The Settlement does not prevent state and federal authorities from pursuing criminal enforcement actions, securities-related claims (including actions related to securitization activities and Mortgage Electronic Registration Systems, or MERS), loan origination claims, claims brought by the FDIC, and certain other matters. The Settlement also does not prevent claims that may be brought by individual borrowers.

Federal Reserve Board Civil Money Penalty

On February 9, 2012, Ally Inc. and ResCap agreed with the Board of Governors of the Federal Reserve (FRB) on a civil money penalty (CMP) of $207.0 million related to the same activities that were the subject of the Settlement. This amount will be reduced dollar-for-dollar in connection with certain aspects of our satisfaction of the required monetary payment and borrower relief obligations included within the Settlement, as well as our participation in other similar programs that may be approved by the FRB. While additional future cash payments related to the CMP are possible if we are unable to satisfy the borrower relief requirements of the Settlement within two years, we currently expect that the full amount of the CMP will be satisfied through our commitments in connection with the Settlement.

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Other Mortgage Foreclosure Matters

Consent Order

As a result of an examination conducted by the FRB and FDIC, on April 13, 2011 we entered into a Consent Order (the Consent Order) with the FRB and the FDIC. The Consent Order requires that we make improvements to various aspects of our residential mortgage loan-servicing business, including compliance programs, internal audit, communications with borrowers, vendor management, management information systems, employee training, and oversight by our Board of Directors.

The Consent Order further requires GMAC Mortgage to retain independent consultants to conduct a risk assessment related to mortgage servicing activities and, separately, to conduct a review of certain past residential mortgage foreclosure actions. We cannot reasonably estimate the ultimate impact of any deficiencies that have been or may be identified in our historical foreclosure procedures. There are potential risks related to these matters that extend beyond potential liability on individual foreclosure actions. Specific risks could include, for example, claims and litigation related to foreclosure remediation and resubmission; claims from investors that hold securities that become adversely impacted by continued delays in the foreclosure process; the reduction in foreclosure proceeds due to delay, or by challenges to completed foreclosure sales to the extent, if any, not covered by title insurance obtained in connection with such sales; actions by courts, state attorneys general, or regulators to delay further the foreclosure process after submission of corrected affidavits, or to facilitate claims by borrowers alleging that they were harmed by our foreclosure practices (by, for example, foreclosing without offering an appropriate range of alternative home preservation options); additional regulatory fines, sanctions, and other additional costs; and reputational risks. To date we have borne all out-of-pocket costs associated with the remediation rather than passing any such costs through to investors for whom we service the related mortgages, and we expect that we will continue to do so.

Loan Repurchases and Obligations Related to Loan Sales

Overview

We sell loans that take the form of securitizations guaranteed by the GSEs, securitizations sold to private investors, and to whole–loan investors. In connection with a portion of our private-label securitizations, the monolines insured all or some of the related bonds and guaranteed timely repayment of bond principal and interest when the issuer defaults. In connection with securitizations and loan sales, the trustee for the benefit of the related security holders and, if applicable, the related monoline insurers are provided various representations and warranties related to the loans sold. The specific representations and warranties vary among different transactions and investors but typically relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, the ability to deliver required documentation and compliance with applicable laws. In general, the representations and warranties described above may be enforced at any time unless a sunset provision is in place. Upon discovery of a breach of a representation or warranty, the breach is corrected in a manner conforming to the provisions of the sale agreement. This may require us to repurchase the loan, indemnify the investor for incurred losses, or otherwise make the investor whole. We have entered into settlement agreements with both Fannie Mae and Freddie Mac that, subject to certain exclusions, limit our remaining exposure with the GSEs. See *Government-sponsored Enterprises* below. We assume all of the customary representation and warranty obligations for loans purchased from Ally Bank and subsequently sold into the secondary market, generally through securitizations guaranteed by the GSEs.

Originations

The total exposure to mortgage representation and warranty claims is most significant for loans originated and sold between 2004 through 2008, specifically the 2006 and 2007 vintages that were originated and sold prior to enhanced underwriting standards and risk–mitigation actions implemented in 2008 and forward. Since 2009, we have focused primarily on purchasing prime conforming and government–insured mortgages. In addition, we ceased offering interest–only jumbo mortgages in 2010. Representation and warranty risk mitigation strategies include, but are not limited to, pursuing settlements with investors where economically beneficial in order to resolve a pipeline of demands in lieu of loan-by-loan assessments that could result in repurchasing loans, aggressively contesting claims we do not consider valid (rescinding claims), and seeking recourse against correspondent lenders from whom we purchased loans wherever appropriate.

Demand/Claim Process

After receiving a claim under representation and warranty obligations, we review the claim to determine the appropriate response (e.g. appeal, and provide or request additional information) and take appropriate action (rescind, repurchase the loan, or remit indemnification payment). Historically, repurchase demands were generally related to loans that became delinquent within the first few years following origination. As a result of market developments over the past several years, investor repurchase demand behavior has changed significantly. GSEs and investors are more likely to submit claims for loans at any point in the loans life cycle. Representation and warranty claims are generally reviewed on a loan–by–loan basis to validate if there has been a breach requiring

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a potential repurchase or indemnification payment. We actively contest claims to the extent they are not considered valid. We are not required to repurchase a loan or provide an indemnification payment where claims are not valid.

The risk of repurchase or indemnification, and the associated credit exposure, is managed through our underwriting and quality assurance practices and by servicing mortgage loans to meet investor standards. We believe that, in general, the longer a loan performs prior to default, the less likely it is that an alleged breach of representation and warranty will be found to have a material and adverse impact on the loan's performance. When loans are repurchased, we bear the related credit loss on the loans. Repurchased loans are classified as held-for-sale and initially recorded at fair value.

The following table includes amounts paid to investors and monolines with respect to representation and warranty obligations.

Three months ended March 31, ($ in thousands)	2012	2011
Loan repurchases (UPB)		
GSEs	$19,005	$43,582
Private-label securitizations insured (monolines)	4,038	14
Private-label securitizations uninsured	—	—
Whole-loan investors	2,468	4,642
Total	$25,511	$48,238
Indemnifications (make wholes) by investor		
GSEs	$20,971	$15,517
Private-label securitizations insured (monolines)	—	1,835
Private-label securitizations uninsured	—	—
Whole-loan investors	6,402	24
Total	$27,373	$17,376

The following table presents the total number and original unpaid principal balance of loans related to unresolved representation and warranty demands (indemnification claims and/or repurchase demands). The table includes demands that we have requested be rescinded but which have not yet been agreed to by the investor.

	March 31, 2012		December 31, 2011 (a)	
($ in millions)	Number of loans	Original UPB of loans	Number of loans	Original UPB of loans
Unresolved repurchase demands previously received				
GSEs	457	$89	357	$71
Insured private-lable securitizations				
MBIA Insurance Corporation	7,314	491	7,314	490
Financial Guaranty Insurance Company	4,826	382	4,608	369
Other	937	70	730	58
Uninsured private-lable securitizations	294	78	38	7
Whole Loan Investors	561	85	475	74
Total unpaid principal balance	14,389	$1,195	13,522	$1,069

(a) Excludes $59.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews.

We are currently in litigation with MBIA Insurance Corporation (MBIA) and Financial Guaranty Insurance Company (FGIC) with respect to certain representation and warranty matters related to certain of our private-label securitizations. Historically we have requested that most of the demands be rescinded, consistent with the claim/demand process described above. As the litigation process proceeds, additional loan reviews are expected and will likely result in additional repurchase demands.

Liability for Representation and Warranty Obligations

The liability for representation and warranty obligations reflects management's best estimate of probable lifetime loss. We consider historical and recent demand trends in establishing the reserve. The methodology used to estimate the reserve considers a variety of assumptions including borrower performance (both actual and estimated future defaults), repurchase demand behavior, historical loan defect experience, historical mortgage insurance rescission experience, and historical and estimated future loss experience, which includes projections of future home price changes as well as other qualitative factors including investor behavior. In cases where we do not have or have limited current or historical demand experience with an investor, it is difficult to predict and estimate the level and timing of any potential future demands. In such cases, we may not be able to reasonably estimate losses, and a liability is not recognized. Management monitors the adequacy of the overall reserve and makes adjustments to the level of reserve,

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as necessary, after consideration of other qualitative factors including ongoing dialogue and experience with counterparties.

At the time a loan is sold, an estimate of the fair value of the liability is recorded and classified in other liabilities and recorded as a component of gain on mortgage loans, net. We recognize changes in the liability when additional relevant information becomes available. Changes in the estimate are recorded as representation and warranty expense, net. At March 31, 2012, the liability relates primarily to non-GSE exposure.

The following table summarizes the changes in our liability for representation and warranty obligations.

($ in thousands)	**2012**	2011
Balance at January 1,	**$824,776**	$830,021
Provision for representation and warranty obligations		
Loan sales	**4,410**	5,895
Change in estimate	**19,459**	26,000
Total additions	**23,869**	31,895
Realized losses (a)	**(42,181)**	(33,692)
Recoveries	**4,341**	2,063
Balance at March 31,	**$810,805**	$830,287

(a) Includes principal losses and accrued interest on repurchased loans, indemnification payments, and settlements with investors.

Government-sponsored Entities

Between 2004 and 2012, we sold $441.0 billion of loans to the GSEs. Each GSE has specific guidelines and criteria for sellers and servicers of loans underlying their securities. In addition, the risk of credit loss of the loans sold was generally transferred to investors upon sale of the securities into the secondary market. Conventional conforming loans were sold to either Freddie Mac or Fannie Mae, and government insured loans were securitized with Ginnie Mae. Our representation and warranty obligation liability with respect to the GSEs considers the existing unresolved claims and the best estimate of future claims that could be received. We consider our experiences with the GSEs in evaluating our liability.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect our GSE exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

($ in millions)	**2012**	2011 (a)
Balance at January 1,	**$71**	$170
New claims	**128**	102
Resolved claims (b)	**(60)**	(133)
Rescinded claims/other	**(50)**	(41)
Balance at March 31,	**$89**	$98

(a) Excludes $22.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews.

(b) Includes settlements, repurchased loans and claims under which indemnification payments are made.

We have settled our repurchase obligations relating to most of the mortgage loans sold to Freddie Mac prior to January 1, 2009. This agreement does not release any of our obligations with respect to exposure for private-label MBS in which Freddie Mac had previously invested, loans where our affiliate, Ally Bank is the owner of the servicing, as well as defects in certain other specified categories of loans. Further, we continue to be responsible for other contractual obligations we have with Freddie Mac, including all indemnification obligations that may arise in connection with the servicing of the mortgages. These other specified categories include (i) loans subject to certain state predatory lending and similar laws; (ii) groups of 25 or more mortgage loans purchased, originated, or serviced by one of our subsidiaries, the purchase, origination, or sale of which all involve a common actor who committed fraud; (iii) "non-loan-level" representations and warranties which refer to representations and warranties that do not relate to specific mortgage loans (examples of such non-loan-level representations and warranties include the requirement that our subsidiaries meet certain standards to be eligible to sell or service loans for Freddie Mac or our subsidiaries sold or serviced loans for market participants that were not acceptable to Freddie Mac); and (iv) mortgage loans that are ineligible for purchase by Freddie Mac under its charter and other applicable documents. If, however, a mortgage loan was ineligible under Freddie Mac's charter solely because mortgage insurance was rescinded (rather than for example, because the mortgage loan is secured by a commercial property), and Freddie Mac required us or our subsidiary to repurchase that loan because of the ineligibility, Freddie Mac would pay any net loss we suffered on any later liquidation of that mortgage loan.

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We have received subpoenas from the Federal Housing Finance Agency (FHFA), which is the conservator of Fannie Mae and Freddie Mac. The subpoenas relating to Fannie Mae investments have been withdrawn with prejudice. The FHFA indicated that documents provided in response to the remaining subpoenas will enable the FHFA to determine whether they believe issuers of private-label MBS are potentially liable to Freddie Mac for losses they might have incurred. Although Freddie Mac has not brought any representation and warranty claims against us with respect to private-label securities subsequent to the settlement, they may do so in the future. The FHFA has commenced securities and related common law fraud litigation against us and certain of our subsidiaries with respect to certain of Freddie Mac's private-label securities investments.

We have settled our repurchase obligations related to most of the mortgage loans we sold to Fannie Mae prior to June 30, 2010. The agreement also covers potential exposure for private-label MBS in which Fannie Mae had previously invested. This agreement does not release any of our obligations with respect to loans where our affiliate, Ally Bank, is the owner of the servicing, as well as for defects in certain other specified categories of loans. Further, we continue to be responsible for other contractual obligations we have with Fannie Mae, including all indemnification obligations that may arise in connection with the servicing of the mortgages, and we continue to be obligated to indemnify Fannie Mae for litigation or third party claims (including by borrowers) for matters that may amount to breaches of selling representations and warranties. These other specified categories include, among others, (i) those that violate anti-predatory laws or statutes or related regulations or that otherwise violate other applicable laws and regulations; (ii) those that have non-curable defects in title to the secured property, or that have curable title defects, to the extent our subsidiaries do not cure such defects at our subsidiary's expense; (iii) any mortgage loan in which title or ownership of the mortgage loan was defective; (iv) groups of 13 or more mortgage loans, the purchase, origination, sale or servicing of which all involve a common actor who committed fraud; and (v) mortgage loans not in compliance with Fannie Mae Charter Act requirements (e.g., mortgage loans on commercial properties or mortgage loans without required mortgage insurance coverage). If a mortgage loan falls out of compliance with Fannie Mae Charter Act requirements because mortgage insurance coverage has been rescinded and not reinstated or replaced, upon the borrower's default our subsidiaries would have to pay to Fannie Mae the amount of insurance proceeds that would have been paid by the mortgage insurer with respect to such mortgage loan. If the amount of the loss exceeded the amount of insurance proceeds, Fannie Mae would be responsible for such excess.

Private-label Securitizations (PLS)

In general, representations and warranties provided as part of our private-label securitization activities are less rigorous than those provided to the GSEs and generally impose higher burdens on investors seeking repurchase. In order to successfully assert a claim, it is our position that a claimant must prove a breach of the representations and warranties that materially and adversely affects the interest of the investor in the allegedly defective loan. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate a repurchase claim. However, a class of investors generally are required to coordinate with other investors in that class comprising no less than 25% and in some cases 50% of the percentage interest constituting a class of securities of that class issued by the trust to pursue claims for breach of representations and warranties. In addition, our private-label securitizations generally require that the servicer or trustee give notice to the other parties whenever it becomes aware of facts or circumstances that reveal a breach of representation that materially and adversely affects the interest of the certificate holders.

Regarding our securitization activities, we have exposure to potential losses primarily through two avenues. First, investors, through trustees to the extent required by the applicable agreements (or monoline insurers in certain transactions), may request pursuant to applicable agreements that we repurchase loans or make the investor whole for losses incurred if it is determined that we violated representations and warranties made at the time of the sale, provided that such violations materially and adversely impacted the interest of the investor. Contractual representations and warranties are different based on the specific deal structure and investor. It is our position that litigation of these matters must proceed on a loan by loan basis. This issue is being disputed throughout the industry in various pending litigation matters. Similarly in dispute as a matter of law is the degree to which claimants will have to prove that the alleged breaches of representations and warranties actually caused the losses they claim to have suffered. Ultimate resolution by courts of these and other legal issues will impact litigation and treatment of non-litigated claims pursuant to similar contractual provisions. Second, investors in securitizations may attempt to achieve rescission of their investments or damages through litigation by claiming that the applicable offering documents were materially deficient. If an investor properly made and proved its allegations, the investor might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans.

Insured Private-label Securitizations (Monoline)

Historically, we have securitized loans where the monolines insured all or some of the related bonds and guaranteed the timely repayment of bond principal and interest when the issuer defaults. Typically, any alleged breach requires the insurer to have both the ability to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holders or the insurer. Generally, most claims in connection with private-label securitizations come from Monoline Insurers and continue to represent the majority of outstanding repurchase demands. For the period 2004 through 2007, we sold $42.7 billion of loans into these monoline-wrapped securitizations.

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We are currently in litigation with MBIA and FGIC in connection with our representation and warranty obligations, and additional litigation with other monolines is likely.

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect our Monoline exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

($ in millions)	2012	2011 (a)
Balance at January 1,	$917	$661
New claims (b)	28	14
Resolved claims (c)	(2)	(8)
Rescinded claims/other	—	
Balance at March 31,	$943	$667

(a) Excludes $9.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews.
(b) Substantially all relate to claims associated with the 2004 through 2007 vintages.
(c) Includes settlements, repurchased loans and claims under which indemnification payments are made.

Uninsured Private-label Securitizations

Historically, we securitized loans where all or some of the related bonds were uninsured. We are required to make customary representations and warranties about the loans to the investors and/or securitization trust. Typically, any alleged breach of representations and warranties requires the holder of the security to assert a claim as well as evidence that a defect has had a material and adverse effect on the interest of the security holder. During the period 2004 through 2007, we sold $182.1 billion of loans into these uninsured private-label securitizations. Claims associated with uninsured PLS were historically self identified and constituted an immaterial portion of new claims. These claims were historically included within the 'Whole loan/other' category. During the three months ended March 31, 2012, we received a repurchase request from a bond trustee with respect to one of our uninsured private-label securitizations for loans originated in 2006 with an original unpaid principal balance $70.0 million. This unpaid principal balance is not representative of expected future losses.

The following table summarizes the changes in our original unpaid principal balance related to unresolved repurchase demands with respect to our uninsured PLS exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

Three months ended March 31, (*$ in millions*)	2012	2011 (a)
Balance at January 1,	$8	$3
New claims	75	3
Resolved claims (b)	(4)	—
Rescinded claims/other	(1)	
Balance at March 31,	$78	$6

(a) Excludes $4.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews.
(b) Includes losses, settlements, impairments on repurchased loans, and indemnification payments.

Whole-loan Sales

The following table summarizes the changes in the original unpaid principal balance related to unresolved repurchase demands with respect to our whole-loan exposure. The table includes demands that we have requested be rescinded but which have not been agreed to by the investor.

($ in millions)	2012	2011 (a)
Balance at January 1,	$73	$85
New claims (b)	22	13
Resolved claims (c)	(6)	(7)
Rescinded claims/other	(4)	(24)
Balance at March 31,	$85	$67

(a) Excludes $25.0 million of original UPB on loans where counterparties have requested additional documentation as part of individual loan file reviews.
(b) Includes $21.9 million and $13.0 million in new claims associated with the 2004 through 2007 vintages in 2012 and 2011, respectively.
(c) Includes settlements, repurchased loans and claims under which indemnification payments are made.

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Private Mortgage Insurance

Mortgage insurance is required for certain consumer mortgage loans sold to the GSEs and certain securitization trusts and may have been in place for consumer mortgage loans sold to whole-loan investors. Mortgage insurance is typically required for first-lien consumer mortgage loans having a loan-to-value ratio at origination of greater than 80 percent. Mortgage insurers are, in certain circumstances, permitted to rescind existing mortgage insurance that covers consumer loans if they demonstrate certain loan underwriting requirements have not been met. Upon receipt of a rescission notice, we assess the notice and if appropriate, we refute the notice, or if the notice cannot be refuted, we attempt to remedy the defect. In the event the mortgage insurance cannot be reinstated, we may be obligated to repurchase the loan or provide an indemnification payment in the event of a loss, subject to contractual limitations. While we make every effort to reinstate the mortgage insurance, we have had limited success and as a result, most of these requests result in rescission of the mortgage insurance. At March 31, 2012, we have approximately $173.4 million in original unpaid principal balance of outstanding mortgage insurance rescission notices where we have not received a repurchase demand. However, this unpaid principal amount is not representative of expected future losses.

Legal Proceedings

We are subject to potential liability under various governmental proceedings, claims, and legal actions that are pending or otherwise asserted against us. We are named as defendants in a number of legal actions, and we are occasionally involved in governmental proceedings arising in connection with our respective businesses. Some of the pending actions purport to be class actions, and certain legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We establish reserves for legal claims when payments associated with the claims become probable and the payments can be reasonably estimated. Given the inherent difficulty of predicting the outcome of litigation and regulatory matters, it is generally very difficult to predict what the eventual outcome will be, and when the matter will be resolved. The actual costs of resolving legal claims may be higher or lower than any amounts reserved for the claims. We recorded a liability for probable legal claims of $99.6 million and $94.5 million at March 31, 2012 and December 31, 2011, respectively.

FGIC Litigation

On November 29, 2011, FGIC filed three complaints against ResCap in New York County Supreme Court. In two of these cases, both entitled Financial Guaranty Insurance Company v. RFC et al., FGIC alleges that defendants breached their contractual representations and warranties relating to the characteristics of the mortgage loans contained in certain insured MBS offerings. FGIC further alleges that the defendants breached their contractual obligations to permit access to loan files and certain books and records.

In the third case, entitled Financial Guaranty Insurance Company v. GMAC Mortgage LLC, et al., FGIC makes similar contract allegations against GMAC Mortgage and ResCap, as well as a claim against GMAC Mortgage for fraudulent inducement. In addition, FGIC alleges aiding and abetting fraudulent inducement against Ally Bank, which originated a large portion of the loans in the disputed pool, and breach of the custodial agreement for failing to notify FGIC of the claimed breaches of representations and warranties. In each of these cases, FGIC seeks, among other relief, reimbursement of all sums it paid under the various policies and an award of legal, rescissory, equitable, and punitive damages.

On December 15, 2011, FGIC filed a fourth complaint in New York County Supreme Court related to insurance policies issued in connection with a RFC-sponsored transaction. This complaint, entitled Financial Guaranty Insurance Company v. Ally Financial, Inc., et al., names RFC and ResCap, and seeks various forms of declaratory and monetary relief. The complaint alleges that the defendants are alter egos of one another, fraudulently induced FGIC's agreement to provide insurance by misrepresenting the nature of RFC's business practices and the credit quality and characteristics of the underlying loans, and have now materially breached their agreement with FGIC by refusing its requests for information and documents.

On December 27, 2011, FGIC filed three additional complaints in New York County Supreme Court against ResCap and RFC. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same.

Since January 1, 2012, FGIC has filed five new complaints in federal court naming some combination of Ally Inc., ResCap, Ally Bank, RFC, and GMAC Mortgage. The five complaints were filed on January 31, 2012, March 5, 2012, March 6, 2012, March 12, 2012 and March 13, 2012, respectively. These complaints seek relief nearly identical to that of FGIC's previously filed cases and contain substantially similar allegations. In particular, FGIC alleges that the defendants, acting as alter egos of each other, fraudulently induced FGIC to enter into seven separate insurance and indemnity agreements and breached their contractual obligations under same. In addition, FGIC amended its first-filed complaint to name Ally Inc. as a defendant.

All of the FGIC cases are now venued in the U.S. District Court for the Southern District of New York, and the defendants have asked the Court for leave to file motions to dismiss each such case.

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Mitchell Litigation

In this statewide class action, plaintiffs alleged that Mortgage Capital Resources, Inc. (MCR) violated the Missouri Second Mortgage Loan Act by charging Missouri borrowers fees and interest not permitted by the Act. RFC and Homecomings, among others, were named as defendants in their role as assignees of certain of the MCR loans. Following a trial concluded in January 2008, the jury returned verdicts against all defendants, including an award against RFC and Homecomings for $4.0 million in compensatory damages (plus pre- and post-judgment interest and attorneys' fees) and against RFC for $92.0 million in punitive damages. In a November 2010 decision, the Missouri Court of Appeals affirmed the compensatory damages but ordered a new trial on punitive damages. Upon remand, we paid $12.8 million in compensatory damages (including interest and attorneys' fees). At the end of February 2012, RFC entered into an agreement in principle to settle all of plaintiffs' remaining claims, including plaintiffs' already-awarded attorneys' fees on appeal, for a total of $17.3 million. The agreement was preliminarily approved on April 16, 2012. The hearing on final approval is scheduled for May 18, 2012.

Private-label Securitizations – Other Potential Repurchase Obligations

When we sell mortgage loans through whole-loan sales or securitizations, we are required to make customary representations and warranties about the loans to the purchaser and/or securitization trust. These representations and warranties relate to, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the transaction, including compliance with underwriting standards or loan criteria established by the buyer, ability to deliver required documentation, and compliance with applicable laws. Generally, the representations and warranties described above may be enforced at any time over the life of the loan. Breaches of these representations and warranties have resulted in a requirement that we repurchase mortgage loans. As the mortgage industry continues to experience higher repurchase requirements and additional investors begin to attempt to put back loans, a significant increase in activity beyond that experienced today could occur, resulting in additional future losses.

Private-label Securities Litigation

We and certain of our subsidiaries have been named as defendants in several cases relating to our various roles in MBS offerings. The plaintiffs generally allege that the defendants made misstatements and omissions in registration statements, prospectuses, prospectus supplements, and other documents related to the MBS offerings. The alleged misstatements and omissions typically concern underwriting standards for residential mortgage loans. Plaintiffs generally claim that such misstatements and omissions constitute violations of state and/or federal securities law and common law including negligent misrepresentation and fraud. Plaintiffs seek monetary damages and rescission. Set forth below are descriptions of the most significant of these legal proceedings.

Regulatory

Our origination, purchase, sale, securitization and servicing business activities expose us to risks of noncompliance with extensive federal, state, local and foreign laws, rules and regulations. Our business activities are also governed by, among other contracts, primary and master servicing agreements that contain covenants and restrictions regarding the performance of our servicing activities. Our failure to comply with these laws, rules, regulations and contracts can lead to, among other things, loss of licenses and approvals, an inability to sell or securitize loans, demands for indemnification or loan repurchases from purchasers of loans, demands for indemnification or other compensation from investors in our securitizations, fines, penalties, litigation, including class action lawsuits, and governmental investigations and enforcement actions, including, in the case of some violations of law, possible criminal liability.

GMAC Financiera, our wholly-owned subsidiary operating in Mexico, incurred losses during the year which reduced its capital stock and its shareholders equity by more than two-thirds. At March 31, 2012, the amount of the deficiency is $71.4 million. Until this deficiency is cured, GMAC Financiera falls within one of the causes for dissolution under Mexican law.

Other Contingencies

We are subject to potential liability under various other exposures including tax, nonrecourse loans, self-insurance, and other miscellaneous contingencies. We establish reserves for these contingencies when the item becomes probable and the costs can be reasonably estimated. The actual costs of resolving these items may be substantially higher or lower than the amounts reserved for any one item. Based on information currently available, it is the opinion of management that the eventual outcome of these items will not have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

17. Related Party Transactions

Balance Sheet

A summary of the balance sheet effect of our transactions with Ally Inc., Ally Bank, and other affiliates were as follows.

($ in thousands)	March 31, 2012	December 31, 2011
Assets		
Mortgage loans held–for–sale — purchased from Ally Bank	$23,624	$13,518
Mortgage loans held-for-sale — contributions from Ally Inc. (carry value) (a)	620,611	645,357
Other Assets		
Restricted cash deposits — Ally Bank	81,879	112,458
Derivative collateral placed with Ally IM	1,079,022	1,008,262
Fair value of derivative instruments		
MSR swap — Ally Bank	29,442	17,681
Receivable (Payable), net — Ally Bank	20,785	(21,001)
Receivable from other affiliates	2,125	2,046
Liabilities		
Borrowings — Ally Inc. Senior Secured Credit Facility (b)	$751,849	$757,767
Borrowings — Ally Inc. LOC (b)	430,696	185,064
Borrowings — BMMZ Repo (b)	250,416	250,351
Other Liabilities		
Liability for loans sold with recourse — Ally Bank (c)	5,976	6,773
Fair value of derivative instruments		
Forward flow agreement — Ally Bank	27,105	(16,423)
Ally IM (d)	954,824	1,049,420
Payable to Ally Inc. (e)	4,194	31,019
Other activity		
Loans (UPB) sub-serviced — Ally Bank	$140,799,853	$143,172,634
Servicing escrow/deposits for off-balance sheet loans — Ally Bank	2,273,975	2,003,745
Home Equity Loans (UPB) subject to indemnifications — Ally Bank (c)	56,571	58,512
Income tax (receipt) payment — Ally Inc. (f)	(4,550)	37,498

(a) Amount represents the carrying value of the loans contributed from Ally Inc. in 2009. The UPB of these loans is $1.5 billion and $1.6 billion at March 31, 2012 and December 31, 2011, respectively.

(b) Includes principal balance of debt outstanding plus accrued interest.

(c) Relates to an indemnification agreement with respect to a portfolio of second lien home equity loans with an original UPB of $166.0 million. This agreement expired in April 2012.

(d) Includes the fair value of forwards, TBAs and swaptions executed in connection with hedging of our mortgage loans held–for–sale, retained interests and MSRs. Also includes the fair value of hedges related to our foreign currency exposure. See Note 14 — Derivative Instruments and Hedging Activities for additional information.

(e) Includes costs for personnel, information technology, communications, corporate marketing, procurement and services related to facilities incurred by Ally Inc. and allocated to us.

(f) See Note 12 - Income taxes for additional information.

Notes to Condensed Consolidated Financial Statements
Residential Capital, LLC

Statement of Comprehensive Income

A summary of the income statement effect of our transactions with Ally Inc., Ally Bank and other affiliates were as follows.

Three months ended March 31, *($ in thousands)*	2012	2011
Net financing revenue		
Interest income on cash deposits — Ally Bank	$221	$290
Interest expense — Ally Inc. Senior Secured Credit Facility	5,746	6,234
Interest expense — Ally Inc. LOC	2,223	4,177
Interest expense BMMZ Repo	3,169	
Interest expense — Ally Bank	385	—
Other revenue		
(Loss) gain on mortgage loans, net — derivative instruments with Ally IM	(58,889)	56,980
(Loss) gain on mortgage loans, net — Ally Bank	(87,339)	134,468
Gain on mortgage loans, net — Ally Securities, LLC (c)	—	4,501
Servicing fees — Ally Bank	11,767	7,614
Servicing assets valuation and hedge activities, net — derivative instruments with Ally IM	(32,246)	(174,499)
Servicing assets valuation and hedge activities, net — derivative instruments with Ally Bank	96,424	216,048
Loan brokerage fees Ally Bank (a)	23,343	9,496
Provision expense — Ally Bank (b)	(8)	860
Noninterest expense		
(Loss) on foreign currency — derivative instruments with Ally Inc.	(7,330)	(169)
Management fees — Ally Inc.	29,558	16,915
Custodial fees — Ally Bank	1,985	1,846
Allocated expenses — Ally Bank	72	125
Other activity		
Loans purchased (UPB) under the MMLPSA — Ally Bank (d)	$10,137,301	$14,640,058
Loans sold (UPB) under the MMLPSA — Ally Bank	43,052	7,543

(a) Under the terms of a broker agreement with Ally Bank, we provide loan processing services to support Ally's loan origination and purchase activities as well as loan closing services.

(b) Relates to provision expenses associated with the indemnification agreement with respect to a portfolio of second lien home equity loans. This agreement expired in April 2012.

(c) Relates to mortgage and asset-backed securities brokered to Ally Securities, LLC for underwriting, distribution and capital markets liquidity services.

(d) Includes repurchased loans of $0.6 million and $4.2 million as of March 31, 2012 and 2011, respectively.

Statement of Changes in Equity

A summary of the changes to the statement of equity related to our transactions with Ally Inc., Ally Bank and other affiliates were as follows.

Three months ended March 31, *($ in thousands)*	2012	2011
Equity		
Capital contributions — Ally Inc. (a)	$196,500	$109,405

(a) Represents capital contributions from Ally Inc. through the forgiveness of Ally Inc. LOC borrowings.

Other Significant Affiliate Agreements

We are party to an ISDA 2002 Master Agreement with Ally IM, a subsidiary of Ally Inc., whereby we enter into foreign exchange and interest rate hedging transactions (the ISDA Agreement) and a Master Securities Forward Transaction Agreement (the Forward Agreement and with the ISDA Agreement, the Derivative Agreements) whereby we agree to sell certain mortgage-backed securities to Ally IM from time to time on a forward basis. We also entered into a Guarantee and Master Netting Agreement with Ally IM whereby the parties agreed to aggregate, net, and set off the Derivative Agreements and the Ally Inc. LOC. In connection with the Derivative Agreements, we cross-collateralize the respective obligations and have granted a security interest to Ally IM in any cash or other property posted, or required to be posted, as collateral by us. We expect to transact virtually all of our hedging transactions with Ally IM in the future.

On December 5, 2011, we entered into an agreement with Ally Inc. and GMAC Mortgage Group (the Agreement), whereby we agreed to certain terms and conditions in respect of ongoing loan sales by Ally Bank to us under the terms of our Master Mortgage Loan Purchase and Sale Agreement (MMLPSA) with Ally Bank. In accordance with the Agreement, we have instructed the GSEs to deliver, free and clear of all liens and encumbrances, mortgage-backed securities received from the GSEs in connection with our loan sales to them (New MBS) directly upon issuance into an account of Ally IM for the benefit of Ally Bank and GMAC Mortgage Group. We have granted Ally Bank and GMAC Mortgage Group security interests in loans purchased from Ally Bank and all proceeds from the sale of the New MBS. All proceeds from the sale of the New MBS are paid without setoff, recoupment or other reduction by Ally IM directly to Ally Bank. Ally Bank remits to us proceeds, if any, in excess of the purchase price of loans sold to us under the MMLPSA, and we remit to Ally Bank the amount of any shortfall in such proceeds necessary to pay the purchase price of the loans. On April 25, 2012, we entered into a Pledge and Security Agreement among ResCap, GMAC Mortgage, Ally Inc., GMAC Mortgage Group, Ally Bank and Ally IM (the Pipeline Security Agreement) in connection with these conditions. See *Transactions with Ally Bank*, below, for additional information regarding the MMLPSA agreements.

Transactions with Ally Bank

Under the terms of our Broker Agreement with Ally Bank, we act in a broker capacity and provide loan processing services to Ally Bank to support its origination and purchase of loans, as well as loan closing services. The Broker Agreement has no mandatory expiration date and can be terminated by either party with 30 days notice. Under the terms of the Broker Agreement, loans meeting the underwriting standards of Ally Bank are originated (funded) by Ally Bank, while loans not meeting those standards may be originated by us and sold directly into the secondary market. We also provide certain representations and warranties and indemnifications to Ally Bank with respect to brokered loans. The Broker Agreement was amended April 30, 2012 and is effective May 1, 2o12.

Under the terms of the MMLPSA with Ally Bank, we purchase first- and second-lien mortgage loans held-for-sale from Ally Bank. We sell and deliver such mortgage loans into the secondary market primarily through Fannie Mae and Freddie Mac securitizations and Ginnie Mae insured securitizations. The MMLPSA has no mandatory expiration date and can be terminated on 30 days notice by Ally Bank or immediately if agreed by both parties. Under the MMLPSA, we purchase loans from Ally Bank and recognize gains or losses on the sale of mortgage loans as they are sold by us into the secondary market. Loans purchased by us pursuant to the MMLPSA include mortgage loans originated by third parties and purchased by Ally Bank (correspondent lending); loans originated directly by Ally Bank; and mortgage loans originated by us and sold to Ally Bank pursuant to a loan sale agreement (the Client Agreement). Effective May 1, 2012, the MMLPSA and Client Agreement were amended and restated. Under the terms of the New MMLPSA, effective May 2012, we have an obligation to purchase all FHA and VA Ginnie Mae insurable loans originated or purchased by Ally Bank. We will no longer purchase Fannie Mae and Freddie Mac eligible loans that Ally Bank originates or purchases. Loans purchased under the New MMLPSA are on a nonrecourse, service released basis. To the extent any loan purchased by us under the new MMLPSA is determined to be ineligible or uninsurable for purposes of Ginnie Mae certification, Ally Bank will cure the defect, if curable, or repurchase the loan at the current unpaid principal balance plus accrued interest.

We were counterparty to a forward flow agreement for mortgage loans held-for-sale and interest rate lock commitments held by Ally Bank that ultimately were sold to us under the MMLPSA. The forward flow agreement transferred the exposure to changes in fair value of Ally Bank's mortgage loans held-for-sale and interest rate lock commitments to us. We hedged our exposure to the forward flow agreement consistent with the hedging of our own mortgage loans held-for-sale and interest rate lock commitments. The forward flow agreement was terminated effective April 30, 2012.

We were counterparty to a MSR Total Return Swap (the MSR Swap) which transferred the total economic return of MSRs owned by Ally Bank to us in exchange for a variable payment based upon a fixed spread to LIBOR. The fixed spread to LIBOR is periodically evaluated against available market data. We hedged our exposure to the MSR Swap consistent with the hedging of our own MSRs. The MSR Swap was terminated effective April 30, 2012.

We were party to an ISDA 2002 Master Agreement with Ally Bank governing the forward flow agreement and MSR Swap. We also entered into an Agreement to Set Off Obligations (the Netting Agreement) which provided Ally Bank the right, but not the obligation, to set off any obligation that we had to Ally Bank against any obligation of Ally Bank to us. The ISDA 2002 Master Agreement and the Netting Agreement were terminated effective April 30, 2012.

Under the GSE servicer guides, the seller and servicer of mortgage loans equally share in customary representation and warranty obligations. We assume all of the representation and warranty obligations for loans we purchased from Ally Bank under the MMLPSA that we subsequently sell through an Agency securitization or otherwise sell into the secondary market. To the extent these loans were originated by third parties and purchased by Ally Bank and subsequently sold to us under the MMLPSA we pursue recovery of losses from the third parties under breach of customary representation and warranties. Pursuant to the Client Agreement, we also provide certain representations and warranties and indemnifications to Ally Bank with respect to those loan transactions. For loans that are not eligible to be sold to the GSEs that reach certain delinquency thresholds or which are otherwise in breach of sale representations and warranties contained in the Client Agreement, we repurchase loans from Ally Bank at their carrying cost.

GMAC Mortgage is designated as subservicer for loans held by Ally Bank and loans sold to us under the MMLPSA where Ally Bank retained the servicing rights (Servicing Agreement). Under the Servicing Agreement, GMAC Mortgage performs all customary mortgage loan servicing activities, including but not limited to, collection of borrower remittances, loss mitigation and foreclosure processing activities. The term of the Servicing Agreement automatically renews for a one year term on an annual basis, unless notice of termination is provided by either party with 120 days prior notice. We receive subservice fees which are generally based on the average daily balance of subserviced loans which differ by loan type and delinquency status.

In the first quarter of 2008, Ally Bank purchased a portfolio of second-lien home equity loans from us. We provided an indemnification to Ally Bank whereby we reimburse Ally Bank at such time as any of the loans covered by this agreement are charged off, typically when the loan becomes 180 days delinquent. The indemnification expired in April 2012.

In connection with our Settlement obligations Ally Bank has agreed to participate in borrower relief programs and activities with respect to their loan portfolios. We have recorded a liability of $83.5 million at March 31, 2012, in connection with losses Ally Bank is expected to incur in connection with the programs. To the extent activities under the borrower relief programs are consistent with activities currently permitted under our sub-servicing agreement, Ally Bank will not seek to be reimbursed or indemnified for any losses it incurs in connection with these borrower relief activities. See Note 16 – Contingencies and Other Risks for additional information related to the Settlement.

18. Regulatory Matters

Certain subsidiaries associated with our mortgage and real estate operations are required to maintain regulatory net worth requirements. See Note 8 — Borrowings for additional information. Failure to meet minimum capital requirements can initiate certain mandatory actions by federal, state, and foreign agencies that could have a material effect on our results of operations and financial condition. These entities were in compliance with these requirements as of March 31, 2012.

Certain of our foreign subsidiaries operate in local markets as either banks or regulated finance companies and are subject to regulatory restrictions. These regulatory restrictions, among other things, require that our subsidiaries meet certain minimum capital requirements and may restrict dividend distributions and ownership of certain assets. As of March 31, 2012, compliance with these various regulations has not had a material adverse effect on our financial condition, results of operations or cash flows.

19. Subsequent Events

Events subsequent to March 31, 2012, were evaluated through May 1, 2012, the date on which these Condensed Consolidated Financial Statements were issued.

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Residential Capital, LLC
Report on First Quarter Review

Audit Committee Meeting

May 1, 2012

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As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Status of First Quarter Review

As of April 30 (the mailing date of this report), our review of Residential Capital, LLC's ("ResCap" or the Company") condensed consolidated interim financial statements for the period ended March 31, 2012 is substantially complete.

The most significant items that remain open as of April 30 are:

- Final review of the interim financial statements
- Inquiries of Management regarding subsequent events and strategic alternatives
- Receipt of Management's signed representation letter
- Receipt of our signed engagement letter

This document provides a summary of our status as of April 30. Matters discussed may change due to further analysis by Deloitte and Management, or additional matters may arise during the completion of our review procedures and through the date on which the financial statements are made available to the Company's bondholders. We will inform the Audit Committee of any significant matters that arise prior to the delivery of our review report.

Review Results

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In accordance with standards established by the American Institute of Certified Public Accountants (AICPA), we have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which Management of ResCap is responsible.

Matters to be Communicated	Results
Our responsibility under the standards of the AICPA	Our responsibility under the standards of the AICPA with respect to a review of interim financial information has been described to you in our engagement letter dated April 20, 2012. As described in that letter, the objective of a review of interim financial information performed in accordance with interim review standards is to provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). Based on the results of our review procedures to date, we are not aware of any material modifications that should be made to the Company's interim financial statements or disclosures for them to be in conformity with generally accepted accounting standards. Appendix A contains a draft of the interim review report we expect to issue.

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Review Results (cont.)

Matters to be Communicated	Results
Selected critical accounting estimates and other matters	We have comments on the following areas that Management has identified as critical accounting estimates, as well as other matters: **Mortgage Servicing Rights (MSRs)** The MSR asset value increased from $1.23 billion at December 31, 2011 to $1.25 billion at March 31, 2012. New production during the period resulted in a corresponding increase in the value of the asset. Changes in assumptions and other changes in fair value during the period did not have a material impact on the value of the MSR asset. Based on inquiries of Management and review of documentation, including MSR roll-forward schedules and Management's quarterly benchmarking presentation, we noted no significant changes to the methodology or process for developing assumptions used to estimate the MSR value. In addition, we have made inquiries of internal mortgage valuation specialists regarding their observations of market activity.

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Review Results (cont.)

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Matters to be Communicated	Results
Selected critical accounting estimates and other matters	Representation and Warranty Reserves The balance of the representation and warranty reserve decreased from $825 million at December 31, 2011 to $811 million at March 31, 2012. Representation and warranty expense was $19 million for the three-months ended March 31, 2012, compared to $26 million for the three-months ended March 31, 2011. Management's process for determining the reserve takes into account historic and recent demand trends, interactions with the monolines, private-label investors, and other parties, and various other assumptions. During the quarter, the Company received a demand request from a private-label trustee/investor, which was considered by Management in the determination of the reserve. Actual losses may differ significantly from the amounts recorded, based on the behavior of the counterparties in the future, including potential settlements, and industry, legal, and other developments. Based on our inquiries of management and review of documentation, no significant changes to the methodology for determining the reserve were made during the quarter. Management has determined that reasonably possible losses over time related to litigation matters and potential repurchase obligations and related claims could be between zero and $4 billion over existing accruals.

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Review Results (cont.)

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Matters to be Communicated	Results
Selected critical accounting estimates and other matters	**Litigation** As disclosed in Note 16 to the financial statements, the Company is subject to potential liability under various governmental proceedings, claims and legal actions that are pending or otherwise asserted. Management establishes reserves for such claims as they become probable and are reasonably estimable. During Q1 2012, the Company updated its estimate of probable loss associated with settlements reached with the federal government and various state attorneys generals which resulted in no significant change to management's estimate of loss. Management has determined that reasonably possible losses over time related to the litigation matters and potential repurchase obligations and related claims could be between zero and $4 billion over existing accruals.
Transactions with affiliates	**Parent Company Debt Forgiveness and Amendments to Affiliate Agreements** During the quarter, Ally Financial Inc. contributed $196.5 million to ResCap through forgiveness of indebtedness. As disclosed in the Notes to the financial statements, the Company has or is in the process of amending/terminating certain affiliate agreements.

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Review Results (cont.)

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Matters to be Communicated	Results
Selected critical accounting estimates and other matters	**Accounting for Income Taxes** At March 31, 2012, the Company's deferred tax asset was largely offset by a valuation allowance. Management has determined that the valuation allowance remains necessary, as the Company has not yet demonstrated the ability to generate taxable ordinary income or capital gains for a sustained period. There were no existing valuation allowances reversed or new valuation allowances recorded this quarter. We performed analytical review procedures on income tax related accounts and also reviewed the Company's schedules supporting the tax provision and related disclosures. Based on our inquiries of Management and review of documentation, no significant changes to the methodology for accounting for income taxes were made during the quarter.

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Review Results (cont.)

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Matters to be Communicated	Results
Significant accounting policies	No accounting policies with a material impact were adopted in the quarter ended March 31, 2012, other than those matters disclosed in the notes to the condensed consolidated interim financial statements.
Going Concern	Having taken ResCap's financial condition and other factors into consideration, Management has concluded and disclosed in the interim financial statements, that there remains substantial doubt about the Company's ability to continue as a going concern. Management has enhanced its disclosure regarding the Company's ability to continue as a going concern and has disclosed that is determining whether it would be in the best interests of its creditors and other stakeholders to file for protection under the federal bankruptcy laws.
Control Related Matters - Significant deficiencies or material weaknesses relating to internal control	Management has separately reported the status of significant deficiencies to you.
Communication of the auditors' internal quality control procedures	We reported such information to you at your meetings on April 3 and April 24, 2012.

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Review Results (cont.)

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Matters to be Communicated	Results
Audit adjustments, either individually or in the aggregate, that we believe could have a significant effect on the Company's financial reporting and disclosure process	Our review was performed to provide limited assurance on the interim financial statements and not to form an opinion about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have been provided with the Company's Preliminary Materiality Analysis as of, and for the period ended, March 31, 2012, which includes matters identified during our review. We have compared Management's analysis to our own and agree with their conclusions.
Disagreements with Management about matters that could be significant to the entity's financial statements or our audit reports	Nothing to report.
Alternative treatments in U.S. GAAP for accounting policies and practices related to material items that have been discussed with Management	We had no discussions with Management regarding alternative accounting treatments within U.S. GAAP for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the quarter ended March 31, 2012.

Appendix A
Draft of Interim Review Report

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To the Board of Directors of Residential Capital, LLC:

We have reviewed the condensed consolidated balance sheet of Residential Capital, LLC (the "Company") (a wholly-owned subsidiary of Ally Financial Inc.) as of March 31, 2012, and the related condensed consolidated statements of comprehensive income, changes in equity, and of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011. This condensed financial information is the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying condensed consolidated interim financial information has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the condensed consolidated interim financial information, there remains substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning this matter are also discussed in Note 1 to the condensed consolidated interim financial information.

We have previously audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States), and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated March 28, 2012, we expressed an unqualified opinion on those consolidated financial statements and included explanatory paragraphs that stated (1) that the Company has entered into a number of significant agreements and transactions with its affiliates and (2) that the Company's liquidity and capital needs, combined with conditions in the marketplace, raise substantial doubt about its ability to continue as a going concern. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

This report is intended solely for the information and use of management and the board of directors of the Company and is not intended to be and should not be used by anyone other than these specified parties.

May 1, 2012

Appendix B
Overview of Interim Review Procedures

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A review of interim financial information is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we will not express an opinion on the interim financial information.

The objective of a review of interim financial information performed in accordance with standards established by the AICPA is to provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) the obtainment of corroborating evidence in response to inquiries; or (d) the performance of certain other procedures ordinarily performed in an audit. A review may bring to our attention significant matters affecting the interim financial information, but it does not provide assurance that we will become aware of all significant matters that would be identified in an audit.

A review also includes obtaining sufficient knowledge of the Company's business and its internal control as it relates to the preparation of both annual and interim financial information to:

- Identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence.
- Select the inquiries and analytical procedures that will provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles.

A review is not designed to provide assurance on internal control or to identify significant deficiencies and material weaknesses in internal control.

Appendix C
Summary of Audit Committee Communications

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Our formal communications will occur via periodic meetings with the Audit Committee at various stages during the year. In addition to our scheduled meetings, we are also available, at any time, to respond to Audit Committee members' questions. We anticipate the following topics will be discussed during the year:

	2012										2013		
Description of communications	M	A	M	J	J	A	S	O	N	D	J	F	M
Qualifications to serve ResCap		✓											
Status of interim review procedures			✓		☐			☐					
Results of interim review procedures			✓			☐			☐				
Required quarterly Audit Committee communications			✓			☐			☐				
Delivery of the audit service plan					☐								
Review estimated audit and audit related fees		✓											
Review progress of financial statement audit							☐			☐			
Required fraud inquiries							☐						
Review results of financial statement audit												☐	
Review independence of audit firm												☐	
Required annual Audit Committee communications												☐	

✓ Communication completed ☐ Scheduled communication

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May 1, 2012

Deloitte & Touche LLP
200 Renaissance Center, Suite 3900
Detroit, Michigan 48243

We are providing this letter in connection with your review of the condensed consolidated balance sheet of Residential Capital, LLC (the "Company" or "ResCap") as of March 31, 2012, and the related condensed consolidated statements of comprehensive income, changes in equity, and of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011, for the purpose of determining whether any material modifications should be made to the condensed consolidated interim financial statements for them to conform with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP").

We confirm that we are responsible for the following:

a. The fair presentation in the condensed consolidated interim financial statements in conformity with GAAP

b. The design, implementation and maintenance of programs and controls to prevent and detect fraud

c. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of May 1, 2012, the following representations made to you during your review.

1. The interim financial statements referred to above have been prepared and presented in conformity with GAAP applicable to condensed consolidated interim financial information for a non-SEC (private) reporting entity.

2. Note 1 to the condensed consolidated financial statements discloses all pertinent facts related to the Company's ability to continue as a going concern.

3. Although management has determined that there is substantial doubt about the Company's ability to continue as a going concern, we have determined that the condensed consolidated financial statements should be prepared on a going concern basis. Management's plans for continuing as a going concern are disclosed in Note 1 to the condensed consolidated financial statements. Management and the Board have not approved a plan of liquidation and nor is liquidation of the Company anticipated. Additionally, Management has not filed for bankruptcy.

4. The Company has made available to you all relevant information and access granted in the

terms of the audit engagement letter including:

a. Financial records and related data

b. Minutes of the meetings of the Board of Directors and Audit Committee; or drafts of minutes in cases where final minutes have not been approved; or agendas and meeting materials of meetings in cases where draft minutes have not yet been prepared

c. Regulatory examination reports, supervisory correspondence or agreements, enforcement actions, and similar materials from applicable regulatory agencies (particularly, communications concerning supervisory actions or noncompliance with, or deficiencies in, rules and regulations). Further, we have advised you of any regulatory examination in progress or completed for which reports have not yet been issued.

5. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices. Further, we have advised you of any regulatory examination in progress or completed for which reports have not yet been issued.

6. We have completed our procedures to evaluate the accuracy and completeness of the disclosures in our interim financial statements. There are no disclosures that while required by GAAP have been omitted from our condensed consolidated interim financial statements.

7. We have disclosed to you any significant change in the results, design, or operation of internal control over financial reporting as it relates to the preparation of the condensed consolidated interim financial information that has occurred during the most-recent fiscal quarter.

8. We have no knowledge of any fraud or suspected fraud affecting the Company involving

   a. Management

   b. Employees who have significant roles in the Company's internal control over financial reporting.

   c. Others where the fraud could have a material effect on the condensed consolidated interim financial statements which has not been previously disclosed.

9. We have disclosed to you our knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, or others.

10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

11. Significant assumptions used by us with respect to our critical accounting estimates are reasonable.

Except where otherwise stated below, immaterial matters less than $2,500,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

12. There are no transactions that have not been properly recorded in the accounting records underlying the condensed consolidated interim financial information.

13. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

14. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the condensed consolidated interim financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees or other commitments (written or oral)

    b. Guarantees, whether written or oral, under which the Company is contingently liable.

15. In preparing the condensed consolidated interim financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the condensed consolidated interim financial statements for which known information available prior to the issuance of the condensed consolidated interim financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

16. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the condensed consolidated interim financial statements or as a basis for recording a loss contingency, except as disclosed in Note 16 to the condensed consolidated interim financial statements.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.

17. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, other than as disclosed in the condensed consolidated interim financial statements.

18. Except for the deferral of certain semi-annual interest payments as disclosed in Notes 1 and 8 to the condensed consolidated financial statements, the Company has complied with all aspects of contractual agreements that may have an effect on the condensed consolidated interim financial statements in the event of noncompliance.

Loans and Receivables

19. The Company has properly classified loans on the condensed consolidated interim balance sheets as held-for-sale or held-for-investment, based on the Company's intent with respect to those loans. Specifically, the Company classifies those loans that management has the intent to sell as held-for-sale. Loans for which the Company has the intent and ability to hold for the foreseeable future or until maturity are classified as held-for-investment.

20. All impaired loans receivables have been properly recorded and disclosed in the condensed consolidated interim financial statements.

21. Risks associated with concentrations (including but not limited to those related to high risk mortgage loans), based on information known to management, that meet all of the following criteria have been disclosed in the condensed consolidated interim financial statements:

    a. The concentration exists at the date of the condensed consolidated interim financial statements

    b. The concentration makes the Company vulnerable to the risk of a near-term severe impact

    It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

Capitalized Servicing Rights

22. For transfers of financial assets where the right to service the transferred assets was retained, we have performed the servicing of these assets in accordance with the terms and provisions of the applicable agreement that governs the servicing of these assets.

Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

23. The Company has accounted for all transfers of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*, or previously applicable guidance as appropriate. The Company has taken no actions and no events have occurred that would necessitate a change in the accounting for the transfers of financial assets.

24. Provision has been made for any loss that is probable from representation and warranty obligations associated with the sale of mortgage loans. We believe that such estimate is reasonable based on available information.

Derivative Instruments

25. The Company has properly identified all derivative instruments and any financial instruments that contain embedded derivatives. The Company's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with FASB ASC 815, *Derivatives and Hedging*.

26. Financial instruments with significant individual or group concentration of credit risk have been properly identified, properly recorded and disclosed in the condensed consolidated interim financial statements.

Taxes

27. The valuation allowance has been determined pursuant to the provisions of FASB ASC 740, *Income Taxes*, including the Company's estimation of future taxable income, and is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized.

Other Liabilities

28. We are subject to potential liability under laws and government regulations, various claims, and legal actions that are pending or may be asserted against us. We are named as defendants in a number of legal actions and are, from time to time, involved in regulatory proceedings arising in connection with our various businesses. Some of the pending actions purport to be class actions. We establish reserves for litigation and regulatory matters when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved for these claims. Provision has been made for all losses that are probable and estimable.

    We have appropriately disclosed all such matters, where the possibility of loss is more than remote, in Note 16 to the condensed consolidated interim financial statements and have accrued our best estimate of the losses to be incurred as a result of these matters as of March 31, 2012 to the extent the loss is probable and estimable. Except as disclosed in Note 16, there are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450, *Contingencies*.

29. We believe it is reasonably possible that losses beyond amounts currently reserved for the litigation matters and potential repurchase obligations and related claims could occur, and such losses could have a material adverse impact on our results of operations, financial position, or cash flows. We currently estimate that the Company's reasonably possible losses over time related to the litigation matters and potential repurchase obligations and related claims could be between $0 and $4 billion over existing accruals.

30. A provision has been made by the Company for any loss that is probable and estimable from foreclosure related matters or exposures in accordance with GAAP. We believe that such estimate is reasonable based on available information and that the liabilities, related loss contingencies, and expected outcome of uncertainties have been adequately described in the financial statements.

Other

31. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the condensed consolidated interim financial statements.

32. Agreements (whether written, oral, or implied) to repurchase loans, real estate, or other assets previously sold have been properly disclosed in the condensed consolidated interim financial statements.

33. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, we believe that:

a. The measurement methods, including the related assumptions, used in determining fair value, consistent with market participant assumptions where available without undue cost and effort, were appropriate and consistently applied in accordance with GAAP.

b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP. The Company has appropriately classified its assets and liabilities into the appropriate levels (Levels 1, 2 and 3) as described in the condensed consolidated interim financial statements, as prescribed by FASB ASC 820, *Fair Value Measurements and Disclosures*.

c. No events have occurred after March 31, 2012 but before the date of this letter that require adjustment to the fair value measurements and disclosures included in the condensed consolidated interim financial statements.

We have identified the significant assumptions and factors influencing the measurement of fair value as described in the condensed consolidated interim financial statements. The significant assumptions used in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the condensed consolidated financial statements. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with the Company's plans.

The methods and significant assumptions used to determine fair values of financial instruments are disclosed in the condensed consolidated interim financial statements. The descriptions are accurate and complete and the methods and the assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes in accordance with GAAP.

34. We have disclosed to you all changes to affiliate agreements that may have a material impact on the Company.

35. To the best of our knowledge and belief, all events that have occurred subsequent to the balance-sheet date and through the date of this letter have been disclosed in the condensed consolidated interim financial statements.

Thomas F. Marano
Chairman and Chief Executive Officer
Residential Capital, LLC

James M. Whitlinger
Chief Financial Officer
Residential Capital, LLC

Catherine M. Dondzila
Controller and Chief Accounting Officer
Residential Capital, LLC

David J. DeBrunner
Controller and Chief Accounting Officer
Ally Financial, Inc.

ResCap

Executive Session:

i. Management
ii. Deloitte
iii. Audit Director

ResCap Audit Committee Meeting

May 1, 2012

EXHIBIT X

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

-----------------------------------x

In Re: Case No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

-----------------------------------x

VIDEOTAPE DEPOSITION OF JAMES WHITLINGER

New York, New York

November 15, 2012

9:39 a.m.

Reported by:
ERICA L. RUGGIERI, RPR
JOB NO: 27649

November 15, 2012

9:39 a.m.

Deposition of JAMES WHITLINGER, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Erica L. Ruggieri, Registered Professional Reporter and Notary Public of the State of New York.

JAMES WHITLINGER

MR. SIEGEL: Okay, sure. The Bates numbers for Exhibit 60 are RC 9019_00093180 through 93183. And the Bates numbers for Exhibit 61 are RC 9019_00054006 to 07.

A. Okay.

Q. Have you had a chance to review the documents?

A. Yes.

Q. Please take a look at Exhibit 119. Do you recognize that as an e-mail that you and the other members of the ResCap board of directors received from April Ellenburg on May 9, 2012, at 2:08 p.m.?

A. That's what it says.

Q. And do you recall receiving this e-mail?

A. I recall being at the board meeting.

Q. You have no reason to doubt that you received the e-mail?

A. No.

Q. Who is April Ellenburg?

A. I don't know.

Q. And this e-mail has two attachments, one of which is a notice of a telephonic meeting of the ResCap board to be held the same day at 3:00 p.m.?

A. Correct.

Q. And the second attachment is an agenda for that meeting?

A. Yes.

Q. And so this e-mail and the notice was informing the board that in less than an hour there would be a board meeting, a telephonic board meeting, correct?

A. Yes.

Q. And the meeting notice tells you and the other board meeting -- board members, that supporting materials will be distributed just before the meeting?

A. Yes.

Q. And on -- the agenda lists two items, the first of which is proposed legal settlement; is that correct?

A. That's correct.

JAMES WHITLINGER

Q. And you understand that proposed legal settlement refers to a discussion of the RMBS Trust Settlement Agreement?

A. I do today.

Q. Did you -- you understand that today?

A. Yeah. It says proposed legal settlement. And after looking at the materials, you know, and looking at what was in the materials it was regarding the RMBS Trust Settlement.

Q. But at the time you received this notice you hadn't received those two other documents, Exhibit 60 and 61, correct?

A. Correct.

Q. And so at the time you received this e-mail with the attached agenda you didn't know what the proposed legal settlement referred to?

A. Correct. It could have been multiple legal settlements.

Q. And the time allotted for discussion during the board meeting about that proposed legal settlement was 30 minutes, correct?

A. Correct.

Q. And you recall that the board spent about 30 minutes discussing that item on May 9th?

A. I don't recall how much time we spent on it.

Q. Do you know who decided that the board would hold a meeting at 3:00 on Wednesday, May 9th?

A. I don't know.

Q. Generally did you know who was responsible for deciding when and how ResCap board meetings would be convened?

A. Yeah. I mean we had Tom Marano or our lead counsel would, you know, regularly schedule board meetings.

Q. When you say your lead counsel, to whom are you referring?

A. For the case is Larren Nashelsky at the time and Gary Lee as well.

Q. And Mr. Nashelsky and Mr. Lee are outside counsel for ResCap at Morrison

JAMES WHITLINGER

Go ahead.

A. Can you re- -- rephrase the question? I'm sorry.

Q. That's okay. During the May 9th board meeting did you know that before the meeting Mr. Cancelliere told Mr. Lee that he had challenged certain of Ms. Patrick's assumptions about defect rates including the validity of using a 36 percent defect rate for Bank of America that's referenced and included in -- in Exhibit 60?

MR. RAINS: So object to the question as vague and ambiguous and it also misstates the evidence.

A. Okay. So -- so my answer to that is I don't recall at May 9th if I knew if Jeff had conversations as I sit here today. I know that there were conversations with the parties on assumptions that were made throughout the process.

Q. On May 9th as a board member of deciding whether or not to approve ResCap entering into this settlement agreement, defect rate or this BofA baseline defect rate is the most important thing on this page. It's a data point.

You know, we have multiple legal entities that our -- our deals were issued off of. These deals were issued in 2004 to 2007, some through GMAC Mortgage, some through RFC. I don't know how Lehman did their deals. I don't know how BofA did their -- their deals, their shelves. These are data points we don't know how to process. So these are data points.

Q. If Mr. Cancelliere thought the 36 percent defect rate was wrong, you would have wanted -- you would have wanted him to tell you that before the board meeting, right?

MR. RAINS: Again it misstates the evidence, assumes facts not in evidence. Calls for speculation.

Go ahead.

MR. SIEGEL: It's a very simple question.

A. I don't know if we talked about

JAMES WHITLINGER

that or we didn't talk about it is my first point. If he -- if he challenged it, would I want to know that? Yes. That's fine. I would want to know.

Q. But you didn't know that on or before the May 9th board meeting?

A. I already answered that that I don't know that we did or didn't.

Q. But you have no recollection of that?

A. I have no recollection.

Q. Was the first time that you learned that the proposed settlement amount was 8.7 billion the time when you received this -- this board material from Mr. Lee?

A. Can you repeat the question?

Q. Sure. Did you first learn that the proposed settlement amount that's in the RMBS Trust Settlement Agreement was $8.7 billion when you received Exhibit 60?

A. Yes, that -- that -- that's my recollection.

Q. And it's your recollection that

Q. But you had no recollection of a discussion about statute of limitations during the May 9th meeting?

A. I don't recall.

Q. Is it your understanding that just because there's a loss associated with the mortgage that is considered a defect but that doesn't necessarily mean that ResCap or its affiliates are liable for any or all of the loss?

A. Since you used the word "liable" I'm going to again defer to our -- our counsel. Lawyers determine liability.

Q. So was it your understanding on May 9th -- withdrawn.

Did anyone provide the board on May 9th with an analysis of how much it might cost to litigate the claims Ms. Patrick was -- was asserting as compared to settling the claims around May of 2012?

A. Can you repeat the first part of the question?

Q. Sure. Did anyone advise or

discuss with the board on May 9th or provide an analysis of how much it might cost to litigate the claims being asserted by Ms. Patrick rather than settling in May 2012?

A. I -- I don't -- the reason I ask, I don't recall if it was discussed but I know for sure I don't recollect seeing a litigation presentation analysis embedded in this -- this -- this list of materials.

Q. You agree it would have been helpful for the board to know on May 9th what counsel estimated or anticipated it might cost to litigate the claims as compared to settling them in the settlement agreement?

A. You know, again, that would be a data point. And I relied on our professionals and our legal teams in litigation in how those matters evolve. So I think that's a data point, how much would it cost, how many loan files if I was going to review it. Again, I -- I

EXHIBIT X

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

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In Re: Case No:

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

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VIDEOTAPE DEPOSITION OF JAMES WHITLINGER

New York, New York

November 15, 2012

9:39 a.m.

Reported by:
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JOB NO: 27649

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JAMES WHITLINGER

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JAMES WHITLINGER

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EXHIBIT Y

Outlook E-mail

From: Lee, Gary S.
Sent: 5/9/2012 2:38:44 PM
To: John Mack (john_e_mack@msn.com); Jonathan Ilany (jonathan@ilany.net); Pamela West (alemapew45@bellsouth.net); Abreu, Steve - PA; Ted Smith (efs345@gmail.com); Whitlinger, Jim - PA; Marano, Tom
Cc: Hamzehpour, Tammy; Evans, Nilene R.; Tanenbaum, James R.; Nashelsky, Larren M.; Joe Moldovan (jmoldovan@morrisoncohen.com); Jack Levy (jlevy@morrisoncohen.com); David Lerner (dlerner@morrisoncohen.com); Connolly, Michael
Subject: Meeting Notice - ResCap Board Meeting, May 9, 2012, 3:00 pm (ET) - privileged and confidential attorney-client communication
Attachments 0804_001.pdf

Materials for 3 pm attached. They have been prepared for settlement and illustrative purposes only.

Gary S. Lee
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104-0050
T. 212.468.8042
F. 212.468.7900
glee@mofo.com

From: Ellenburg, April A. [mailto:april.ellenburg@ally.com]
Sent: Wednesday, May 09, 2012 2:08 PM
To: John Mack (john_e_mack@msn.com); Jonathan Ilany (jonathan@ilany.net); Pamela West (alemapew45@bellsouth.net); Abreu, Steve - PA; Ted Smith (efs345@gmail.com); Whitlinger, Jim - PA; Marano, Tom
Cc: Hamzehpour, Tammy; Evans, Nilene R.; Tanenbaum, James R.; Nashelsky, Larren M.; Lee, Gary S.; Joe Moldovan (jmoldovan@morrisoncohen.com); Jack Levy (jlevy@morrisoncohen.com); David Lerner (dlerner@morrisoncohen.com); Connolly, Michael; Grzeskiewicz, Terry - PA; Klepchick, Dottie - PA; Shank, Jennifer - PA; Dillard, Thalia; Dicicco, Donna; Quenneville, Cathy L.; Skover, Katherine M.; Taylor, Barbara N.
Subject: Meeting Notice - ResCap Board Meeting, May 9, 2012, 3:00 pm (ET)
Importance: High

Residential Capital, LLC Board of Directors Meeting
Wednesday, May 9, 2012, 3:00 pm (ET)
Dial-in No.: 866-203-0920 / International No.: 206-445-0056
Conference Code: 53396-93036

A special telephonic meeting of the ResCap Board of Directors will be held Wednesday, May 9, 2012, at 3:00 pm (ET). An agenda is attached. Supporting materials will be distributed just before the meeting.

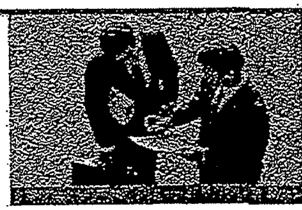
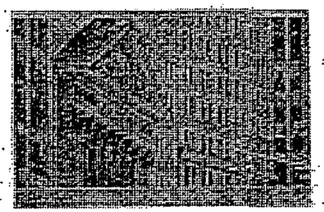
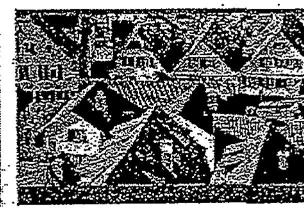
Please let me know if you are unable to participate. Feel free to contact me by phone (313.656.6301) or email (cathy.quenneville@ally.com) should you have any questions. Thank you.

Cathy Quenneville
Secretary
5/9/12

EXHIBIT
9019-60
11/12/12

ResCap Private Label Securities
Rep & Warrant Settlement Discussion
Supporting Information
May 9th, 2012

Confidential

ally

RESCAP

REDACTED

Privileged and Confidential
For Settlement Purposes Only

2004-2007 PLS R&W Analysis

		A	B	C	D
		ResCap Issued Deals [illegible]			
			ResCap Issuance	KP Group	% of Total Issue
1	Deal Collat (a)	Original Balance	226,029.3	171,250.8	76%
2		Current Balance	63,284.8	49,238.1	78%
		% Delinquent	28%	29%	
3		Cume Loss To Date	29,891.9	22,694.1	76%
4		Projected Loss	14,225.7	10,937.4	77%
5		Est Lifetime Loss	44,117.5	33,631.5	76%
6		Est Lifetime Loss % of Orig Bal	19.5%	19.6%	
13	Settle Amt	ResCap Settlement - 19.72% Defect	8,700.0	6,632.1	76%
14		Lehman Claim Amount - 35% Defect	15,441.1	11,771.0	76%
15		BofA Baseline - 36% Defect	15,882.3	12,107.4	76%

(a) Collateral and Bond information sourced from Intex files

Key Notes:

1) KP's Investor group covers 82% of RFC issued non-wrapped deals and 88% of GMACM issued non-wrapped deals
2) KP's Investor group covers 63% of RFC issued wrapped deals and 28% of GMACM issued wrapped deals
3) [redacted]
4) ResCap projected losses based on third party vendor model (ADCO LDM), and the model was calibrated to fit ResCap collateral performance by product/vintage
5) ResCap projected severity based on Moody's baseline HPI forecast and ADCO model loss estimations
6) There could be amounts conceded if the true defect rate is below the 19.72% based on actual loan file reviews and application of litigation defenses.
7) Lehman bankruptcy estimated claim amount for plan voting based on 35% defect rate. The defect rate could be higher as claims are resolved.
8) BofA proposed settlement defect rate set at 36% prior to litigation adjustments
9) KP has factored into the analysis the estimated recovery amount through bankruptcy, as well as third party releases.

REDACTED

CONFIDENTIAL – PROFESSIONALS' EYES ONLY

FOR SETTLEMENT DISCUSSION PURPOSES ONLY
SUBJECT TO MATERIAL CHANGE

Executive Summary | Key Assumptions

- Key Assumptions:
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
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  - [redacted]
  - [redacted]

EXHIBIT Z

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

-----------------------------------x

In Re: Case No.

RESIDENTIAL CAPITAL, LLC, et. al, 12-12020(MG)

Debtors.

-----------------------------------x

DEPOSITION OF JEFFREY A. LIPPS

New York, New York

November 19, 2012

10:13 a.m.

Reported by:
JENNIFER OCAMPO-GUZMAN, CRR, CLR
JOB NO: 27971

November 15, 2012

10:13 a.m.

Deposition of JEFFREY A. LIPPS, held at the offices of Kramer, Levin, Naftalis & Frankel, 1177 Avenue of the Americas, New York, New York, pursuant to Notice, before Jennifer Ocampo-Guzman, a Certified Real-Time Shorthand Reporter and Notary Public of the State of New York.

how, well, I actually have described how I went about assessing the reasonableness. I surveyed the issues and tried to determine whether or not there were dispositive rulings out there that would impact what your likely exposure was, and then you evaluate what the top line exposure is and a baseline exposure, which could be, if you want to approach it from a pure defense verdict standpoint, zero.

Q. So in this methodology that you typically apply in evaluating a settlement, do you assign numbers to any issues?

MR. RAINS: Objection, vague and ambiguous.

A. I'm not sure what you mean by numbers, do I assign numbers.

Q. Are you familiar with the term "litigation risk analysis"?

A. I don't know. I may. Just depends on what you mean by that term.

Q. Are you familiar with --

MR. BENTLEY: Strike that.

Q. In analyzing a settlement, one thing you do, I think, is you try to

Lipps

determine possible outcomes, right?

A. That's a way that you do that. That's certainly what I looked at here.

Q. And you mentioned a broken leg case. Possible outcomes might have different dollar figures associated with them, right?

A. There could be different verdicts, there could be different settlements, correct.

Q. Do you then sometimes assign percentage likelihoods to different possible outcomes?

A. Do I sometimes do that?

Q. Correct.

A. I've done that before in settlements.

Q. Do you have a term that you use to describe that kind of approach?

A. No.

Q. Would litigation risk analysis be, if I used the term "litigation risk analysis," would you recognize it to relate to that kind of analysis?

MR. RAINS: Objection, no

Lipps

foundation.

A. No, I can't associate that word with what you've described.

I mean I have been in situations with judges, where they try and force you to say you have a 90 percent chance, and you could lose X percent or 10 percent chance, if that's what you're talking about, there are certainly various judges or mediators that have approached it that way.

Q. And do you sometimes find it's useful to use that kind of approach?

A. Depending on the case and the certainty that you could have associated with the numbers, numbers can be used.

Q. And is that an approach that's commonly used among litigators?

A. I can't speak as to how other litigators approach analyzing settlements.

Q. Have clients sometimes asked you to prepare that kind of an analysis of a proposed, of a potential settlement?

A. I'm not going to have perfect memory of what clients ask me to do, but I don't have a clear recollection of going through that type of an analysis, specifically, in a request from a client.

Q. Have you ever done that kind of an analysis in an RMBS-related matter?

A. No.

Q. And I take it you didn't do that kind of an analysis, in connection with this settlement?

MR. RAINS: Objection, vague and ambiguous.

A. I don't know that I can say that. I don't know that I can say that.

Q. Did you assign any percentage likelihoods to different, to any different possible outcomes in this case?

A. I don't think, as you can tell in this report, I don't think -- let me take a step back.

As you can tell in this report, this area of the law is in, at best, its formative stages. It's -- it's still evolving, it's still developing. And there is so much uncertainty on so many issues that

Lipps

I don't think it would be meaningful to sit and try and assess a percentage attached to a particular outcome.

I think you have to look at the two points, which is, what's your maximum exposure out there and then what is your likely exposure, to try and evaluate a range of reasonableness.

Q. And --

MR. BENTLEY: Strike that.

Q. Do you claim to have any expertise in quantitative matters?

MR. RAINS: Objection, vague and ambiguous.

A. I don't know what it is.

Q. Do you claim to have any expertise in the field of statistics?

A. I don't think I'm offering myself as an expert statistician, if that's what you're asking.

Q. Do you have any education or training in statistics?

A. I certainly, I took statistics back when I was in school, and I've also been

Lipps

A. Not beyond college.

Q. Do you claim any expertise in bankruptcy law or any aspect of the bankruptcy process?

A. I think the expertise I'm claiming and identifying in this case is in the report itself. I don't know that I've opined on any particular bankruptcy procedure or rule here in this supplemental declaration.

Q. Do you have any particular expertise in bankruptcy law?

A. Well, as I told you, I litigated issues in the context of bankruptcies, specifically in some of my younger years where I looked more like my picture, for Federated Department Stores. And we have, my firm has been approved for retention in this bankruptcy, so we have some experience in that context.

Q. Are you offering yourself as an expert in any matters of bankruptcy law or practice?

A. Actually, I'm offering myself as an expert of what's in the supplemental declaration. And, you know, it's in the context of a settlement that will have an impact on the estate and creditors, so to that extent, yes, I am offering an opinion as to whether or not this is a fair and reasonable settlement, within an acceptable range.

Q. Are you familiar with the bankruptcy court's powers under bankruptcy code section 502(c)?

A. What are you asking me, whether I've heard of 502(c)?

Q. Let's start with that.

A. I may or may not have.

Q. You can't tell me what it is?

A. Off the top of my head, no. I would have to go look.

Q. Are you familiar with the bankruptcy court's estimation powers?

A. I am aware of that procedure being available, and in fact, I think it was utilized in the Lehman bankruptcy, with respect to RMBS clients.

Q. You're not sitting here claiming

any expertise, are you, in what the bankruptcy court's -- sorry -- what principles would govern an estimation proceeding, are you?

A. I don't believe I've offered any opinions on that.

Q. Do you have an understanding as to what legal rules a bankruptcy court would apply in estimating a claim against the debtors?

A. I don't believe I'm offering any opinion on this.

Q. Do you have any familiarity with that?

A. I have not been involved in advising or analyzing the legal powers in the estimation process in a bankruptcy.

Q. And you don't know in any detail what they are, do you?

A. Not beyond what I've looked at in connection with the Lehman estimation process.

Q. Do you have any knowledge of the sorts of procedures bankruptcy courts have

Lipps

applied to estimate mass tort claims?

A. Now I'm getting into your wheelhouse with asbestos.

No, I don't have any direct involvement in that.

Q. You wouldn't claim to have any expertise in that area, correct?

A. Not on the powers of the bankruptcy court with respect to those.

Q. Or how the process would likely play out in bankruptcy, an estimation process?

A. I have not been directly involved in it.

Q. Do you have any understanding --

MR. BENTLEY: Strike that.

Q. In this case, is it your understanding that if the settlement were to be rejected and this matter were to be litigated --

MR. BENTLEY: Sorry. Let me start again.

Q. Let me ask you to assume that the bankruptcy court rejects this settlement and the matter is then adjudicated in bankruptcy court.

In that scenario, do you have any understanding of what process the bankruptcy court might apply to adjudicate the claims?

MR. RAINS: Objection, incomplete hypothetical.

A. I haven't looked into those issues, and I haven't been asked to opine or even advise on it, so I can't answer your question.

Q. And you don't claim any particular expertise in what principles a bankruptcy court might apply or what processes it might follow in that connection?

A. If the settlement that I think is fair and reasonable and within a range of acceptability is rejected by the bankruptcy court --

Q. Correct.

A. -- what the options are after that?

Q. Correct.

A. I'm not offering any opinion on that. I haven't even looked into that.

Lipps

Now, some of my expertise may translate into such procedures, if somebody were to present procedural options to me and ask me to assess and evaluate what, for example, what burdens and costs would be associated with that, what risks would be associated with it; but I'm not here offering any opinion on what happens, if the bankruptcy court were to reject the settlement.

Q. For example, do you have any understanding whether the bankruptcy court would itself rule on any of the disputed substantive legal issues governing the RMBS claims?

A. Can you ask me that again?

MR. BENTLEY: Can you read that back.

(A portion of the record was read.)

A. What do you mean, some of the substantive issues? You mean some of the legal issues that I've identified in here?

Q. Yes.

A. Are you asking me whether, in any

Lipps

context, the bankruptcy judge could rule on those issues?

Q. In connection with a litigation of the RMBS claims in the bankruptcy court.

A. I'm not here offering an opinion on that, but I would suspect that in the claims process or some other process where there is trying to be, reach a determination on a claim or a group of claims, that there would be the potential for the court to make decisions on substantive legal issues.

Q. Let's turn to a different topic.

Let me ask you to turn to your second declaration, your supplemental declaration. And I'm going to be asking you some questions about --

MR. BENTLEY: I'm sorry. Let me start again.

Q. I want to ask you about your first declaration.

A. Okay.

Q. And I'm going to be asking you some questions about paragraphs 7 through 10.

MR. RAINS: Take a minute, then, to

Q. Okay. Let's use that. I want to make sure we're talking the same language.

Focusing on that, did you make any attempt to look at the language of the sale agreements for the 392 trusts?

A. In the course of defending these cases, I imagine I've looked at many, many different sale agreements with warranties and reps in them. For purposes of doing my analysis in paragraph 16 of my supplemental declaration, I identified the commonly claimed reps and warranties upon which this liability and the battle over liability is being fought.

Q. So is it your view that in order to meaningfully evaluate the debtors' R & W exposure for the 392 trusts, one doesn't have to look sale agreement by sale agreement but instead rely on the commonly claimed reps and warranties?

A. Yes, I did not feel the need to evaluate all 392 sales agreements and all of the reps and warranties, loan level reps and warranties in each of those agreements, but,

Lipps

rather, understood from my experience in litigating these cases that there were essentially seven or so common paths to liability that were being pursued in this litigation and would be commonly pursued in any one of the 392 trust cases, were they to be filed.

Q. When did you first speak to anyone at the Morrison & Foerster law firm about the debtors' RMBS exposure?

A. Before I answer that question, can I confer for a minute with Mr. Rains?

Q. Sure.

(Discussion off the record.)

THE WITNESS: Can I have the question read back.

(A portion of the record was read.)

A. I'm not going to remember the precise date, but I could probably get it at some point; but I'm thinking it was in the March time frame, March of 2012.

Q. And what were the circumstances?

A. I was asked by ResCap to bring my team to a meeting in Minneapolis. There were

Lipps

filled in. But I don't know whether the amount was ever filled in while I was aware of it.

I then went off on other projects.

MR. RAINS: The question was conversations.

A. Well, the conversations would only be in the context of a draft agreement.

Q. Were you at any point asked to give any advice, in connection with the potential settlement with Ms. Patrick?

A. I was not.

Q. Did you ever at any point give any advice in that regard?

A. Well, I've offered an opinion here as to whether I think the settlement is fair and reasonable.

Q. Let me try again.

At any time before the execution of that settlement, did you give any advice to anybody about it?

A. No. As I told you, we weren't involved in negotiations. We were not involved in any presentations to the board.

Lipps

Q. Or giving advice to anybody?

A. I didn't give advice to anybody about the settlement.

Q. At either the debtors or at Ally?

A. I had no discussions with Ally about the situation we're talking about right now.

Q. When did you first begin to consider the issues addressed in your settlement declaration?

A. You know, I've thought about that, because I knew you were going to go ask me that. And I seem to recall that I had been asked by Morrison & Foerster to do the analysis that is reflected in my supplemental declaration sometime maybe in August, I want to say, just because I think there was a deadline that was then extended to the end of September.

And so I would have had some early first discussion about this exercise, and I want to say it was sometime around August; but with the schedule then changed, I started working on it over, you know, the course indicated in both the declarations, some 80-plus depositions with respect to practices of RFC as it related to securitizations, principally in the second lien arena, but with respect to their securitization practices, so "general" may be a little bit understated.

Q. In connection with preparing your supplemental declaration, did you consider any specific documents or information beyond the documents and information that you were already generally familiar with?

A. I'm not sure that I understand that question.

Q. Did you -- for example, did you look at any loan files for any of the loans in the 392 trusts?

A. I did not for purposes of this opinion go look at loan files.

Q. Did you, for purposes of this opinion, look at any of the sale agreements with respect to the 392 trusts?

A. As I've said this morning, I have looked at many different transaction

Lipps

plaintiffs' position on the one hand and your view on the other hand?

A. I think that's what I've been describing most of the morning is that you, I took into account at the low end the voluntary repurchase experience and the fact that if I hit every one of these issues that I've identified from a defense standpoint, there would still be liability out there, and then I, you know, considered the top in range and then evaluated whether 8.7 billion or 19 to 20 percent was a fair and reasonable settlement given the totality of the circumstances surrounding the prosecution and defense of these claims.

Q. You didn't look at any loan files to determine where on this spectrum the breach rates were, the recovered loans would fall, did you?

A. I think I indicated I did not look at loan files, and I did not need to for purposes of this opinion.

Q. Did you form any quantitative analysis to determine where on this spectrum the breach rate for these loans fell?

MR. RAINS: Objection, vague and ambiguous.

A. Mr. Bentley, I don't know how I can be any more responsive with respect to quantitative analysis than what I have. I've identified the various data points that may in some people's minds be the byproduct of the quantitative analysis that I took into account. I did not look at individual loan files, nor did I go into trying to determine what a particular breach rate was in a particular trust or whether a breach was material or not.

Q. You do believe, don't you, that the only reliable way to determine whether a loan in fact complies with a rep or warranty is to review and re-underwrite the actual loan file?

MS. PATRICK: Objection, form.

A. That's certainly a position that I have taken in defending these cases --

Q. Is it your view --

A. -- but I will tell you -- well --

Lipps

Q. And let me ask you to look at paragraph 47 of your supplemental declaration.

A. And I will do that, but in the question you asking me, is it my view -- well, let me look at paragraph 47. Maybe I will answer my own question.

MR. RAINS: Which paragraph?

MR. BENTLEY: 47.

Q. When you are finished reviewing it, let me know and I will ask my next question.

A. I have reviewed it.

Q. Is the first sentence of this paragraph an accurate statement of your view?

A. I would stand by what I said in this statement.

Q. Let me ask you a related subject.

In forming your opinion, did you make any attempt to quantify the losses suffered by the trusts with respect to the loans covered by the settlement?

A. You mean losses at an individual trust level?

MR. BENTLEY: Actually let me start

Lipps

again because that was a bad question.

Q. Did you make any attempt to quantify the losses suffered by the trust with respect to any loans in the pool that had material breaches?

MS. PATRICK: Objection, form.

A. I'm still not sure I understand what the question is. I clearly took into account the losses --

Q. The $45 billion?

A. -- that were being projected the 45 billion.

Q. But I'm asking --

A. But it was an aggregate number based on projections with respect of 392 trusts.

Q. And what I'm asking -- did you make any attempt --

MR. BENTLEY: And apologies, because it was a bad question.

Q. Did you make any attempt to determine what portion of that $45 billion was suffered with respect to loans that had material breaches?

Lipps

A. Probably, because I started with about the maximum exposure, which was the 45 billion and if, in the claim, it could be proven that all 45 billion was based on a material breach, then that would be what would happen were you to litigate those claims.

Q. But I'm not asking you to tell me what the plaintiffs' position was. I'm asking whether you made any attempt to reach a conclusion about what losses were actually suffered by loans with material breaches?

A. I didn't do a loan-by-loan analysis to reach a definitive conclusion as to whether or not a loan that had losses had material breaches or not. What I did was look at the aggregate of the maximum exposure being advanced by the plaintiffs and looked at the experience, the data points with respect to voluntary repurchase, and knowing that somewhere in between is where I had to assess whether or not the 8.7 billion was reasonable and fair.

Q. Did you make any attempt to

Lipps

quantify the portion of the 45 billion that was caused by material breaches of reps and warranties?

MR. RAINS: Objection, asked and answered.

MR. BENTLEY: Absolutely not, Darryl.

MR. RAINS: Listen, I'm going to make my objections, whether you like them or not. I'm not going to withdraw it because you find it objectionable.

A. Can you read back the question?

Q. Sure.

Did you make any attempt to quantify what portion of the $45 billion was caused by material breaches of reps and warranties?

A. I did not make a specific determination as to what amount of that 45 billion was, was caused by material breaches. What I did was take into account that as the maximum exposure, and then evaluated based on that and other data points and in an understanding of the state of the law,

Lipps

whether or not 8.7 billion was a fair and reasonable resolution of that exposure.

Q. In reaching your conclusion, I take it, you considered a number of disputed legal issues?

A. I did.

Q. And you identified in your supplemental declaration the principal legal issues you considered, correct?

A. I wrote extensively on the various issues that I took into account.

Q. You certainly did.

Did you assign percentages to the potential outcomes on any of these issues?

A. I don't think, I don't think that would have been meaningful to do that, because I don't think any of those were a legal issue that would be dispositive on the entirety of the settlement in determining whether or not it was fair and reasonable.

Q. So is the simple answer to my question you did not assign any such percentages?

A. Well, I weighed the importance of

Lipps

believe based on your analysis of the facts that the housing crisis is the single greatest cause for the poor performance of the trust?

A. I said "I," I believe that.

Q. And what's your basis for that, what's the analysis that supports that?

A. Litigating these cases, working with the expert I mentioned, reviewing filings in other cases, attending hearings, hearing argument, reviewing various opinions that talk about the economic downturn and the impact on mortgage performance. But I will also tell you I haven't seen a plaintiffs' lawyer across the table that doesn't reach the exact opposite conclusion.

Q. At the time you --

MR. BENTLEY: Strike that.

Q. Are you familiar with the recent decision of a Minnesota District Court in a case called MASTR Asset Backed Securities Trust versus WMC Mortgage?

A. I may be. Is it my report?

Q. It's not, because it was handed

Lipps

down after you filed your report.

A. Is this the one that deals with a foreclosed loan?

Q. Yes, it is.

A. Then I am somewhat familiar with it.

Q. Does it refresh you that the Minnesota court held that a loan that has been foreclosed cannot be put back?

MS. PATRICK: Objection, form.

A. I don't know whether that was the holding or not, but I do remember that was one of the core contentions, and that the court would not allow foreclosed loans to be put back, since the loan doesn't exist once there is foreclosure. At least that was the opinion of the court.

Q. Have you evaluated the merits of that ruling?

A. I have done nothing more, as I sit here today, other than note that I've read it. I really haven't had sufficient time to even factor it in to see what impact, if any, it has on the analysis. It didn't change

Lipps

anything as I looked at it.

Q. Why didn't it change anything?

A. Because I was looking at aggregate exposure out there, and we know what the projected losses are, we were looking at losses and losses by their nature take into account, you know, severities and things like that. So I just didn't see it having an impact on what I was analyzing.

Q. Do you have any understanding of what portion of the $45 billion of losses is with respect to loans that have already been foreclosed?

A. No.

Q. If I tell you that the answer is $30 billion, would that affect your conclusion as to whether the Minnesota decision has any bearing on your opinion?

A. Well, the bearing it has is it's another argument out there that the defense would have available to them in a put-back demand, but the Minnesota court doesn't, isn't the only court to weigh in on this.

Q. Are you aware of what other courts

have ruled on that issue?
A. I don't know. I didn't write on it in my report.
Q. Do you think that's an issue that may be significant with respect to your opinion?
MS. PATRICK: Objection, form.
A. I didn't see anything in the Minnesota decision to indicate that was a dispositive basis on which you could eliminate liability.
Q. Was the court applying New York law?
A. I don't recall.
Q. Does that matter?
A. No, I don't have an opinion on that as I sit here.
Q. What state's law governs the trusts, what state's law governs the sale agreements for the trusts?
A. The trusts I'm familiar with, I think it's New York law.
Q. Are you aware of any trust that is governed by the law of a state other than New

York?

A. I don't think in the litigation that I saw any trusts that were other than New York law.

Q. Are you aware that if this rule of law applied in this case, it would eliminate liability for at least $30 billion out of the $45 billion?

MS. PATRICK: Objection, form.

Objection, form.

A. If you're representing --

MR. RAINS: Hold on, hold on. It's an incomplete hypothetical. It assumes facts not in evidence.

A. Right, you're representing something to me that I don't have sufficient information to even respond.

Q. You made no attempt to evaluate that issue at any point since the Minnesota decision was handed down; is that correct?

A. I told you I had read the opinion. It was not -- it was not out at the time I offered my opinion, and I have also indicated that in this, even in this opinion that I've

Lipps

offered that there are cases out there that if that is the one and only rule of law that exists out there, it could eliminate it, but the problem is there is uncertainty in this area of the law.

Q. Have you made any attempt to evaluate whether this argument has merit and is likely to be followed by other courts?

A. The decision was just issued.

Q. It was issued on October 1st. Have you made any attempt to evaluate --

A. I read the decision. That's the extent of what I've done.

Q. Okay. So preparing for your deposition, you made no attempt to evaluate whether the decision is likely to be followed by other courts?

A. The simple answer is, no, but it wouldn't impact the opinion because in any one of these issues there are decisions that, from a plaintiffs' standpoint or from a defense standpoint, you would like, if it would become the all encompassing, binding rule of law.

Lipps

Q. Have you made any attempt to determine how the language in the sale agreements, covered by this settlement, compared to the language on which the court, the Minnesota court relied?

A. I haven't reviewed the -- I've reviewed the opinion. I've reviewed, to the extent they're available, any of the underlying sales agreements.

Q. Have you made any attempt to determine what impact this decision would have on the debtors' aggregate R&W liability if it were applied by the bankruptcy court in this case?

A. I told you, I have not looked into that. You've made a representation, but I'm not in a position to say whether I agree or disagree with that representation as to the number.

Q. Have you made any attempt to evaluate that issue?

A. I've read the opinion.

Q. Nothing further?

A. I think that's what I've said now

three times. I've read the opinion.

MR. BENTLEY: Thank you, Mr. Lipps. Why don't we take a short break. I may be done, and then I know that others may have questions as well.

THE WITNESS: All right.

(A brief recess was taken.)

MR. RAINS: Thank you.

MR. BENTLEY: Thank you, Mr. Lipps, I have nothing further. But I believe one or two of my colleagues may have some questions. One or two friends in the room.

EXAMINATION BY
MR. NATBONY:

Q. Good afternoon, Mr. Lipps.

A. Good afternoon, Mr. Natbony.

Q. I'm here today representing MBIA a potential objector to the settlement, and I just have a few questions for you today, if you don't mind.

A. Certainly.

Q. Now, in connection with reaching your opinion concerning the reasonableness of perspective is I was taking a settlement amount for an aggregate set of trusts in trying to figure out if that was a fair and reasonable settlement with that issue in borrower fraud.

Q. And is it fair to say that the varying degree of litigation risk dependent on rep and warranty language would be the same for all rep and warranties?

MR. RAINS: Objection, vague and ambiguous.

A. Yeah, I don't know I could answer that.

Q. Well, for example, wouldn't you say that there would be varying degrees of litigation risk depending on the language of a particular underwriting fraud representation?

A. For purposes of valuing the settlement, I didn't need to, in my opinion, go down into whether or not trust A had greater or less litigation risk than just B, based on a particular rep and warranty.

Q. I understand that's not what you

did, but that's a different question. What I'm asking you is whether you believe, setting aside what you did, that the litigation risk can vary dependent upon the language of a particular rep and warranty?

A. I can't answer it any differently than I did before with respect to borrower fraud. Perhaps on a granular case level, you may be able to reach a conclusion that a litigation risk was marginally better or worse based on a particular set of facts, but for purposes of evaluating this settlement, and whether it was within the range of reasonableness, I was able to take the core group of claims that are being asserted here for the basis for alleging rep and warranty which was common to all of them; and then assess the risks and the reasonableness of that amount given those risk.

Q. And similarly, wouldn't you agree that the level of litigation risk could be different if there was the, either the existence or absence of particular representation language in an agreement?

Lipps

A. Not for purposes of this settlement.

Q. Generally?

A. Did I evaluate that?

Again on a granular level there may be marginal differences on a trust A versus trust B, but again for purposes of evaluating this settlement involving 392 trusts, all I needed to do was assess it at the aggregate level.

Q. Did you confirm that there, in fact, was an underwriting representation in each of the 392 trusts?

A. I think I've already answered that. In my writing that no matter whether those words were in there or not, every case I've been involved in involving these securitizations, which are in this settlement, there has been a claim that there was a violation of an underwriting rep.

Q. How about with respect to any rep and warranty, did you do any analysis to determine whether each of the 392 trusts had any particular rep and warranty?

EXHIBIT AA

PROSPECTUS

Mortgage Pass-Through Certificates
Residential Funding Mortgage Securities I, Inc.
Depositor

Residential Funding Company, LLC
Sponsor

The depositor may periodically form separate trusts to issue certificates in series, backed by mortgage collateral.

Offered Certificates The certificates in a series will represent interests in a trust and will be paid only from the assets of that trust. The certificates will not represent interests in or obligations of Residential Funding Mortgage Securities I, Inc., Residential Funding Company, LLC or any of their affiliates. Each series may include multiple classes of certificates with differing payment terms and priorities. Credit enhancement will be provided for all offered certificates.

Mortgage Collateral Each trust will consist primarily of:

- mortgage loans secured by first liens on one- to four-family residential properties; or
- mortgage securities and whole or partial participations in mortgage loans.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these certificates or determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

April 6, 2007

Important notice about information presented in this prospectus and the accompanying prospectus supplement

We provide information to you about the certificates in two separate documents that provide progressively more detail:

- this prospectus, which provides general information, some of which may not apply to your series of certificates; and
- the accompanying prospectus supplement, which describes the specific terms of your series of certificates.

You should rely only on the information provided in this prospectus and the accompanying prospectus supplement, including the information incorporated by reference. See "Additional Information", "Reports to Certificateholders" and "Incorporation of Certain Information by Reference in this Prospectus. You can request information incorporated by reference from Residential Funding Mortgage Securities I, Inc. by calling us at (952) 857-7000 or writing to us at 8400 Normandale Lake Boulevard, Suite 250, Minneapolis, Minnesota 55437. We have not authorized anyone to provide you with different information. We are not offering the certificates in any state where the offer is not permitted.

Some capitalized terms used in this prospectus are defined in the Glossary attached to this prospectus.

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Introduction

The mortgage pass-through certificates offered may be sold from time to time in series. Each series of certificates will represent in the aggregate the entire beneficial ownership interest, excluding any interest retained by Residential Funding Mortgage Securities I, Inc., the depositor, or any other entity specified in the related prospectus supplement, in a trust consisting primarily of a segregated pool of one- to four-family, residential first mortgage loans, acquired by the depositor from one or more affiliated or unaffiliated institutions. Each series of certificates will be issued under a pooling and servicing agreement among the depositor, the trustee and the master servicer specified in the related prospectus supplement.

The Trusts

General

The mortgage loans and other assets described in this prospectus under "The Trusts—The Mortgage Loans" and in the related prospectus supplement will be held in a trust for the benefit of the holders of the related series of certificates and any uncertificated interest, if any, under a pooling and servicing agreement as described in this section and in the related prospectus supplement. As specified in the related prospectus supplement, each series of certificates will represent in the aggregate the entire beneficial ownership interest in the mortgage pool consisting primarily of conventional mortgage loans, excluding any interest retained by the depositor or any other entity specified in the related prospectus supplement, evidenced by promissory notes, the mortgage notes secured by first mortgages or first deeds of trust or other similar security instruments creating a first lien on one- to four-family residential properties, or interests in the mortgage loans which may include mortgage securities evidencing interests in mortgage loans.

As specified in the related prospectus supplement, the mortgaged properties will consist primarily of owner-occupied attached or detached one-family dwelling units, two- to four-family dwelling units, condominiums, townhouses, row houses, individual units in planned-unit developments and modular pre-cut/panelized housing, and the fee, leasehold or other interests in the underlying real property. The mortgaged properties may include vacation, second and non-owner-occupied homes. If specified in the related prospectus supplement relating to a series of certificates, a mortgage pool may contain Cooperative Loans evidenced by Cooperative Notes. In addition, if specified in the related prospectus supplement relating to a series of certificates, a mortgage pool may contain Additional Collateral Loans or Pledged Asset Mortgage Loans that are secured, in addition to the related mortgaged property, by Additional Collateral or Pledged Assets.

As used herein mortgage loans may include Cooperative Loans, Additional Collateral Loans, Interest Only Loans and Pledged Asset Mortgage Loans; mortgaged properties include shares in the related Cooperative and the related proprietary leases or occupancy agreements securing Cooperative Notes; mortgage notes include Cooperative Notes and mortgages include a security agreement with respect to a Cooperative Note.

The mortgage loans may be loans that have been consolidated and/or have had various terms changed, loans that have been converted from adjustable rate mortgage loans to fixed rate mortgage loans, or construction loans which have been converted to permanent mortgage loans. In addition, a mortgaged property may be subject to secondary financing at the time of origination of the mortgage loan or at any time thereafter.

The related prospectus supplement will provide material information concerning the types and characteristics of the mortgage loans included in the related mortgage pool. A Current Report on Form 8-K will be available upon request to holders of the related series of certificates and will be filed, together with the related pooling and servicing agreement with the Securities and Exchange Commission within fifteen days after the initial issuance of the certificates. In the event that mortgage loans are added to or deleted from the trust after the date of the related prospectus supplement, that addition or deletion will be noted in the Form 8-K. Additions or deletions of this type, if any, will be made prior to the closing date.

The depositor will cause the mortgage loans constituting each mortgage pool, or mortgage securities evidencing interests therein, to be assigned to the trustee named in the related prospectus supplement, for the benefit of the holders of all of the certificates of a series. The master servicer named in the related prospectus supplement will service the mortgage loans, usually through subservicers which are other mortgage servicing institutions, under a pooling and servicing agreement and will receive a fee for such services. See "Mortgage Loan Program" and "Description of the Certificates."

With respect to those mortgage loans serviced by the master servicer through a subservicer, the master servicer will remain liable for its servicing obligations under the related pooling and servicing agreement as if the master servicer alone were servicing those mortgage loans. In addition to or in lieu of the master servicer for a series of certificates, the related prospectus supplement may identify a Certificate Administrator for the trust. All references in this prospectus to master servicer and any discussions of the servicing and administration functions of the master servicer will also apply to the Certificate Administrator to the extent applicable.

The depositor will generally make a series of limited representations and warranties regarding the mortgage loans, but its assignment of the mortgage loans to the trustee will be without recourse. See "Description of the Certificates—Assignment of Mortgage Loans."

The master servicer's obligations with respect to the mortgage loans will consist principally of its contractual servicing obligations under the related pooling and servicing agreement, including its obligation to enforce certain purchase (to the extent applicable) and other obligations of subservicers, sellers and Residential Funding Company, LLC, as described in this prospectus under "Mortgage Loan Program—Representations with Respect to the Mortgage Loans," "—Subservicing" and "Description of the Certificates—Assignment of Trust Assets," and its obligation to make cash advances in the event of delinquencies in payments on or with respect to the mortgage loans in amounts described in this prospectus under "Description of the Certificates—Advances," or under the terms of any mortgage securities. The obligation of the master servicer to make Advances will be limited to amounts which the master servicer believes ultimately would be reimbursable out of the proceeds of liquidation of the mortgage loans or any applicable form of credit support. See "Description of the Certificates—Advances."

The prospectus supplement with respect to a series will describe the specific manner in which certificates of that series issued under a particular pooling and servicing agreement will evidence specified beneficial ownership interests in a separate trust created under that pooling and servicing agreement. A trust will consist of, to the extent provided in the related pooling and servicing agreement:

- mortgage loans and the related mortgage documents or interests therein, including any mortgage securities, underlying a particular series of certificates as from time to time are subject to the pooling and servicing agreement, exclusive of, if specified in the related prospectus supplement, any uncertificated interest in a trust asset or other interest retained by the depositor or any of its affiliates with respect to each Mortgage Loan;
- assets including, without limitation, all payments and collections derived from the mortgage loans or mortgage securities due after the related cut-off date, as from time to time are identified as deposited in the Custodial Account and in the related Certificate Account;
- property acquired by foreclosure of the mortgage loans or deed in lieu of foreclosure and portions of the related proceeds from the disposition of any related Additional Collateral or Pledged Assets;
- hazard insurance policies and primary insurance policies, if any, and portions of the related proceeds; and
- any combination, as and to the extent specified in the related prospectus supplement, of a letter of credit, purchase obligation, mortgage pool insurance policy, mortgage insurance policy, special hazard insurance policy, reserve fund, bankruptcy policy, certificate insurance policy, surety bond

or other similar types of credit enhancement as described under "Description of Credit Enhancement."

The related prospectus supplement will describe the material terms and conditions of certificates of interest or participations in mortgage loans to the extent they are included in the related trust.

Each mortgage loan will be selected by the depositor for inclusion in a mortgage pool from among those purchased by the depositor, either directly or through its affiliates, including Residential Funding Company, LLC, from sellers who are affiliates of the depositor including Homecomings Financial, LLC and GMAC Mortgage, LLC, or from banks, savings and loan associations, mortgage bankers, investment banking firms, the Federal Deposit Insurance Corporation, or FDIC, and other mortgage loan originators or sellers not affiliated with the depositor, all as described in this prospectus under "Mortgage Loan Program." If a mortgage pool is composed of mortgage loans acquired by the depositor directly from sellers other than Residential Funding Company, LLC, the related prospectus supplement will specify the extent of mortgage loans so acquired. The characteristics of the mortgage loans are as described in the related prospectus supplement.

The mortgage loans may also be delivered to the depositor in a Designated Seller Transaction. A "Designated Seller Transaction" is a transaction in which the mortgage loans are provided to the depositor by an unaffiliated seller, as more fully described in the prospectus supplement. Certificates issued in Designated Seller Transactions may be sold in whole or in part to any seller identified in the related prospectus supplement in exchange for the related mortgage loans, or may be offered under any of the other methods described in this prospectus under "Methods of Distribution." The related prospectus supplement for a Designated Seller Transaction will include information, provided by the related seller, about the seller, the mortgage loans and the underwriting standards applicable to the mortgage loans. Generally, all representations and warranties with respect to the mortgage loans sold in a Designated Seller Transaction will be made only by the applicable unaffiliated seller, referred to herein as the Designated Seller. The depositor will take reasonable steps to ensure that the mortgage loans in a Designated Seller Transaction satisfy the eligibility criteria for securitization transactions registered on Form S-3 with the Securities and Exchange Commission. The depositor will limit Designated Seller Transactions to creditworthy unaffiliated sellers. In addition, the depositor will obtain from Designated Sellers representations and warranties regarding specific characteristics of the mortgage loans, together with an obligation to repurchase any mortgage loans that do not satisfy such representations and warranties. Furthermore, if set forth in the related prospectus supplement for any Designated Seller Transaction, the depositor will obtain from the Designated Sellers the obligation to indemnify the depositor against any liabilities resulting from a breach of such representations and warranties.

If specified in the related prospectus supplement, the trust underlying a series of certificates may include mortgage securities. The mortgage securities may have been issued previously by the depositor or an affiliate thereof, a financial institution or other entity engaged in the business of mortgage lending or a limited purpose corporation organized for the purpose of, among other things, acquiring and depositing mortgage loans into trusts, and selling beneficial interests in such trusts. As specified in the related prospectus supplement, the mortgage securities will primarily be similar to certificates offered hereunder in their collateral and their cash flows. The primary collateral for both the mortgage securities and the related certificates will be the same pool of mortgage loans. Payments on the mortgage securities will be passed through to holders of the related certificates. As to any series of certificates, the related prospectus supplement will include a description of the mortgage securities and any related credit enhancement, and the mortgage loans underlying those mortgage securities will be described together with any other mortgage loans included in the mortgage pool relating to that series. As to any series of certificates, as used in this prospectus a mortgage pool includes the related mortgage loans underlying any mortgage securities.

For any series of certificates backed by mortgage securities, the entity that administers the mortgage securities may be referred to as the administrator, if so specified in the related prospectus supplement. References in this prospectus to Advances to be made and other actions to be taken by the master servicer in connection with the mortgage loans may include Advances made and other actions taken under the terms of the mortgage securities.

As specified in the applicable prospectus supplement, each series of certificates will evidence interests in one mortgage pool including mortgage loans having an aggregate principal balance of not less than approximately $5,000,000 as of the cut-off date. Each certificate will evidence an interest in only the related mortgage pool and corresponding trust, and not in any other mortgage pool or trust.

The Mortgage Loans

General

As specified in the related prospectus supplement, all of the mortgage loans in a mortgage pool will:

- have monthly payments due or deemed to be due on the first of each month;
- be secured by mortgaged properties located in any of the 50 states, the District of Columbia, Guam or any other territory of the United States, or be Puerto Rico mortgage loans; and
- have one or more types of Interest Rate Characteristics, Amortization Provisions and Other Attributes as described below.

Interest Rate Characteristics

The accompanying prospectus supplement will describe the type of interest rates of the mortgage loans, which will include adjustable-rate mortgage loans or ARM Loans, fixed-rate mortgage loans and Convertible Mortgage Loans.

ARM Loans. ARM Loans will provide for a fixed initial mortgage rate until the first date on which the mortgage rate is to be adjusted and an original term to maturity of not more than 40 years. After this date, the mortgage rate may adjust periodically, subject to any applicable limitations, based on changes in the relevant index, to a rate equal to the index plus the Gross Margin. The initial mortgage rate on an ARM loan may be lower than the sum of the then-applicable index and the Gross Margin for the ARM loan. The index or indices for a particular pool will be specified in the accompanying prospectus supplement and may include one of the following indexes:

- the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of six months, one year or other terms to maturity;
- the weekly auction average investment yield of U.S. Treasury bills of various maturities;
- the daily bank prime loan rate as quoted by financial industry news sources;
- the cost of funds of member institutions of any of the regional Federal Home Loan Banks;
- the interbank offered rates for U.S. dollar deposits in the London market, each calculated as of a date prior to each scheduled interest rate adjustment date that will be specified in the accompanying prospectus supplement; or
- the weekly average of secondary market interest rates on six-month negotiable certificates of deposit.

ARM loans have features that provide different investment considerations than fixed-rate mortgage loans. Adjustable mortgage rates can cause payment increases that may exceed some mortgagors' capacity to cover such payments. An ARM loan may provide that its mortgage rate may not be adjusted to a rate above the applicable maximum mortgage rate or below the applicable minimum mortgage rate, if any, for the ARM loan. In addition, some of the ARM loans may provide for limitations on the maximum amount by which their mortgage rates may adjust for any single adjustment period. Some ARM loans provide for limitations on the amount of scheduled payments of principal and interest.

Other ARM loans may permit the borrower to select from various payment options on each payment date. Those options may include a payment of accrued interest only, a minimum payment based on an amortization schedule that may not be sufficient to cover accrued interest on the ARM loan thus producing negative amortization, a monthly payment that would fully amortize the ARM loan over its remaining term to maturity at the current interest rate, and a monthly payment that would fully amortize the ARM loan over a shorter period at the current interest rate.

Convertible Mortgage Loans. On any conversion of a Convertible Mortgage Loan, either the depositor will be obligated to repurchase or Residential Funding Company, LLC, the applicable subservicer or a third party will be obligated to purchase the converted mortgage loan. Alternatively, if specified in the related prospectus supplement, the depositor, Residential Funding Company, LLC or another party may agree to act as remarketing agent with respect to the converted mortgage loans and, in such capacity, to use its best efforts to arrange for the sale of converted mortgage loans under specified conditions. Upon the failure of any party so obligated to purchase any converted mortgage loan, the inability of any remarketing agent to arrange for the sale of the converted mortgage loan and the unwillingness of the remarketing agent to exercise any election to purchase the converted mortgage loan for its own account, the related mortgage pool will thereafter include both fixed rate and adjustable rate mortgage loans.

Amortization Provisions

The accompanying prospectus supplement will also describe the applicable amortization provisions of the mortgage loans. The mortgage loans may include:

- loans with equal monthly payments;
- Balloon Loans;
- Interest Only Loans;
- mortgage loans that experience graduated payment schedules; and
- mortgage loans that experience negative amortization.

Balloon Loans. Balloon Loans generally require a monthly payment of a pre-determined amount that will not fully amortize the loan until the maturity date, at which time the Balloon Amount will be due and payable. For Balloon Loans, payment of the Balloon Amount, which, based on the amortization schedule of those mortgage loans, is expected to be a substantial amount, will typically depend on the mortgagor's ability to obtain refinancing of the mortgage loan or to sell the mortgaged property prior to the maturity of the Balloon Loan. The ability to obtain refinancing will depend on a number of factors prevailing at the time refinancing or sale is required, including, without limitation, real estate values, the mortgagor's financial situation, the level of available mortgage loan interest rates, the mortgagor's equity in the related mortgaged property, tax laws, prevailing general economic conditions and the terms of any related first lien mortgage loan. Neither the depositor, the master servicer nor any of their affiliates will be obligated to refinance or repurchase any mortgage loan or to sell the mortgaged property;

Interest Only Loans. Interest Only Loans generally require that a borrower make monthly payments of accrued interest, but not principal, for a predetermined period following origination (commonly referred to as an "interest-only period"). After the interest-only period, the borrower's monthly payment generally will be recalculated to cover both interest and principal so that the Interest Only Loan will be paid in full by its final payment date. As a result, if the monthly payment increases, the borrower may not be able to pay the increased amount and may default or refinance the Interest Only Loan to avoid the higher payment. Because no scheduled principal payments are required to be made during the interest only period, the related offered certificates will receive smaller scheduled principal distributions during that period than they would have received if the borrower were required to make monthly payments of interest and principal from origination. In addition, because a borrower is not required to make scheduled principal payments during the interest only period, the principal balance of an Interest Only Loan may be higher than the principal balance of a similar mortgage loan that requires payment of principal and interest throughout the entire term of the mortgage loan, and a higher principal balance may result in a greater loss upon the liquidation of an Interest Only Loan due to a default;

Graduated Payment Mortgage Loans. Graduated payment mortgage loans provide for monthly payments during the first year calculated on the basis of an assumed interest rate which is a specified percentage below the mortgage rate on that mortgage loan. The monthly payments increase at the beginning of the second year by a specified percentage of the monthly payment during the preceding year and each year thereafter to the extent necessary to amortize the mortgage loan over the remainder of its term to maturity, either 15 years or 40 years, as applicable. Deferred interest, if any, will be added to the principal balance of these mortgage loans.

Negatively Amortizing ARM Loans. Certain ARM loans may be subject to negative amortization from time to time prior to their maturity. Negative amortization may result from either the adjustment of the mortgage rate on a more frequent basis than the adjustment of the scheduled payment or the application of a cap on the size of the scheduled payment. In the first case, negative amortization results if an increase in the mortgage rate occurs prior to an adjustment of the scheduled payment on the related mortgage loan and such increase causes accrued monthly interest on the mortgage loan to exceed the scheduled payment. In the second case, negative amortization results if an increase in the mortgage rate causes accrued monthly interest on a mortgage loan to exceed the limit on the size of the scheduled payment on the mortgage loan. In addition, ARM loans with payment options described above may produce negative amortization if the borrower chooses an option that does not cover the accrued interest on the ARM loan. If the scheduled payment is not sufficient to pay the accrued monthly interest on a negative amortization ARM loan, the amount of accrued monthly interest that exceeds the scheduled payment on the mortgage loans is added to the principal balance of the ARM loan and is to be repaid from future scheduled payments. Negatively amortizing ARM loans do not provide for the extension of their original stated maturity to accommodate changes in their mortgage rate. The accompanying prospectus supplement will specify whether the ARM loans underlying a series allow for negative amortization.

Collateral Characteristics

The accompanying prospectus supplement will also describe the type of collateral securing the mortgage loans. In addition to the mortgage loans secured only by fee simple or leasehold interests on residential properties, each trust may include:

- Pledged Asset Mortgage Loans; and
- Additional Collateral Mortgage Loans.

Pledged Asset Mortgage Loans. Each Pledged Asset will be held by a custodian for the benefit of the trustee for the trust in which the related Pledged Asset Mortgage Loan is held, and will be invested in investment obligations permitted by the rating agencies rating the related series of certificates. The amount of the Pledged Assets will be determined by the seller in accordance with its underwriting standards, but generally will not be more than an amount that, if applied to reduce the original principal balance of the mortgage loan, would reduce that principal balance to less than 70% of the appraised value of the mortgaged property.

If, following a default by the mortgagor and the liquidation of the related mortgaged property, there remains a loss on the related mortgage loan, the limited liability company will be required to pay to the master servicer or the subservicer on behalf of the trustee the amount of that loss, up to the pledged amount for such mortgage loan. If the mortgagor becomes a debtor in a bankruptcy proceeding, there is a significant risk that the Pledged Assets will not be available to be paid to the certificateholders, since the bankruptcy court may prevent the custodian from making these payments. At the mortgagor's request, and in accordance with some conditions, the Pledged Assets may be applied as a partial prepayment of the mortgage loan. The Pledged Assets will be released to the limited liability company if the outstanding principal balance of the mortgage loan has been reduced by the amount of the Pledged Assets.

Additional Collateral Loans. The Additional Collateral Requirement will generally terminate when the loan-to-value ratio, or LTV ratio, of the mortgage loan is reduced to a predetermined level, which generally shall not be more than 80%, as a result of a reduction in the loan amount caused by principal payments by the mortgagor under the mortgage loan or an increase in the appraised value of the related mortgaged property.

The seller of the Additional Collateral Loan or the related subservicer, as applicable, will be required, in accordance with the master servicer's servicing guidelines or its normal servicing procedures, to attempt to realize on any Additional Collateral if the related Additional Collateral Loan is liquidated upon default. The right to receive proceeds from the realization of Additional Collateral upon any liquidation will be assigned to the related trustee. No assurance can be given as to the amount of proceeds, if any, that might be realized from such Additional Collateral and thereafter remitted to the trustee.

The prospectus supplement relating to any mortgage pool that includes a material amount of Additional Collateral Loans will describe the insurance company that will issue a limited purpose surety bond insuring any deficiency in the amounts realized by the Additional Collateral Loan seller from the liquidation of Additional Collateral, up to the amount of the Additional Collateral Requirement. This surety bond will be issued by an insurance company whose claims-paying ability is rated in the highest long-term rating category by each rating agency rating the applicable series of certificates. For additional considerations concerning the Additional Collateral Loans, see "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans—Anti-Deficiency Legislation and Other Limitations on Lenders".

Other Attributes

Each trust may also include mortgage loans with the attributes described below, which will be described further in the accompanying prospectus supplement as applicable.

Cooperative Loans. Cooperative Loans are evidenced by promissory notes secured by a first lien on the shares issued by Cooperatives and on the related proprietary leases or occupancy agreements granting exclusive rights to occupy specific units within a Cooperative. As used in this prospectus, mortgage loans may include Cooperative Loans; mortgaged properties may include shares in the related Cooperative and the related proprietary leases or occupancy agreements securing Cooperative Notes; mortgage notes may include Cooperative Notes; and mortgages may include security agreements with respect to Cooperative Notes.

Prepayment Charges on the Mortgage Loans. In some cases, mortgage loans may be prepaid by the mortgagors at any time without payment of any prepayment fee or penalty. The prospectus supplement will disclose whether a material portion of the mortgage loans provide for payment of a prepayment charge if the mortgagor prepays within a specified time period. This charge may affect the rate of prepayment. The master servicer or another entity identified in the accompanying prospectus supplement will generally be entitled to all prepayment charges and late payment charges received on the mortgage loans and those amounts will not be available for payment on the certificates unless the prospectus supplement discloses that those charges will be available for payment. However, some states' laws restrict the imposition of prepayment charges even when the mortgage loans expressly provide for the collection of those charges. See "Certain Legal Aspects of Mortgage Loans—Default Interest and Limitations on Prepayments".

"Equity Refinance" and "Rate and Term Refinance" Mortgage Loans. Some of the mortgage loans may be "equity refinance" mortgage loans, as to which a portion of the proceeds are used to refinance an existing mortgage loan, and the remaining proceeds may be retained by the mortgagor or used for purposes unrelated to the mortgaged property. Alternatively, the mortgage loans may be "rate and term refinance" mortgage loans, as to which substantially all of the proceeds, net of related costs incurred by the mortgagor, are used to refinance an existing mortgage loan or loans, which may include a junior lien, primarily in order

to change the interest rate or other terms of the existing mortgage loan. All of these types of loans are nevertheless secured by mortgaged properties.

Buy-Down Mortgage Loans. In the case of Buy-Down Mortgage Loans, the monthly payments made by the mortgagor during the Buy-Down Period will be less than the scheduled monthly payments on the mortgage loan, the resulting difference to be made up from:

- Buy-Down Funds contributed by the seller of the mortgaged property or another source and placed in the Buy-Down Account;
- if the Buy-Down Funds are contributed on a present value basis, investment earnings on the Buy-Down Funds; or
- additional Buy-Down Funds to be contributed over time by the mortgagor's employer or another source.

All Buy-Down Funds will be available to fund scheduled principal and interest payments on the related mortgage loans. See "Description of the Certificates—Payments on Mortgage Collateral— Buy-Down Mortgage Loans." Under Residential Funding Company, LLC's underwriting standards, the mortgagor under each Buy-Down Mortgage Loan will be qualified based on the initial reduced monthly payment amount. See "Mortgage Loan Program—Underwriting Standards" for a discussion of loss and delinquency considerations relating to Buy-Down Mortgage Loans.

Additional types of Loans. In the case of certain mortgage loans a portion of the proceeds of a mortgage loan may be held by the originator and used to reimburse the mortgagor for some costs of construction of or improvements to the related mortgaged property. The appraised value of this type of mortgaged property will be based on the assumption that the construction has been completed; no inspections of the mortgaged property will be made. If the construction is not completed, the actual value of the related mortgaged property could be adversely affected and, even if the escrowed proceeds are applied to reduce the principal balance of the mortgage loan, the actual LTV ratio of the mortgage loan could be higher than that assumed at the time of origination of the mortgage loan. In addition, the application of any unused proceeds could cause the rate of payment of principal on the mortgage loan to be faster than that assumed.

The Mortgaged Properties

The mortgaged properties may consist of attached or detached individual dwellings, cooperative dwellings, individual condominiums, townhouses, duplexes, row houses, modular pre-cut/panelized housing, individual units or two- to four-unit dwellings in planned unit developments, two-to four-family dwellings and other attached dwelling units. Each mortgaged property, other than a Cooperative dwelling, will be located on land owned in fee simple by the mortgagor or, if specified in the related prospectus supplement, land leased by the mortgagor. Attached and detached dwellings may include structures where each mortgagor owns the land upon which the unit is built with the remaining adjacent land owned in common, or dwelling units subject to a proprietary lease or occupancy agreement in an apartment building owned by a Cooperative. The proprietary lease or occupancy agreement securing a Cooperative Loan is subordinate, in most cases, to any blanket mortgage on the related cooperative apartment building or on the underlying land. Additionally, in the case of a Cooperative Loan, the proprietary lease or occupancy agreement may be terminated and the cooperative shares may be cancelled by the Cooperative if the tenant-stockholder fails to pay maintenance or other obligations or charges owed by the tenant-stockholder. See "Certain Legal Aspects of Mortgage Loans."

The mortgaged properties may be owner occupied or non-owner occupied and may include vacation homes, second homes and investment properties. The percentage of mortgage loans that are owner-occupied will be disclosed in the related prospectus supplement. The basis for any statement that a given percentage of the mortgage loans are secured by mortgaged properties that are owner-occupied will be one or more of the following:

- the making of a representation by the mortgagor at origination of a mortgage loan that the mortgagor intends to use the mortgaged property as a primary residence,
- a representation by the originator of the mortgage loan (which representation may be based solely on the above clause), or
- the fact that the mailing address for the mortgagor is the same as the address of the mortgaged property;

Any representation and warranty in the related pooling and servicing agreement regarding owner-occupancy may be based solely on that information. Mortgage loans secured by investment properties, including two- to four-unit dwellings, may also be secured by an assignment of leases and rents and operating or other cash flow guarantees relating to the mortgage loans.

Loan-to-Value Ratio

In the case of most purchase mortgage loans, the LTV ratio is the ratio, expressed as a percentage, of the principal amount of the mortgage loan at origination to the lesser of (1) the appraised value determined in an appraisal or other valuation obtained at origination of the mortgage loan and (2) the sales price for the related mortgaged property, except that in the case of some employee or preferred customer loans, the denominator of the ratio may be the sales price. In some cases, in lieu of an appraisal, a valuation of the mortgaged property will be obtained from a service that provides an automated valuation. An automated valuation evaluates, through the use of computer models, various types of publicly-available information such as recent sales prices for similar homes within the same geographic area and within the same price range.

In the case of certain other mortgage loans, including purchase, refinance or converted mortgage loans, the LTV ratio at origination is defined in most cases as the ratio, expressed as a percentage, of the principal amount of the mortgage loan to either the appraised value determined in an appraisal obtained at the time of refinancing, modification or conversion or, if no appraisal has been obtained, the value of the related mortgaged property which value generally will be supported by either:

- a representation by the related seller as to the value;
- a broker's price opinion, automated valuation, drive by appraisal or other certification of value;
- an appraisal obtained within twelve months prior to the refinancing, modification or conversion or, under the streamlined refinancing program described herein, an appraisal obtained within approximately 24 months prior to the refinancing; or
- the sales price, if the mortgaged property was purchased within the previous twelve months.

In the case of some mortgage loans seasoned for over twelve months, the LTV ratio may be determined at the time of purchase from the related seller based on the ratio of the current loan amount to the current value of the related mortgaged property which value may be supported by either:

- a statistical analysis;
- a broker's price opinion or automated valuation; or
- an appraisal obtained within 120 days of the purchase date, in which case the LTV ratio may be significantly lower than the ratio determined at origination.

The denominator of the applicable ratio described in the preceding three paragraphs is the appraised value. To the extent that the appraised value of the related mortgaged property has declined, the actual LTV ratio as to such mortgage loan will be higher than the LTV ratio set forth for that mortgage loan in the related prospectus supplement. In connection with a representation by the related seller as to the value of the mortgaged property, the seller in most cases will represent and warrant that either (i) the current value of the related mortgaged property at the time of refinancing, modification or conversion was not less than the appraised value of the related property at the time of the origination of the original mortgage loan or (ii) the current LTV ratio of the mortgage loan generally meets the depositor's underwriting guidelines. There can be no assurance that the substance of that representation and warranty will be true.

Some of the mortgage loans that are subject to negative amortization will have LTV ratios that will increase after origination as a result of their negative amortization. In the case of some seasoned mortgage loans, the values used in calculating LTV ratios may no longer be accurate valuations of the mortgaged properties, particularly where the LTV ratio was not determined at the time of purchase as described in the four preceding paragraphs. Certain mortgaged properties may be located in regions where property values have declined significantly since the time of origination. In addition, the LTV ratio does not take into account any secondary financing. Under the depositor's underwriting standards, a seller is usually permitted to provide secondary financing to a mortgagor contemporaneously with the origination of a mortgage loan, provided that the combined LTV ratio is not greater than 100%. Secondary financing is readily available and may be obtained by a mortgagor from a lender including the seller at any time, including at origination.

Mortgage Loan Program

The mortgage loans will have been purchased by the depositor, either directly or indirectly through Residential Funding Company, LLC, from sellers. The mortgage loans will have been originated generally in accordance with the depositor's underwriting standards or alternative underwriting criteria as described in this section under "Underwriting Standards" or as described in the related prospectus supplement.

Underwriting Standards

General Standards

Residential Funding Company, LLC's Jumbo A Program is designed for borrowers with good credit who may have difficulty obtaining traditional financing due to principal balances that do not conform to the guidelines of Federal Home Loan Mortgage Corporation, or Freddie Mac or the Federal National Mortgage Association or Fannie Mae. The depositor's underwriting standards with respect to the mortgage loans will generally conform to those published in Residential Funding Company, LLC's Client Guide, as application to the "Jumbo A" program. The underwriting standards contained in the Client Guide are continuously revised based on opportunities and prevailing conditions in the residential mortgage market and the market for the depositor's mortgage pass-through certificates. The mortgage loans may be underwritten by Residential Funding Company, LLC or by a designated third party. In some circumstances, however, the mortgage loans may be underwritten only by the seller. See "Underwriting Standards—Client Guide Standards" and "—Qualifications of Sellers." Residential Funding Company, LLC may perform only sample quality assurance reviews to determine whether the mortgage loans in any mortgage pool were underwritten in accordance with applicable standards. The mortgage loans in any mortgage pool may be underwritten by Residential Funding Company, LLC, a seller or a designated third party through the use of an automated underwriting system. In the case of a Designated Seller Transaction, the mortgage loans may be underwritten by the designated seller or a designated third party through the use of an automated underwriting system. Any determination of underwriting eligibility using an automated system will only be based on the information entered into the system and the information that the system is programmed to review. Loans underwritten through the use of an automated underwriting system may not require delivery to Residential Funding Company, LLC of all or a portion of the related credit files. For additional information regarding automated underwriting systems that are used by Residential Funding Company, LLC to review some of the mortgage loans that it purchases and that may be included in any mortgage pool, see "Underwriting Standards—Automated Underwriting" below.

With respect to the depositor's underwriting standards, as well as any other underwriting standards that may be applicable to any mortgage loans, the underwriting standards include a set of specific criteria under which the underwriting evaluation is made. However, the application of underwriting standards does not imply that each specific criterion was satisfied individually. Rather, a mortgage loan will be considered to be originated in accordance with a given set of underwriting standards if, based on an overall qualitative evaluation, the loan is in substantial compliance with the underwriting standards. For example, a mortgage loan may be considered to comply with a set of underwriting standards, even if one or more specific criteria included in such underwriting standards were not satisfied, if other factors compensated for the criteria that were not satisfied or if the mortgage loan is considered to be in substantial compliance with the underwriting standards.

In addition, the depositor purchases mortgage loans which do not conform to the underwriting standards contained in the Client Guide. A portion of the mortgage loans will be purchased in negotiated transactions, which may be governed by master commitment agreements relating to ongoing purchases of mortgage loans by Residential Funding Company, LLC or the designated seller. The sellers who sell to Residential Funding Company, LLC or the designated seller will represent that the mortgage loans have been originated in accordance with underwriting standards agreed to by Residential Funding Company, LLC or the designated seller, as applicable. Residential Funding Company, LLC or the designated seller, on behalf of the depositor, will review only a limited portion of the mortgage loans in any delivery from the related seller for conformity with the applicable underwriting standards. A portion of the mortgage loans will be purchased from sellers who will represent that the mortgage loans were originated pursuant to underwriting standards determined by a mortgage insurance company or third party origination system acceptable to Residential Funding Company, LLC or the designated seller. The depositor, or Residential Funding Company, LLC or the designated seller, on behalf of the depositor, may accept a certification from an insurance company or a confirmation by a third party as to a mortgage loan's insurability in a mortgage pool as of the date of certification or confirmation as evidence of a mortgage loan conforming to applicable underwriting standards. Such certifications or confirmations will likely have been issued before the purchase of the mortgage loan by Residential Funding Company, LLC or the depositor.

The level of review by Residential Funding Company, LLC, the designated seller or the depositor, if any, of any mortgage loan for conformity with the applicable underwriting standards will vary depending on any one of a number of factors, including:

- factors relating to the experience and status of the seller;
- characteristics of the specific mortgage loan, including the principal balance, the LTV ratio, the loan type or loan program; and
- the applicable credit score of the related mortgagor used in connection with the origination of the mortgage loan, as determined based on a credit scoring model acceptable to the depositor.

Residential Funding Company, LLC, on behalf of the depositor, typically will review a sample of the mortgage loans purchased by Residential Funding Company, LLC for conformity with the applicable underwriting standards and to assess the likelihood of repayment of the mortgage loans. Such underwriting reviews will generally not be conducted with respect to any individual mortgage pool related to a series of certificates.

Credit scoring models provide a means for evaluating the information about a prospective borrower that is available from a credit reporting agency. The underwriting criteria applicable to any program under which the mortgage loans may be originated and reviewed may provide that qualification for the loan, or the availability of various loan features, including maximum loan amount, maximum LTV ratio, property type and use, and documentation level, may depend on the borrower's credit score.

The underwriting standards utilized in negotiated transactions and master commitments, the underwriting standards of insurance companies issuing certificates and the underwriting standards applicable to mortgage loans underlying mortgage securities may vary substantially from the underwriting standards contained in the Client Guide. Those underwriting standards are generally intended to provide an underwriter with information to evaluate the borrower's repayment ability and the adequacy of the mortgaged property as collateral. Due to the variety of underwriting standards and review procedures that may be applicable to the mortgage loans included in any mortgage pool, the related prospectus supplement generally will not distinguish among the various underwriting standards applicable to the mortgage loans nor describe any review for compliance with applicable underwriting standards performed by the depositor or Residential Funding Company, LLC. Moreover, there can be no assurance that every mortgage loan was originated in conformity with the applicable underwriting standards in all material respects, or that the quality or performance of mortgage loans underwritten pursuant to varying underwriting standards will be equivalent under all circumstances. In the case of a Designated Seller Transaction, the applicable underwriting standards will be those of the seller or of the originator of the mortgage loans and will be described in the related prospectus supplement.

The depositor, either directly or indirectly through Residential Funding Company, LLC, will also purchase mortgage loans from its affiliates, including GMAC Mortgage, LLC and Homecomings Financial, LLC, with underwriting standards in accordance with the Client Guide or as otherwise agreed to by the depositor. However, in some limited circumstances, the mortgage loans may be employee or preferred customer loans with respect to which, in accordance with the related affiliate's mortgage loan programs, income, asset and employment verifications and appraisals may not have been required. With respect to mortgage loans made under any employee loan program maintained by Residential Funding Company, LLC, or its affiliates, in limited circumstances preferential interest rates may be allowed, and primary insurance policies may not be required in connection with an LTV ratio over 80%. As to any series of certificates representing interests in such mortgage loans, credit enhancement may be provided covering losses on the mortgage loans to the extent that these losses would be covered by primary insurance policies if obtained, in the form of a corporate guaranty or in other forms described in this prospectus under "Description of Credit Enhancement." Neither the depositor nor Residential Funding Company, LLC will review any affiliate's mortgage loans for conformity with the underwriting standards contained in the Client Guide.

Client Guide Standards

The following is a brief description of the underwriting standards set forth in the Client Guide for full documentation loan programs. Initially, a prospective borrower, other than a trust if the trust is the borrower, is required to fill out a detailed application providing pertinent credit information. As part of the application, the borrower is required to provide a current balance sheet describing assets and liabilities and a statement of income and expenses, as well as an authorization to apply for a credit report which summarizes the borrower's credit history with merchants and lenders and any record of bankruptcy. In addition, an employment verification is obtained which reports the borrower's current salary and may contain the length of employment and an indication as to whether it is expected that the borrower will continue that employment in the future. If a prospective borrower is self-employed, the borrower may be required to submit copies of signed tax returns. The borrower may also be required to authorize verification of deposits at financial institutions where the borrower has accounts. In the case of a mortgage loan secured by a property owned by a trust, the foregoing procedures may be waived where the mortgage note is executed on behalf of the trust.

In determining the adequacy of the mortgaged property as collateral, an appraisal is made of each property considered for financing. The appraiser is required to verify that the property is in good condition and that construction, if new, has been completed. The appraisal is based on various factors, including the market value of comparable homes and the cost of replacing the improvements. Alternatively, property valuations may be made under various other methods, including automated valuation models, as described in this prospectus under "The Trusts—The Mortgage Loans."

Credit Scores are obtained by many mortgage lenders in connection with mortgage loan applications to help assess a borrower's credit-worthiness. In addition, Credit Scores may be obtained by Residential Funding Company, LLC or the designated seller after the origination of a mortgage loan if the seller does not provide to Residential Funding Company, LLC or the designated seller a Credit Score. Credit Scores are obtained from credit reports provided by various credit reporting organizations, each of which may employ differing computer models and methodologies.

The Credit Score is designed to assess a borrower's credit history at a single point in time, using objective information currently on file for the borrower at a particular credit reporting organization. Information used to create a Credit Score may include, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit Scores range from approximately 350 to approximately 840, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a Credit Score purports only to be a measurement of the relative degree of risk a borrower represents to a lender, i.e., a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score. In addition, it should be noted that Credit Scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. In most cases, mortgage loans amortize over a 15- to 40-year period. Furthermore, Credit Scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, in most cases, a Credit Score does not take into consideration the differences between mortgage loans and consumer loans, or the specific characteristics of the related mortgage loan, including the LTV ratio, the collateral for the mortgage loan, or the debt to income ratio. There can be no assurance that the Credit Scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans or that any mortgagor's Credit Score would not be lower if obtained as of the date of the related prospectus supplement.

Once all applicable employment, credit and property information is received, a determination is made as to whether the prospective borrower has sufficient monthly income available to meet the borrower's monthly obligations on the proposed mortgage loan and other expenses related to the home, including property taxes and hazard insurance, and other financial obligations and monthly living expenses. ARM loans, Buy-Down Mortgage Loans, graduated payment mortgage loans and any other mortgage loans will generally be underwritten on the basis of the borrower's ability to make monthly payments as determined by reference to the mortgage rates in effect at origination or the reduced initial monthly payments, as the case may be, and on the basis of an assumption that the borrowers will likely be able to pay the higher monthly payments that may result from later increases in the mortgage rates or from later increases in the monthly payments, as the case may be, at the time of the increase even though the borrowers may not be able to make the higher payments at the time of origination. The mortgage rate in effect from the origination date of an ARM loan or other types of loans to the first adjustment date are likely to be lower, and may be significantly lower, than the sum of the then applicable index and Note Margin. Similarly, the amount of the monthly payment on Buy-Down Mortgage Loans and graduated payment mortgage loans will increase periodically. If the borrowers' incomes do not increase in an amount commensurate with the increases in monthly payments, the likelihood of default will increase. In addition, in the case of either ARM loans or graduated payment mortgage loans that are subject to negative amortization, due to the addition of deferred interest the principal balances of those mortgage loans are more likely to equal or exceed the value of the underlying mortgaged properties, thereby increasing the likelihood of defaults and losses. With respect to Balloon Loans, payment of the Balloon Amount will depend on the borrower's ability to obtain refinancing or to sell the mortgaged property prior to the maturity of the Balloon Loan, and there can be no assurance that refinancing will be available to the borrower or that a sale will be possible.

If so specified in the related prospectus supplement, a mortgage pool may include mortgage loans that have been underwritten pursuant to a streamlined documentation refinancing program, contained in the Client Guide. This program permits mortgage loans to be refinanced with only limited verification or updating of the underwriting information that was obtained at the time that the original mortgage loan was originated. For example, a new appraisal of the mortgaged property may not be required if the refinanced mortgage loan was originated up to approximately 24 months prior to the refinancing. In addition, the mortgagor's income may not be verified, although continued employment is required to be verified. In some cases, the mortgagor may be permitted to borrow up to 100% of the outstanding principal amount of the original mortgage loan. Each mortgage loan underwritten pursuant to this program will be treated as having been underwritten pursuant to the same underwriting documentation program as the mortgage loan that it refinanced, including for purposes of the disclosure in the related prospectus supplement.

The underwriting standards set forth in the Client Guide will be varied in appropriate cases, including "limited" or "reduced loan documentation" mortgage loan programs. Some reduced loan documentation programs, for example, do not require income, employment or asset verifications. In most cases, in order to be eligible for a reduced loan documentation program, the LTV ratio must meet applicable guidelines, the borrower must have a good credit history and the borrower's eligibility for this type of program may be determined by use of a credit scoring model.

In its evaluation of mortgage loans that have more than twelve months of payment experience, Residential Funding Company, LLC tends to place greater weight on payment history and may take into account market and other economic trends while placing less weight on underwriting factors traditionally applied to newly originated mortgage loans. Some mortgage loans seasoned for over twelve months may be underwritten for purchase by Residential Funding Company, LLC based on the borrower's credit score and payment history, with no current income verification, and under alternative property valuation methods described in this prospectus under "The Trusts—The Mortgage Loans."

The mortgaged properties may be located in states where, in general, a lender providing credit on a single-family property may not seek a deficiency judgment against the mortgagor but rather must look solely to the property for repayment in the event of foreclosure. See "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans—Anti-Deficiency Legislation and Other Limitations on Lenders." The depositor's underwriting standards applicable to all states, including anti-deficiency states, typically require that the underwriting officers of the originator be satisfied that the value of the property being financed, as indicated by the appraisal or other acceptable valuation method, currently supports and is anticipated to support in the future the outstanding loan balance, although there can be no assurance that the value will support in the future the outstanding loan balance.

Automated Underwriting

In recent years, the use of automated underwriting systems has become commonplace in the residential mortgage market. Residential Funding Company, LLC evaluates many of the mortgage loans that it purchases through the use of one or more automated underwriting systems. In general, these systems are programmed to review most of the information set forth in Residential Funding Company, LLC's Client Guide as the underwriting criteria necessary to satisfy each underwriting program. The system may make adjustments for some compensating factors, which could result in a mortgage loan being approved even if all of the specified underwriting criteria in the Client Guide for that underwriting program are not satisfied.

In some cases, Residential Funding Company, LLC enters information into the automated underwriting system using documentation delivered to Residential Funding Company, LLC by the seller. In this situation, each automated review will either generate an approval or a recommendation for further review. Most approved mortgage loans will not receive any additional review of their credit components. In the case of a recommendation for further review, underwriting personnel may perform a manual review of the mortgage loan documentation before Residential Funding Company, LLC will accept or reject the mortgage loan. For most sellers, Residential Funding Company, LLC will conduct a limited review of the mortgage loan documentation. If that limited review does not detect any material deviations from the applicable underwriting criteria, Residential Funding Company, LLC will approve that mortgage loan for purchase.

In other cases, the seller enters the information directly into the automated underwriting system. Mortgage loans that have been approved by the automated underwriting system, and submitted to Residential Funding Company, LLC for purchase may be reviewed to verify that the information entered by the seller accurately reflects information contained in the underwriting documentation. For most sellers, Residential Funding Company, LLC will verify the accuracy of the information with respect to a sample of that seller's mortgage loans.

Because an automated underwriting system will only consider the information that it is programmed to review, which may be more limited than the information that could be considered in the course of a manual review, the results of an automated underwriting review may not be consistent with the results of a manual review. In addition, there could be programming inconsistencies between an automated underwriting system and the underwriting criteria set forth in Residential Funding Company, LLC's Client Guide, which could in turn be applied to numerous mortgage loans the system reviews. We cannot assure you that an automated underwriting review will in all cases result in the same determination as a manual review with respect to whether a mortgage loan satisfies Residential Funding Company, LLC's underwriting criteria.

Qualifications of Sellers

Except with respect to Designated Seller Transactions, each seller, other than the FDIC and investment banking firms, will have been approved by Residential Funding Company, LLC for participation in Residential Funding Company, LLC's loan purchase program. In determining whether to approve a seller for participation in the loan purchase program, Residential Funding Company, LLC generally considers, among other things: the financial status of the seller; the previous experience of the seller in originating mortgage loans and its potential origination volumes; the prior delinquency and loss experience of the seller (if available); the underwriting standards employed by the seller and its quality control procedures; and, if applicable, the servicing operations of the seller. In order to be approved for program participation, sellers are generally required to have a net worth of at least $500,000, although this amount can be reduced if certain compensating factors, including guarantees or pricing concessions, are present.

There can be no assurance that any seller presently meets any qualifications or will continue to meet any qualifications at the time of inclusion of mortgage loans sold by it in the trust for a series of certificates, or thereafter. If a seller becomes subject to the direct or indirect control of the FDIC, or if a seller's net worth, financial performance or delinquency and foreclosure rates deteriorate, that institution may continue to be treated as a seller. Any event of this type may adversely affect the ability of the seller to repurchase the mortgage loan in the event of a breach of representation or warranty which has not been cured.

As specified in the related prospectus supplement, the qualifications required of sellers for approval by Residential Funding Company, LLC as participants in its loan purchase programs may not apply to sellers in Designated Seller Transactions. To the extent the seller in a Designated Seller Transaction fails to or is unable to repurchase any mortgage loan due to a breach of representation and warranty, neither the depositor, Residential Funding Company, LLC nor any other entity will have assumed the representations and warranties and any related losses will be borne by the certificateholders or by the credit enhancement, if any.

Representations with Respect to the Mortgage Loans

Except in the case of a Designated Seller Transaction, Residential Funding Company, LLC will provide with respect to each mortgage loan, including Jumbo A program loans, constituting a part of the trust, all of the representations and warranties required by the rating agency or agencies rating a specific series of certificates. In a Designated Seller Transaction, the Designated Seller would make substantially the same representations and warranties, which are not expected to vary in any material respect. Residential Funding Company, LLC will generally represent and warrant that:

- as of the cut-off date, the information set forth in a listing of the related mortgage loans is true and correct in all material respects;
- except in the case of Cooperative Loans, either a policy of title insurance in the form and amount required by the Client Guide or an equivalent protection was effective or an attorney's certificate was received at the origination of each mortgage loan, and each policy remained in full force and effect on the date of sale of the mortgage loan to the depositor;
- to the best of Residential Funding Company, LLC's knowledge, if required, the mortgage loans are the subject of a primary insurance policy;
- Residential Funding Company, LLC had good title to each mortgage loan and each mortgage loan is subject to no offsets, defenses or counterclaims except as may be provided under the Relief Act and except with respect to any buy-down agreement for a Buy-Down Mortgage Loan;
- each mortgaged property is free of damage and is in good repair;
- each mortgage loan complied in all material respects with all applicable local, state and federal laws at the time of origination;
- no mortgage loan is 30 or more days delinquent in payment of principal and interest as of the related cut-off date and was not so delinquent more than once during the twelve-month period prior to the cut-off date; and
- there is no delinquent tax or assessment lien against any mortgaged property.

In the event of a breach of a representation or warranty made by Residential Funding Company, LLC that materially adversely affects the interests of the certificateholders in a mortgage loan, Residential Funding Company, LLC will be obligated to repurchase or substitute for that mortgage loan as described below. In addition, except in the case of a Designated Seller Transaction, Residential Funding Company, LLC will be obligated to repurchase or substitute for as described below any mortgage loan as to which it is discovered that the related mortgage is not a valid first lien on the related mortgaged property subject only to:

- liens of real property taxes and assessments not yet due and payable,
- covenants, conditions and restrictions, rights of way, easements and other matters of public record as of the date of recording of the mortgage and other permissible title exceptions and

- other matters to which like properties are commonly subject which do not materially adversely affect the value, use, enjoyment or marketability of the mortgaged property.

In addition, except in the case of a Designated Seller Transaction, with respect to any mortgage loan as to which the depositor delivers to the trustee or the custodian an affidavit certifying that the original mortgage note has been lost or destroyed, if the mortgage loan subsequently is in default and the enforcement of the mortgage loan or of the related mortgage is materially adversely affected by the absence of the original mortgage note, Residential Funding Company, LLC will be obligated to repurchase or substitute for that mortgage loan in the manner described in this section of the prospectus.

Mortgage collateral sellers will typically make certain representations and warranties regarding the characteristics of the mortgage collateral that they sell. However, mortgage collateral purchased from certain unaffiliated sellers may be purchased with very limited or no representations and warranties. In addition, Residential Funding Company, LLC and the depositor will not assign to the trustee for the benefit of the certificateholders any of the representations and warranties made by a mortgage collateral seller regarding mortgage collateral or any remedies provided for any breach of those representations and warranties. Accordingly, unless the accompanying prospectus supplement discloses that additional representations and warranties are made by the mortgage collateral seller or other person for the benefit of the certificateholders, the only representations and warranties that will be made for the benefit of the certificateholders will be the limited representations and warranties of Residential Funding Company, LLC described above. If a breach of a representation and warranty made by a mortgage collateral seller is discovered that materially and adversely affects the interests of the certificateholders and that representation and warranty has been assigned to the trustee for the benefit of the certificateholders, the master servicer will be required to use its best reasonable efforts to enforce the obligation of the mortgage collateral seller to cure such breach or repurchase the mortgage collateral.

The depositor will assign to the trustee for the benefit of the holders of the related series of certificates all of its right, title and interest in each agreement by which it purchased a mortgage loan from Residential Funding Company, LLC insofar as the agreement relates to the representations and warranties made by Residential Funding Company, LLC relating to the mortgage loan and any remedies provided for with respect to any breach of those representations and warranties. If a designated seller or Residential Funding Company, LLC cannot cure a breach of any representation or warranty relating to a mortgage loan made by it and assigned to the trustee which materially and adversely affects the interests of the certificateholders in that mortgage loan within 90 days after notice from the master servicer, a designated seller or Residential Funding Company, LLC, as the case may be, will be obligated to purchase the mortgage loan at the purchase price set forth in the related pooling and servicing agreement which purchase price will in most cases be equal to the principal balance thereof as of the date of purchase plus accrued and unpaid interest to the first day of the month following the month of repurchase at the mortgage rate, less the amount, expressed as a percentage per annum, payable as master servicing compensation or subservicing compensation, as applicable, and, if applicable, any uncertificated interest in a trust.

Because the listing of the related mortgage loans generally contains information with respect to the mortgage loans as of the cut-off date, prepayments and, in limited circumstances, modifications to the interest rate and principal and interest payments may have been made with respect to one or more of the related mortgage loans between the cut-off date and the closing date. Residential Funding Company, LLC will not be required to purchase or substitute for any mortgage loan as a result of this type of prepayment or modification.

Limited Right of Substitution

As to any mortgage loan required to be purchased by Residential Funding Company, LLC, as provided above, rather than repurchase the mortgage loan, Residential Funding Company, LLC may, at its sole option, remove the deleted mortgage loan from the trust and cause the depositor to substitute in its place a qualified substitute mortgage loan; however, this substitution must be effected within 120 days of the date of the initial issuance of the certificates with respect to a trust for which no REMIC election is to be made. With respect to a trust for which a REMIC election is to be made, any substitution of a defective mortgage loan must be effected within two years of the date of the initial issuance of the certificates, and may not be made unless an opinion of counsel is delivered to the effect that the substitution would not cause the trust to fail to qualify as a REMIC and either (a) an opinion of counsel is delivered to the effect that such substitution would not result in a prohibited transaction tax under the Internal Revenue Code or (b) the trust is indemnified for any prohibited transaction tax that may result from the substitution.

Any qualified substitute mortgage loan generally will, on the date of substitution:

- have an outstanding principal balance, after deduction of the principal portion of the monthly payment due in the month of substitution, not in excess of the outstanding principal balance of the deleted mortgage loan, with the amount of any shortfall to be deposited in a Custodial Account in the month of substitution for distribution to the certificateholders;
- have a mortgage rate and a Net Mortgage Rate not less than, and not more than one percentage point greater than, the mortgage rate and Net Mortgage Rate, respectively, of the deleted mortgage loan as of the date of substitution;
- have an LTV ratio at the time of substitution no higher than that of the deleted mortgage loan at the time of substitution;
- have a remaining term to maturity not greater than, and not more than one year less than, that of the deleted mortgage loan; and
- comply with all of the representations and warranties set forth in the related pooling and servicing agreement as of the date of substitution.

The related pooling and servicing agreement may include additional requirements relating to ARM loans or other specific types of mortgage loans, or additional provisions relating to meeting the foregoing requirements on an aggregate basis where a number of substitutions occur contemporaneously.

A seller in a Designated Seller Transaction, will have no option to substitute for a mortgage loan that it is obligated to repurchase in connection with a breach of a representation and warranty.

The master servicer will be required under the applicable pooling and servicing agreement to use its best reasonable efforts to enforce the purchase or substitution obligation of Residential Funding Company, LLC or the designated seller of which it has knowledge due to a breach of representation or warranty that was made for the benefit of the trustee and the certificateholders, using practices it would employ in its good faith business judgment and which are normal and usual in its general mortgage servicing activities; provided, however, that this purchase or substitution obligation will not become an obligation of the master servicer in the event that a designated seller or Residential Funding Company, LLC, as the case may be, fails to honor that obligation. The master servicer is not obligated to review, and will not review, every mortgage loan that is in foreclosure or is delinquent to determine if a breach of a representation and warranty has occurred. The master servicer will maintain policies and procedures regarding repurchase practices that are consistent with its general servicing activities. The policies and procedures generally will limit review of loans that are seasoned and these policies and procedures are subject to change, in good faith, to reflect the master servicer's current servicing activities. Application of these policies and procedures may result in losses being borne by the related credit enhancement and, to the extent not available, the related certificateholders.

Furthermore, the master servicer may pursue foreclosure or similar remedies concurrently with pursuing any remedy for a breach of a representation and warranty. However, the master servicer is not required to continue to pursue both remedies if it determines that one remedy is more likely to result in a greater recovery. In accordance with the above described practices, the master servicer will not be required to enforce any purchase obligation of a designated seller, Residential Funding Company, LLC or seller arising from any misrepresentation by a designated seller, Residential Funding Company, LLC or the seller, if the master servicer determines in the reasonable exercise of its business judgment that the matters related to the misrepresentation of the designated seller, Residential Funding Company, LLC or the seller did not directly cause or are not likely to directly cause a loss on the related mortgage loan. In the case of a Designated Seller Transaction where the seller fails to repurchase a mortgage loan and neither the depositor, Residential Funding Company, LLC nor any other entity has assumed the representations and warranties, the repurchase obligation of the seller will not become an obligation of the depositor or Residential Funding Company, LLC. The foregoing obligations will constitute the sole remedies available to certificateholders or the trustee for a breach of any representation or warranty by Residential Funding Company, LLC or, if applicable, the designated seller, or for any other event giving rise to the obligations.

Subservicing

The seller of a mortgage loan will usually act as the subservicer for that mortgage loan under a subservicing agreement between Residential Funding Company, LLC and the subservicer unless servicing is released to Residential Funding Company, LLC or has been transferred to a servicer approved by Residential Funding Company, LLC. The master servicer may, but is not obligated to, assign the related subservicing to designated subservicers that will be qualified sellers and that may include GMAC Mortgage Company, LLC or its affiliates. A representative form of subservicing agreement is included as an exhibit to the forms of pooling and servicing agreements filed as exhibits to the registration statement of which this prospectus is a part. The subservicing agreement executed in connection with a Designated Seller Transaction or with respect to some mortgage loans sold in negotiated transactions will usually vary from the form filed herewith to accommodate the different features of the mortgage loans included in a Designated Seller Transaction and to vary the parameters constituting an event of default.

The following description describes all material terms and provisions relating to the subservicing agreements. The description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the form of subservicing agreement and by the discretion of the master servicer to modify the subservicing agreement and to enter into different subservicing agreements. While any subservicing agreement will be a contract solely between the master servicer and the subservicer, the pooling and servicing agreement under which a series of certificates is issued will provide that, if for any reason the master servicer for that series of certificates is no longer the master servicer of the related mortgage loans, the trustee or any successor master servicer must recognize the subservicer's rights and obligations under that subservicing agreement.

With the approval of the master servicer, a subservicer may delegate its servicing obligations to third-party servicers, but that subservicer will remain obligated under the related subservicing agreement. Each subservicer will be required to perform the customary functions of a servicer, including:

- collection of payments from mortgagors and remittance of those collections to the master servicer;
- maintenance of hazard insurance and filing and settlement of claims thereunder, subject in some cases to the right of the master servicer to approve in advance any such settlement;
- maintenance of escrow or impoundment accounts of mortgagors for payment of taxes, insurance and other items required to be paid by the mortgagor under the mortgage loan;
- processing of assumptions or substitutions, although the master servicer is generally required to exercise due-on-sale clauses to the extent such exercise is permitted by law and would not adversely affect insurance coverage;
- attempting to cure delinquencies; and
- maintaining accounting records relating to the mortgage loans.

A subservicer may also be required to supervise foreclosures and inspect and manage mortgaged properties. A subservicer will also be obligated to make Advances to the master servicer for delinquent installments of principal and interest, net of any subservicing or other compensation, on mortgage loans, as described more fully under "Description of the Certificates—Advances," and in respect of some taxes and insurance premiums not paid on a timely basis by mortgagors. In addition, a subservicer is obligated to pay to the master servicer interest on the amount of any partial prepayment of principal received and applied to reduce the outstanding principal balance of a mortgage loan from the date of application of that payment to the first day of the following month. Any amounts paid by a subservicer pursuant to the preceding sentence will be for the benefit of the master servicer as additional servicing compensation. No assurance can be given that the subservicers will carry out their Advance or payment obligations with respect to the mortgage loans. A subservicer may, as limited by the terms of the related prospectus supplement, transfer its servicing obligations to another entity that has been approved for participation in Residential Funding Company, LLC's loan purchase programs, but only with the approval of the master servicer.

As compensation for its servicing duties, the subservicer will be entitled to a monthly servicing fee, to the extent the related mortgage loan payment has been collected, in a minimum amount set forth in the related prospectus supplement. The subservicer or master servicer may also be entitled to collect and retain, as part of its servicing compensation, any late charges or prepayment penalties, as provided in the mortgage note or related instruments. The subservicer will be reimbursed by the master servicer for some expenditures which it makes, in most cases to the same extent that the master servicer would be reimbursed under the applicable pooling and servicing agreement. In some instances, the subservicer will receive additional compensation in the form of all or a portion of the interest due and payable on the applicable mortgage loan which is over and above the interest rate that the depositor or Residential Funding Company, LLC, as the case may be, required at the time it committed to purchase the mortgage loan. See "The Pooling and Servicing Agreement—Servicing and Other Compensation and Payment of Expenses."

Each subservicer will be required to agree to indemnify the master servicer for any liability or obligation sustained by the master servicer in connection with any act or failure to act by the subservicer in its servicing capacity. Each subservicer is required to maintain a fidelity bond and an errors and omissions policy with respect to its officers, employees and other persons acting on its behalf or on behalf of the master servicer.

Each subservicer will be required to service each mortgage loan under the terms of the subservicing agreement for the entire term of that mortgage loan, unless the subservicing agreement is earlier terminated by the master servicer or unless servicing is released to the master servicer or transferred to an approved subservicer. In accordance with applicable law, the master servicer may terminate a subservicing agreement immediately upon the giving of notice upon stated events, including the violation of the subservicing agreement by the subservicer, or upon sixty days' notice to the subservicer without cause upon payment of an amount equal to approximately 2% of the aggregate outstanding principal balance of all mortgage loans, including the mortgage loans, serviced by such subservicer under a subservicing agreement.

The master servicer may agree with a subservicer to amend a subservicing agreement. Upon termination of a subservicing agreement, the master servicer may act as servicer of the related mortgage loans or enter into one or more new subservicing agreements. If the master servicer acts as servicer, it will not assume liability for the representations and warranties of the subservicer which it replaces. If the master servicer enters into a new subservicing agreement, each new subservicer must either be a seller, meet the standards for becoming a seller or have servicing experience that is otherwise satisfactory to the master servicer.

The master servicer may make reasonable efforts to have the new subservicer assume liability for the representations and warranties of the terminated subservicer, but no assurance can be given that such an assumption will occur and, in any event, if the new subservicer is an affiliate of Residential Funding Company, LLC the liability for such representations and warranties will not be assumed by the new subservicer. In the event of this type of assumption, the master servicer may in the exercise of its business judgment release the terminated subservicer from liability in respect of the representations and warranties. Any amendments to a subservicing agreement or to a new subservicing agreement may contain provisions different from those described in this prospectus which are in effect in the original subservicing agreements. However, the pooling and servicing agreement for each trust will provide that any amendment or new agreement may not be inconsistent with or violate the related pooling and servicing agreement in a manner which would materially and adversely affect the interests of the certificateholders.

Description of the Certificates

General

The certificates will be issued in series. Each series of certificates or, in some instances, two or more series of certificates, will be issued under a pooling and servicing agreement, similar to one of the forms filed as an exhibit to the registration statement under the Securities Act of 1933, as amended, or Securities Act, with respect to the certificates of which this prospectus is a part. Each pooling and servicing agreement will be filed with the Securities and Exchange Commission as an exhibit to a Form 8-K. The following summaries, together with additional summaries under "The Pooling and Servicing Agreement" below, describe all material terms and provisions relating to the certificates common to each pooling and servicing agreement. The summaries do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the pooling and servicing agreement for each trust and the related prospectus supplement.

Each series of certificates may consist of any one or a combination of the following types of certificates:

Accretion Directed	A class that receives principal payments from the accreted interest from specified accrual classes. An accretion directed class also may receive principal payments from principal paid on the underlying pool of assets.
Accrual	A class that accretes the amount of accrued interest otherwise distributable on the class, which amount will be added as principal to the principal balance of the class on each applicable distribution date. The accretion may continue until some specified event has occurred or until the accrual class is retired.
Companion	A class that receives principal payments on any distribution date only if scheduled payments have been made on specified planned principal classes, targeted principal classes or scheduled principal classes.
Component	A class consisting of "components." The components of a class of component certificates may have different principal and interest payment characteristics but together constitute a single class. Each component of a class of component certificates may be identified as falling into one or more of the categories in this chart.
Fixed Rate	A class with an interest rate that is fixed throughout the life of the class.
Floating Rate	A class with an interest rate that resets periodically based upon a designated index and that varies directly with changes in the index.
Interest Only	A class having no principal balance and bearing interest on the related notional amount. The notional amount is used for purposes of the determination of interest distributions.
Inverse Floating Rate	A class with an interest rate that resets periodically based upon a designated index and that varies inversely with changes in the index.

Lockout	A class that, for the period of time specified in the related prospectus supplement, generally will not receive (in other words, is locked out of) (1) principal prepayments on the underlying pool of assets that are allocated disproportionately to the senior certificates because of the shifting interest structure of the certificates in the trust and/or (2) scheduled principal payments on the underlying pool of assets, as specified in the related prospectus supplement. During the lock-out period, the portion of the principal distributions on the underlying pool of assets that the lockout class is locked out of will be distributed to the other classes of senior certificates.
Partial Accrual	A class that accretes a portion of the amount of accrued interest on it, which amount will be added to the principal balance of the class on each applicable distribution date, with the remainder of the accrued interest to be distributed currently as interest on the class. The accretion may continue until a specified event has occurred or until the partial accrual class is retired.
Principal Only	A class that does not bear interest and is entitled to receive only distributions of principal.
Planned Principal or PACs	A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming two constant prepayment rates for the underlying pool of assets. These two rates are the endpoints for the "structuring range" for the planned principal class. The planned principal classes in any series of certificates may be subdivided into different categories (e.g., primary planned principal classes, secondary planned principal classes and so forth) having different effective structuring ranges and different principal payment priorities. The structuring range for the secondary planned principal class of a series of certificates will be narrower than that for the primary planned principal class of the series.
Scheduled Principal	A class that is designed to receive principal payments using a predetermined principal balance schedule but is not designated as a planned principal class or targeted principal class. In many cases, the schedule is derived by assuming two constant prepayment rates for the underlying pool of assets. These two rates are the endpoints for the "structuring range" for the scheduled principal class.
Senior Support	A class that absorbs some or all of the realized losses that would otherwise be allocated to a super senior class after the related classes of subordinated certificates are no longer outstanding.
Sequential Pay	Classes that receive principal payments in a prescribed sequence, that do not have predetermined principal balance schedules and that under all circumstances receive payments

	of principal continuously from the first distribution date on which they receive principal until they are retired. A single class that receives principal payments before or after all other classes in the same series of certificates may be identified as a sequential pay class.
Super Senior	A class that will not bear its proportionate share of some or all realized losses as its share is directed to another class, referred to as the "senior support class" until the class certificate balance of the support class is reduced to zero.
Targeted Principal or TACs	A class that is designed to receive principal payments using a predetermined principal balance schedule derived by assuming a single constant prepayment rate for the underlying pool of assets.
Variable Rate	A class with an interest rate that resets periodically and is calculated by reference to the rate or rates of interest applicable to specified assets or instruments (e.g., the mortgage rates borne by the underlying mortgage loans).

Credit support for each series of certificates will be provided by a mortgage pool insurance policy, mortgage insurance policy, special hazard insurance policy, bankruptcy policy, letter of credit, purchase obligation, reserve fund, certificate insurance policy, surety bond or other credit enhancement as described under "Description of Credit Enhancement," or by the subordination of one or more classes of certificates as described under "—Subordination" or by any combination of the foregoing.

Form of Certificates

As specified in the related prospectus supplement, the certificates of each series will be issued either as physical certificates or in book-entry form. If issued as physical certificates, the certificates will be in fully registered form only in the denominations specified in the related prospectus supplement, and will be transferable and exchangeable at the corporate trust office of the certificate registrar appointed under the related pooling and servicing agreement to register the certificates. No service charge will be made for any registration of exchange or transfer of certificates, but the trustee may require payment of a sum sufficient to cover any tax or other governmental charge. The term certificateholder or holder refers to the entity whose name appears on the records of the certificate registrar or, if applicable, a transfer agent, as the registered holder of the certificate.

If issued in book-entry form, the classes of a series of certificates will be initially issued through the book-entry facilities of The Depository Trust Company, or DTC. No global security representing book-entry certificates may be transferred except as a whole by DTC to a nominee of DTC, or by a nominee of DTC to another nominee of DTC. Thus, DTC or its nominee will be the only registered holder of the certificates and will be considered the sole representative of the beneficial owners of certificates for all purposes.

The registration of the global securities in the name of Cede & Co. will not affect beneficial ownership and is performed merely to facilitate subsequent transfers. The book-entry system, is also used because it eliminates the need for physical movement of securities. The laws of some jurisdictions, however, may require some purchasers to take physical delivery of their securities in definitive form. These laws may impair the ability to own or transfer book-entry certificates.

Purchasers of securities in the United States may hold interests in the global certificates through DTC, either directly, if they are participants in that system, or otherwise indirectly through a participant in DTC. Purchasers of securities in Europe may hold interests in the global securities through Clearstream, Luxembourg, or through Euroclear Bank S.A./N.V., as operator of the Euroclear system.

Because DTC will be the only registered owner of the global securities, Clearstream, Luxembourg and Euroclear will hold positions through their respective U.S. depositories, which in turn will hold positions on the books of DTC.

DTC is a limited-purpose trust company organized under the laws of the State of New York, which holds securities for its DTC participants, which include securities brokers and dealers, banks, trust companies and clearing corporations. DTC together with the Clearstream and Euroclear System participating organizations facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in the accounts of participants. Other institutions that are not participants but indirect participants which clear through or maintain a custodial relationship with participants have indirect access to DTC's clearance system.

The accompanying prospectus supplement will specify whether a beneficial owner in an interest in any book-entry certificate will be entitled to receive a certificate representing that interest in registered, certificated form, unless either (i) DTC ceases to act as depository for that certificate and a successor depository is not obtained, or (ii) the depositor notifies DTC of its intent to terminate the book-entry system and, upon receipt of a notice of intent from DTC, the participants holding beneficial interests in the book-entry certificates agree to initiate a termination. Upon the occurrence of one of the foregoing events, the trustee is required to notify, through DTC, participants who have ownership of DTC registered certificates as indicated on the records of DTC of the availability of definitive certificates for their DTC registered certificates. Upon surrender by DTC of the definitive certificates representing the DTC registered certificates and upon receipt of instructions from DTC for re-registration, the trustee will reissue the DTC registered certificates as definitive certificates issued in the respective principal amounts owned by individual beneficial owners, and thereafter the trustee and the master servicer will recognize the holders of the definitive certificates as certificateholders under the pooling and servicing agreement.

Prior to any such event, beneficial owners will not be recognized by the trustee, the master servicer, the servicer or the Certificate Administrator as holders of the related certificates for purposes of the pooling and servicing agreement, and beneficial owners will be able to exercise their rights as owners of their certificates only indirectly through DTC, participants and indirect participants.

Any beneficial owner that desires to purchase, sell or otherwise transfer any interest in book-entry certificates may do so only through DTC, either directly if the beneficial owner is a participant or indirectly through participants and, if applicable, indirect participants. Under the procedures of DTC, transfers of the beneficial ownership of any book-entry certificates will be required to be made in minimum denominations specified in the accompanying prospectus supplement. The ability of a beneficial owner to pledge book-entry certificates to persons or entities that are not participants in the DTC system, or to otherwise act for the certificates, may be limited because of the lack of physical certificates evidencing the certificates and because DTC may act only on behalf of participants.

Because of time zone differences, the securities account of a Clearstream or Euroclear System participant as a result of a transaction with a DTC participant, other than a depositary holding on behalf of Clearstream or Euroclear System, will be credited during a subsequent securities settlement processing day, which must be a business day for Clearstream or Euroclear System, as the case may be, immediately following the DTC settlement date. Credits or any transactions in those securities settled during this processing will be reported to the relevant Euroclear System participant or Clearstream participants on that business day. Cash received in Clearstream or Euroclear System as a result of sales of securities by or through a Clearstream participant or Euroclear System participant to a DTC participant, other than the depositary for Clearstream or Euroclear System, will be received with value on the DTC settlement date, but will be available in the relevant Clearstream or Euroclear System cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants and Euroclear System participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear System participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositaries; however, the cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear System participants may not deliver instructions directly to the depositaries.

Clearstream, as a professional depository, holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute.

Euroclear System was created to hold securities for participants of Euroclear System and to clear and settle transactions between Euroclear System participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System operator is the Euroclear Bank S.A./N.V., under contract with the clearance cooperative, Euroclear System Clearance Systems S.C., a Belgian co-operative corporation. All operations are conducted by the Euroclear System operator, and all Euroclear System securities clearance accounts and Euroclear System cash accounts are accounts with the Euroclear System operator, not the clearance cooperative.

The clearance cooperative establishes policy for Euroclear System on behalf of Euroclear System participants. Securities clearance accounts and cash accounts with the Euroclear System operator are governed by the terms and conditions Governing Use of Euroclear System and the related operating procedures of the Euroclear System and applicable Belgian law. The terms and conditions govern transfers of securities and cash within Euroclear System, withdrawals of securities and cash from Euroclear System, and receipts of payments with respect to securities in Euroclear System. All securities in Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

Distributions on the book-entry certificates will be forwarded by the trustee to DTC, and DTC will be responsible for forwarding those payments to participants, each of which will be responsible for disbursing the payments to the beneficial owners it represents or, if applicable, to indirect participants. Accordingly, beneficial owners may experience delays in the receipt of payments in respect of their certificates. Under DTC's procedures, DTC will take actions permitted to be taken by holders of any class of book-entry certificates under the pooling and servicing agreement only at the direction of one or more participants to whose account the book-entry certificates are credited and whose aggregate holdings represent no less than any minimum amount of percentage interests or voting rights required therefore. DTC may take conflicting actions with respect to any action of certificateholders of any class to the extent that participants authorize those actions. None of the master servicer, the depositor, the trustee or any of their respective affiliates has undertaken any responsibility or assumed any responsibility for any aspect of the records relating to or payments made on account of beneficial ownership interests in the book-entry certificates, or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

Exchangeable Certificates

General

If specified in the accompanying prospectus supplement, one or more classes of certificates will be exchangeable certificates. Any class of exchangeable certificates will be listed on the cover of the prospectus supplement relating to that series. At any time after the initial issuance of exchangeable certificates, the holders of such certificates will be entitled, after notice and payment to the trustee of an administrative fee, to exchange all or a portion of those certificates for proportionate interests in one or more other classes of exchangeable certificates. The classes of certificates that are exchangeable for each other will be referred to in the related prospectus supplement as "related" to one another, and each related grouping of exchangeable certificates will be referred to as a "combination." Each combination of exchangeable certificates will be issued by the related exchangeable certificate trust fund and, in the aggregate, will represent a distinct combination of interests in such trust fund. In some series, multiple classes of exchangeable certificates may be exchanged for one or more classes of related exchangeable certificates. Exchanges of certificates will be allowed only if the aggregate payments on the certificates received in the exchange will be made in the same amounts and at the same times as the aggregate payments that would have been made on the certificates being exchanged.

If one or more classes of certificates of a series will be exchangeable certificates, the related prospectus supplement will describe each class of exchangeable certificates, including descriptions of principal and interest distributions, registration and denomination of certificates, credit enhancement and tax, ERISA and legal investment considerations. The related prospectus supplement will also separately describe the yield and prepayment considerations applicable to, and the risks of investment in, each class of exchangeable certificates in a combination. For example, if applicable, separate decrement tables and yield tables will be included for each class of a combination of exchangeable certificates.

Exchanges

The following three conditions must be satisfied in order for a holder to exchange its exchangeable certificates for related exchangeable certificates:

- immediately after the exchange, the aggregate certificate principal balance of the exchangeable certificates received in the exchange must equal the aggregate certificate principal balance of the exchanged certificates immediately prior to the exchange;
- the aggregate annual amount of interest payable on the certificates received in the exchange must equal the aggregate annual amount of interest payable on the exchanged certificates; and
- the class or classes of exchangeable certificates must be exchanged in the applicable proportions, if any, described in the related prospectus supplement.

If the related prospectus supplement describes exchange proportions for a combination of classes of exchangeable certificates, these proportions will be based on the original, rather than the outstanding, principal or notional amounts of these classes.

Various combinations of exchangeable certificates may exist. Some examples of combinations of exchangeable certificates that have different interest characteristics include:

- A class of exchangeable certificates with an interest rate that varies directly with changes in an index and a class of exchangeable certificates with an interest rate that varies indirectly with changes in the same index may be exchanged, together, for a single class of certificates with a fixed interest rate. In this case, the two classes of certificates with interest rates that vary with an index would be exchanged for a single class of certificates with a fixed interest rate. In addition, the aggregate certificate principal balance of the two classes of certificates would equal the certificate principal balance of the class of certificates with the fixed interest rate.

• An interest only class of exchangeable certificates and a principal only class of exchangeable certificates may be exchanged, together, for a single class of certificates that is entitled to both principal and interest payments. The certificate principal balance of the new principal and interest class would be equal to the certificate principal balance of the exchanged principal only class, and the interest rate on the new principal and interest class would be a fixed rate, if the interest only class had a fixed rate, that when applied to the certificate principal balance of this class, if the interest only class had a notional balance equal to the certificate principal balance of the principal only class, would generate an annual interest amount equal to the annual interest amount of the exchanged interest only class.

• Two classes of exchangeable certificates, each a principal and interest class with different fixed interest rates, may be exchanged, together, for a single class that is entitled to both principal and interest payments, with a certificate principal balance equal to the aggregate certificate principal balance of the two exchanged classes, and a fixed interest rate that when applied to the certificate principal balance of the new class, would generate an annual interest amount equal to the aggregate annual interest amount of the two exchanged classes.

In some series, a holder may be permitted to exchange its exchangeable certificates for other certificates that have different principal payment characteristics. Examples of these types of combinations include:

• A class of exchangeable certificates that is an accrual class that accretes interest for a specified period, with the accreted amount added to the certificate principal balance of that accrual class, and a class of exchangeable certificates that is an accretion-directed class that receives principal payments from these accretions, may be exchanged, together, for a single class that receives payments of principal continuously from the first distribution date on which it receives interest until it is retired.

• A class of exchangeable certificates that receives principal payments in accordance with a predetermined schedule, such as a planned amortization class, and a class of exchangeable certificates that only receives principal payments on a distribution date if scheduled payments have been made according to schedule, may be exchanged, together, for a single class of exchangeable certificates that receives principal payments without regard to the schedule from the first distribution date on which it receives principal until it is retired.

These examples of combinations of exchangeable certificates describe exchanging multiple classes of certificates for a single class of certificates. If specified in the accompanying prospectus supplement, a single class of exchangeable certificates may be exchanged for two or more classes of certificates in the same types of combinations as these examples describe.

Certain factors may limit the ability of a holder of exchangeable certificates to make an exchange. For example, the holder must own the class or classes of certificates required to make the exchange in the necessary proportions at the time of the proposed exchange. If a holder does not own the required classes or does not own the required classes in the necessary proportions, the certificateholder may not be able to exchange its certificates. The holder wishing to make the exchange may not be able to purchase the necessary class from the then-current owner at a reasonable price or the necessary proportion of the required class may no longer be available due to principal payments or prepayments that have been applied to that class.

Procedures

The procedures that must be followed in order for a certificateholder to exchange its exchangeable certificates for other exchangeable certificates will be set forth in the prospectus supplement for that series. A certificateholder will be required to provide notice to the trustee a certain number of days prior to the proposed exchange date as specified in the related prospectus supplement. The notice must include the proposed exchange date and the outstanding principal or notional amount of the certificates to be exchanged and to be received. Upon receipt of this notice, the trustee will provide instructions to the certificateholder regarding delivery of the exchangeable certificates and payment of the administrative fee. A certificateholder's notice to the trustee will become irrevocable on the second business day prior to the proposed exchange date. If any exchangeable certificates are in book-entry form, those certificates will be subject to the rules, regulations and procedures of DTC applicable to book-entry securities.

Assignment of Trust Assets

At the time of issuance of a series of certificates, the depositor will cause the mortgage loans or mortgage securities and any other assets being included in the related trust to be assigned to the trustee or its nominee, which may be the custodian, together with, if specified in the related prospectus supplement, all principal and interest received on or with respect to the mortgage loans or mortgage securities after the cut-off date, other than principal and interest due on or before the cut-off date and any uncertificated interest in a trust. The trustee will, concurrently with that assignment, deliver a series of certificates to the depositor in exchange for the mortgage loans or mortgage securities. Each mortgage loan will be identified in a schedule appearing as an exhibit to the related pooling and servicing agreement. The schedule will include, among other things, information as to the principal balance of each mortgage loan as of the cut-off date, as well as information respecting the mortgage rate, the currently scheduled monthly payment of principal and interest, the maturity of the mortgage note and the LTV ratio at origination or modification, without regard to any secondary financing.

If so specified in the related prospectus supplement, and in accordance with the rules of membership of Merscorp, Inc. and/or Mortgage Electronic Registration Systems, Inc. or, MERS, assignments of the mortgages for the mortgage loans in the related trust will be registered electronically through Mortgage Electronic Registration Systems, Inc., or MERS® System. With respect to mortgage loans registered through the MERS® System, MERS shall serve as mortgagee of record solely as a nominee in an administrative capacity on behalf of the trustee and shall not have any interest in any of those mortgage loans.

The depositor will, as to each mortgage loan other than mortgage loans underlying any mortgage securities, deliver to the trustee or the custodian, the mortgage note and any modifications or amendment thereto endorsed without recourse either in blank or to the order of the trustee or its nominee. In addition, the depositor will, as to each mortgage loan other than mortgage loans underlying any mortgage securities, deliver to the sponsor, the servicer, the master servicer, the trustee or the custodian, as selected by the depositor, a set of the remaining legal documents relating to each mortgage loan that are in possession of the depositor, which may include the following:

- the mortgage, except for any mortgage not returned from the public recording office, with evidence of recording indicated thereon or a copy of the mortgage with evidence of recording indicated thereon or, in the case of a Cooperative Loan, on the related financing statement;
- an assignment in recordable form of the mortgage, or evidence that the mortgage is held for the trustee through the MERS® System or a copy of such assignment with evidence of recording indicated thereon or, with respect to a Cooperative Loan, an assignment of the related proprietary lease or occupancy agreement; and
- if applicable, any riders or modifications to the mortgage note and mortgage or a copy of any riders or modifications to the mortgage note and mortgage, together with any other documents at such times as described in the related pooling and servicing agreement.

The assignments may be blanket assignments covering mortgages secured by mortgaged properties located in the same county, if permitted by law. Notwithstanding the foregoing, a trust may include mortgage loans where the original mortgage note is not delivered to the trustee if the depositor delivers to the trustee or the custodian a copy or a duplicate original of the mortgage note, together with an affidavit certifying that the original mortgage note has been lost or destroyed. With respect to those mortgage loans, the trustee or its nominee may not be able to enforce the mortgage note against the related borrower.

Residential Funding Company, LLC will agree to repurchase or substitute for that type of mortgage loan in some circumstances. See "Mortgage Loan Program—Representations with Respect to the Mortgage Loans."

In the event that, with respect to any mortgage loan, the depositor cannot deliver the mortgage or any assignment with evidence of recording thereon concurrently with the execution and delivery of the related pooling and servicing agreement because of a delay caused by the public recording office or a delay in receipt of information necessary to prepare the related assignment, the depositor will deliver or cause to be delivered to the sponsor, the servicer, the master servicer, the trustee or the custodian, as applicable, a copy of the mortgage or assignment. The depositor will deliver or cause to be delivered to the sponsor, the servicer, the master servicer, the trustee or the custodian, as applicable, such mortgage or assignment with evidence of recording indicated thereon after receipt thereof from the public recording office or from the related subservicer. Assignments of the mortgage loans to the trustee or its nominee will be recorded in the appropriate public recording office, except in states where, in the opinion of counsel acceptable to the trustee, recording is not required to protect the trustee's or nominee's interests in the mortgage loan against the claim of any subsequent transferee or any successor to or creditor of the depositor or the originator of the mortgage loan.

With respect to any Puerto Rico mortgage loans, the mortgages with respect to those mortgage loans either a Direct Puerto Rico Mortgage or an Endorsable Puerto Rico Mortgage. Endorsable Puerto Rico Mortgages do not require an assignment to transfer the related lien. Rather, transfer of those mortgages follows an effective endorsement of the related mortgage note and, therefore, delivery of the assignment referred to in the third clause listed in the third preceding paragraph would be inapplicable. Direct Puerto Rico Mortgages, however, require an assignment to be recorded with respect to any transfer of the related lien and the assignment would be delivered to the sponsor, the servicer, the master servicer, the trustee or the custodian, as applicable.

Assignments of the mortgage loans to the trustee will be recorded in the appropriate public recording office, except for mortgages held under the MERS® System or in states where, in the opinion of counsel acceptable to the trustee, the recording is not required to protect the trustee's interests in the mortgage loan against the claim of any subsequent transferee or any successor to or creditor of the depositor or the originator of the mortgage loan.

Review of Mortgage Loans

The sponsor, the servicer, the master servicer, the trustee or the custodian, as applicable, will hold the documents delivered to it by the depositor in trust for the benefit of the certificateholders. Within 45 days after receipt thereof, the trustee or the custodian, as applicable, will review the mortgage notes delivered to it. If any such mortgage note is found to be defective in any material respect, the trustee or the custodian shall promptly notify the master servicer and the depositor, the former of which shall notify the related subservicer or designated seller, as the case may be. If the subservicer or designated seller does not cure the omission or defect within 60 days after notice is given to the master servicer, the subservicer or designated seller, as the case may be, will be required to purchase within 90 days of such notice the related mortgage loan from the trustee at its purchase price or, except in the case of a Designated Seller Transaction, substitute for such mortgage loan under the conditions specified in the related prospectus supplement. The master servicer will be obligated to enforce this obligation of the subservicer or seller, as the case may be, to the extent described in this prospectus under "Mortgage Loan Program—Representations with Respect to the Mortgage Loans" but in accordance with the provisions described in this prospectus under "—Realization Upon Defaulted Mortgage Loans." There can be no assurance that the applicable subservicer or Residential Funding Company, LLC will fulfill its obligation to purchase any mortgage loan. Neither the master servicer nor the depositor will be obligated to purchase or substitute for a mortgage loan if the subservicer or Residential Funding Company, LLC, as the case may be, defaults on its obligation to do so. This purchase obligation constitutes the sole remedy available to the certificateholders or the trustee for omission of, or a material defect in, a constituent document. Any mortgage loan not so purchased or substituted for shall remain in the related trust.

The trustee will be authorized at any time to appoint one or more custodians under a custodial agreement to maintain possession of documents relating to the mortgage loans and to review the mortgage notes delivered to it related to the mortgage loans as the agent of the trustee. The identity of any custodian will be set forth in the related prospectus supplement.

With respect to the mortgage loans in a mortgage pool, except in the case of a Designated Seller Transaction or as to mortgage loans underlying any mortgage securities, the depositor will make limited representations and warranties as to the types and geographical concentrations of the mortgage loans and as to the accuracy, in all material respects, of some identifying information in respect of each such mortgage loan, for example, original LTV ratio, principal balance as of the cut-off date, mortgage rate and maturity. Upon a breach of any of this type of representation which materially adversely affects the interests of the certificateholders in a mortgage loan, the depositor will be obligated to cure the breach in all material respects, to purchase the mortgage loan at its purchase price or to substitute for the mortgage loan a qualified substitute mortgage loan in accordance with the provisions for substitution by Residential Funding Company, LLC as described in this prospectus under "Mortgage Loan Program— Representations with Respect to the Mortgage Loans." However, the depositor will not be required to repurchase or substitute for any mortgage loan in connection with a breach of a representation and warranty if the substance of that breach also constitutes fraud in the origination of the related mortgage loan. This purchase or substitution obligation constitutes the sole remedy available to certificateholders or the trustee for a breach of this type of representation by the depositor. Any mortgage loan not so purchased or substituted for shall remain in the related trust.

The master servicer will make representations and warranties regarding its authority to enter into, and its ability to perform its obligations under, the pooling and servicing agreement. Upon a breach of any of this type of representation of the master servicer which materially adversely affects the interests of the certificateholders in a mortgage loan, the master servicer will be obligated either to cure the breach in all material respects or to purchase the mortgage loan at its purchase price, less unreimbursed Advances made by the master servicer with respect to the mortgage loan, or to substitute for the mortgage loan a qualified substitute mortgage loan in accordance with the provisions for substitution described in this prospectus under "Mortgage Loan Program—Representations with Respect to the Mortgage Loans." This purchase or substitution obligation will constitute the sole remedy available to certificateholders or the trustee for a breach of this type of representation by the master servicer. Any mortgage loan not so purchased or substituted for shall remain in the related trust.

In accordance with the terms of each pooling and servicing agreement, the master servicer, either directly or through subservicers, will service and administer the mortgage loans assigned to the trustee.

Spread

The depositor, the master servicer or any of their affiliates, or any other entity specified in the related prospectus supplement may retain or be paid a portion of interest due with respect to the related mortgage loans or mortgage securities, which will be an uncertificated interest in the mortgage loans or mortgage securities. The payment of any portion of interest in this manner will be disclosed in the related prospectus supplement. This payment may be in addition to any other payment, including a servicing fee, that the specified entity is otherwise entitled to receive with respect to the mortgage loans or mortgage securities. Any payment of this sort in respect of the mortgage loans or mortgage securities will represent a specified portion of the interest payable thereon. The interest portion of a Realized Loss or Extraordinary Loss and any partial recovery of interest in respect of the mortgage loans or mortgage securities will be allocated between the owners of this uncertificated interest in a trust asset and the certificateholders entitled to payments of interest as provided in the applicable pooling and servicing agreement.

Payments on Mortgage Loans; Deposits to Certificate Account

Each subservicer servicing a mortgage loan under a subservicing agreement will establish and maintain an Subservicing Account. Except as otherwise permitted by the applicable nationally recognized statistical rating agency or agencies maintaining a rating on the certificates of that series, a Subservicing Account must be segregated and may not be established as a general ledger account, and only principal and interest payments and escrow payments from mortgage loans serviced for Residential Funding Company, LLC may be held therein.

A subservicer is required to deposit into its Subservicing Account on a daily basis all amounts described in this prospectus under "Mortgage Loan Program—Subservicing" that are received by it in respect of the mortgage loans, less its servicing or other compensation. On or before the date specified in the subservicing agreement, which date may be no later than the business day prior to the determination date referred to below and is currently the 18th day of each month or, if that day is not a business day, the preceding business day, the subservicer must remit or cause to be remitted to the master servicer all funds held in the Subservicing Account with respect to mortgage loans that are required to be so remitted, with the exception of prepayments in full, some partial prepayments and Liquidation Proceeds which must be remitted to the master servicer within five business days of receipt. The subservicer is also required to advance on the scheduled date of remittance any monthly installment of principal and interest, less its servicing or other compensation, on any mortgage loan for which payment was not received from the mortgagor. The accompanying prospectus supplement will specify the obligation of the subservicer to advance funds. Generally, this obligation continues through the first of the month following the date on which the related mortgaged property is sold at a foreclosure sale or is acquired by the trust by deed in lieu of foreclosure. The certificateholders are not entitled to any of these Advances made by a subservicer. Each subservicer may also be required to pay to the master servicer, for the master servicer's account, interest, net of its servicing or other compensation, on any partial prepayment of principal received during a month and applied by the subservicer prior to the first day of the following month, from the date of application of the payment to the first day of the following month.

Collection of Payments on Mortgage Loans

The master servicer will deposit or will cause to be deposited into the Custodial Account payments and collections received by it subsequent to the cut-off date, other than payments due on or before the cut-off date, as specifically described in the related pooling and servicing agreement, which in most cases will include the following:

- all payments on account of principal of the mortgage loans comprising a trust;
- all payments on account of interest on the mortgage loans comprising that trust, net of the portion of each payment thereof retained by the subservicer, if any, as its servicing or other compensation;
- Liquidation Proceeds;
- all subsequent recoveries of amounts related to a mortgage loan as to which the master servicer had previously determined that no further amounts would be recoverable, resulting in a realized loss, net of unreimbursed liquidation expenses and Servicing Advances, and
- all Insurance Proceeds or proceeds from any alternative arrangements established in lieu of any such insurance and described in the applicable prospectus supplement, other than proceeds to be applied to the restoration of the related property or released to the mortgagor in accordance with the master servicer's normal servicing procedures;
- any Buy-Down Funds and, if applicable, investment earnings thereon, required to be paid to certificateholders, as described in this prospectus under "Description of the Certificates—Payments on Mortgage Loans; Deposits to Certificate Account;"
- all proceeds of any mortgage loan in the trust purchased or, in the case of a substitution, amounts representing a principal adjustment, by the master servicer, the depositor, the designated seller, Residential Funding Company, LLC, any subservicer or seller or any other person under the terms of the pooling and servicing agreement;

- any amount required to be deposited by the master servicer in connection with losses realized on investments of funds held in the Custodial Account, as described in this prospectus under "Description of the Certificates—Payments on Mortgage Loans; Deposits to Certificate Account"; and
- any amounts required to be transferred from the Certificate Account to the Custodial Account.

See "Mortgage Loan Program—Representations with Respect to the Mortgage Loans," "—Assignment of Trust Assets" above and "Other Financial Obligations Related to Certificates—Purchase Obligations."

In addition to the Custodial Account, the master servicer will establish and maintain the Certificate Account. Both the Custodial Account and the Certificate Account must be either:

- maintained with a depository institution whose debt obligations at the time of any deposit therein are rated by any rating agency that rated any certificates of the related series not less than a specified level comparable to the rating category of the certificates;
- an account or accounts the deposits in which are fully insured to the limits established by the FDIC, provided that any deposits not so insured shall be otherwise maintained so that, as evidenced by an opinion of counsel, the certificateholders have a claim with respect to the funds in such accounts or a perfected first priority security interest in any collateral securing those funds that is superior to the claims of any other depositors or creditors of the depository institution with which the accounts are maintained;
- in the case of the Custodial Account, a trust account or accounts maintained in either the corporate trust department or the corporate asset services department of a financial institution which has debt obligations that meet specified rating criteria;
- in the case of the Certificate Account, a trust account or accounts maintained with the trustee; or
- an Eligible Account.

The collateral that is eligible to secure amounts in an Eligible Account is limited to some Permitted Investments. A Certificate Account may be maintained as an interest-bearing or a non-interest-bearing account, or funds therein may be invested in Permitted Investments as described in this prospectus under "Description of the Certificates—Payments on Mortgage Loans; Deposits to Certificate Account". The Custodial Account may contain funds relating to more than one series of certificates as well as payments received on other mortgage loans and assets serviced or master serviced by the master servicer that have been deposited into the Custodial Account.

Generally, not later than the business day preceding each distribution date the master servicer will withdraw from the Custodial Account and deposit into the applicable Certificate Account, in immediately available funds, the amount to be distributed therefrom to certificateholders on that distribution date. The master servicer or the trustee will also deposit or cause to be deposited into the Certificate Account:

- the amount of any Advances made by the master servicer as described herein under "—Advances;"
- any payments under any letter of credit, and any amounts required to be transferred to the Certificate Account from a reserve fund, as described under "Description of Credit Enhancement" below;
- any amounts required to be paid by the master servicer out of its own funds due to the operation of a deductible clause in any blanket policy maintained by the master servicer to cover hazard losses on the mortgage loans as described under "Insurance Policies on Mortgage Loans" below;
- any distributions received on any mortgage securities included in the trust; and
- any other amounts as described in the related pooling and servicing agreement.

The portion of any payment received by the master servicer in respect of a mortgage loan that is allocable to an uncertificated interest not retained by the depositor or any of its affiliates with respect to any trust asset, will typically be deposited into the Custodial Account, but the portion of any such payment allocable to an uncertificated interest in a trust asset retained by the depositor or any of its affiliates will not be deposited in the Certificate Account for the related series of certificates and will be distributed as provided in the related pooling and servicing agreement.

Funds on deposit in the Custodial Account may be invested in Permitted Investments maturing in general not later than the business day preceding the next distribution date and funds on deposit in the related Certificate Account may be invested in Permitted Investments maturing, in general, no later than the distribution date. All income and gain realized from any investment will be for the account of the master servicer as additional servicing compensation. The amount of any loss incurred in connection with any such investment must be deposited in the Custodial Account or in the Certificate Account, as the case may be, by the master servicer out of its own funds upon realization of the loss.

Buy-Down Mortgage Loans

With respect to each Buy-Down Mortgage Loan, the subservicer will deposit the related Buy-Down Funds provided to it in a Buy-Down Account which will comply with the requirements described in this prospectus with respect to a Subservicing Account. The accompanying prospectus supplement will specify whether the terms of all Buy-Down Mortgage Loans provide for the contribution of Buy-Down Funds in an amount equal to or exceeding either (i) the total payments to be made from those funds under the related buy-down plan or (ii) if the Buy-Down Funds are to be deposited on a discounted basis, that amount of Buy-Down Funds which, together with investment earnings thereon at a rate as set forth in the Client Guide from time to time will support the scheduled level of payments due under the Buy-Down Mortgage Loan.

Neither the master servicer nor the depositor will be obligated to add to any discounted Buy-Down Funds any of its own funds should investment earnings prove insufficient to maintain the scheduled level of payments. To the extent that any insufficiency is not recoverable from the mortgagor or, in an appropriate case, from the subservicer, distributions to certificateholders may be affected. With respect to each Buy-Down Mortgage Loan, the subservicer will withdraw from the Buy-Down Account and remit to the master servicer on or before the date specified in the applicable subservicing agreement described in this prospectus under "Description of the Certificates—Payments on Mortgage Loans; Deposits to Certificate Account" the amount, if any, of the Buy-Down Funds, and, if applicable, investment earnings thereon, for each Buy-Down Mortgage Loan that, when added to the amount due from the mortgagor on the Buy-Down Mortgage Loan, equals the full monthly payment which would be due on the Buy-Down Mortgage Loan if it were not subject to the buy-down plan. The Buy-Down Funds will in no event be a part of the related trust.

If the mortgagor on a Buy-Down Mortgage Loan prepays the mortgage loan in its entirety during the Buy-Down Period, the applicable subservicer will withdraw from the Buy-Down Account and remit to the mortgagor or any other designated party in accordance with the related buy-down plan any Buy-Down Funds remaining in the Buy-Down Account. If a prepayment by a mortgagor during the Buy-Down Period together with Buy-Down Funds will result in full prepayment of a Buy-Down Mortgage Loan, the subservicer will, in most cases, be required to withdraw from the Buy-Down Account and remit to the master servicer the Buy-Down Funds and investment earnings thereon, if any, which together with such prepayment will result in a prepayment in full; provided that Buy-Down Funds may not be available to cover a prepayment under some mortgage loan programs. Any Buy-Down Funds so remitted to the master servicer in connection with a prepayment described in the preceding sentence will be deemed to reduce the amount that would be required to be paid by the mortgagor to repay fully the related mortgage loan if the mortgage loan were not subject to the buy-down plan.

Any investment earnings remaining in the Buy-Down Account after prepayment or after termination of the Buy-Down Period will be remitted to the related mortgagor or any other designated party under the buy-down agreement. If the mortgagor defaults during the Buy-Down Period with respect to a Buy-Down Mortgage Loan and the property securing that Buy-Down mortgage loan is sold in liquidation either by the master servicer, the primary insurer, the pool insurer under the mortgage pool insurance policy or any other insurer, the subservicer will be required to withdraw from the Buy-Down Account the Buy-Down Funds and all investment earnings thereon, if any, and remit the same to the master servicer or, if instructed by the master servicer, pay the same to the primary insurer or the pool insurer, as the case may be, if the mortgaged property is transferred to that insurer and the insurer pays all of the loss incurred in respect of such default.

Because Buy-Down Funds may have been provided by a third party such as the seller of the Mortgaged Property, a home builder, or an employer, such funds may be subject to third party claims, offsets, defenses or counterclaims in the event of a dispute between the mortgagor and such third party or otherwise. In addition, upon foreclosure the inclusion of personal property collateral may present additional defenses for the mortgagor to assert.

Withdrawals from the Custodial Account

The master servicer may, from time to time, make withdrawals from the Custodial Account for certain purposes, as specifically described in the related pooling and servicing agreement, which in most cases will include the following:

- to make deposits to the Certificate Account in the amounts and in the manner provided in the pooling and servicing agreement and described in this prospectus under "—Payments on Mortgage Loans; Deposits to Certificate Account;"
- to reimburse itself or any subservicer for Advances, or for Servicing Advances, out of late payments or collections on the mortgage loan with respect to which those Advances or Servicing Advances were made;
- to pay to itself or any subservicer unpaid Servicing Fees and Subservicing Fees, out of payments or collections of interest on each mortgage loan;
- to pay to itself as additional servicing compensation any investment income on funds deposited in the Custodial Account, any amounts remitted by subservicers as interest on partial prepayments on the mortgage loans and interest on prepayments in full on the mortgage loans for the month in which such amounts are to be distributed to the certificateholders, and, if so provided in the pooling and servicing agreement, any profits realized upon disposition of a mortgaged property acquired by deed in lieu of foreclosure or repossession or otherwise allowed under the pooling and servicing agreement;
- to pay to itself, a subservicer, a seller, Residential Funding Company, LLC, the depositor, the designated seller or the seller all amounts received with respect to each mortgage loan purchased, repurchased or removed under the terms of the pooling and servicing agreement and not required to be distributed as of the date on which the related purchase price is determined;
- to pay the depositor or its assignee, or any other party named in the related prospectus supplement, all amounts allocable to any uncertificated interest in a trust asset, if any, out of collections or payments which represent interest on each mortgage loan, including any mortgage loan as to which title to the underlying mortgaged property was acquired;
- to reimburse itself or any subservicer for any Nonrecoverable Advance, and for Advances that have been capitalized by adding the delinquent interest and other amounts owed under the mortgage loan to the principal balance of the mortgage loan, in accordance with the terms of the pooling and servicing agreement;
- to reimburse itself or the depositor for other expenses incurred for which it or the depositor is entitled to reimbursement, including, in some circumstances, reimbursement in connection with enforcing any repurchase, substitution or indemnification obligation of any seller that is assigned to

the trustee for the benefit of the certificateholders, or against which it or the depositor is indemnified under the pooling and servicing agreement;

- to withdraw any amount deposited in the Custodial Account that was not required to be deposited therein; and
- to clear the Custodial Account of amounts relating to the corresponding mortgage loans in connection with the termination of the trust under the pooling and servicing agreement, as described in "The Pooling and Servicing Agreement—Termination; Retirement of Certificates."

Distributions

Beginning on the distribution date in the month next succeeding the month in which the cut-off date occurs, or any other date as may be set forth in the related prospectus supplement, for a series of certificates, distribution of principal and interest, or, where applicable, of principal only or interest only, on each class of certificates entitled thereto will be made either by the trustee, the master servicer acting on behalf of the trustee or a paying agent appointed by the trustee. The distributions will be made to the persons who are registered as the holders of the certificates at the close of business on the last business day of the preceding month or on such other day as is specified in the related prospectus supplement.

Distributions will be made in immediately available funds, by wire transfer or otherwise, to the account of a certificateholder at a bank or other entity having appropriate facilities therefore, if the certificateholder has so notified the trustee, the master servicer or the paying agent, as the case may be, and the applicable pooling and servicing agreement provides for that form of payment, or by check mailed to the address of the person entitled thereto as it appears on the certificate register. The final distribution in retirement of the certificates of any class, other than a subordinate class, will be made only upon presentation and surrender of the certificates at the office or agency of the trustee specified in the notice to the certificateholders. Distributions will be made to each certificateholder in accordance with that holder's percentage interest in a particular class.

The accompanying prospectus supplement will specify whether, as a result of the provisions described below under "—Realization upon Defaulted Mortgage Loans," under which the certificate principal balance of a class of subordinate certificates can be increased in certain circumstances even if it was previously reduced to zero, each certificate of a subordinate class of certificates will be considered to remain outstanding until the termination of the related trust, even if the certificate principal balance thereof has been reduced to zero.

Principal and Interest on the Certificates

The method of determining, and the amount of, distributions of principal and interest, or, where applicable, of principal only or interest only, on a particular series of certificates will be described in the related prospectus supplement. Distributions of interest on each class of certificates will be made prior to distributions of principal thereon. Each class of certificates, other than classes of strip certificates, may have a different specified interest rate, or pass-through rate, which may be a fixed, variable or adjustable pass-through rate, or any combination of two or more pass-through rates. The related prospectus supplement will specify the pass-through rate or rates for each class, or the initial pass-through rate or rates and the method for determining the pass-through rate or rates. The applicable prospectus supplement will describe the manner of interest accruals and payments. In general, interest on the certificates will accrue during each calendar month and will be payable on the distribution date in the following calendar month. If so specified in the related prospectus supplement, interest on any class of certificates for any distribution date may be limited to the extent of available funds for that distribution date. The related prospectus supplement will describe the method of calculating interest on the certificates. In general, interest on the certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

On each distribution date for a series of certificates, the trustee or the master servicer on behalf of the trustee will distribute or cause the paying agent to distribute, as the case may be, to each holder of record on the last day of the preceding month of a class of certificates, or on such other day as is specified in the related prospectus supplement, an amount equal to the percentage interest represented by the certificate held by that holder multiplied by that class's Distribution Amount.

In the case of a series of certificates which includes two or more classes of certificates, the timing, sequential order, priority of payment or amount of distributions of principal, and any schedule or formula or other provisions applicable to that determination, including distributions among multiple classes of senior certificates or subordinate certificates, shall be described in the related prospectus supplement. The distributions of principal on any class of certificates will be specified in the accompanying prospectus supplement. Generally, distributions of principal on any class of certificates will be made on a pro rata basis among all of the certificates of that class.

On or prior to the second business day prior to each distribution date, referred to as the determination date, the master servicer will determine the amounts of principal and interest which will be passed through to certificateholders on the immediately succeeding distribution date. Prior to the close of business on each determination date, the master servicer will furnish a statement to the trustee with information to be made available to certificateholders by the master servicer on request, setting forth, among other things, the amount to be distributed on the next succeeding distribution date.

Example of Distributions

The following chart sets forth an example of the flow of funds as it would relate to a hypothetical series of certificates issued, and with a cut-off date occurring, in July 2005:

Date	Note	Description
July 1	(A)	Cut-off date.
July 2-31	(B)	Subservicers receive any partial Principal Prepayments and applicable interest thereon.
July 16- August 15.............	(C)	Subservicers receive any Principal Prepayments in full and applicable interest thereon.
July 31	(D)	Record date.
July 2- August 1..................	(E)	The due dates for payments on a mortgage loan, which period is referred to as the due period.
August 18............................	(F)	Subservicers remit to the master servicer scheduled payments of principal and interest due during the related due period and received or advanced by them.
August 23............................	(G)	Determination date.
August 25............................	(H)	Distribution date.

Succeeding months follow the pattern of (B) through (H), except that for succeeding months, (B) will also include the first day of that month. A series of certificates may have different Prepayment Periods, cut-off dates, record dates, remittance dates, determination dates and/or distribution dates than those set forth above.

(A) The initial principal balance of the mortgage pool will be the aggregate principal balance of the mortgage loans at the close of business on July 1 after deducting principal payments due on or before that date or such other date as described in the related prospectus supplement. Those principal payments due on or before July 1 and the accompanying interest payments, and any Principal Prepayments received as of the close of business on July 1 are not part of the mortgage pool and will not be passed through to certificateholders.

(B) Any Principal Prepayments, other than Principal Prepayments in full, may be received at any time during this period and will be remitted to the master servicer as described in (F) below for distribution to certificateholders as described in (G) below. When a mortgage loan is prepaid in full, interest on the amount prepaid is collected from the mortgagor only to the date of payment. Partial Principal Prepayments are applied so as to reduce the principal balances of the related mortgage loans as of the first day of the month in which the payments are made; interest will not be paid to certificateholders from such prepaid amounts for the month in which the partial Principal Prepayments were received.

(C) Any Principal Prepayments in full that are received during this period, which is referred to as the Prepayment Period, will be remitted to the master servicer as described in (F) below for distribution to certificateholders as described in (G) below. When a mortgage loan is prepaid in full, interest on the amount prepaid is collected from the related mortgagor only to the date of payment.

(D) Distributions on August 25 will be made to certificateholders of record at the close of business on July 31.

(E) Scheduled principal and interest payments are due from mortgagors.

(F) Payments due from mortgagors during the related Due Period will be deposited by the subservicers in Subservicing Accounts, or will be otherwise managed in a manner acceptable to the rating agencies, as received and will include the scheduled principal payments plus interest on the principal balances immediately prior to those payments. Funds required to be remitted from the Subservicing Accounts to the master servicer will be remitted on August 18, 2005 together with any required Advances by the subservicers, except that Principal Prepayments in full received by subservicers during the related Prepayment Period will have been remitted to the master servicer within five business days of receipt.

(G) On the determination date, the master servicer will determine the amounts of principal and interest that will be passed through on August 25 to the holders of each class of certificates. The master servicer will be obligated to distribute those payments due during the related due period that have been received from subservicers prior to and including August 18, as well as all partial Principal Prepayments received on mortgage loans in December and Principal Prepayments in full received from or reported by subservicers during the related Prepayment Period, with interest adjusted to the pass-through rates applicable to the respective classes of certificates and reduced on account of Principal Prepayments as described in clause (B) above. Distributions to the holders of senior certificates, if any, on August 25 may include amounts otherwise distributable to the holders of the related subordinate certificates, amounts withdrawn from any reserve fund, amounts drawn against any certificate insurance policy and amounts Advanced by the master servicer under the circumstances described in "Subordination" and "—Advances."

(H) On August 25, the amounts determined on August 23 will be distributed to certificateholders.

If provided in the related prospectus supplement, the distribution date with respect to any series of certificates as to which the trust includes mortgage securities may be a specified date or dates other than the 25th day of each month in order to allow for the receipt of distributions on the mortgage securities.

Advances

As to each series of certificates, the master servicer will make Advances on or before each distribution date, but only to the extent that the Advances would, in the judgment of the master servicer, be recoverable out of late payments by the mortgagors, Liquidation Proceeds, Insurance Proceeds or otherwise.

The amount of any Advance will be determined based on the amount payable under the mortgage loan as adjusted from time to time and as may be modified as described in this prospectus under "—Collection and Other Servicing Procedures," and no Advance will be required in connection with any reduction in amounts payable under the Relief Act, or as a result of certain actions taken by a bankruptcy court. As specified in the related prospectus supplement with respect to any series of certificates as to which the trust includes mortgage securities, the master servicer's advancing obligations will be pursuant to the terms of the mortgage securities, as may be supplemented by the terms of the applicable pooling and servicing agreement, and may differ from the provisions relating to Advances described in this prospectus.

Advances are intended to maintain a regular flow of scheduled interest and principal payments to related certificateholders. Advances do not represent an obligation of the master servicer to guarantee or insure against losses. If Advances have been made by the master servicer from cash being held for future distribution to certificateholders, those funds will be required to be replaced on or before any future distribution date to the extent that funds in the Certificate Account on that distribution date would be less than payments required to be made to certificateholders. Any Advances will be reimbursable to the master servicer out of recoveries on the related mortgage loans for which those amounts were advanced, including late payments made by the related mortgagor, any related Liquidation Proceeds and Insurance Proceeds, proceeds of any applicable form of credit enhancement, or proceeds of any mortgage loan purchased by the depositor, Residential Funding Company, LLC, a subservicer, the designated seller or a seller.

Advances will also be reimbursable from cash otherwise distributable to certificateholders to the extent that the master servicer shall determine that any Advances previously made are not ultimately recoverable as described in the third preceding paragraph or if Advances are capitalized by adding the delinquent interest to the outstanding principal balance of the related mortgage loan, as described under "—Collection and Other Servicing Procedures." With respect to any senior/subordinate series, so long as the related subordinate certificates remain outstanding with a certificate principal balance greater than zero, and except for Special Hazard Losses, Fraud Losses and Bankruptcy Losses in excess of specified amounts and Extraordinary Losses, the Advances may also be reimbursable out of amounts otherwise distributable to holders of the subordinate certificates, if any. The master servicer may also be obligated to make Servicing Advances, to the extent recoverable out of Liquidation Proceeds or otherwise, in respect of some taxes and insurance premiums not paid by mortgagors on a timely basis. Funds so advanced may be reimbursable to the master servicer to the extent permitted by the pooling and servicing agreement. Notwithstanding the foregoing, if the master servicer exercises its option, if any, to purchase the assets of a trust as described under "The Pooling and Servicing Agreement — Termination; Retirement of Certificates" below, the master servicer will be deemed to have been reimbursed for all related Advances previously made by it and not theretofore reimbursed to it.

The master servicer's obligation to make Advances may be supported by another entity, a letter of credit or other method as may be described in the related pooling and servicing agreement. In the event that the short-term or long-term obligations of the provider of the support are downgraded by a rating agency rating the related certificates or if any collateral supporting such obligation is not performing or is removed under the terms of any agreement described in the related prospectus supplement, the certificates may also be downgraded.

Prepayment Interest Shortfalls

When a mortgagor prepays a mortgage loan in full between scheduled due dates for the mortgage loan, the mortgagor pays interest on the amount prepaid only to but not including the date on which the Principal Prepayment is made. A partial Principal Prepayment by a mortgagor is treated as having been received on the first day of the month in which such Principal Prepayment is made and no interest paid by the mortgagor is distributed to the certificateholders. Similarly, Liquidation Proceeds from a mortgaged property will not include interest for any period after the date on which the liquidation took place.

If so specified in the related prospectus supplement, for each distribution date, to the extent funds are available from the Servicing Fee or other servicing compensation, the master servicer may make an additional payment to certificateholders with respect to any mortgage loan that

- prepaid in full during the related Prepayment Period, other than during the calendar month of the distribution date, or
- prepaid in part during the preceding calendar month

in an amount equal to the Compensating Interest for that mortgage loan from the date of the prepayment to the related due date. Compensating Interest will be limited to the aggregate amount specified in the related prospectus supplement and may not be sufficient to cover the Prepayment Interest Shortfall. If so disclosed in the related prospectus supplement, Prepayment Interest Shortfalls may be applied to reduce interest otherwise payable with respect to one or more classes of certificates of a series. See "Yield Considerations."

Reports to Certificateholders

On each distribution date, the master servicer will forward or cause to be forwarded to each certificateholder of record, or will make available to each certificateholder of record in the manner described in the related prospectus supplement, a statement or statements with respect to the related trust setting forth the information described in the related pooling and servicing agreement. The information will include the following (as applicable):

- the applicable record date, determination date and distribution date;
- the aggregate amount of payments received with respect to the mortgage loans, including prepayment amounts;
- the servicing fee payable to the master servicer and the subservicer;

- the amount of any other fees or expenses paid, and the identity of the party receiving such fees or expenses;
- the amount, if any, of the distribution allocable to principal;
- the amount, if any, of the distribution allocable to interest and the amount, if any, of any shortfall in the amount of interest and principal;
- the outstanding principal balance or notional amount of each class of certificates before and after giving effect to the distribution of principal on that distribution date;
- updated pool composition information, including weighted average interest rate and weighted average remaining term;
- the balance of the reserve fund, if any, at the opening of business and the close of business on that distribution date;
- if applicable, the Special Hazard Amount, Fraud Loss Amount and Bankruptcy Amount at the opening of business and as of the close of business on the applicable distribution date and a description of any change in the calculation of those amounts;
- the percentage of the outstanding principal balances of the senior certificates, if applicable, after giving effect to the distributions on that distribution date;
- in the case of certificates benefiting from alternative credit enhancement arrangements described in a prospectus supplement, the amount of coverage under alternative arrangements as of the close of business on the applicable determination date and a description of any credit enhancement substituted therefore;
- the aggregate unpaid principal balance of the mortgage collateral after giving effect to the distribution of principal on that distribution date, and the number of mortgage loans at the beginning and end of the reporting period;
- based on the most recent reports furnished by subservicers, the number and aggregate principal balances of any items of mortgage collateral in the related trust that are delinquent (a) 30-59 days, (b) 60-89 days and (c) 90 or more days, and that are in foreclosure;
- the amount of any losses on the mortgage loans during the reporting period;
- information about the amount, terms and general purpose of any advances made or reimbursed during the reporting period;
- any material modifications, extensions or waivers to the terms of the mortgage loans during the reporting period or that have cumulatively become material over time;
- any material breaches of mortgage loan representations or warranties or covenants in the pooling and servicing agreement; and
- for any series of certificates as to which the trust includes mortgage securities, any additional information as required under the related pooling and servicing agreement.

In addition to the information described above, reports to certificateholders will contain any other information as is described in the applicable pooling and servicing agreement, which may include, without limitation, information as to Advances, reimbursements to subservicers and the master servicer and losses borne by the related trust.

In addition, to the extent described in the related pooling and servicing agreement, within a reasonable period of time after the end of each calendar year, the master servicer will furnish on request a report to each person that was a holder of record of any class of certificates at any time during that calendar year. The report will include information as to the aggregate of amounts reported pursuant to the first two items in the list above for that calendar year or, in the event the person was a holder of record of a class of certificates during a portion of that calendar year, for the applicable portion of that year.

Collection and Other Servicing Procedures

The master servicer, directly or through subservicers, as the case may be, will make reasonable efforts to collect all payments called for under the mortgage loans and will, consistent with the related pooling and servicing agreement and any applicable insurance policy or other credit enhancement, follow the collection procedures as it follows with respect to mortgage loans serviced by it that are comparable to the mortgage loans. The master servicer may, in its discretion, waive any prepayment charge in connection with the prepayment of a mortgage loan or extend the due dates for payments due on a mortgage note, provided that the insurance coverage for the mortgage loan or any coverage provided by any alternative credit enhancement will not be adversely affected thereby. The master servicer may also waive or modify any term of a mortgage loan so long as the master servicer has determined that the waiver or modification is not materially adverse to any certificateholders, taking into account any estimated loss that may result absent that action. With respect to any series of certificates as to which the trust includes mortgage securities, the master servicer's servicing and administration obligations will be pursuant to the terms of those mortgage securities.

Under its subservicing agreement, a subservicer is granted discretion to extend relief to mortgagors whose payments become delinquent. A subservicer may grant a period of temporary indulgence, in most cases up to three months, to a mortgagor or may enter into a liquidating plan providing for repayment by the mortgagor of delinquent amounts within six months from the date of execution of the plan, in each case without the prior approval of the master servicer. Most other types of forbearance require master servicer approval. Neither indulgence nor forbearance with respect to a mortgage loan will affect the pass-through rate or rates used in calculating distributions to certificateholders. See "—Distributions."

In instances in which a mortgage loan is in default or if default is reasonably foreseeable, and if determined by the master servicer to be in the best interests of the related certificateholders, the master servicer may permit modifications of the mortgage loan rather than proceeding with foreclosure. In making this determination, the estimated Realized Loss that might result if the mortgage loan were liquidated would be taken into account. These modifications may have the effect of, among other things, reducing the mortgage rate, forgiving payments of principal, interest or other amounts owed under the mortgage loan, such as taxes and insurance premiums, extending the final maturity date of the mortgage loan, capitalizing delinquent interest and other amounts owed under the mortgage loan by adding that amount to the unpaid principal balance of the mortgage loan, or any combination of these or other modifications.

In connection with any significant partial prepayment of a mortgage loan, the master servicer, to the extent not inconsistent with the terms of the mortgage note and local law and practice, may permit the mortgage loan to be re-amortized so that the monthly payment is recalculated as an amount that will fully amortize its remaining principal amount by the original maturity date based on the original mortgage rate, provided that the re-amortization shall not be permitted if it would constitute a modification of the mortgage loan for federal income tax purposes.

The accompanying prospectus supplement will specify whether, the master servicer, directly or through a subservicer, shall in general be obligated, to the extent it has knowledge of the proposed conveyance, to exercise its rights to accelerate the maturity of the mortgage loan under any due-on-sale clause applicable thereto, when any mortgaged property relating to a loan, other than an ARM loan, is about to be conveyed by the borrower. A due-on-sale clause will be enforced only if the exercise of those rights is permitted by applicable law and only to the extent it would not adversely affect or jeopardize coverage under any primary insurance policy or applicable credit enhancement arrangements. If the master servicer or subservicer is prevented from enforcing the due-on-sale clause under applicable law or if the master servicer or subservicer determines that it is reasonably likely that a legal action would be instituted by the related mortgagor to avoid enforcement of the due-on-sale clause, master servicer or subservicer will enter into an assumption and modification agreement with the person to whom the related property has been or is about to be conveyed, under which that person becomes liable under the mortgage note subject to specified conditions. The original mortgagor may be released from liability on a mortgage loan if the master servicer or subservicer shall have determined in good faith that the release will not adversely affect the collectability of the mortgage loan.

An ARM loan may be assumed if the ARM loan is by its terms assumable and if, in the reasonable judgment of the master servicer or the subservicer, the proposed transferee of the related mortgaged property establishes its ability to repay the loan and the security for that ARM loan would not be impaired by the assumption. If a mortgagor transfers the mortgaged property subject to an ARM loan without consent, the ARM loan may be declared due and payable. Any fee collected by the master servicer or subservicer for entering into an assumption or substitution of liability agreement or for processing a request for partial release of the mortgaged property generally will be retained by the master servicer or subservicer as additional servicing compensation unless otherwise set forth in the related prospectus supplement. See "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans— Enforceability of Certain Provisions". In connection with any such assumption, the mortgage rate borne by the related mortgage note may not be altered.

Mortgagors may, from time to time, request partial releases of the mortgaged properties, easements, consents to alteration or demolition and other similar matters. The master servicer or the related subservicer may approve this type of request if it has determined, exercising its good faith business judgment in the same manner as it would if it were the owner of the related mortgage loan, that approval will not adversely affect the security for, and the timely and full collectability of, the related mortgage loan. Any fee collected by the master servicer or the subservicer for processing this type of request will be retained by the master servicer or subservicer as additional servicing compensation.

The master servicer will be required to maintain a fidelity bond and errors and omissions policy with respect to its officers and employees and other persons acting on behalf of the master servicer in connection with its activities under the pooling and servicing agreement.

Special Servicing and Special Servicing Agreements

The pooling and servicing agreement for a series of certificates may name a Special Servicer, which may be an affiliate of the Residential Funding Company, LLC. The Special Servicer will be responsible for the servicing of certain delinquent mortgage loans as described in the prospectus supplement. The Special Servicer may have certain discretion to extend relief to certain mortgagors whose payments become delinquent. The Special Servicer may be permitted to grant a period of temporary indulgence to a mortgagor or may enter into a repayment plan providing for repayment of arrearages by the mortgagor, in each case without the prior approval of the master servicer or the subservicer. Other types of forbearance may require the approval of the master servicer or subservicer, as applicable.

In addition, the master servicer may enter into various agreements with holders of one or more classes of subordinate certificates or of a class of securities representing interests in one or more classes of subordinate certificates. Under the terms of those agreements, the holder may, with respect to some delinquent mortgage loans:

- instruct the master servicer to commence or delay foreclosure proceedings, provided that the holder deposits a specified amount of cash with the master servicer which will be available for distribution to certificateholders in the event that Liquidation Proceeds are less than they otherwise may have been had the master servicer acted under its normal servicing procedures;
- instruct the master servicer to purchase the mortgage loans from the trust prior to the commencement of foreclosure proceedings at the purchase price and to resell the mortgage loans to

the holder, in which case any subsequent loss with respect to the mortgage loans will not be allocated to the certificateholders; or

- become, or designate a third party to become, a subservicer with respect to the mortgage loans so long as (i) the master servicer has the right to transfer the subservicing rights and obligations of the mortgage loans to another subservicer at any time or (ii) the holder or its servicing designee is required to service the mortgage loans according to the master servicer's servicing guidelines.

In addition, the related prospectus supplement may provide for the other types of special servicing arrangements.

Realization upon Defaulted Mortgage Loans

For a mortgage loan in default, the master servicer will decide whether to foreclose upon the mortgaged property or write off the principal balance of the mortgage loan as a bad debt. In connection with such decision, the master servicer will, following usual practices in connection with its mortgage servicing activities, estimate the proceeds expected to be received and the expenses expected to be incurred in connection with such foreclosure to determine whether a foreclosure proceeding is appropriate.

In the event that title to any acquisition of title and cancellation of any REO Mortgage Loan will be considered for most purposes to be an outstanding mortgage loan held in the trust until it is converted into a Liquidated Mortgage Loan.

For purposes of calculations of amounts distributable to certificateholders in respect of an REO Mortgage Loan, the amortization schedule in effect at the time of any acquisition of title, before any adjustment thereto by reason of any bankruptcy or any similar proceeding or any moratorium or similar waiver or grace period, will be deemed to have continued in effect and, in the case of an ARM Loan, the amortization schedule will be deemed to have adjusted in accordance with any interest rate changes occurring on any adjustment date therefore, so long as the REO Mortgage Loan is considered to remain in the trust. If a REMIC election has been made, any mortgaged property so acquired by the trust must be disposed of in accordance with applicable federal income tax regulations and consistent with the status of the trust as a REMIC. To the extent provided in the related pooling and servicing agreement, any income, net of expenses and other than gains described in the second succeeding paragraph, received by the subservicer or the master servicer on the mortgaged property prior to its disposition will be deposited in the Custodial Account upon receipt and will be available at that time to the extent provided in the related pooling and servicing agreement, for making payments to certificateholders.

With respect to a mortgage loan in default, the master servicer may pursue foreclosure or similar remedies concurrently with pursuing any remedy for a breach of a representation and warranty. However, the master servicer is not required to continue to pursue both remedies if it determines that one remedy is more likely to result in a greater recovery. If the mortgage loan is an Additional Collateral Loan, the master servicer or the related subservicer, if the lien on the Additional Collateral for such Additional Collateral Loan is not assigned to the trustee on behalf of the certificateholders, may proceed against the related mortgaged property or the related Additional Collateral first or may proceed against both concurrently, as permitted by applicable law and the terms under which the Additional Collateral is held, including any third-party guarantee. Similarly, if the mortgage loan is a Pledged Asset Mortgage Loan, the master servicer or the related subservicer may proceed against the related mortgaged property or the related Pledged Assets first or may proceed against both concurrently, as permitted by applicable law and the terms under which the Pledged Assets are held.

Upon the first to occur of final liquidation and a repurchase or substitution pursuant to a breach of a representation and warranty, the mortgage loan will be removed from the related trust. The master servicer may elect to treat a defaulted mortgage loan as having been finally liquidated if substantially all amounts expected to be received in connection therewith have been received. Any additional liquidation expenses relating to the mortgage loan thereafter incurred will be reimbursable to the master servicer or any subservicer from any amounts otherwise distributable to the related certificateholders, or may be offset by any subsequent recovery related to the mortgage loan. Alternatively, for purposes of determining the amount of related Liquidation Proceeds to be distributed to certificateholders, the amount of any Realized Loss or the amount required to be drawn under any applicable form of credit enhancement, the master servicer may take into account minimal amounts of additional receipts expected to be received, as well as estimated additional liquidation expenses expected to be incurred in connection with the defaulted mortgage loan.

With respect to some series of certificates, the applicable form of credit enhancement may provide, to the extent of coverage, that a defaulted mortgage loan or REO Mortgage Loan will be removed from the trust prior to its final liquidation. If a defaulted mortgage loan or REO Mortgage Loan is not removed from the trust prior to final liquidation, then, upon its final liquidation, if a loss is realized which is not covered by any applicable form of credit enhancement or other insurance, the certificateholders will bear the loss. However, if a gain results from the final liquidation of an REO Mortgage Loan which is not required by law to be remitted to the related mortgagor, the master servicer will be entitled to retain that gain as additional servicing compensation unless the accompanying prospectus supplement provides otherwise.

The accompanying prospectus supplement will specify whether a subsequent recovery shall be distributed to the certificateholders in the same manner as Liquidation Proceeds received in the prior calendar month, to the extent that the related Realized Loss was allocated to any class of certificates, if a final liquidation of a mortgage loan resulted in a Realized Loss and within two years thereafter the master servicer receives a subsequent recovery specifically related to that mortgage loan, in connection with a related breach of a representation or warranty or otherwise, such subsequent recovery shall be distributed to the certificateholders in the same manner as Liquidation Proceeds received in the prior calendar month, to the extent that the related Realized Loss was allocated to any class of certificates. In addition, the certificate principal balance of the class of subordinate certificates with the highest payment priority to which Realized Losses have been allocated, will be increased to the extent that such subsequent recoveries are distributed as principal to any other classes of certificates. However, the certificate principal balance of that class of subordinate certificates will not be increased by more than the amount of Realized Losses previously applied to reduce the certificate principal balance of that class of certificates. The amount of any remaining subsequent recoveries will be applied to increase the certificate principal balance of the class of certificates with the next lower payment priority; however, the certificate principal balance of that class of certificates will not be increased by more than the amount of Realized Losses previously applied to reduce the certificate principal balance of that class of certificates, and so on. Holders of certificates whose certificate principal balance is increased in this manner will not be entitled to interest on the increased balance for any interest accrual period preceding the distribution date on which the increase occurs. The foregoing provisions will apply even if the certificate principal balance of a class of subordinate certificates was previously reduced to zero. Accordingly, each class of subordinate certificates will be considered to remain outstanding until the termination of the related trust.

In the case of a series of certificates other than a senior/subordinate series, if so provided in the related prospectus supplement, the applicable form of credit enhancement may provide for reinstatement in accordance with specified conditions in the event that, following the final liquidation of a mortgage loan and a draw under the related credit enhancement, subsequent recoveries are received. For a description of the master servicer's obligations to maintain and make claims under applicable forms of credit enhancement and insurance relating to the mortgage loans, see "Description of Credit Enhancement" and "Insurance Policies on Mortgage Loans."

For a discussion of legal rights and limitations associated with the foreclosure of a mortgage loan, see "Certain Legal Aspects of Mortgage Loans."

Description of Credit Enhancement

General

Credit support with respect to each series of certificates may be comprised of one or more of the following components. Each component will have a dollar limit and will provide coverage with respect to Realized Losses that are:

- Defaulted Mortgage Losses;
- Special Hazard Losses;
- Bankruptcy Losses; and
- Fraud Losses.

Most forms of credit support will not provide protection against all risks of loss and will not guarantee repayment of the entire outstanding principal balance of the certificates and interest. If losses occur that exceed the amount covered by credit support or are of a type that is not covered by the credit support, certificateholders will bear their allocable share of deficiencies. In particular, Defaulted Mortgage Losses, Special Hazard Losses, Bankruptcy Losses and Fraud Losses in excess of the amount of coverage provided therefore and Extraordinary Losses will not be covered. To the extent that the credit enhancement for any series of certificates is exhausted, the certificateholders will bear all further risks of loss not otherwise insured against.

As described in this prospectus and in the related prospectus supplement,

- coverage with respect to Defaulted Mortgage Losses may be provided by a mortgage pool insurance policy,
- coverage with respect to Special Hazard Losses may be provided by a special hazard insurance policy,
- coverage with respect to Bankruptcy Losses may be provided by a bankruptcy policy; and
- coverage with respect to Fraud Losses may be provided by a mortgage pool insurance policy or mortgage repurchase bond.

In addition, if so specified in the accompanying prospectus supplement, in lieu of or in addition to any or all of the foregoing arrangements, credit enhancement may be in the form of a reserve fund to cover those losses, in the form of subordination of one or more classes of certificates as described under "Subordination," or in the form of a certificate insurance policy, a letter of credit, mortgage pool insurance policies, surety bonds or other types of insurance policies, other secured or unsecured corporate guarantees or in any other substantially similar form as may be described in the related prospectus supplement, or in the form of a combination of two or more of the foregoing.

In addition, the credit support may be provided by an assignment of the right to receive cash amounts, a deposit of cash into a reserve fund or other pledged assets, or by banks, insurance companies, guarantees or any combination thereof identified in the related prospectus supplement. If so specified in the related prospectus supplement, limited credit enhancement may be provided to cover Defaulted Mortgage Losses with respect to mortgage loans with LTV ratios at origination of over 80% that are not insured by a primary insurance policy, to the extent that those losses would be covered under a primary insurance policy if obtained, or may be provided in lieu of title insurance coverage, in the form of a corporate guaranty or in other forms described in this section. Credit support may also be provided in the form of an insurance policy covering the risk of collection and adequacy of any Additional Collateral provided in connection with any Additional Collateral Loan, as limited by that insurance policy. As described in the pooling and servicing agreement, credit support may apply to all of the mortgage loans or to some mortgage loans contained in a mortgage pool.

Each prospectus supplement will include a description of:

- the amount payable under the credit enhancement arrangement, if any, provided with respect to a series;
- any conditions to payment not otherwise described in this prospectus;
- the conditions under which the amount payable under the credit support may be reduced and under which the credit support may be terminated or replaced; and
- the material provisions of any agreement relating to the credit support.

Additionally, each prospectus supplement will contain information with respect to the issuer of any third-party credit enhancement, if applicable. The pooling and servicing agreement or other documents may be modified in connection with the provisions of any credit enhancement arrangement to provide for reimbursement rights, control rights or other provisions that may be required by the credit enhancer. To the extent provided in the applicable pooling and servicing agreement, the credit enhancement arrangements may be periodically modified, reduced and substituted for based on the performance of or on the aggregate outstanding principal balance of the mortgage loans covered. See "—Reduction or Substitution of Credit Enhancement."

The descriptions of any insurance policies, bonds or other instruments described in this prospectus or any prospectus supplement and the coverage under those instruments do not purport to be complete and are qualified in their entirety by reference to the actual forms of the policies, copies of which generally will be exhibits to the Form 8-K to be filed with the Securities and Exchange Commission in connection with the issuance of the related series of certificates.

Letters of Credit

If any component of credit enhancement as to any series of certificates is to be provided by a letter of credit, a bank will deliver to the trustee an irrevocable letter of credit. The letter of credit may provide direct coverage with respect to the mortgage loans. The letter of credit bank, the amount available under the letter of credit with respect to each component of credit enhancement, the expiration date of the letter of credit, and a more detailed description of the letter of credit will be specified in the related prospectus supplement. On or before each distribution date, the letter of credit bank will be required to make payments after notification from the trustee, to be deposited in the related Certificate Account with respect to the coverage provided. The letter of credit may also provide for the payment of Advances.

Subordination

A senior/subordinate series of certificates will consist of one or more classes of senior certificates and one or more classes of subordinate certificates, as specified in the related prospectus supplement.

Subordination of the subordinate certificates of any senior/subordinate series will be effected by the following method, unless an alternative method is specified in the related prospectus supplement. In addition, some classes of senior or subordinate certificates may be senior to other classes of senior or subordinate certificates, as specified in the related prospectus supplement.

With respect to any senior/subordinate series, the total amount available for distribution on each distribution date, as well as the method for allocating that amount among the various classes of certificates included in the series, will be described in the related prospectus supplement. Generally, with respect to any series, the amount available for distribution will be allocated first to interest on the senior certificates of that series, and then to principal of the senior certificates up to the amounts described in the related prospectus supplement, prior to allocation of any amounts to the subordinate certificates.

If so provided in the pooling and servicing agreement, the master servicer may be permitted, under certain circumstances, to purchase any mortgage loan that is three or more months delinquent in payments of principal and interest, at the purchase price. Any Realized Loss subsequently incurred in connection with any such mortgage loan may be borne by the then-current certificateholders of the class or classes that would have borne that Realized Loss if the mortgage loan had not been so purchased, unless that purchase was made upon the request of the holder of the most junior class of certificates of the related series.

In the event of any Realized Losses not in excess of the limitations described below, other than Extraordinary Losses, the rights of the subordinate certificateholders to receive distributions will be subordinate to the rights of the senior certificateholders and the owner of any uncertificated interest in the trust assets and, as to certain classes of subordinate certificates, may be subordinate to the rights of other subordinate certificateholders.

Except as noted below, Realized Losses will be allocated to the subordinate certificates of the related series until their outstanding principal balances have been reduced to zero. Additional Realized Losses, if any, will be allocated to the senior certificates. If the series includes more than one class of senior certificates, the accompanying prospectus supplement will describe how Realized Losses are allocated. In general, Realized Losses will be allocated on a pro rata basis among all of the senior certificates in proportion to their respective outstanding principal balances. If described in the related prospectus supplement some classes of senior certificates may be allocated Realized Losses before other classes of senior certificates.

The accompanying prospectus supplement will describe how Special Hazard Losses in excess of the Special Hazard Amount will be allocated among all outstanding classes of certificates. In general, such losses will be allocated among all outstanding classes of certificates of the related series on a pro rata basis in proportion to their outstanding principal balances. The respective amounts of other specified types of losses, including Fraud Losses and Bankruptcy Losses, that may be borne solely by the subordinate certificates may be similarly limited to the Fraud Loss Amount and the Bankruptcy Amount, and the subordinate certificates may provide no coverage with respect to Extraordinary Losses or other specified types of losses, which will be described in the related prospectus supplement, in which case those losses would be allocated on a pro rata basis among all outstanding classes of certificates in accordance with their respective certificate principal balances as described in the related prospectus supplement. Each of the Special Hazard Amount, Fraud Loss Amount and Bankruptcy Amount may be subject to periodic reductions and may be subject to further reduction or termination, without the consent of the certificateholders, upon the written confirmation from each applicable rating agency, as described in the related prospectus supplement, that the then-current rating of the related series of certificates will not be adversely affected.

In most cases, any allocation of a Realized Loss, including a Special Hazard Loss, Fraud Loss or Bankruptcy Loss, to a certificate in a senior/subordinate series will be made by reducing its outstanding principal balance as of the distribution date following the calendar month in which the Realized Loss was incurred.

The rights of holders of the various classes of certificates of any series to receive distributions of principal and interest is determined by the aggregate outstanding principal balance of each class or, if applicable, the related notional amount. The outstanding principal balance of any certificate will be reduced by all amounts previously distributed on that certificate representing principal, and by any Realized Losses allocated thereto. If there are no Realized Losses or Principal Prepayments on any of the mortgage loans, the respective rights of the holders of certificates of any series to future distributions generally would not change. However, to the extent described in the related prospectus supplement, holders of senior certificates may be entitled to receive a disproportionately larger amount of prepayments received during specified periods, which will have the effect, absent offsetting losses, of accelerating the amortization of the senior certificates and increasing the respective percentage ownership interest evidenced by the subordinate certificates in the related trust, with a corresponding decrease in the percentage of the outstanding principal balances of the senior certificates, thereby preserving the availability of the subordination provided by the subordinate certificates. In addition, some Realized Losses will be allocated first to subordinate certificates by reduction of their outstanding principal balance, which will have the effect of increasing the respective ownership interest evidenced by the senior certificates in the related trust.

If so provided in the related prospectus supplement, some amounts otherwise payable on any distribution date to holders of certificates may be deposited into a reserve fund. Amounts held in any reserve fund may be applied as described under "—Reserve Funds" and in the related prospectus supplement.

In lieu of the foregoing provisions, subordination may be effected by limiting the rights of the holders of subordinate certificates to receive the Subordinate Amount will be limited to the extent described in the related prospectus supplement. As specified in the related prospectus supplement, the Subordinate Amount may be reduced based upon the amount of losses borne by the holders of the subordinate certificates as a result of the subordination, a specified schedule or other method of reduction as the prospectus supplement may specify.

The exact terms and provisions of the subordination of any subordinate certificate will be described in the related prospectus supplement.

Overcollateralization

If so specified in the related prospectus supplement, interest collections on the mortgage loans may exceed interest payments on the certificates for the related distribution date. To the extent such excess interest is applied as principal payments on the certificates, the effect will be to reduce the principal balance of the certificates relative to the outstanding balance of the mortgage loans, thereby creating overcollateralization and additional protection to the certificateholders, as specified in the related prospectus supplement.

Mortgage Pool Insurance Policies

Any insurance policy covering losses on a pool of mortgage loans obtained by the depositor for a trust will be issued by the pool insurer. Each mortgage pool insurance policy, in accordance with the limitations described in this prospectus and in the prospectus supplement, if any, will cover Defaulted Mortgage Losses in an amount equal to a percentage specified in the applicable prospectus supplement of the aggregate principal balance of the mortgage loans on the cut-off date. As described under "—Maintenance of Credit Enhancement," the master servicer will use its best reasonable efforts to maintain the mortgage pool insurance policy and to present claims thereunder to the pool insurer on behalf of itself, the trustee and the certificateholders. The mortgage pool insurance policies, however, are not blanket policies against loss, since claims thereunder may only be made respecting particular defaulted mortgage loans and only upon satisfaction of specified conditions precedent described in the succeeding paragraph. Unless specified in the related prospectus supplement, the mortgage pool insurance policies may not cover losses due to a failure to pay or denial of a claim under a primary insurance policy, irrespective of the reason therefore.

As more specifically provided in the related prospectus supplement, each mortgage pool insurance policy will provide for conditions under which claims may be presented and covered under the policy. Upon satisfaction of these conditions, the pool insurer will have the option either (a) to purchase the property securing the defaulted mortgage loan at a price equal to its outstanding principal balance plus accrued and unpaid interest at the applicable mortgage rate to the date of purchase and some expenses incurred by the master servicer or subservicer on behalf of the trustee and certificateholders, or (b) to pay the amount by which the sum of the outstanding principal balance of the defaulted mortgage loan plus accrued and unpaid interest at the mortgage rate to the date of payment of the claim and the aforementioned expenses exceeds the proceeds received from an approved sale of the mortgaged property, in either case net of some amounts paid or assumed to have been paid under any related primary insurance policy.

Certificateholders will experience a shortfall in the amount of interest payable on the related certificates in connection with the payment of claims under a mortgage pool insurance policy because the pool insurer is only required to remit unpaid interest through the date a claim is paid rather than through the end of the month in which the claim is paid. In addition, the certificateholders will also experience losses with respect to the related certificates in connection with payments made under a mortgage pool insurance policy to the extent that the master servicer expends funds to cover unpaid real estate taxes or to repair the related mortgaged property in order to make a claim under a mortgage pool insurance policy, as those amounts will not be covered by payments under the policy and will be reimbursable to the master servicer from funds otherwise payable to the certificateholders. If any mortgaged property securing a defaulted mortgage loan is damaged and proceeds, if any (see "—Special Hazard Insurance Policies" below for risks which are not covered by those policies), from the related hazard insurance policy or applicable special hazard insurance policy are insufficient to restore the damaged property to a condition sufficient to permit recovery under the mortgage pool insurance policy, the master servicer is not required to expend its own funds to restore the damaged property unless it determines that (a) restoration will increase the proceeds to one or more classes of certificateholders on liquidation of the mortgage loan after reimbursement of the master servicer for its expenses and (b) the expenses will be recoverable by it through Liquidation Proceeds or Insurance Proceeds.

A mortgage pool insurance policy and some primary insurance policies will likely not insure against loss sustained by reason of a default arising from, among other things, fraud or negligence in the origination or servicing of a mortgage loan, including misrepresentation by the mortgagor, the seller or other persons involved in the origination thereof, failure to construct a mortgaged property in accordance with plans and specifications or bankruptcy, except if specified in the related prospectus supplement an endorsement to the mortgage pool insurance policy provides for insurance against that type of loss. Depending upon the nature of the event, a breach of a representation made by a seller may also have occurred. If the representation by a mortgage collateral seller has been assigned to the trustee for the benefit of the certificateholders and that breach materially and adversely affects the interests of certificateholders and cannot be cured, the breach would give rise to a repurchase obligation on the part of the seller, as described under "Mortgage Loan Program—Representations with Respect to the Mortgage Loans." However, an event of this type would not give rise to a breach of a representation and warranty or a repurchase obligation on the part of the depositor or Residential Funding Company, LLC.

The original amount of coverage under each mortgage pool insurance policy will be reduced over the life of the related series of certificates by the aggregate amount of claims paid less the aggregate of the net amounts realized by the pool insurer upon disposition of all foreclosed properties. The amount of claims paid includes some expenses incurred by the master servicer or subservicer as well as accrued interest on delinquent mortgage loans to the date of payment of the claim. See "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans—Foreclosure on Mortgage Loans." Accordingly, if aggregate net claims paid under any mortgage pool insurance policy reach the original policy limit, coverage under that mortgage pool insurance policy will be exhausted and any further losses will be borne by the related certificateholders. In addition, unless the master servicer determines that an Advance relating to a delinquent mortgage loan would be recoverable to it from the proceeds of the liquidation of the mortgage loan or otherwise, the master servicer would not be obligated to make an Advance respecting any delinquency since the Advance would not be ultimately recoverable to it from either the mortgage pool insurance policy or from any other related source. See "Description of the Certificates— Advances."

Since each mortgage pool insurance policy will require that the property subject to a defaulted mortgage loan be restored to its original condition prior to claiming against the pool insurer, the policy will not provide coverage against hazard losses. As described under "Insurance Policies on Mortgage Loans-Standard Hazard Insurance on Mortgaged Properties," the hazard policies covering the mortgage loans typically exclude from coverage physical damage resulting from a number of causes and, even when the damage is covered, may afford recoveries which are significantly less than full replacement cost of those losses. Additionally, no coverage for Special Hazard Losses, Fraud Losses or Bankruptcy Losses will cover all risks, and the amount of any such coverage will be limited. See "—Special Hazard Insurance Policies" below. As a result, certain hazard risks will not be insured against and may be borne by certificateholders.

Special Hazard Insurance Policies

Any insurance policy covering Special Hazard Losses obtained for a trust will be issued by the insurer named in the related prospectus supplement. Each special hazard insurance policy subject to limitations described in this paragraph and in the related prospectus supplement, if any, will protect the related certificateholders from Special Hazard Losses. Aggregate claims under a special hazard insurance policy will be limited to the amount described in the accompanying prospectus supplement and will be subject to reduction as described in the accompanying prospectus supplement. A special hazard insurance policy will provide that no claim may be paid unless hazard and, if applicable, flood insurance on the property securing the mortgage loan has been kept in force and other protection and preservation expenses have been paid by the master servicer.

In accordance with the foregoing limitations, a special hazard insurance policy will provide that, where there has been damage to property securing a foreclosed mortgage loan, title to which has been acquired by the insured, and to the extent the damage is not covered by the hazard insurance policy or flood insurance policy, if any, maintained by the mortgagor or the master servicer or the subservicer, the insurer will pay the lesser of (i) the cost of repair or replacement of the related property or (ii) upon transfer of the property to the insurer, the unpaid principal balance of the mortgage loan at the time of acquisition of the related property by foreclosure or deed in lieu of foreclosure, plus accrued interest at the mortgage rate to the date of claim settlement and certain expenses incurred by the master servicer or the subservicer with respect to the related property.

If the property is transferred to a third party in a sale approved by the special hazard insurer, the amount that the special hazard insurer will pay will be the amount under (ii) above reduced by the net proceeds of the sale of the property. If the unpaid principal balance plus accrued interest and some expenses is paid by the special hazard insurer, the amount of further coverage under the related special hazard insurance policy will be reduced by that amount less any net proceeds from the sale of the property. Any amount paid as the cost of repair of the property will further reduce coverage by that amount. Restoration of the property with the proceeds described under (i) above will satisfy the condition under each mortgage pool insurance policy that the property be restored before a claim under the policy may be validly presented with respect to the defaulted mortgage loan secured by the related property. The payment described under (ii) above will render presentation of a claim relating to a mortgage loan under the related mortgage pool insurance policy unnecessary. Therefore, so long as a mortgage pool insurance policy remains in effect, the payment by the insurer under a special hazard insurance policy of the cost of repair or of the unpaid principal balance of the related mortgage loan plus accrued interest and some expenses will not affect the total Insurance Proceeds paid to certificateholders, but will affect the relative amounts of coverage remaining under the related special hazard insurance policy and mortgage pool insurance policy.

Mortgage Insurance Policies

If stated in the accompanying prospectus supplement, the depositor may acquire a mortgage insurance policy for all or a portion of the mortgage loans, or covered loans, with current LTV ratios in excess of a percentage stated in the related prospectus supplement. Any insurance policy for the covered loans will be issued by a mortgage insurer. The mortgage insurance policy will insure a portion of the loss that may be incurred on each covered loan. If stated in the related prospectus supplement, the aggregate amount payable by the mortgage insurer under the mortgage insurance policy may be limited.

Bankruptcy Policies

In the event of a personal bankruptcy of a mortgagor and a filing under Chapter 13 of the Bankruptcy Code, a bankruptcy court may establish the value of the mortgaged property of the mortgagor, and, if specified in the related prospectus supplement, any related Additional Collateral, at a Deficient Valuation. Under current law, Deficient Valuations are not permitted with respect to first liens on the related mortgaged property, but may occur with respect to a mortgage loan secured by a junior lien if the value of the related mortgaged property at the time of the filing is less than the amount of any first lien.

In addition, other modifications of the terms of a mortgage loan can result from a bankruptcy proceeding without a permanent forgiveness of the principal amount of the mortgage loan, including a Debt Service Reduction. See "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans— Anti-Deficiency Legislation and Other Limitations on Lenders." Any bankruptcy policy to provide coverage for Bankruptcy Losses resulting from proceedings under the federal Bankruptcy Code obtained for a trust will be issued by an insurer named in the related prospectus supplement. The level of coverage under each bankruptcy policy will be described in the related prospectus supplement.

Reserve Funds

If so specified in the related prospectus supplement, the depositor will deposit or cause to be deposited in a reserve fund, any combination of cash or Permitted Investments in specified amounts, or any other instrument satisfactory to the rating agency or Agencies, which will be applied and maintained in the manner and under the conditions specified in the related pooling and servicing agreement. In the alternative or in addition to that deposit, to the extent described in the related prospectus supplement, a reserve fund may be funded through application of all or a portion of amounts otherwise payable on any related certificates, from the an uncertificated interest in the trust assets, or otherwise. To the extent that the funding of the reserve fund is dependent on amounts otherwise payable on related certificates, any uncertificated interest in a trust asset or other cash flows attributable to the related mortgage loans or on reinvestment income, the reserve fund may provide less coverage than initially expected if the cash flows or reinvestment income on which the funding is dependent are lower than anticipated.

With respect to any series of certificates as to which credit enhancement includes a letter of credit, if so specified in the related prospectus supplement, under specified circumstances the remaining amount of the letter of credit may be drawn by the trustee and deposited in a reserve fund. Amounts in a reserve fund may be distributed to certificateholders, or applied to reimburse the master servicer for outstanding Advances, or may be used for other purposes, in the manner and to the extent specified in the related prospectus supplement. If so specified in the related prospectus supplement, amounts in a reserve fund may be available only to cover specific types of losses, or losses on specific mortgage loans. A reserve fund may provide coverage to more than one series of certificates, if set forth in the related prospectus supplement.

The trustee will have a perfected security interest for the benefit of the certificateholders in the assets in the reserve fund, unless the assets are owned by the related trust. However, to the extent that the depositor, any affiliate of the depositor or any other entity has an interest in any reserve fund, in the event of the bankruptcy, receivership or insolvency of that entity, there could be delays in withdrawals from the reserve fund and the corresponding payments to the certificateholders. These delays could adversely affect the yield to investors on the related certificates.

Amounts deposited in any reserve fund for a series will be invested in Permitted Investments by, or at the direction of, and for the benefit of the master servicer or any other person named in the related prospectus supplement.

Certificate Insurance Policies; Surety Bonds

If so specified in the related prospectus supplement, the depositor may obtain one or more certificate insurance policies or guaranties or one or more surety bonds, or one or more guarantees issued by insurers or other parties acceptable to the rating agency or Agencies rating the certificates offered, as specified in the related prospectus supplement, insuring the holders of one or more classes of certificates the payment of amounts due in accordance with the terms of that class or those classes of certificates. Any certificate insurance policy, surety bond or guaranty will have the characteristics described in, and will be in accordance with any limitations and exceptions described in, the related prospectus supplement.

Maintenance of Credit Enhancement

If credit enhancement has been obtained for a series of certificates, the master servicer will be obligated to exercise its best reasonable efforts to keep or cause to be kept the credit enhancement in full force and effect throughout the term of the applicable pooling and servicing agreement, unless coverage thereunder has been exhausted through payment of claims or otherwise, or substitution therefore is made as described below under "—Reduction or Substitution of Credit Enhancement." The master servicer, on behalf of itself, the trustee and certificateholders, will be required to provide information required for the trustee to draw under any applicable credit enhancement.

The master servicer, the servicer or the Certificate Administrator will agree to pay the premiums for each mortgage pool insurance policy, special hazard insurance policy, mortgage insurance policy, bankruptcy policy, certificate insurance policy or surety bond, as applicable, on a timely basis, unless the premiums are paid directly by the trust. As to mortgage pool insurance policies generally, in the event the related insurer ceases to be a Qualified Insurer, the master servicer will use its best reasonable efforts to obtain from another Qualified Insurer a comparable replacement insurance policy with a total coverage equal to the then outstanding coverage of the policy. If the cost of the replacement policy is greater than the cost of the existing policy, the coverage of the replacement policy will, unless otherwise agreed to by the depositor, be reduced to a level so that its premium rate does not exceed the premium rate on the original insurance policy. In the event that a pool insurer ceases to be a Qualified Insurer because it ceases to be approved as an insurer by Freddie Mac or Fannie Mae or any successor entity, the master servicer will review, not less often than monthly, the financial condition of the pool insurer with a view toward determining whether recoveries under the mortgage pool insurance policy are jeopardized for reasons related to the financial condition of the pool insurer. If the master servicer determines that recoveries are so jeopardized, it will exercise its best reasonable efforts to obtain from another Qualified Insurer a replacement insurance policy as described above, at the same cost limit. Any losses in market value of the certificates associated with any reduction or withdrawal in rating by an applicable rating agency shall be borne by the certificateholders.

If any property securing a defaulted mortgage loan is damaged and proceeds, if any, from the related hazard insurance policy or any applicable special hazard insurance policy are insufficient to restore the damaged property to a condition sufficient to permit recovery under any letter of credit, mortgage pool insurance policy or any related primary insurance policy, the master servicer is not required to expend its own funds to restore the damaged property unless it determines (i) that restoration will increase the proceeds to one or more classes of certificateholders on liquidation of the mortgage loan after reimbursement of the master servicer for its expenses and (ii) that the expenses will be recoverable by it through Liquidation Proceeds or Insurance Proceeds. If recovery under any letter of credit, mortgage pool insurance policy, other credit enhancement or any related primary insurance policy is not available because the master servicer has been unable to make the above determinations, has made the determinations incorrectly or recovery is not available for any other reason, the master servicer is nevertheless obligated to follow whatever normal practices and procedures, in accordance with the preceding sentence, that it deems necessary or advisable to realize upon the defaulted mortgage loan and in the event this determination has been incorrectly made, is entitled to reimbursement of its expenses in connection with the restoration.

Reduction or Substitution of Credit Enhancement

The amount of credit support provided with respect to any series of certificates and relating to various types of losses incurred may be reduced under specified circumstances. In most cases, the amount available as credit support will be subject to periodic reduction on a non-discretionary basis in accordance with a schedule or formula set forth in the accompanying prospectus supplement. Additionally, in most cases, the credit support may be replaced, reduced or terminated, and the formula used in calculating the amount of coverage with respect to Bankruptcy Losses, Special Hazard Losses or Fraud Losses may be changed, without the consent of the certificateholders, upon the written assurance from each applicable rating agency that the then-current rating of the related series of certificates will not be adversely affected thereby and the consent of the related credit enhancer, if applicable.

Furthermore, in the event that the credit rating of any obligor under any applicable credit enhancement is downgraded, the credit rating of each class of the related certificates may be downgraded to a corresponding level and the accompanying prospectus supplement will specify whether the master servicer nor the depositor will be obligated to obtain replacement credit support in order to restore the rating of the certificates. The master servicer will also be permitted to replace any credit support with other credit enhancement instruments issued by obligors whose credit ratings are equivalent to the downgraded level and in lower amounts which would satisfy the downgraded level, provided that the then-current rating of each class of the related series of certificates is maintained. Where the credit support is in the form of a reserve fund, a permitted reduction in the amount of credit enhancement will result in a release of all or a portion of the assets in the reserve fund to the depositor, the master servicer or any other person that is entitled thereto. Any assets so released and any amount by which the credit enhancement is reduced will not be available for distributions in future periods.

Other Financial Obligations Related to the Certificates

Swaps and Yield Supplement Agreements

The trustee on behalf of the trust may enter into interest rate swaps and related caps, floors and collars to minimize the risk of certificateholders from adverse changes in interest rates, and other yield supplement agreements or similar yield maintenance arrangements that do not involve swap agreements or other notional principal contracts.

An interest rate swap is an agreement between two parties to exchange a stream of interest payments on an agreed hypothetical or "notional" principal amount. No principal amount is exchanged between the counterparties to an interest rate swap. In the typical swap, one party agrees to pay a fixed rate on a notional principal amount, while the counterparty pays a floating rate based on one or more reference interest rates including the London Interbank Offered Rate or, LIBOR, a specified bank's prime rate or U.S. Treasury Bill rates. Interest rate swaps also permit counterparties to exchange a floating rate obligation based upon one reference interest rate, such as LIBOR, for a floating rate obligation based upon another referenced interest rate, such as U.S. Treasury Bill rates.

The swap market has grown substantially in recent years with a significant number of banks and financial service firms acting both as principals and as agents utilizing standardized swap documentation. Caps, floors and collars are more recent innovations, and they are less liquid than other swaps.

Yield supplement agreements may be entered into to supplement the interest rate or other rates on one or more classes of the certificates of any series.

There can be no assurance that the trust will be able to enter into or offset swaps or enter into yield supplement agreements at any specific time or at prices or on other terms that are advantageous. In addition, although the terms of the swaps and yield supplement agreements may provide for termination under some circumstances, there can be no assurance that the trust will be able to terminate a swap or yield supplement agreement when it would be economically advantageous to the trust to do so.

Purchase Obligations

Some types of mortgage loans and classes of certificates of any series, as specified in the related prospectus supplement, may be subject to a purchase obligation. The terms and conditions of each purchase obligation, including the purchase price, timing and payment procedure, will be described in the related prospectus supplement. A purchase obligation with respect to mortgage loans may apply to those mortgage loans or to the related certificates. Each purchase obligation may be a secured or unsecured obligation of its provider, which may include a bank or other financial institution or an insurance company. The accompanying prospectus will specify whether each purchase obligation will be evidenced by an instrument delivered to the trustee for the benefit of the applicable certificateholders of the related series. Each purchase obligation with respect to mortgage loans will be payable solely to the trustee for the benefit of the certificateholders of the related series. Other purchase obligations may be payable to the trustee or directly to the holders of the certificates to which the obligation relate.

Insurance Policies on Mortgage Loans

Each mortgage loan will be required to be covered by a hazard insurance policy, as described below, and, at times, a primary insurance policy or an alternative form of coverage, as described below. The descriptions of any insurance policies contained in this prospectus or any prospectus supplement and the coverage thereunder do not purport to be complete and are qualified in their entirety by reference to the forms of policies.

Primary Insurance Policies

In general, and except as described below, (i) each mortgage loan having an LTV ratio at origination of over 80% will be covered by a primary mortgage guaranty insurance policy insuring against default on the mortgage loan up to an amount set forth in the related prospectus supplement, unless and until the principal balance of the mortgage loan is reduced to a level that would produce an LTV ratio equal to or less than 80%, and (ii) the depositor or the related seller will represent and warrant that, to the best of the depositor's knowledge, the mortgage loans are so covered. Alternatively, coverage of the type that would be provided by a primary insurance policy if obtained may be provided by another form of credit enhancement as described in this prospectus under "Description of Credit Enhancement." However, the foregoing standard may vary significantly depending on the characteristics of the mortgage loans and the applicable underwriting standards. A mortgage loan will not be considered to be an exception to the foregoing standard if no primary insurance policy was obtained at origination but the mortgage loan has amortized to an 80% or less LTV ratio level as of the applicable cut-off date. In most cases, the depositor will have the ability to cancel any primary insurance policy if the LTV ratio of the mortgage loan is reduced to 80% or less, or a lesser specified percentage, based on an appraisal of the mortgaged property after the related closing date or as a result of principal payments that reduce the principal balance of the mortgage loan after the closing date.

Pursuant to recently enacted federal legislation, mortgagors with respect to many residential mortgage loans originated on or after July 29, 1999, will have a right to request the cancellation of any private mortgage insurance policy insuring loans when the outstanding principal amount of the mortgage loan has been reduced or is scheduled to have been reduced to 80% or less of the value of the mortgaged property at the time the mortgage loan was originated. The mortgagor's right to request the cancellation of the policy is subject to certain conditions, including (i) the condition that no monthly payment has been thirty days or more past due during the twelve months prior to the cancellation date, and no monthly payment has been sixty days or more past due during the twelve months prior to that period, (ii) there has been no decline in the value of the mortgaged property since the time the mortgage loan was originated and (iii) the mortgaged property is not encumbered by subordinate liens. In addition, any requirement for private mortgage insurance will automatically terminate when the scheduled principal balance of the mortgage loan, based on the original amortization schedule for the mortgage loan, is reduced to 78% or less of the value of the mortgaged property at the time of origination, provided the mortgage loan is current. The legislation requires that mortgagors be provided written notice of these cancellation rights at the origination of the mortgage loans.

If the requirement for private mortgage insurance is not otherwise canceled or terminated in the circumstances described above, it must be terminated no later than the first day of the month immediately following the date that is the midpoint of the loan's amortization period, if, on that date, the borrower is current on the payments required by the terms of the loan. The mortgagee's or servicer's failure to comply with the law could subject such parties to civil money penalties but would not affect the validity or enforceability of the mortgage loan. The law does not preempt any state law regulating private mortgage insurance except to the extent that such law is inconsistent with the federal law and then only to the extent of the inconsistency.

Mortgage loans that are subject to negative amortization will only be covered by a primary insurance policy if that coverage was required upon their origination, notwithstanding that subsequent negative amortization may cause that mortgage loan's LTV ratio, based on the then-current balance, to subsequently exceed the limits that would have required coverage upon their origination. Primary insurance policies may be required to be obtained and paid for by the mortgagor, or may be paid for by the servicer.

While the terms and conditions of the Primary Insurance Policies issued by one primary mortgage guaranty insurer will usually differ from those in Primary Insurance Policies issued by other primary insurers, each primary insurance policy generally will pay either:

- the insured percentage of the loss on the related mortgaged property;
- the entire amount of the loss, after receipt by the primary insurer of good and merchantable title to, and possession of, the mortgaged property; or
- at the option of the primary insurer under certain Primary Insurance Policies, the sum of the delinquent monthly payments plus any Advances made by the insured, both to the date of the claim payment and, thereafter, monthly payments in the amount that would have become due under the mortgage loan if it had not been discharged plus any Advances made by the insured until the earlier of (a) the date the mortgage loan would have been discharged in full if the default had not occurred or (b) an approved sale.

The amount of the loss as calculated under a primary insurance policy covering a mortgage loan will in most cases consist of the unpaid principal amount of such mortgage loan and accrued and unpaid interest thereon and reimbursement of some expenses, less:

- rents or other payments received by the insured, other than the proceeds of hazard insurance, that are derived from the related mortgaged property;
- hazard insurance proceeds received by the insured in excess of the amount required to restore the mortgaged property and which have not been applied to the payment of the mortgage loan;
- amounts expended but not approved by the primary insurer;
- claim payments previously made on the mortgage loan; and
- unpaid premiums and other amounts.

As conditions precedent to the filing or payment of a claim under a primary insurance policy, in the event of default by the mortgagor, the insured will typically be required, among other things, to:

- advance or discharge (a) hazard insurance premiums and (b) as necessary and approved in advance by the primary insurer, real estate taxes, protection and preservation expenses and foreclosure and related costs;
- in the event of any physical loss or damage to the mortgaged property, have the mortgaged property restored to at least its condition at the effective date of the primary insurance policy, ordinary wear and tear excepted; and
- tender to the primary insurer good and merchantable title to, and possession of, the mortgaged property.

For any certificates offered under this prospectus, the master servicer will maintain or cause each subservicer to maintain, as the case may be, in full force and effect and to the extent coverage is available a primary insurance policy with regard to each mortgage loan for which coverage is required under the standard described above unless an exception to such standard applies or alternate credit enhancement is provided as described in the related prospectus supplement; provided that the primary insurance policy was in place as of the cut-off date and the depositor had knowledge of such primary insurance policy. If the depositor gains knowledge that as of the closing date, a mortgage loan had an LTV ratio at origination in excess of 80% and was not the subject of a primary insurance policy, and was not included in any exception to its representations or covered by alternate credit enhancement as described in the related prospectus supplement, and that the mortgage loan has a then current LTV ratio in excess of 80%, then the master servicer is required to use its reasonable efforts to obtain and maintain a primary insurance policy to the extent that a policy is obtainable at a reasonable price.

Standard Hazard Insurance on Mortgaged Properties

The terms of the mortgage loans, other than Cooperative Loans, require each mortgagor to maintain a hazard insurance policy covering the related mortgaged property and providing for coverage at least equal to that of the standard form of fire insurance policy with extended coverage customary in the state in which the property is located. Most coverage will be in an amount equal to the lesser of the principal balance of the mortgage loan, the guaranteed replacement value or 100% of the insurable value of the improvements securing the mortgage loan. The pooling and servicing agreement will provide that the master servicer or servicer shall cause the hazard policies to be maintained or shall obtain a blanket policy insuring against losses on the mortgage loans. The ability of the master servicer to ensure that hazard insurance proceeds are appropriately applied may be dependent on its being named as an additional insured under any hazard insurance policy and under any flood insurance policy referred to below, or upon the extent to which information in this regard is furnished to the master servicer by mortgagors or subservicers.

The standard form of fire and extended coverage policy covers physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike and civil commotion, in accordance with the conditions and exclusions specified in each policy. The policies relating to the mortgage loans will be underwritten by different insurers under different state laws in accordance with different applicable state forms and therefore will not contain identical terms and conditions, the basic terms thereof are dictated by respective state laws. These policies typically do not cover any physical damage resulting from the following: war, revolution, governmental actions, floods and other water-related causes, earth movement, including earthquakes, landslides and mudflows, nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in some cases, vandalism. The foregoing list is merely indicative of some kinds of uninsured risks and is not intended to be all-inclusive. Where the improvements securing a mortgage loan are located in a federally designated flood area at the time of origination of that mortgage loan, the pooling and servicing agreement generally requires the master servicer to cause to be maintained for each such mortgage loan serviced, flood insurance, to the extent available, in an amount equal to the lesser of the amount required to compensate for any loss or damage on a replacement cost basis or the maximum insurance available under the federal flood insurance program.

The hazard insurance policies covering the mortgaged properties typically contain a co-insurance clause that in effect requires the related mortgagor at all times to carry insurance of a specified percentage, typically 80% to 90%, of the full replacement value of the improvements on the property in order to recover the full amount of any partial loss. If the related mortgagor's coverage falls below this specified percentage, this clause usually provides that the insurer's liability in the event of partial loss does not exceed the greater of (i) the replacement cost of the improvements damaged or destroyed less physical depreciation or (ii) the proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of the improvements.

Since the amount of hazard insurance that mortgagors are required to maintain on the improvements securing the mortgage loans may decline as the principal balances owing thereon decrease, and since residential properties have historically appreciated in value over time, hazard insurance proceeds could be insufficient to restore fully the damaged property in the event of a partial loss. See "Subordination" above for a description of when subordination is provided, the protection, limited to the Special Hazard Amount as described in the related prospectus supplement, afforded by subordination, and "Description of Credit Enhancement—Special Hazard Insurance Policies" for a description of the limited protection afforded by any special hazard insurance policy against losses occasioned by hazards which are otherwise uninsured against.

The Depositor

The depositor is an indirect wholly-owned subsidiary of GMAC Mortgage Group, LLC, which is a wholly-owned subsidiary of GMAC LLC. The depositor is a Delaware corporation incorporated in January 1985. The depositor was organized for the purpose of acquiring "Jumbo A" program mortgage loans and depositing these loans into issuing entities that issue securities backed by such mortgage loans. The depositor does not engage in any other activities and does not have, nor is it expected in the future to have, any significant assets. The depositor anticipates that it will in many cases have acquired mortgage loans indirectly through Residential Funding Company, LLC, which is also an indirect wholly-owned subsidiary of GMAC Mortgage Group, LLC.

The certificates do not represent an interest in or an obligation of the depositor. The depositor's only obligations with respect to a series of certificates will be to repurchase certain items of mortgage collateral upon any breach of limited representations and warranties made by the depositor.

The depositor maintains its principal office at 8400 Normandale Lake Boulevard, Suite 250, Minneapolis, Minnesota 55437. Its telephone number is (952) 857-7000.

Residential Funding Company, LLC

Residential Funding Company, LLC, an affiliate of the depositor, will act as the sponsor and master servicer or Certificate Administrator for a series of certificates, except in the case of a Designated Seller Transaction.

The Pooling and Servicing Agreement

As described in this prospectus under "Description of the Certificates—General," each series of certificates will be issued under a pooling and servicing agreement as described in that section. The following summaries describe additional provisions common to each pooling and servicing agreement.

Servicing and Other Compensation and Payment of Expenses

The principal servicing compensation to be paid to the master servicer for its master servicing activities for each series of certificates will be equal to the percentage per annum described in the related prospectus supplement, which may vary under some circumstances, of the outstanding principal balance of each mortgage loan, and that compensation will be retained by it from collections of interest on the mortgage loan in the related trust, after provision has been made for the payment of interest at the applicable pass-through rate or Net Mortgage Rate, as the case may be, to certificateholders and for the payment of any uncertificated interest, at the time the collections are deposited into the applicable Custodial Account. Notwithstanding the foregoing, with respect to a series of certificates as to which the trust includes mortgage securities, the compensation payable to the master servicer or Certificate Administrator for servicing and administering the mortgage securities on behalf of the holders of the certificates may be based on a percentage per annum described in the related prospectus supplement of the outstanding balance of those mortgage securities and may be retained from distributions of interest thereon, if so specified in the related prospectus supplement.

As compensation for its servicing duties, a subservicer or, if there is no subservicer, the master servicer will be entitled to a monthly servicing fee as described in the related prospectus supplement, which may vary under certain circumstances from the amounts described in the prospectus supplement. Some subservicers may also receive additional compensation in the amount of all or a portion of the interest due and payable on the applicable mortgage loan which is over and above the interest rate specified at the time the depositor or Residential Funding Company, LLC, as the case may be, committed to purchase the mortgage loan. See "Mortgage Loan Program—Subservicing." Subservicers will be required to pay to the master servicer an amount equal to one month's interest, net of its servicing or other compensation, on the amount of any partial Principal Prepayment. The master servicer will retain these amounts to the extent collected from subservicers. In addition, the master servicer or a subservicer will generally retain all prepayment charges, assumption fees, late payment charges and any additional proceeds, if any, to the extent collected from mortgagors, and any benefit which may accrue from the investment of funds in the Custodial Account or the applicable Certificate Account, to the extent not applied as Compensating Interest, or in a Subservicing Account, as the case may be. In addition, some reasonable duties of the master servicer may be performed by an affiliate of the master servicer who will be entitled to compensation therefore.

The master servicer will pay or cause to be paid some of the ongoing expenses associated with each trust and incurred by it in connection with its responsibilities under the pooling and servicing agreement, including, without limitation, payment of any fee or other amount payable for any alternative credit enhancement arrangements, payment of the fees and disbursements of the trustee, any custodian appointed by the trustee, the certificate registrar and any paying agent, and payment of expenses incurred in enforcing the obligations of subservicers and sellers. The master servicer will be entitled to reimbursement of expenses incurred in enforcing the obligations of subservicers and sellers under limited circumstances. In addition, as indicated in the preceding section, the master servicer will be entitled to reimbursements for some of the expenses incurred by it in connection with Liquidated Mortgage Loans and in connection with the restoration of mortgaged properties and any additional proceeds, if any, such right of reimbursement being prior to the rights of certificateholders to receive any related Liquidation Proceeds, including Insurance Proceeds.

Evidence as to Compliance

Each pooling and servicing agreement will require the master servicer to deliver to the trustee, on or before the date in each year specified in the related pooling and servicing agreement, and, if required, file with the Commission as part of a report on Form 10-K filed on behalf of each issuing entity, the following documents:

- a report regarding its assessment of compliance during the preceding calendar year with all applicable servicing criteria set forth in relevant Commission regulations with respect to asset-backed securities transactions taken as a whole involving the master servicer that are backed by the same types of assets as those backing the certificates, as well as similar reports on assessment of compliance received from certain other parties participating in the servicing function as required by relevant Commission regulations;
- with respect to each assessment report described immediately above, a report by a registered public accounting firm that attests to, and reports on, the assessment made by the asserting party, as set forth in relevant Commission regulations; and
- a servicer compliance certificate, signed by an authorized officer of the master servicer, to the effect that:
    - a review of the master servicer's activities during the reporting period and of its performance under the applicable pooling and servicing agreement has been made under such officer's supervision; and
    - to the best of such officer's knowledge, based on such review, the master servicer has fulfilled all of its obligations under the pooling and servicing agreement in all materials respects throughout the period referenced in such servicer compliance certificate or, if there has been a failure to fulfill any such obligation in any material respect, specifying each such failure known to such officer and the nature and status thereof.

The master servicer's obligation to deliver to the trustee any assessment or attestation report described above and, if required, to file the same with the Commission, is limited to those reports prepared by the master servicer and, in the case of reports prepared by any other party, those reports actually received by the master servicer on or before March 31 in each year. In addition, each servicer or subservicer participating in the servicing function with respect to more than 5% of the mortgage loans will provide the foregoing assessment reports with respect to itself and each servicer or subservicer of at least 10% of the mortgage loans will provide the compliance certificate described above with respect to its servicing activities.

Furthermore, if any trust includes mortgage securities, either the related prospectus supplement will specify how to locate Exchange Act reports relating to such mortgage securities or the required information will be provided in such trust's Exchange Act reports while it is a reporting entity.

Certain Matters Regarding the Master Servicer and the Depositor

The pooling and servicing agreement for each series of certificates will provide that the master servicer may not resign from its obligations and duties thereunder except upon a determination that performance of its duties is no longer permissible under applicable law or except in connection with a permitted transfer of servicing. No resignation will become effective until the trustee or a successor servicer has assumed the master servicer's obligations and duties under the pooling and servicing agreement.

Each pooling and servicing agreement will also provide that, except as described below, neither the master servicer, the depositor, nor any director, officer, employee or agent of the master servicer or the depositor will be under any liability to the trust or the certificateholders for any action taken or for refraining from the taking of any action in good faith under the pooling and servicing agreement, or for errors in judgment; provided, however, that neither the master servicer, the depositor, nor any such person will be protected against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties thereunder. Each pooling and servicing agreement will further provide that the master servicer, the depositor, and any director, officer, employee or agent of the master servicer or the depositor is entitled to indemnification by the trust and will be held harmless against any loss, liability or expense incurred in connection with any legal action relating to the pooling and servicing agreement or the related series of certificates, other than any loss, liability or expense related to any specific mortgage loan or mortgage loans, except any such loss, liability or expense otherwise reimbursable under the pooling and servicing agreement, and any loss, liability or expense incurred by reason of willful misfeasance, bad faith or gross negligence in the performance of duties thereunder or by reason of reckless disregard of obligations and duties thereunder.

In addition, each pooling and servicing agreement will provide that neither the master servicer nor the depositor will be under any obligation to appear in, prosecute or defend any legal or administrative action that is not incidental to its respective duties under the pooling and servicing agreement and which in its opinion may involve it in any expense or liability. The master servicer or the depositor may, however, in its discretion undertake any action which it may deem necessary or desirable with respect to the pooling and servicing agreement and the rights and duties of the parties thereto and the interests of the certificateholders thereunder. In that event, the legal expenses and costs of that action and any liability resulting therefrom will be expenses, costs and liabilities of the trust and the master servicer or the depositor, as the case may be, will be entitled to be reimbursed for the legal expenses and costs out of funds otherwise distributable to certificateholders.

Any person into which the master servicer may be merged or consolidated, any person resulting from any merger or consolidation to which the master servicer is a party or any person succeeding to the business of the master servicer will be the successor of the master servicer under the pooling and servicing agreement, provided that (i) that person is qualified to service mortgage loans on behalf of Fannie Mae or Freddie Mac and (ii) the merger, consolidation or succession does not adversely affect the then-current rating of the classes of certificates of the related series that have been rated. In addition, notwithstanding the prohibition on its resignation, the master servicer may assign its rights under a pooling and servicing agreement to any person to whom the master servicer is transferring a substantial portion of its mortgage servicing portfolio, provided clauses (i) and (ii) above are satisfied and that person is reasonably satisfactory to the depositor and the trustee. In the case of any assignment of this type, the master servicer will be released from its obligations under the pooling and servicing agreement, exclusive of liabilities and obligations incurred by it prior to the time of assignment.

Events of Default

Events of default under the pooling and servicing agreement for a series of certificates will include:

- any failure by the master servicer to make a required deposit to the Certificate Account or, if the master servicer is the paying agent, to distribute to the holders of any class of certificates of that series any required payment which continues unremedied for five days after the giving of written notice of the failure to the master servicer by the trustee or the depositor, or to the master servicer, the depositor and the trustee by the holders of certificates of such class evidencing not less than 25% of the aggregate percentage interests constituting that class;
- any failure by the master servicer duly to observe or perform in any material respect any other of its covenants or agreements in the pooling and servicing agreement with respect to that series of certificates which continues unremedied for 30 days, or 15 days in the case of a failure to pay the premium for any insurance policy which is required to be maintained under the pooling and servicing agreement, after the giving of written notice of the failure to the master servicer by the trustee or the depositor, or to the master servicer, the depositor and the trustee by the holders of any class of certificates of that series evidencing not less than 25% of the aggregate percentage interests constituting that class; and
- some events of insolvency, readjustment of debt, marshalling of assets and liabilities or similar proceedings regarding the master servicer and certain actions by the master servicer indicating its insolvency or inability to pay its obligations.

A default under the terms of any mortgage securities included in any trust will not constitute an event of default under the related pooling and servicing agreement.

Rights upon Event of Default

So long as an event of default remains unremedied, either the depositor or the trustee may, and, at the direction of the holders of certificates evidencing not less than 51% of the aggregate voting rights in the related trust, the trustee shall, by written notification to the master servicer and to the depositor or the trustee, as applicable, terminate all of the rights and obligations of the master servicer under the pooling and servicing agreement, other than any rights of the master servicer as certificateholder, covering the trust and in and to the mortgage loans and the proceeds thereof, whereupon the trustee or, upon notice to the depositor and with the depositor's consent, its designee will succeed to all responsibilities, duties and liabilities of the master servicer under the pooling and servicing agreement, other than the obligation to purchase mortgage loans under some circumstances, and will be entitled to similar compensation arrangements. If a series of certificates includes credit enhancement provided by a third party credit enhancer, certain of the foregoing rights may be provided to the credit enhancer rather than the certificateholders, if so specified in the applicable prospectus supplement. In the event that the trustee would be obligated to succeed the master servicer but is unwilling so to act, it may appoint or if it is unable so to act, it shall appoint or petition a court of competent jurisdiction for the appointment of, a Fannie Mae- or Freddie Mac-approved mortgage servicing institution with a net worth of at least $10,000,000 to act as successor to the master servicer under the pooling and servicing agreement, unless otherwise set forth in the pooling and servicing agreement. Pending appointment, the trustee is obligated to act in that capacity. The trustee and such successor may agree upon the servicing compensation to be paid, which in no event may be greater than the compensation to the initial master servicer under the pooling and servicing agreement. The master servicer is required to reimburse the trustee for all reasonable expenses incurred or made by the trustee in accordance with any of the provisions of the pooling and servicing agreement, except any such expense as may arise from the trustee's negligence or bad faith.

No certificateholder will have any right under a pooling and servicing agreement to institute any proceeding with respect to the pooling and servicing agreement unless the holder previously has given to the trustee written notice of default and the continuance thereof and unless the holders of certificates of any class evidencing not less than 25% of the aggregate percentage interests constituting that class have made written request upon the trustee to institute the proceeding in its own name as trustee thereunder and have offered to the trustee reasonable indemnity and the trustee for 60 days after receipt of the request and indemnity has neglected or refused to institute any proceeding. However, the trustee will be under no obligation to exercise any of the trusts or powers vested in it by the pooling and servicing agreement or to institute, conduct or defend any litigation thereunder or in relation thereto at the request, order or direction of any of the holders of certificates covered by the pooling and servicing agreement, unless the certificateholders have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Amendment

Each pooling and servicing agreement may be amended by the depositor, the master servicer and the trustee, without the consent of the related certificateholders:

- to cure any ambiguity;
- to correct or supplement any provision therein which may be inconsistent with any other provision therein or to correct any error;
- to change the timing and/or nature of deposits in the Custodial Account or the Certificate Account or to change the name in which the Custodial Account is maintained, except that (a) the Certificate Account deposit date may not occur later than the related distribution date, (b) the change may not adversely affect in any material respect the interests of any certificateholder, as evidenced by an opinion of counsel, and (c) the change may not adversely affect the then-current rating of any rated classes of certificates, as evidenced by a letter from each applicable rating agency as specified in the related prospectus supplement;
- if an election to treat the related trust as a "real estate mortgage investment conduit", or REMIC, has been made, to modify, eliminate or add to any of its provisions (a) to the extent necessary to maintain the qualification of the trust as a REMIC or to avoid or minimize the risk of imposition of any tax on the related trust, provided that the trustee has received an opinion of counsel to the effect that (1) that action is necessary or desirable to maintain qualification or to avoid or minimize that risk, and (2) the action will not adversely affect in any material respect the interests of any related certificateholder, or (b) to modify the provisions regarding the transferability of the REMIC residual certificates, provided that the depositor has determined that the change would not adversely affect the applicable ratings of any classes of the certificates, as evidenced by a letter from each applicable rating agency as specified in the related prospectus supplement, and that any such amendment will not give rise to any tax with respect to the transfer of the REMIC residual certificates to a non-permitted transferee;
- to make any other provisions with respect to matters or questions arising under the pooling and servicing agreement which are not materially inconsistent with its provisions, so long as the action will not adversely affect in any material respect the interests of any certificateholder; or
- to amend any provision that is not material to holders of any class of related certificates.

The pooling and servicing agreement may also be amended by the depositor, the master servicer and the trustee with the consent of the holders of certificates of each class affected thereby evidencing, in each case, not less than 66% of the aggregate percentage interests constituting that class for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the pooling and servicing agreement or of modifying in any manner the rights of the related certificateholders, except that no such amendment may (i) reduce in any manner the amount of, or delay the timing of, payments received on mortgage loans which are required to be distributed on a certificate of any class without the consent of the holder of the certificate or (ii) reduce the percentage of certificates of any class the holders of which are required to consent to any such amendment unless the holders of all certificates of that class have consented to the change in the percentage. Furthermore, the applicable prospectus supplement will describe any rights a third party credit enhancer may have with respect to amendments to the pooling and servicing agreement.

Notwithstanding the foregoing, if a REMIC election has been made with respect to the related trust, the trustee will not be entitled to consent to any amendment to a pooling and servicing agreement without having first received an opinion of counsel to the effect that the amendment or the exercise of any power granted to the master servicer, the depositor or the trustee in accordance with the amendment will not result in the imposition of a tax on the related trust or cause the trust to fail to qualify as a REMIC. Furthermore, the applicable prospectus supplement will describe any rights a third party credit enhancer may have with respect to amendments to agreements.

Termination; Retirement of Certificates

The primary obligations created by the pooling and servicing agreement for each series of certificates will terminate upon the payment to the related certificateholders of all amounts held in the Certificate Account or by the entity specified in the related prospectus supplement and required to be paid to the certificateholders following the earlier of:

- the final payment or other liquidation or disposition, or any Advance with respect thereto, of the last mortgage loan subject thereto and all property acquired upon foreclosure or deed in lieu of foreclosure of any mortgage loan, or
- the purchase by the entity specified in the related prospectus supplement from the trust for such series of all or any portion of the remaining mortgage loans and all property acquired in respect of such mortgage loans.

Any option to purchase described in the second item above will be limited to cases in which the aggregate Stated Principal Balance of the remaining mortgage loans is less than or equal to ten percent (10%) of the initial aggregate Stated Principal Balance of the mortgage loans or such other time as may be specified in the related prospectus supplement. If the holder of a class of certificates may terminate the trust and cause the outstanding certificates to be redeemed when 25% or more of the initial principal balance of the certificates is still outstanding, the term "callable" will be included in the title of the related certificates. In addition to the foregoing, the entity specified in the related prospectus supplement may have the option to purchase, in whole but not in part, the certificates specified in the related prospectus supplement in the manner described in the related prospectus supplement. Following the purchase of such certificates, the master servicer or the servicer will effect a retirement of the certificates and the termination of the trust. Written notice of termination of the pooling and servicing agreement will be given to each certificateholder, and the final distribution will be made only upon surrender and cancellation of the certificates at an office or agency appointed by the trustee which will be specified in the notice of termination.

Any purchase described in the preceding paragraph of mortgage loans and property acquired relating to the mortgage loans evidenced by a series of certificates shall be made at the option of the entity specified in the related prospectus supplement at the price specified in the related prospectus supplement. Such entity, if not Residential Funding Company, LLC or an affiliate, shall be deemed to represent that one of the following will be true and correct: (i) the exercise of such option shall not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code or (ii) such entity is (A) not a party in interest with respect to any ERISA plan (other than a plan sponsored or maintained by the entity, provided that no assets of such plan are invested or deemed to be invested in the certificates) and (B) not a "benefit plan investor," as defined in "ERISA Considerations-Plan Asset Regulations." The exercise of that right will effect early retirement of the certificates of that series, but the right of any entity to purchase the mortgage loans and related property will be in accordance with the criteria, and will be at the price, set forth in the related prospectus supplement. Early termination in this manner may adversely affect the yield to holders of some classes of the certificates. If a REMIC election has been made, the termination of the related trust will be effected in a manner consistent with applicable federal income tax regulations and its status as a REMIC.

In addition to the optional repurchase of the property in the related trust, if so specified in the related prospectus supplement, a holder of the Call Class will have the right, solely at its discretion, to terminate the related trust and thereby effect early retirement of the certificates of the series, on any distribution date after the 12th distribution date following the date of initial issuance of the related series of certificates and until the date when the optional termination rights of the entity specified in the accompanying prospectus supplement become exercisable. The Call Class will not be offered under the prospectus supplement. Any such call will be of the entire trust at one time; multiple calls with respect to any series of certificates will not be permitted. In the case of a call, the holders of the certificates will be paid a price equal to the Call Price. To exercise the call, the Call Certificateholder must remit to the related trustee for distribution to the certificateholders, funds equal to the Call Price. If those funds are not deposited with the related trustee, the certificates of that series will remain outstanding. In addition, in the case of a trust for which a REMIC election or elections have been made, this termination will be effected in a manner consistent with applicable Federal income tax regulations and its status as a REMIC. In connection with a call by the Call certificateholder, the final payment to the certificateholders will be made upon surrender of the related certificates to the trustee. Once the certificates have been surrendered and paid in full, there will not be any further liability to certificateholders.

The Trustee

The trustee under each pooling and servicing agreement will be named in the related prospectus supplement. The commercial bank or trust company serving as trustee may have normal banking relationships with the depositor and/or its affiliates, including Residential Funding Company, LLC.

The trustee may resign at any time, in which event the depositor will be obligated to appoint a successor trustee. The depositor may also remove the trustee if the trustee ceases to be eligible to continue as trustee under the pooling and servicing agreement or if the trustee becomes insolvent. Upon becoming aware of those circumstances, the depositor will be obligated to appoint a successor trustee. The trustee may also be removed at any time by the holders of certificates evidencing not less than 51% of the aggregate voting rights in the related trust. Any resignation or removal of the trustee and appointment of a successor trustee will not become effective until acceptance of the appointment by the successor trustee.

Yield Considerations

The yield to maturity of a certificate will depend on the price paid by the holder for the certificate, the pass-through rate on any certificate entitled to payments of interest, which pass-through rate may vary if so specified in the related prospectus supplement, and the rate and timing of principal payments, including prepayments, defaults, liquidations and repurchases, on the mortgage loans and the allocation thereof to reduce the principal balance of the certificate or its notional amount, if applicable.

Each monthly interest payment on a mortgage loan will be calculated as one-twelfth of the applicable mortgage rate multiplied by the principal balance of the mortgage loan outstanding as of the first day of the related due date for the mortgage loan, subject to any deferred interest. The amount of payments with respect to each mortgage loan distributed, or accrued in the case of deferred interest or accrual certificates, monthly to holders of a class of certificates entitled to payments of interest will be similarly calculated on the basis of that class's specified percentage of each payment of interest, or accrual in the case of accrual certificates, and will be expressed as a fixed, adjustable or variable pass-through rate payable on the outstanding principal balance or notional amount of the certificate, or any combination of pass-through rates, calculated as described in this prospectus and in the related prospectus supplement. Holders of strip certificates or a class of certificates having a pass-through rate that varies based on the weighted average mortgage rate of the underlying mortgage loans will be affected by disproportionate prepayments and repurchases of mortgage loans having higher Net Mortgage Rates or rates applicable to the strip certificates, as applicable.

The effective yield to maturity to each holder of certificates entitled to payments of interest will be below that otherwise produced by the applicable pass-through rate and purchase price of the certificate because, while interest will accrue on each mortgage loan from the first day of each month, the distribution of interest will be made on the 25th day or, if the 25th day is not a business day, the next succeeding business day, of the month following the month of accrual or such other day that is specified in the related prospectus supplement.

A class of certificates may be entitled to payments of interest at a fixed pass-through rate, a variable pass-through rate or adjustable pass-through rate, or any combination of pass-through rates, each as specified in the related prospectus supplement. A variable pass-through rate may be calculated based on the weighted average of the Net Mortgage Rates, net of servicing fees and any uncertificated interest in a trust asset, of the related mortgage loans for the month preceding the distribution date. An adjustable pass-through rate may be calculated by reference to an index or otherwise.

The aggregate payments of interest on a class of certificates, and the yield to maturity thereon, will be affected by the rate of payment of principal on the certificates, or the rate of reduction in the notional amount of certificates entitled to payments of interest only, and, in the case of certificates evidencing interests in ARM loans, by changes in the Net Mortgage Rates on the ARM loans. See "Maturity and Prepayment Considerations" below. The yield on the certificates will also be affected by liquidations of mortgage loans following mortgagor defaults, optional repurchases and by purchases of mortgage loans in the event of breaches of representations made for the mortgage loans by the depositor, Residential Funding Company, LLC and other persons as may be specified in the related prospectus supplement, or conversions of ARM loans to a fixed interest rate. See "Mortgage Loan Program—Representations with Respect to the Mortgage Loans" and "Description of the Certificates—Assignment of Trust Assets" above. In addition, if the index used to determine the pass-through rate for the certificates is different than the index applicable to the mortgage rates, the yield on the certificates will be sensitive to changes in the index related to the pass-through rate and the yield on the certificates may be reduced by application of a cap on the pass-through rate based on the weighted average of the Net Mortgage Rates.

In general, if a certificate is purchased at a premium over its face amount and payments of principal on the related mortgage loans occur at a rate faster than assumed at the time of purchase, the purchaser's actual yield to maturity will be lower than that anticipated at the time of purchase. Conversely, if a class of certificates is purchased at a discount from its face amount and payments of principal on the related mortgage loans occur at a rate slower than that assumed at the time of purchase, the purchaser's actual yield to maturity will be lower than that originally anticipated. The effect of Principal Prepayments, liquidations and purchases on yield will be particularly significant in the case of a series of certificates having a class entitled to payments of interest only or disproportionate payments of interest. This type of class will likely be sold at a substantial premium to its principal balance and any faster than anticipated rate of prepayments will adversely affect the yield to its holders. In some circumstances, rapid prepayments may result in the failure of the holders to recoup their original investment. In addition, the yield to maturity on other types of classes of certificates, including accrual certificates, certificates with a pass-through rate that fluctuates inversely with or at a multiple of an index or other classes in a series including more than one class of certificates, may be relatively more sensitive to the rate of prepayment on the related mortgage loans than other classes of certificates.

The timing of changes in the rate of principal payments on or repurchases of the mortgage loans may significantly affect an investor's actual yield to maturity, even if the average rate of principal payments experienced over time is consistent with an investor's expectation. In general, the earlier a prepayment of principal on the underlying mortgage loans or a repurchase of the mortgage loans, the greater will be the effect on an investor's yield to maturity. As a result, the effect on an investor's yield of principal payments and repurchases occurring at a rate higher or lower than the rate anticipated by the investor during the period immediately following the issuance of a series of certificates would not be fully offset by a subsequent like reduction or increase in the rate of principal payments.

When a full prepayment is made on a mortgage loan, the mortgagor is charged interest on the principal amount of the mortgage loan so prepaid for the number of days in the month actually elapsed up to the date of the prepayment. Prepayments in full generally will reduce the amount of interest distributed to holders of certificates entitled to distributions of interest on the distribution date in the month in which the related Prepayment Period ends if that Principal Prepayment was made in the preceding calendar month and the resulting Prepayment Interest Shortfall is not covered by Compensating Interest. See "Description of the Certificates—Prepayment Interest Shortfalls." Generally, a partial prepayment of principal is applied so as to reduce the outstanding principal balance of the related mortgage loan as of the first day of the month in which the partial prepayment is received. As a result, the effect of a partial Principal Prepayment on a mortgage loan will be to reduce the amount of interest distributed to holders of certificates if such distribution date occurs in the following calendar month, by an amount of up to one month's interest at the applicable pass-through rate or Net Mortgage Rate, as the case may be, on the prepaid amount, if the resulting Prepayment Interest Shortfall is not covered by Compensating Interest. See "Description of the Certificates—Prepayment Interest Shortfalls." Partial Principal Prepayments and Liquidation Proceeds will be distributed on the distribution date in the month following receipt. Principal Prepayments in full received during a Prepayment Period will be distributed on the distribution date in the month in which that Prepayment Period ends. See "Maturity and Prepayment Considerations."

The rate of defaults on the mortgage loans will also affect the rate and timing of principal payments on the mortgage loans and thus the yield on the certificates. In general, defaults on mortgage loans are expected to occur with greater frequency in their early years. The rate of default on mortgage loans which are refinance or limited documentation mortgage loans, and on mortgage loans with high LTV ratios, may be higher than for other types of mortgage loans. Furthermore, the rate and timing of prepayments, defaults and liquidations on the mortgage loans will be affected by the general economic condition of the region of the country in which the related mortgaged properties are located. The risk of delinquencies and loss is greater and prepayments are less likely in regions where a weak or deteriorating economy exists, as may be evidenced by, among other factors, increasing unemployment or falling property values. The risk of loss may also be greater on mortgage loans with LTV ratios greater than 80% and with no primary insurance policies. The yield on any class of certificates and the timing of principal payments on that class may also be affected by modifications or actions that may be approved by the master servicer as described in this prospectus under "Description of the Certificates—Collection and Other Servicing Procedures," in connection with a mortgage loan that is in default, or if a default is reasonably foreseeable.

The risk of loss on Interest Only Loans may be greater than on loans that require a borrower to pay principal and interest throughout the term of the loan from origination. See "The Trusts—The Mortgage Loans."

The risk of loss on mortgage loans made on Puerto Rico or Guam mortgage loans may be greater than on mortgage loans that are made to mortgagors who are United States residents and citizens or that are secured by properties located in the United States. See "Certain Legal Aspects of Mortgage Loans."

With respect to some mortgage loans, including ARM loans, the mortgage rate at origination may be below the rate that would result if the index and margin relating thereto were applied at origination. Under the applicable underwriting standards, the mortgagor under each mortgage loan usually will be qualified on the basis of the mortgage rate in effect at origination. The repayment of any such mortgage loan may thus be dependent on the ability of the mortgagor to make larger monthly payments following the adjustment of the mortgage rate. In addition, the periodic increase in the amount paid by the mortgagor of a Buy-Down Mortgage Loan during or at the end of the applicable Buy-Down Period may create a greater financial burden for the mortgagor, who might not have otherwise qualified for a mortgage under Residential Funding Company, LLC's underwriting guidelines, and may accordingly increase the risk of default with respect to the related mortgage loan.

The mortgage rates on ARM loans that are subject to negative amortization typically adjust monthly and their amortization schedules adjust less frequently. During a period of rising interest rates as well as immediately after origination-initial mortgage rates are typically lower than the sum of the Indices applicable at origination and the related Note Margins-the amount of interest accruing on the principal balance of those mortgage loans may exceed the amount of the scheduled monthly payment thereon. As a result, a portion of the accrued interest on negatively amortizing mortgage loans may become deferred interest which will be added to their principal balance and will bear interest at the applicable mortgage rate.

The addition of any deferred interest to the principal balance of any related class of certificates will lengthen the weighted average life of that class of certificates and may adversely affect yield to holders of those certificates. In addition, with respect to ARM loans that are subject to negative amortization, during a period of declining interest rates, it might be expected that each scheduled monthly payment on such a mortgage loan would exceed the amount of scheduled principal and accrued interest on its principal balance, and since the excess will be applied to reduce the principal balance of the related class or classes of certificates, the weighted average life of those certificates will be reduced and may adversely affect yield to holders thereof.

For each mortgage pool, if all necessary Advances are made and if there is no unrecoverable loss on any mortgage loan, the net effect of each distribution respecting interest will be to pass-through to each holder of a class of certificates entitled to payments of interest an amount which is equal to one month's interest at the applicable pass-through rate on that class's principal balance or notional balance, as adjusted downward to reflect any decrease in interest caused by any Principal Prepayments and the addition of any deferred interest to the principal balance of any mortgage loan. See "Description of the Certificates—Distributions—Principal and Interest on the Certificates."

Maturity and Prepayment Considerations

As indicated above under "The Trusts—The Mortgage Loans," the original terms to maturity of the mortgage loans in a given mortgage pool will vary depending upon the type of mortgage loans included in the mortgage pool. The prospectus supplement for a series of certificates will contain information with respect to the types and maturities of the mortgage loans in the related mortgage pool. Generally, all of the mortgage loans may be prepaid without penalty in full or in part at any time. The prepayment experience, the timing and rate of repurchases and the timing and amount of liquidations with respect to the related mortgage loans in a mortgage pool will affect the life and yield of the related series of certificates.

With respect to Balloon Loans, payment of the Balloon Amount, which, based on the amortization schedule of those mortgage loans, is expected to be a substantial amount, will typically depend on the mortgagor's ability to obtain refinancing of the mortgage loans or to sell the mortgaged property prior to the maturity of the Balloon Loan. The ability to obtain refinancing will depend on a number of factors prevailing at the time refinancing or sale is required, including, without limitation, real estate values, the mortgagor's financial situation, prevailing mortgage loan interest rates, the mortgagor's equity in the related mortgaged property, tax laws and prevailing general economic conditions. Neither the depositor, the master servicer nor any of their affiliates will be obligated to refinance or repurchase any mortgage loan or to sell the mortgaged property.

Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The prospectus supplement for each series of certificates may describe one or more prepayment standard or model and may contain tables setting forth the projected yields to maturity on each class of certificates and/or the weighted average life of each class of certificates and the percentage of the original principal amount of each class of certificates of that series that would be outstanding on specified payment dates for the series based on the assumptions stated in the related prospectus supplement, including assumptions that prepayments on the mortgage loans are made at rates corresponding to various percentages of the prepayment standard or model. There is no assurance that prepayment of the mortgage loans underlying a series of certificates will conform to any level of the prepayment standard or model specified in the related prospectus supplement.

The following is a list of factors that may affect prepayment experience:

- homeowner mobility;
- economic conditions;
- changes in mortgagors' housing needs;
- job transfers;
- unemployment;
- mortgagors' equity in the properties securing the mortgages;
- servicing decisions;
- enforceability of due-on-sale clauses;
- mortgage market interest rates;
- mortgage recording taxes;
- solicitations and the availability of mortgage funds; and
- the obtaining of secondary financing by the mortgagor.

Risk of prepayment on Interest Only Loans may be greater because borrowers may decide to refinance before the expiration of the interest-only period. See "The Trusts—The Mortgage Loans."

The related prospectus supplement will specify whether the mortgage loans, contain due-on-sale provisions permitting the mortgagee to accelerate the maturity of the mortgage loan upon sale or some transfers by the mortgagor of the underlying mortgaged property. The master servicer will enforce any due-on-sale clause to the extent it has knowledge of the conveyance or proposed conveyance of the underlying mortgaged property and it is entitled to do so under applicable law, provided, however, that the master servicer will not take any action in relation to the enforcement of any due-on-sale provision which would adversely affect or jeopardize coverage under any applicable insurance policy.

An ARM loan is assumable, in some circumstances, if the proposed transferee of the related mortgaged property establishes its ability to repay the mortgage loan and, in the reasonable judgment of the master servicer or the related subservicer, the security for the ARM loan would not be impaired by the assumption. The extent to which ARM loans are assumed by purchasers of the mortgaged properties rather than prepaid by the related mortgagors in connection with the sales of the mortgaged properties will affect the weighted average life of the related series of certificates. See "Description of the Certificates —Collection and Other Servicing Procedures" and "Certain Legal Aspects of Mortgage Loans—The Mortgage Loans—Enforceability of Certain Provisions" for a description of provisions of the pooling and servicing agreement and legal developments that may affect the prepayment experience on the mortgage loans.

In addition, some mortgage securities included in a mortgage pool may be backed by underlying mortgage loans having differing interest rates. Accordingly, the rate at which principal payments are received on the related certificates will, to some extent, depend on the interest rates on the underlying mortgage loans.

A subservicer may allow the refinancing of a mortgage loan in any trust by accepting prepayments thereon and permitting a new loan to the same borrower secured by a mortgage on the same property, which may be originated by the subservicer or the master servicer or any of their respective affiliates or by an unrelated entity. In the event of a refinancing, the new loan would not be included in the related trust and, therefore, the refinancing would have the same effect as a prepayment in full of the related mortgage loan. A subservicer or the master servicer may, from time to time, implement programs designed to encourage refinancing. These programs may include, without limitation, modifications of existing loans, general or targeted solicitations, the offering of pre-approved applications, reduced origination fees or closing costs, or other financial incentives. Targeted solicitations may be based on a variety of factors, including the credit of the borrower or the location of the mortgaged property. In addition, subservicers or the master servicer may encourage assumptions of mortgage loans, including defaulted mortgage loans, under which creditworthy borrowers assume the outstanding indebtedness of the mortgage loans which may be removed from the related mortgage pool. As a result of these programs, with respect to the mortgage pool underlying any trust, the rate of Principal Prepayments of the mortgage loans in the mortgage pool may be higher than would otherwise be the case, and in some cases, the average credit or collateral quality of the mortgage loans remaining in the mortgage pool may decline.

All statistics known to the depositor that have been compiled with respect to prepayment experience on mortgage loans indicate that while some mortgage loans may remain outstanding until their stated maturities, a substantial number will be paid prior to their respective stated maturities.

The rate of prepayment with respect to conventional fixed-rate mortgage loans has fluctuated significantly in recent years. For example, published principal balance information for Freddie Mac and Fannie Mae securities backed by conventional fixed-rate mortgage loans indicates that the prepayment rates for those mortgage securities were substantially lower during the high interest rate climate prevailing during 1980, 1981 and early 1982 than the prepayment rates during 1985 and 1986 when prevailing interest rates declined. In general, if interest rates fall below the mortgage rates on fixed-rate mortgage loans, the rate of prepayment would be expected to increase. The depositor is not aware of any historical prepayment experience with respect to mortgage loans secured by properties located in Puerto Rico or Guam and, accordingly, prepayments on those loans may not occur at the same rate or be affected by the same factors as other mortgage loans.

Although the mortgage rates on ARM loans will be subject to periodic adjustments, the adjustments generally will:

- not increase or decrease the mortgage rates by more than a fixed percentage amount on each adjustment date;

- not increase the mortgage rates over a fixed percentage amount during the life of any ARM loan; and
- be based on an index, which may not rise and fall consistently with mortgage interest rates, plus the related Note Margin, which may be different from margins being used for newly originated adjustable rate mortgage loans.

As a result, the mortgage rates on the ARM loans in a mortgage pool at any time may not equal the prevailing rates for similar, newly originated adjustable rate mortgage loans. In some rate environments, the prevailing rates on fixed-rate mortgage loans may be sufficiently low in relation to the then-current mortgage rates on ARM loans that the rate of prepayment may increase as a result of refinancings. There can be no certainty as to the rate of prepayments on the mortgage loans during any period or over the life of any series of certificates.

Under some circumstances, the master servicer may have the option to purchase the mortgage loans in a trust. See "The Pooling and Servicing Agreement—Termination; Retirement of Certificates." Any repurchase will shorten the weighted average lives of the related certificates. Furthermore, as described under "The Pooling and Servicing Agreement—Termination; Retirement of Certificates" a holder of the Call Class will have the right, solely at its discretion, to terminate the related trust and thereby effect early retirement of the certificates of the series, on any distribution date after the 12th distribution date following the date of the initial issuance of the related series of certificates and until the date when the optional termination rights of the master servicer or the servicer become exercisable. Any such termination will shorten the weighted average lives of the related certificates.

Certain Legal Aspects of Mortgage Loans

The following discussion contains summaries of some legal aspects of mortgage loans that are general in nature. Because these legal aspects are governed in part by state law, which laws may differ substantially from state to state, the summaries do not purport to be complete, to reflect the laws of any particular state or to encompass the laws of all states in which the mortgaged properties may be situated. The summaries are qualified in their entirety by reference to the applicable federal and state laws governing the mortgage loans.

The Mortgage Loans

General

The mortgage loans, other than Cooperative Loans, will be secured by deeds of trust, mortgages or deeds to secure debt depending upon the prevailing practice in the state in which the related mortgaged property is located. In some states, a mortgage, deed of trust or deed to secure debt creates a lien upon the related real property. In other states, the mortgage, deed of trust or deed to secure debt conveys legal title to the property to the mortgagee subject to a condition subsequent, for example, the payment of the indebtedness secured thereby. These instruments are not prior to the lien for real estate taxes and assessments and other charges imposed under governmental police powers. Priority with respect to these instruments depends on their terms and in some cases on the terms of separate subordination or inter-creditor agreements, and generally on the order of recordation of the mortgage deed of trust or deed to secure debt in the appropriate recording office.

There are two parties to a mortgage, the mortgagor, who is the borrower and homeowner, and the mortgagee, who is the lender. Under the mortgage instrument, the mortgagor delivers to the mortgagee a note or bond and the mortgage. In some states, three parties may be involved in a mortgage financing when title to the property is held by a land trustee under a land trust agreement of which the borrower is the beneficiary; at origination of a mortgage loan, the land trustee, as fee owner of the property, executes the mortgage and the borrower executes (1) a separate undertaking to make payments on the mortgage note and (2) an assignment of leases and rents. Although a deed of trust is similar to a mortgage, a deed of trust has three parties: the trustor, who is the borrower/homeowner; the beneficiary, who is the lender; and a third-party grantee called the trustee. Under a deed of trust, the borrower grants the property, irrevocably until the debt is paid, in trust, the grantee's authority under a deed to secure debt generally with a power of sale, to the trustee to secure payment of the obligation. A deed to secure debt typically has two parties, under which the borrower, or grantor, conveys title to the real property to the grantee, or lender, typically with a power of sale, until the time when the debt is repaid. The trustee's authority under a deed of trust and the mortgagee's authority under a mortgage are governed by the law of the state in which the real property is located, the express provisions of the deed of trust, mortgage or deed to secure debt and, in some deed of trust, transactions, the directions of the beneficiary.

Cooperative Loans

If specified in the prospectus supplement relating to a series of certificates, the mortgage loans may include Cooperative Loans. Each Cooperative Note evidencing a Cooperative Loan will be secured by a security interest in shares issued by the Cooperative that owns the related apartment building, which is a corporation entitled to be treated as a housing cooperative under federal tax law, and in the related proprietary lease or occupancy agreement granting exclusive rights to occupy a specific dwelling unit in the Cooperative's building. The security agreement will create a lien upon, or grant a security interest in, the Cooperative shares and proprietary leases or occupancy agreements, the priority of which will depend on, among other things, the terms of the particular security agreement as well as the order of recordation of the agreement, or the filing of the financing statements related thereto, in the appropriate recording office or the taking of possession of the Cooperative shares, depending on the law of the state in which the Cooperative is located. This type of lien or security interest is not, in general, prior to liens in favor of the cooperative corporation for unpaid assessments or common charges. This type of lien or security interest is not prior to the lien for real estate taxes and assessments and other charges imposed under governmental police powers.

Generally, each Cooperative owns in fee or has a leasehold interest in all the real property and owns in fee or leases the building and all separate dwelling units therein. The Cooperative is directly responsible for property management and, in most cases, payment of real estate taxes, other governmental impositions and hazard and liability insurance. If there is an underlying mortgage or mortgages on the Cooperative's building or underlying land, as is typically the case, or an underlying lease of the land, as is the case in some instances, the Cooperative, as mortgagor or lessee, as the case may be, is also responsible for fulfilling the mortgage or rental obligations.

An underlying mortgage loan is ordinarily obtained by the Cooperative in connection with either the construction or purchase of the Cooperative's building or the obtaining of capital by the Cooperative. The interest of the occupant under proprietary leases or occupancy agreements as to which that Cooperative is the landlord is generally subordinate to the interest of the holder of an underlying mortgage and to the interest of the holder of a land lease. If the Cooperative is unable to meet the payment obligations (i) arising under an underlying mortgage, the mortgagee holding an underlying mortgage could foreclose on that mortgage and terminate all subordinate proprietary leases and occupancy agreements or (ii) arising under its land lease, the holder of the landlord's interest under the land lease could terminate it and all subordinate proprietary leases and occupancy agreements. In addition, an underlying mortgage on a Cooperative may provide financing in the form of a mortgage that does not fully amortize, with a significant portion of principal being due in one final payment at maturity. The inability of the Cooperative to refinance a mortgage and its consequent inability to make the final payment could lead to foreclosure by the mortgagee. Similarly, a land lease has an expiration date and the inability of the Cooperative to extend its term or, in the alternative, to purchase the land, could lead to termination of the Cooperative's interest in the property and termination of all proprietary leases and occupancy agreements. In either event, a foreclosure by the holder of an underlying mortgage or the termination of the underlying lease could eliminate or significantly diminish the value of any collateral held by the lender who financed the purchase by an individual tenant-stockholder of shares of the Cooperative, or in the case of the mortgage loans, the collateral securing the Cooperative Loans.

Each Cooperative is owned by shareholders, referred to as tenant-stockholders, who, through ownership of stock or shares in the Cooperative, receive proprietary leases or occupancy agreements which confer exclusive rights to occupy specific dwellings. Generally, a tenant-stockholder of a Cooperative must make a monthly rental payment to the Cooperative under the proprietary lease, which rental payment represents the tenant-stockholder's pro rata share of the Cooperative's payments for its underlying mortgage, real property taxes, maintenance expenses and other capital or ordinary expenses. An ownership interest in a Cooperative and accompanying occupancy rights may be financed through a Cooperative Loan evidenced by a Cooperative Note and secured by an assignment of and a security interest in the occupancy agreement or proprietary lease and a security interest in the related shares of the related Cooperative. The lender generally takes possession of the share certificate and a counterpart of the proprietary lease or occupancy agreement and a financing statement covering the proprietary lease or occupancy agreement and the Cooperative shares is filed in the appropriate state and local offices to perfect the lender's interest in its collateral. In accordance with the limitations discussed below, upon default of the tenant-stockholder, the lender may sue for judgment on the Cooperative Note, dispose of the collateral at a public or private sale or otherwise proceed against the collateral or tenant-stockholder as an individual as provided in the security agreement covering the assignment of the proprietary lease or occupancy agreement and the pledge of Cooperative shares. See "—Foreclosure on Shares of Cooperatives" below.

Tax Aspects of Cooperative Ownership

In general, a "tenant-stockholder", as defined in Section 216(b)(2) of the Internal Revenue Code of 1986, or Internal Revenue Code, of a corporation that qualifies as a "cooperative housing corporation" within the meaning of Section 216(b)(1) of the Internal Revenue Code is allowed a deduction for amounts paid or accrued within his or her taxable year to the corporation representing his or her proportionate share of certain interest expenses and real estate taxes allowable as a deduction under Section 216(a) of the Internal Revenue Code to the corporation under Sections 163 and 164 of the Internal Revenue Code. In order for a corporation to qualify under Section 216(b)(1) of the Internal Revenue Code for its taxable year in which those items are allowable as a deduction to the corporation, the section requires, among other things, that at least 80% of the gross income of the corporation be derived from its tenant-stockholders. By virtue of this requirement, the status of a corporation for purposes of Section 216(b)(1) of the Internal Revenue Code must be determined on a year-to-year basis. Consequently, there can be no assurance that Cooperatives relating to the Cooperative Loans will qualify under this section for any particular year. In the event that a Cooperative fails to qualify for one or more years, the value of the collateral securing any related Cooperative Loans could be significantly impaired because no deduction would be allowable to tenant-stockholders under Section 216(a) of the Internal Revenue Code with respect to those years. In view of the significance of the tax benefits accorded tenant-stockholders of a corporation that qualifies under Section 216(b)(1) of the Internal Revenue Code, the likelihood that this type of failure would be permitted to continue over a period of years appears remote.

Foreclosure on Mortgage Loans

Although a deed of trust or a deed to secure debt may also be foreclosed by judicial action, foreclosure of a deed of trust or a deed to secure debt is typically accomplished by a non-judicial trustee's or grantee's, as applicable, sale under a specific provision in the deed of trust or deed to secure debt which authorizes the trustee or grantee, as applicable, to sell the property upon any default by the borrower under the terms of the note or deed of trust or deed to secure debt. In addition to any notice requirements contained in a deed of trust or deed to secure debt, in some states, the trustee or grantee, as applicable, must record a notice of default and send a copy to the borrower/trustor and to any person who has recorded a request for a copy of notice of default and notice of sale. In addition, in some states, the trustee or grantee, as applicable, must provide notice to any other individual having an interest of record in the real property, including any junior lienholders. If the deed of trust or deed to secure debt is not reinstated within a specified period, a notice of sale must be posted in a public place and, in most states, published for a specific period of time in one or more newspapers. In addition, some states' laws require that a copy of the notice of sale be posted on the property and sent to all parties having an interest of record in the real property.

In some states, the borrower has the right to reinstate the mortgage loan at any time following default until shortly before the trustee's sale. In most cases, in those states, the borrower, or any other person having a junior encumbrance on the real estate may, during a reinstatement period, cure the default by paying the entire amount in arrears plus the costs and expenses incurred in enforcing the obligation.

Any action to foreclose a mortgage is an action to recover the mortgage debt by enforcing the mortgagee's rights under the mortgage and in the mortgaged property and compelling a sale of the mortgaged property to satisfy the debt. It is regulated by statutes and rules, and in most cases a borrower is bound by the terms of the mortgage note and the mortgage as made and cannot be relieved from its own default. However, a court may exercise equitable powers to relieve a borrower of a default and deny the mortgagee foreclosure. Under various circumstances a court of equity may relieve the borrower from a non-monetary default where the default was not willful or where a monetary default, such as failure to pay real estate taxes can be cured before completion of the foreclosure and there is not substantial prejudice to the mortgagee.

Foreclosure of a mortgage generally is accomplished by judicial action. In most cases, the action is initiated by the service of legal pleadings upon all parties having an interest of record in the real property. Delays in completion of the foreclosure may result from difficulties in locating and serving necessary parties, including borrowers, such as international borrowers located outside the jurisdiction in which the mortgaged property is located. Difficulties in foreclosing on mortgaged properties owned by international borrowers may result in increased foreclosure costs, which may reduce the amount of proceeds from the liquidation of the related mortgage loan available to be distributed to the certificateholders of the related series. If the mortgagee's right to foreclose is contested, the legal proceedings necessary to resolve the issue can be time-consuming.

In the case of foreclosure under a mortgage, a deed of trust or deed to secure debt, the sale by the referee or other designated officer or by the trustee or grantee, as applicable, is a public sale. However, because of the difficulty a potential buyer at the sale may have in determining the exact status of title and because the physical condition of the property may have deteriorated during the foreclosure proceedings, it is uncommon for a third party to purchase the property at a foreclosure sale. Rather, it is common for the lender to purchase the property from the trustee or grantee, as applicable, or referee for a credit bid less than or equal to the unpaid principal amount of the mortgage or deed of trust or deed to secure debt, accrued and unpaid interest and the expense of foreclosure, in which case the mortgagor's debt will be extinguished unless the lender purchases the property for a lesser amount in order to preserve its right against a borrower to seek a deficiency judgment and the remedy is available under state law and the related loan documents. In the same states, there is a statutory minimum purchase price which the lender may offer for the property and generally, state law controls the amount of foreclosure costs and expenses, including attorneys' fees, which may be recovered by a lender. Thereafter, subject to the right of the borrower in some states to remain in possession during the redemption period, the lender will assume the burdens of ownership, including obtaining hazard insurance, paying taxes and making repairs at its own expense that are necessary to render the property suitable for sale. Generally, the lender will obtain the services of a real estate broker and pay the broker's commission in connection with the sale of the property. Depending upon market conditions, the ultimate proceeds of the sale of the property may not equal the lender's investment in the property and, in some states, the lender may be entitled to a deficiency judgment. In some cases, a deficiency judgment may be pursued in lieu of foreclosure. Any loss may be reduced by the receipt of any mortgage insurance proceeds or other forms of credit enhancement for a series of certificates. See "Description of Credit Enhancement."

Foreclosure on Mortgaged Properties Located in the Commonwealth of Puerto Rico

Under the laws of the Commonwealth of Puerto Rico the foreclosure of a real estate mortgage usually follows an ordinary "civil action" filed in the Superior Court for the district where the mortgage property is located. If the defendant does not contest the action filed, a default judgment is rendered for the plaintiff and the mortgaged property is sold at public auction, after publication of the sale for two weeks, by posting written notice in three public places in the municipality where the auction will be held, in the tax collection office and in the public school of the municipality where the mortgagor resides, if known. If the residence of the mortgagor is not known, publication in one of the newspapers of general circulation in the Commonwealth of Puerto Rico must be made at least once a week for two weeks. There may be as many as three public sales of the mortgaged property. If the defendant contests the foreclosure, the case may be tried and judgment rendered based on the merits of the case.

There are no redemption rights after the public sale of a foreclosed property under the laws of the Commonwealth of Puerto Rico. Commonwealth of Puerto Rico law provides for a summary proceeding for the foreclosure of a mortgage, but it is very seldom used because of concerns regarding the validity of those actions. The process may be expedited if the mortgagee can obtain the consent of the defendant to the execution of a deed in lieu of foreclosure.

Under Commonwealth of Puerto Rico law, in the case of the public sale upon foreclosure of a mortgaged property that (a) is subject to a mortgage loan that was obtained for a purpose other than the financing or refinancing of the acquisition, construction or improvement of the property and (b) is occupied by the mortgagor as his principal residence, the mortgagor of the property has a right to be paid the first $1,500 from the proceeds obtained on the public sale of the property. The mortgagor can claim this sum of money from the mortgagee at any time prior to the public sale or up to one year after the sale. This payment would reduce the amount of sales proceeds available to satisfy the mortgage loan and may increase the amount of the loss.

Foreclosure on Shares of Cooperatives

The Cooperative shares owned by the tenant-stockholder, together with the rights of the tenant-stockholder under the proprietary lease or occupancy agreement, are pledged to the lender and are, in almost all cases, subject to restrictions on transfer as set forth in the Cooperative's certificate of incorporation and by-laws, as well as in the proprietary lease or occupancy agreement. The proprietary lease or occupancy agreement, even while pledged, may be cancelled by the Cooperative for failure by the tenant-stockholder to pay rent or other obligations or charges owed by the tenant-stockholder, including mechanics' liens against the Cooperative's building incurred by the tenant-stockholder.

Generally, rent and other obligations and charges arising under a proprietary lease or occupancy agreement that are owed to the Cooperative become liens upon the shares to which the proprietary lease or occupancy agreement relates. In addition, the proprietary lease or occupancy agreement generally permits the Cooperative to terminate the lease or agreement in the event the borrower defaults in the performance of covenants thereunder. Typically, the lender and the Cooperative enter into a recognition agreement which, together with any lender protection provisions contained in the proprietary lease or occupancy agreement, establishes the rights and obligations of both parties in the event of a default by the tenant-stockholder on its obligations under the proprietary lease or occupancy agreement. A default by the tenant-stockholder under the proprietary lease or occupancy agreement will usually constitute a default under the security agreement between the lender and the tenant-stockholder.

The recognition agreement generally provides that, in the event that the tenant-stockholder has defaulted under the proprietary lease or occupancy agreement, the Cooperative will take no action to terminate the lease or agreement until the lender has been provided with notice of and an opportunity to cure the default. The recognition agreement typically provides that if the proprietary lease or occupancy agreement is terminated, the Cooperative will recognize the lender's lien against proceeds from a sale of the shares and the proprietary lease or occupancy agreement allocated to the dwelling, subject, however, to the Cooperative's right to sums due under the proprietary lease or occupancy agreement or which have become liens on the shares relating to the proprietary lease or occupancy agreement. The total amount owed to the Cooperative by the tenant-stockholder, which the lender generally cannot restrict and does not monitor, could reduce the amount realized upon a sale of the collateral below the outstanding principal balance of the Cooperative Loan and accrued and unpaid interest thereon.

Recognition agreements also generally provide that in the event the lender succeeds to the tenant-shareholder's shares and proprietary lease or occupancy agreement as the result of realizing upon its collateral for a Cooperative Loan, the lender must obtain the approval or consent of the board of directors of the Cooperative as required by the proprietary lease before transferring the Cooperative shares and assigning the proprietary lease. This approval or consent is usually based on the prospective purchaser's income and net worth, among other factors, and may significantly reduce the number of potential purchasers, which could limit the ability of the lender to sell and realize upon the value of the collateral. Generally, the lender is not limited in any rights it may have to dispossess the tenant-stockholder.

Because of the nature of Cooperative Loans, lenders do not usually require either the tenant-stockholder (that is, the borrower) or the Cooperative to obtain title insurance of any type. Consequently, the existence of any prior liens or other imperfections of title affecting the Cooperative's building or real estate also may adversely affect the marketability of the shares allocated to the dwelling unit in the event of foreclosure.

A foreclosure on the Cooperative shares is accomplished by public sale in accordance with the provisions of Article 9 of the Uniform Commercial Code, or UCC, and the security agreement relating to those shares. Article 9 of the UCC requires that a sale be conducted in a "commercially reasonable" manner. Whether a sale has been conducted in a "commercially reasonable" manner will depend on the facts in each case. In determining commercial reasonableness, a court will look to the notice given the debtor and the method, manner, time, place and terms of the sale and the sale price. Generally, a sale conducted according to the usual practice of creditors selling similar collateral in the same area will be considered reasonably conducted.

Article 9 of the UCC provides that the proceeds of the sale will be applied first to pay the costs and expenses of the sale and then to satisfy the indebtedness secured by the lender's security interest. The recognition agreement, however, generally provides that the lender's right to reimbursement is subject to the right of the Cooperative corporation to receive sums due under the proprietary lease or occupancy agreement. If there are proceeds remaining, the lender must account to the tenant-stockholder for the surplus. Conversely, if a portion of the indebtedness remains unpaid, the tenant-stockholder is generally responsible for the deficiency. See "—Anti-Deficiency Legislation and Other Limitations on Lenders" below.

Rights of Redemption

In some states, after sale pursuant to a deed of trust, or a deed to secure debt or foreclosure of a mortgage, the borrower and foreclosed junior lienors or other parties are given a statutory period, typically ranging from six months to two years, in which to redeem the property from the foreclosure sale. In some states, redemption may occur only upon payment of the entire principal balance of the loan, accrued interest and expenses of foreclosure. In other states, redemption may be authorized if the former borrower pays only a portion of the sums due. In some states, the right to redeem is an equitable right. The equity of redemption, which is a non-statutory right, should be distinguished from statutory rights of redemption. The effect of a statutory right of redemption is to diminish the ability of the lender to sell the foreclosed property. The rights of redemption would defeat the title of any purchaser subsequent to foreclosure or sale under a deed of trust or a deed to secure debt. Consequently, the practical effect of the redemption right is to force the lender to maintain the property and pay the expenses of ownership until the redemption period has expired.

Anti-Deficiency Legislation and Other Limitations on Lenders

Some states have imposed statutory prohibitions which limit the remedies of a beneficiary under a deed of trust, a mortgagee under a mortgage or a grantee under a deed to secure debt. In some states, including California, statutes limit the right of the beneficiary, mortgagee or grantee to obtain a deficiency judgment against the borrower following foreclosure. A deficiency judgment is a personal judgment against the former borrower equal in most cases to the difference between the net amount realized upon the public sale of the real property and the amount due to the lender. In the case of a mortgage loan secured by a property owned by a trust where the mortgage note is executed on behalf of the trust, a deficiency judgment against the trust following foreclosure or sale under a deed of trust or deed to secure debt, even if obtainable under applicable law, may be of little value to the beneficiary, grantee or mortgagee if there are no assets against which the deficiency judgment may be executed. Some state statutes require the beneficiary, grantee or mortgagee to exhaust the security afforded under a deed of trust, deed to secure debt or mortgage by foreclosure in an attempt to satisfy the full debt before bringing a personal action against the borrower.

In other states, the lender has the option of bringing a personal action against the borrower on the debt without first exhausting the security; however, in some of these states, the lender, following judgment on the personal action, may be deemed to have elected a remedy and may be precluded from exercising remedies with respect to the security. Consequently, the practical effect of the election requirement, in those states permitting this election, is that lenders will usually proceed against the security first rather than bringing a personal action against the borrower. Finally, in other states, statutory provisions limit any deficiency judgment against the borrower following a foreclosure to the excess of the outstanding debt over the fair value of the property at the time of the public sale. The purpose of these statutes is generally to prevent a beneficiary, grantee or mortgagee from obtaining a large deficiency judgment against the borrower as a result of low or no bids at the judicial sale. Various state laws also place a limitation on the mortgagee for late payment charges.

Generally, Article 9 of the UCC governs foreclosure on Cooperative shares and the related proprietary lease or occupancy agreement. Some courts have interpreted Article 9 to prohibit or limit a deficiency award in some circumstances, including circumstances where the disposition of the collateral, which, in the case of a Cooperative Loan, would be the shares of the Cooperative and the related proprietary lease or occupancy agreement, was not conducted in a commercially reasonable manner.

In addition to laws limiting or prohibiting deficiency judgments, numerous other federal and state statutory provisions, including the federal bankruptcy laws and state laws affording relief to debtors, may interfere with or affect the ability of the secured mortgage lender to realize upon its collateral and/or enforce a deficiency judgment. For example, under the federal bankruptcy law, all actions by the secured mortgage lender against the debtor, the debtor's property and any co-debtor are automatically stayed upon the filing of a bankruptcy petition. Moreover, a court having federal bankruptcy jurisdiction may permit a debtor through its Chapter 11 or Chapter 13 rehabilitative plan to cure a monetary default relating to a mortgage loan on the debtor's residence by paying arrearages within a reasonable time period and reinstating the original mortgage loan payment schedule, even though the lender accelerated the mortgage loan and final judgment of foreclosure had been entered in state court, provided no sale of the residence had yet occurred, prior to the filing of the debtor's petition. Some courts with federal bankruptcy jurisdiction have approved plans, based on the particular facts of the reorganization case, that effected the curing of a mortgage loan default by paying arrearages over a number of years.

Courts with federal bankruptcy jurisdiction have also indicated that the terms of a mortgage loan secured by property of the debtor, which is a Cooperative Loan, or which is secured by additional collateral in addition to the related mortgaged property, may be modified. These courts have allowed modifications that include reducing the amount of each monthly payment, changing the rate of interest, and altering the repayment schedule. In general, except as provided below with respect to junior liens, the terms of a mortgage loan secured only by a mortgage on a real property that is the debtor's principal residence may not be modified under a plan confirmed under Chapter 13, as opposed to Chapter 11, except with respect to mortgage payment arrearages, which may be cured within a reasonable time period.

The United States Supreme Court has held that so long as a mortgage loan is fully or partially secured by the related mortgaged property, the amount of the mortgage loan secured by the related mortgaged property may not be reduced, or "crammed down," in connection with a bankruptcy petition filed by the mortgagor. However, United States Circuit Court of Appeals decisions have held that in the event of a Chapter 13 bankruptcy filing by a mortgagor, in the event the value of the related mortgaged property at the time of the filing is less than the amount of debt secured by any first lien, any portion of any junior lien that is unsecured may be "crammed down" in the bankruptcy court and discharged. As a result, in the event of a decline in the value of a mortgaged property, the amount of any junior liens may be reduced by a bankruptcy judge in a Chapter 13 filing, without any liquidation of the related mortgaged property. Any such reduction would be treated as a Bankruptcy Loss.

Certain tax liens arising under the Internal Revenue Code may, in some circumstances, have priority over the lien of a mortgage, deed to secure debt or deed of trust. This may have the effect of delaying or interfering with the enforcement of rights with respect to a defaulted mortgage loan.

In addition, substantive requirements are imposed upon mortgage lenders in connection with the origination and the servicing of mortgage loans by numerous federal and some state consumer protection laws. These laws include the federal Truth-in-Lending Act, or TILA, as implemented by Regulation Z, Real Estate Settlement Procedures Act, as implemented by Regulation X, Equal Credit Opportunity Act, as implemented by Regulation B, Fair Credit Billing Act, Fair Credit Reporting Act and related statutes. These federal laws impose specific statutory liabilities upon lenders who originate mortgage loans and who fail to comply with the provisions of the law. In some cases, this liability may affect assignees of the mortgage loans. In particular, an originator's failure to comply with certain requirements of the federal TILA, as implemented by Regulation Z, could subject both originators and assignees of such obligations to monetary penalties and could result in obligors' rescinding the mortgage loans either against the originators or assignees.

Homeownership Act and Similar State Laws

Some mortgage loans may be subject to special rules, disclosure requirements and other provisions that were added to the federal Truth-in-Lending Act by the Home Ownership and Equity Protection Act of 1994, or Homeownership Act if such trust assets were originated on or after October 1, 1995, are not loans made to finance the purchase of the mortgaged property and have interest rates or origination costs in excess of certain prescribed levels. The Homeownership Act requires certain additional disclosures, specifies the timing of those disclosures and limits or prohibits inclusion of certain provisions in mortgages subject to the Homeownership Act. Purchasers or assignees of any mortgage loan subject to the Homeownership Act, including any trust, could be liable under federal law for all claims and subject to all defenses that the borrower could assert against the originator of the loan, under the federal Truth-in Lending Act or any other law, unless the purchaser or assignee did not know and could not with reasonable diligence have determined that the loan was subject to the provisions of the Homeownership Act. Remedies available to the borrower include monetary penalties, as well as rescission rights if appropriate disclosures were not given as required or if the particular mortgage includes provisions prohibited by the law. The maximum damages that may be recovered under these provisions from an assignee, including the trust, is the remaining amount of indebtedness plus the total amount paid by the borrower in connection with the mortgage loan.

In addition to the Homeownership Act, a number of legislative proposals have been introduced at both the federal and state level that are designed to discourage predatory lending practices. Some states have enacted, and other states or local governments may enact, laws that impose requirements and restrictions greater than those in the Homeownership Act. These laws prohibit inclusion of some provisions in mortgage loans that have interest rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of the mortgage loans. Purchasers or assignees of a mortgage loan, including the related trust, could be exposed to all claims and defenses that the mortgagor could assert against the originator of the mortgage loan for a violation of state law. Claims and defenses available to the borrower could include monetary penalties, rescission and defenses to a foreclosure action or an action to collect.

The accompanying prospectus supplement will specify whether Residential Funding Company, LLC will represent and warrant that all of the mortgage loans in the mortgage pool complied in all material respects with all applicable local, state and federal laws at the time of origination. Although Residential

Funding Company, LLC will be obligated to repurchase any mortgage loan as to which a breach of its representation and warranty has occurred if that breach is material and adverse to the interests of the certificateholders, the repurchase price of those mortgage loans could be less than the damages and/or equitable remedies imposed pursuant to various state laws.

Lawsuits have been brought in various states making claims against assignees of loans subject to the Homeownership Act for violations of federal and state law allegedly committed by the originator. Named defendants in these cases include numerous participants within the secondary mortgage market, including some securitization trusts.

Enforceability of Certain Provisions

Unless the prospectus supplement indicates otherwise, the mortgage loans contain due-on-sale clauses. These clauses permit the lender to accelerate the maturity of the loan if the borrower sells, transfers or conveys the property. The enforceability of these clauses has been the subject of legislation or litigation in many states, and in some cases the enforceability of these clauses has been limited or denied. However, the Garn-St Germain Depository Institutions Act of 1982, or Garn-St Germain Act, preempts state constitutional, statutory and case law that prohibit the enforcement of due-on-sale clauses and permits lenders to enforce these clauses in accordance with their terms, subject to limited exceptions. The Garn-St Germain Act does "encourage" lenders to permit assumption of loans at the original rate of interest or at some other rate less than the average of the original rate and the market rate.

The Garn-St Germain Act also sets forth nine specific instances in which a mortgage lender covered by the Garn-St Germain Act may not exercise a due-on-sale clause, notwithstanding the fact that a transfer of the property may have occurred. These include intra-family transfers, certain transfers by operation of law, leases of fewer than three years and the creation of a junior encumbrance. Regulations promulgated under the Garn-St Germain Act also prohibit the imposition of a prepayment penalty upon the acceleration of a loan under a due-on-sale clause.

The inability to enforce a due-on-sale clause may result in a mortgage loan bearing an interest rate below the current market rate being assumed by a new home buyer rather than being paid off, which may have an impact upon the average life of the mortgage loans and the number of mortgage loans which may be outstanding until maturity.

Upon foreclosure, courts have imposed general equitable principles. These equitable principles are designed to relieve the borrower from the legal effect of its defaults under the loan documents. Examples of judicial remedies that have been fashioned include judicial requirements that the lender undertake affirmative and expensive actions to determine the causes for the borrower's default and the likelihood that the borrower will be able to reinstate the loan. In some cases, courts have required that lenders reinstate loans or recast payment schedules in order to accommodate borrowers who are suffering from temporary financial disability. In other cases, courts have limited the right of the lender to foreclose if the default under the mortgage instrument is not monetary, including the borrower failing to adequately maintain the property. Finally, some courts have been faced with the issue of whether or not federal or state constitutional provisions reflecting due process concerns for adequate notice require that borrowers under deeds of trust, deeds to secure debt or mortgages receive notices in addition to the statutorily prescribed minimum. For the most part, these cases have upheld the notice provisions as being reasonable or have found that the sale by a trustee under a deed of trust, or under a deed to secure a debt or a mortgagee having a power of sale, does not involve sufficient state action to afford constitutional protections to the borrower.

Applicability of Usury Laws

Title V of the Depository Institutions Deregulation and Monetary Control Act of 1980, or Title V, provides that state usury limitations shall not apply to some types of residential first mortgage loans, including Cooperative Loans, originated by some lenders after March 31, 1980. A similar federal statute was in effect with respect to mortgage loans made during the first three months of 1980. The Office of

Thrift Supervision, or OTS, is authorized to issue rules and regulations and to publish interpretations governing implementation of Title V. The statute authorized any state to impose interest rate limits by adopting, before April 1, 1983, a law or constitutional provision which expressly rejects application of the federal law. In addition, even where Title V is not so rejected, any state is authorized by the law to adopt a provision limiting discount points or other charges on mortgage loans covered by Title V. Certain states have taken action to reimpose interest rate limits or to limit discount points or other charges.

Residential Funding Company, LLC or a designated seller specified in the accompanying prospectus supplement will have represented that each mortgage loan was originated in compliance with then applicable state laws, including usury laws, in all material respects. However, the mortgage rates on the mortgage loans will be subject to applicable usury laws as in effect from time to time.

Alternative Mortgage Instruments

Alternative mortgage instruments, including adjustable rate mortgage loans, adjustable rate Cooperative Loans, and early ownership mortgage loans, originated by non-federally chartered lenders, have historically been subjected to a variety of restrictions. These restrictions differed from state to state, resulting in difficulties in determining whether a particular alternative mortgage instrument originated by a state-chartered lender was in compliance with applicable law. These difficulties were alleviated substantially as a result of the enactment of Title VIII of the Garn-St Germain Act, or Title VIII. Title VIII provides that, notwithstanding any state law to the contrary;

- state-chartered banks may originate alternative mortgage instruments in accordance with regulations promulgated by the Comptroller of the Currency with respect to the origination of alternative mortgage instruments by national banks,
- state-chartered credit unions may originate alternative mortgage instruments in accordance with regulations promulgated by the National Credit Union Administration with respect to origination of alternative mortgage instruments by federal credit unions and
- all other non-federally chartered housing creditors, including state-chartered savings and loan associations, state-chartered savings banks and mutual savings banks and mortgage banking companies, may originate alternative mortgage instruments in accordance with the regulations promulgated by the Federal Home Loan Bank Board, predecessor to the OTS, with respect to origination of alternative mortgage instruments by federal savings and loan associations.

Title VIII also provides that any state may reject applicability of the provisions of Title VIII by adopting, prior to October 15, 1985, a law or constitutional provision expressly rejecting the applicability of these provisions. Some states have taken this action.

Environmental Legislation

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or CERCLA, and under state law in some states, a secured party which takes a deed-in-lieu of foreclosure, purchases a mortgaged property at a foreclosure sale, or operates a mortgaged property may become liable in some circumstances for the costs of cleaning up hazardous substances regardless of whether they have contaminated the property. CERCLA imposes strict, as well as joint and several, liability on several classes of potentially responsible parties, including current owners and operators of the property who did not cause or contribute to the contamination. Furthermore, liability under CERCLA is not limited to the original or unamortized principal balance of a loan or to the value of the property securing a loan. Lenders may be held liable under CERCLA as owners or operators unless they qualify for the secured creditor exemption to CERCLA. This exemption exempts from the definition of owners and operators those who, without participating in the management of a facility, hold indicia of ownership primarily to protect a security interest in the facility.

The Asset Conservation, Lender Liability and Deposit Insurance Act of 1996, or Conservation Act, amended, among other things, the provisions of CERCLA with respect to lender liability and the secured creditor exemption. The Conservation Act offers substantial protection to lenders by defining the activities in which a lender can engage and still have the benefit of the secured creditor exemption. In order for a lender to be deemed to have participated in the management of a mortgaged property, the lender must actually participate in the operational affairs of the property of the borrower. The Conservation Act provides that "merely having the capacity to influence, or unexercised right to control" operations does not constitute participation in management. A lender will lose the protection of the secured creditor exemption only if it exercises decision-making control over the borrower's environmental compliance and hazardous substance handling and disposal practices, or assumes day-to-day management of all operational functions of the mortgaged property. The Conservation Act also provides that a lender will continue to have the benefit of the secured creditor exemption even if it forecloses on a mortgaged property, purchases it at a foreclosure sale or accepts a deed-in-lieu of foreclosure provided that the lender seeks to sell the mortgaged property at the earliest practicable commercially reasonable time on commercially reasonable terms.

Other federal and state laws in some circumstances may impose liability on a secured party that takes a deed-in-lieu of foreclosure, purchases a mortgaged property at a foreclosure sale, or operates a mortgaged property on which contaminants other than CERCLA hazardous substances are present, including petroleum, agricultural chemicals, hazardous wastes, asbestos, radon, and lead-based paint. These cleanup costs may be substantial. It is possible that the cleanup costs could become a liability of a trust and reduce the amounts otherwise distributable to the holders of the related series of certificates. Moreover, some federal statutes and some states by statute impose an Environmental Lien. All subsequent liens on that property are usually subordinated to an Environmental Lien and, in some states, even prior recorded liens are subordinated to Environmental Liens. In the latter states, the security interest of the trustee in a related parcel of real property that is subject to an Environmental Lien could be adversely affected.

Traditionally, many residential mortgage lenders have not taken steps to evaluate whether contaminants are present with respect to any mortgaged property prior to the origination of the mortgage loan or prior to foreclosure or accepting a deed-in-lieu of foreclosure. Neither the depositor nor any master servicer will be required by any Agreement to undertake any of these evaluations prior to foreclosure or accepting a deed-in-lieu of foreclosure. Neither the depositor nor Residential Funding Company, LLC makes any representations or warranties or assumes any liability with respect to the absence or effect of contaminants on any mortgaged property or any casualty resulting from the presence or effect of contaminants. However, the master servicer will not be obligated to foreclose on any mortgaged property or accept a deed-in-lieu of foreclosure if it knows or reasonably believes that there are material contaminated conditions on the property. A failure so to foreclose may reduce the amounts otherwise available to certificateholders of the related series.

At the time the mortgage loans were originated, no environmental assessment or a very limited environment assessment of the mortgaged properties will have been conducted.

Servicemembers Civil Relief Act

Under the terms of the Servicemembers Civil Relief Act, as amended, or Relief Act, a borrower who enters military service after the origination of the borrower's mortgage loan, including a borrower who was in reserve status and is called to active duty after origination of the mortgage loan, may not be charged interest, including fees and charges, in excess of 6% per annum during the period of the borrower's active duty status. In addition to adjusting interest, the lender must forgive any such interest in excess of 6% per annum, unless a court or administrative agency of the United States or of any State orders otherwise on application of the lender. The Relief Act applies to borrowers who are members of the Air Force, Army, Marines, Navy, National Guard, Reserves or Coast Guard, and officers of the U.S. Public Health Service or the National Oceanic and Atmospheric Administration assigned to duty with the military.

Because the Relief Act applies to borrowers who enter military service, including reservists who are called to active duty, after origination of the related mortgage loan, no information can be provided as to the number of mortgage loans that may be affected by the Relief Act. With respect to mortgage loans included in a trust, application of the Relief Act would adversely affect, for an indeterminate period of time, the ability of the master servicer to collect full amounts of interest on those mortgage loans. Any shortfall in interest collections resulting from the application of the Relief Act or similar legislation or regulations, which would not be recoverable from the related mortgage loans, would result in a reduction of the amounts distributable to the holders of the related certificates, and would not be covered by Advances or any form of credit enhancement provided in connection with the related series of certificates. In addition, the Relief Act imposes limitations that would impair the ability of the master servicer to foreclose on an affected mortgage loan during the mortgagor's period of active duty status, and, under some circumstances, during an additional three month period thereafter. Thus, in the event that the Relief Act or similar legislation or regulations applies to any mortgage loan which goes into default, there may be delays in payment and losses on the related certificates in connection therewith. Any other interest shortfalls, deferrals or forgiveness of payments on the mortgage loans resulting from similar legislation or regulations may result in delays in payments or losses to certificateholders of the related series.

Default Interest and Limitations on Prepayments

Forms of notes and mortgages used by lenders may contain provisions that obligate the borrower to pay a late charge or additional interest if payments are not timely made, and in some circumstances, may prohibit prepayments for a specified period and/or condition prepayments upon the borrower's payment of prepayment fees or yield maintenance penalties if the obligation is paid prior to maturity. In some states, there are or may be specific limitations upon the late charges which a lender may collect from a borrower for delinquent payments. Some states also limit the amounts that a lender may collect from a borrower as an additional charge if the loan is prepaid. In addition, the enforceability of provisions that provide for prepayment fees or penalties upon an involuntary prepayment is unclear under the laws of many states. Most conventional single-family mortgage loans may be prepaid in full or in part without penalty. The regulations of the Federal Home Loan Bank Board, as succeeded by the OTS, prohibit the imposition of a prepayment penalty or equivalent fee for or in connection with the acceleration of a loan by exercise of a due-on-sale clause. A mortgagee to whom a prepayment in full has been tendered may be compelled to give either a release of the mortgage or an instrument assigning the existing mortgage. The absence of a restraint on prepayment, particularly with respect to mortgage loans having higher mortgage rates, may increase the likelihood of refinancing or other early retirements of the mortgage loans.

Some state laws restrict the imposition of prepayment charges even when the loans expressly provide for the collection of those charges. The Alternative Mortgage Transaction Parity Act of 1982, or the Parity Act, permits the collection of prepayment charges in connection with some types of loans subject to the Parity Act, or Parity Act loans, preempting any contrary state law prohibitions. However, some states may not recognize the preemptive authority of the Parity Act or have opted out of the Parity Act. Moreover, the OTS, the agency that administers the application of the Parity Act to some types of mortgage lenders that are not chartered under federal law, withdrew its favorable regulations and opinions that previously authorized those lenders, notwithstanding contrary state law, to charge prepayment charges and late fees on Parity Act loans in accordance with OTS rules. The withdrawal is effective with respect to Parity Act loans originated on or after July 1, 2003. The OTS's action does not affect Parity Act loans originated before July 1, 2003. It is possible that prepayment charges may not be collected even on loans that provide for the payment of these charges. The master servicer or another entity identified in the accompanying prospectus supplement will be entitled to all prepayment charges and late payment charges received on the loans and these amounts will not be available for payment on the certificates.

Forfeitures in Drug and RICO Proceedings

Federal law provides that property owned by persons convicted of drug-related crimes or of criminal violations of the Racketeer Influenced and Corrupt Organizations, or RICO, statute can be seized by the government if the property was used in, or purchased with the proceeds of, those crimes. Under procedures contained in the Comprehensive Crime Control Act of 1984, the government may seize the property even before conviction. The government must publish notice of the forfeiture proceeding and may give notice to all parties "known to have an alleged interest in the property," including the holders of mortgage loans.

A lender may avoid forfeiture of its interest in the property if it establishes that: (i) its mortgage was executed and recorded before commission of the crime upon which the forfeiture is based, or (ii) the lender was, at the time of execution of the mortgage, "reasonably without cause to believe" that the property was used in, or purchased with the proceeds of, illegal drug or RICO activities.

Material Federal Income Tax Consequences

General

The following is a discussion of the material federal income tax consequences of the purchase, ownership and disposition of the certificates. The following discussion is based on the advice of Mayer, Brown, Rowe & Maw LLP and Orrick, Herrington & Sutcliffe LLP as to the anticipated material federal income tax consequences of the purchase, ownership and disposition of the certificates offered hereunder. This discussion is directed solely to certificateholders that hold the certificates as capital assets within the meaning of Section 1221 of the Internal Revenue Code and does not purport to discuss all federal income tax consequences that may be applicable to particular individual circumstances, including those of banks, insurance companies, foreign investors, tax-exempt organizations, dealers in securities or currencies, mutual funds, real estate investment trusts, S corporations, estates and trusts, securityholders that hold the securities as part of a hedge, straddle, integrated or conversion transaction, or securityholders whose functional currency is not the United States dollar. Also, it does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a securityholder.

The following discussion addresses REMIC certificates representing interests in a trust, or a portion thereof, which the master servicer or Certificate Administrator, as applicable, will covenant to elect to have treated as a REMIC under Sections 860A through 860G or REMIC Provisions of the Internal Revenue Code. The prospectus supplement for each series of certificates will indicate whether a REMIC election or elections will be made for the related trust and, if that election is to be made, will identify all "regular interests" and "residual interests" in the REMIC. If a REMIC election will not be made for a trust, the federal income consequences of the purchase, ownership and disposition of the related certificates will be described in the accompanying prospectus supplement. For purposes of this tax discussion, references to a "certificateholder" or a "holder" are to the beneficial owner of a certificate.

If a REMIC election is not made upon the issuance of a particular series because, for example, a structure is being used whereby notes are being issued by an owner trust, an opinion of counsel relating to the tax consequences of that structure will be filed prior to the initial sale of the related certificates. Furthermore, the tax discussion relating to that structure will be provided in the prospectus supplement for that series.

The following discussion is based in part upon the OID regulations and in part upon the REMIC regulations. The OID regulations, which are effective with respect to debt instruments issued on or after April 4, 1994, do not adequately address some issues relevant to, and in some instances provide that they are not applicable to, securities similar to the certificates.

In addition, the authorities on which this discussion, and the opinion referred to below, are based are subject to change or differing interpretations, which could apply retroactively. An opinion of counsel is not binding on the Internal Revenue Service or the courts, and no rulings have been or will be sought from the IRS with respect to any of the federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Taxpayers and preparers of tax returns, including those filed by any REMIC or other issuer, should be aware that under applicable Treasury regulations a provider of advice on specific issues of law is not considered an income tax return preparer unless the advice (i) is given with respect to events that have occurred at the time the advice is rendered and is not given with respect to the consequences of contemplated actions, and (ii) is directly relevant to the determination of an entry on a tax return. This summary and the opinions contained herein may not be able to be relied upon to avoid any income tax penalties that may be imposed with respect to the Securities. Accordingly, taxpayers are encouraged to consult their tax advisors and tax return preparers regarding the preparation of any item on a tax return and the application of United States federal income tax laws, as well as the laws of any state, local or foreign taxing jurisdictions, to their particular situations, even where the anticipated tax treatment has been discussed in this prospectus or in a prospectus supplement. See "State and Other Tax Consequences."

Opinions

Upon the issuance of each series of REMIC Certificates, Mayer, Brown, Rowe & Maw LLP or Orrick, Herrington & Sutcliffe LLP, counsel to the depositor, will provide its opinion generally to the effect that, assuming (i) compliance with all provisions of the related pooling and servicing agreement, (ii) certain representations set forth in the related pooling and servicing agreement are true, (iii) there is continued compliance with applicable provisions of the Internal Revenue Code, as it may be amended from time to time, and applicable Treasury regulations issued thereunder and (iv) a REMIC election is made timely in the required form, for federal income tax purposes, the related trust, or each applicable group of assets held by the related trust as to which an election to be treated as a REMIC will be made, will qualify as a REMIC and the offered REMIC Certificates will be considered to evidence ownership of REMIC regular interests or REMIC residual interests in that REMIC within the meaning of the REMIC Provisions.

Neither Mayer, Brown, Rowe & Maw LLP nor Orrick, Herrington & Sutcliffe LLP has been asked to opine on any other material federal income tax matter, and the balance of this summary is a discussion of the United States federal income taxation of pools of assets for which a REMIC election is made and of the regular and residual interests in such pools of assets generally, and does not purport to set forth any opinion of counsel concerning any other particular federal income tax matter. For example, the discussion under "REMICs—Taxation of Owners of REMIC Residual Certificates—Excess Inclusions" below is a general summary of federal income tax consequences relating to an investment in a REMIC residual interest that has "excess inclusion income;" however, that summary does not set forth any opinion as to whether any particular class of REMIC residual interests will be treated as having excess inclusion income.

In addition, Mayer, Brown, Rowe & Maw LLP or Orrick, Herrington & Sutcliffe LLP will render its opinion that the statements made in the following discussion, as supplemented by the discussion under the heading "Federal Income Tax Consequences", if any, in the prospectus supplement accompanying this prospectus, to the extent that they constitute matters of law or legal conclusions, provide a fair and accurate summary of the United States federal income taxation of pools of assets for which a REMIC election is made and of the regular and residual interests therein, as of the date of such prospectus supplement.

Mayer, Brown, Rowe & Maw LLP and Orrick, Herrington & Sutcliffe LLP have not been asked to, and do not, render any opinion regarding the state or local income tax consequences of the purchase, ownership and disposition of a beneficial interest in the certificates. See "—State and Local Tax Consequences."

REMICs

Classification of REMICs

If an entity electing to be treated as a REMIC fails to comply with one or more of the ongoing requirements of the Internal Revenue Code for that status during any taxable year, the Internal Revenue Code provides that the entity will not be treated as a REMIC for that year and thereafter. In that event, the entity may be taxable as a separate corporation under Treasury regulations, and the related REMIC certificates may not be accorded the status or given the tax treatment described in this prospectus under "Material Federal Income Tax Consequences". Although the Internal Revenue Code authorizes the Treasury Department to issue regulations providing relief in the event of an inadvertent termination of REMIC status, no regulations have been issued. Any relief, moreover, may be accompanied by sanctions, including the imposition of a corporate tax on all or a portion of the trust's income for the period in which the requirements for that status are not satisfied. The pooling and servicing agreement with respect to each REMIC will include provisions designed to maintain the trust's status as a REMIC under the REMIC Provisions. It is not anticipated that the status of any trust as a REMIC will be terminated.

Characterization of Investments in REMIC Certificates

In general, the REMIC certificates will be "real estate assets" within the meaning of Section 856(c)(4)(A) of the Internal Revenue Code and assets described in Section 7701(a)(19)(C) of the Internal Revenue Code in the same proportion that the assets of the REMIC underlying the certificates would be so treated. Moreover, if 95% or more of the assets of the REMIC qualify for any of the foregoing treatments at all times during a calendar year, the REMIC certificates will qualify for the corresponding status in their entirety for that calendar year. Interest, including original issue discount, on the REMIC regular certificates and income allocated to the class of REMIC residual certificates will be interest described in Section 856(c)(3)(B) of the Internal Revenue Code to the extent that those certificates are treated as "real estate assets" within the meaning of Section 856(c)(4)(A) of the Internal Revenue Code. In addition, the REMIC regular certificates will be "qualified mortgages" within the meaning of Section 860G(a)(3)(C) of the Internal Revenue Code if transferred to another REMIC on its startup day in exchange for regular or residual interests in that REMIC. The determination as to the percentage of the REMIC's assets that constitute assets described in the foregoing sections of the Internal Revenue Code will be made with respect to each calendar quarter based on the average adjusted basis of each category of the assets held by the REMIC during that calendar quarter. The master servicer or the Certificate Administrator, as applicable, will report those determinations to certificateholders in the manner and at the times required by applicable Treasury regulations.

The assets of the REMIC will include, in addition to mortgage collateral, payments on mortgage collateral held pending distribution on the REMIC certificates and property acquired by foreclosure held pending sale, and may include amounts in reserve accounts. It is unclear whether property acquired by foreclosure held pending sale and amounts in reserve accounts would be considered to be part of the mortgage collateral, or whether those assets, to the extent not invested in assets described in the foregoing sections, otherwise would receive the same treatment as the mortgage collateral for purposes of all of the foregoing sections. In addition, in some instances mortgage loans, including Additional Collateral Loans or Pledged Asset Mortgage Loans, may not be treated entirely as assets described in the foregoing sections. If the assets of a REMIC include Additional Collateral Loans or Pledged Asset Mortgage Loans, the non-real property collateral, while itself not an asset of the REMIC, could cause the mortgage loans not to qualify for one or more of those characterizations. If so, the related prospectus supplement will describe the mortgage loans, including Additional Collateral Loans or Pledged Asset Mortgage Loans, that may not be so treated. The REMIC regulations do provide, however, that payments on mortgage loans held pending distribution are considered part of the mortgage loans for purposes of Section 856(c)(4)(A) of the Internal Revenue Code. Furthermore, foreclosure property will qualify as "real estate assets" under Section 856(c)(4)(A) of the Internal Revenue Code.

Tiered REMIC Structures

For some series of REMIC certificates, two or more separate elections may be made to treat designated portions of the related trust as REMICs for federal income tax purposes.

Solely for purposes of determining whether the REMIC certificates will be "real estate assets" within the meaning of Section 856(c)(4)(A) of the Internal Revenue Code, and "loans secured by an interest in real property" under Section 7701(a)(19)(C) of the Internal Revenue Code, and whether the income on the certificates is interest described in Section 856(c)(3)(B) of the Internal Revenue Code, the Tiered REMICs will be treated as one REMIC.

Taxation of Owners of REMIC Regular Certificates

General

Except as otherwise stated in this discussion, REMIC regular certificates will be treated for federal income tax purposes as debt instruments issued by the REMIC and not as ownership interests in the REMIC or its assets. Moreover, holders of REMIC regular certificates that otherwise report income under a cash method of accounting will be required to report income with respect to REMIC regular certificates under an accrual method.

Original Issue Discount

Some REMIC regular certificates may be issued with "original issue discount" within the meaning of Section 1273(a) of the Internal Revenue Code. Any holders of REMIC regular certificates issued with original issue discount typically will be required to include original issue discount in income as it accrues, in accordance with the method described below, in advance of the receipt of the cash attributable to that income. In addition, Section 1272(a)(6) of the Internal Revenue Code provides special rules applicable to REMIC regular certificates and certain other debt instruments issued with original issue discount. Regulations have not been issued under that section.

The Internal Revenue Code requires that a prepayment assumption be used with respect to mortgage collateral held by a REMIC in computing the accrual of original issue discount on REMIC regular certificates issued by that REMIC, and that adjustments be made in the amount and rate of accrual of the discount to reflect differences between the actual prepayment rate and the prepayment assumption. The prepayment assumption is to be determined in a manner prescribed in Treasury regulations; as noted above, those regulations have not been issued. The conference committee report accompanying the Tax Reform Act of 1986 indicates that the regulations will provide that the prepayment assumption used with respect to a REMIC regular certificate must be the same as that used in pricing the initial offering of the REMIC regular certificate. The prepayment assumption used by the master servicer or the Certificate Administrator, as applicable, in reporting original issue discount for each series of REMIC regular certificates will be consistent with this standard and will be disclosed in the accompanying prospectus supplement. However, neither the depositor, the master servicer nor the Certificate Administrator will make any representation that the mortgage collateral will in fact prepay at a rate conforming to the prepayment assumption or at any other rate.

The original issue discount, if any, on a REMIC regular certificate will be the excess of its stated redemption price at maturity over its issue price. The issue price of a particular class of REMIC regular certificates will be the first cash price at which a substantial amount of REMIC regular certificates of that class is sold, excluding sales to bond houses, brokers and underwriters. If less than a substantial amount of a particular class of REMIC regular certificates is sold for cash on or prior to the date of their initial issuance, or the closing date, the issue price for that class will be treated as the fair market value of the class on the closing date. Under the OID regulations, the stated redemption price of a REMIC regular certificate is equal to the total of all payments to be made on that certificate other than "qualified stated interest." Qualified stated interest includes interest that is unconditionally payable at least annually at a single fixed rate, or in the case of a variable rate debt instrument, at a "qualified floating rate," an "objective rate," a combination of a single fixed rate and one or more "qualified floating rates" or one "qualified inverse floating rate," or a combination of "qualified floating rates" that generally does not operate in a manner that accelerates or defers interest payments on a REMIC regular certificate.

In the case of REMIC regular certificates bearing adjustable interest rates, the determination of the total amount of original issue discount and the timing of the inclusion of the original issue discount will vary according to the characteristics of the REMIC regular certificates. If the original issue discount rules apply to the certificates, the accompanying prospectus supplement will describe the manner in which the rules will be applied by the master servicer or the Certificate Administrator, as applicable, with respect to those certificates in preparing information returns to the certificateholders and the Internal Revenue Service, or IRS.

Some classes of the REMIC regular certificates may provide for the first interest payment with respect to their certificates to be made more than one month after the date of issuance, a period which is longer than the subsequent monthly intervals between interest payments. Assuming the "accrual period" (as defined below) for original issue discount is each monthly period that begins or ends on a distribution date, in some cases, as a consequence of this "long first accrual period," some or all interest payments may be required to be included in the stated redemption price of the REMIC regular certificate and accounted for as original issue discount. Because interest on REMIC regular certificates must in any event be accounted for under an accrual method, applying this analysis would result in only a slight difference in the timing of the inclusion in income of the yield on the REMIC regular certificates.

In addition, if the accrued interest to be paid on the first distribution date is computed with respect to a period that begins prior to the closing date, a portion of the purchase price paid for a REMIC regular certificate will reflect the accrued interest. In these cases, information returns to the certificateholders and the IRS will be based on the position that the portion of the purchase price paid for the interest accrued with respect to periods prior to the closing date is treated as part of the overall cost of the REMIC regular certificate, and not as a separate asset the cost of which is recovered entirely out of interest received on the next distribution date, and that portion of the interest paid on the first distribution date in excess of interest accrued for a number of days corresponding to the number of days from the closing date to the first distribution date should be included in the stated redemption price of the REMIC regular certificate. However, the OID regulations state that all or some portion of the accrued interest may be treated as a separate asset the cost of which is recovered entirely out of interest paid on the first distribution date. It is unclear how an election to do so would be made under the OID regulations and whether that election could be made unilaterally by a certificateholder.

Notwithstanding the general definition of original issue discount, original issue discount on a REMIC regular certificate will be considered to be de minimis if it is less than 0.25% of the stated redemption price of the REMIC regular certificate multiplied by its weighted average life. For this purpose, the weighted average life of the REMIC regular certificate is computed as the sum of the amounts determined, as to each payment included in the stated redemption price of the REMIC regular certificate, by multiplying (i) the number of complete years, rounding down for partial years, from the issue date until the payment is expected to be made, presumably taking into account the prepayment assumption, by (ii) a fraction, the numerator of which is the amount of the payment, and the denominator of which is the stated redemption price at maturity of the REMIC regular certificate. Under the OID regulations, original issue discount of only a de minimis amount, other than de minimis original issue discount attributable to a so-called "teaser" interest rate or an initial interest holiday, will be included in income as each payment of stated principal is made, based on the product of the total remaining amount of the de minimis original issue discount and a fraction, the numerator of which is the amount of the principal payment, and the denominator of which is the outstanding stated principal amount of the REMIC regular certificate. The OID regulations also would permit a certificateholder to elect to accrue de minimis original issue discount into income currently based on a constant yield method. See "—Market Discount" below for a description of that election under the OID regulations.

If original issue discount on a REMIC regular certificate is in excess of a de minimis amount, the holder of the certificate must include in ordinary gross income the sum of the "daily portions" of original issue discount for each day during its taxable year on which it held the REMIC regular certificate, including the purchase date but excluding the disposition date. In the case of an original holder of a REMIC regular certificate, the daily portions of original issue discount will be determined as follows.

The accompanying prospectus supplement will describe the applicable accrual period. In general, each "accrual period," that begins or ends on a date that corresponds to a distribution date and begins on the first day following the immediately preceding accrual period, or in the case of the first accrual period, begins on the closing date, a calculation will be made of the portion of the original issue discount that accrued during that accrual period. The portion of original issue discount that accrues in any accrual period will equal the excess, if any, of (i) the sum of (A) the present value, as of the end of the accrual period, of all of the distributions remaining to be made on the REMIC regular certificate, if any, in future periods and (B) the distributions made on the REMIC regular certificate during the accrual period of amounts included in the stated redemption price, over (ii) the adjusted issue price of the REMIC regular certificate at the beginning of the accrual period. The present value of the remaining distributions referred to in the preceding sentence will be calculated (1) assuming that distributions on the REMIC regular certificate will be received in future periods based on the mortgage collateral being prepaid at a rate equal to the prepayment assumption and (2) using a discount rate equal to the original yield to maturity of the certificate. For these purposes, the original yield to maturity of the certificate will be calculated based on its issue price and assuming that distributions on the certificate will be made in all accrual periods based on the mortgage collateral being prepaid at a rate equal to the prepayment assumption. The adjusted issue price of a REMIC regular certificate at the beginning of any accrual period will equal the issue price of the certificate, increased by the aggregate amount of original issue discount that accrued with respect to that certificate in prior accrual periods, and reduced by the amount of any distributions made on that REMIC regular certificate in prior accrual periods of amounts included in its stated redemption price. The original issue discount accruing during any accrual period, computed as described above, will be allocated ratably to each day during the accrual period to determine the daily portion of original issue discount for that day.

The OID regulations suggest that original issue discount with respect to securities that represent multiple uncertificated REMIC regular interests, in which ownership interests will be issued simultaneously to the same buyer and which may be required under the related pooling and servicing agreement to be transferred together, should be computed on an aggregate method. In the absence of further guidance from the IRS, original issue discount with respect to securities that represent the ownership of multiple uncertificated REMIC regular interests will be reported to the IRS and the certificateholders on an aggregate method based on a single overall constant yield and the prepayment assumption stated in the accompanying prospectus supplement, treating all uncertificated regular interests as a single debt instrument as described in the OID regulations, so long as the pooling and servicing agreement requires that the uncertificated regular interests be transferred together.

A subsequent purchaser of a REMIC regular certificate that purchases the certificate at a cost, excluding any portion of that cost attributable to accrued qualified stated interest, less than its remaining stated redemption price will also be required to include in gross income the daily portions of any original issue discount with respect to that certificate. However, each daily portion will be reduced, if the cost is in excess of its "adjusted issue price," in proportion to the ratio that excess bears to the aggregate original issue discount remaining to be accrued on the REMIC regular certificate. The adjusted issue price of a REMIC regular certificate on any given day equals (i) the adjusted issue price or, in the case of the first accrual period, the issue price, of the certificate at the beginning of the accrual period which includes that day, plus (ii) the daily portions of original issue discount for all days during the accrual period prior to that day minus (iii) any principal payments made during the accrual period prior to that day with respect to the certificate.

Market Discount

A certificateholder that purchases a REMIC regular certificate at a market discount, that is, in the case of a REMIC regular certificate issued without original issue discount, at a purchase price less than its remaining stated principal amount, or in the case of a REMIC regular certificate issued with original issue discount, at a purchase price less than its adjusted issue price will recognize income upon receipt of each distribution representing stated redemption price. In particular, under Section 1276 of the Internal Revenue Code such a certificateholder generally will be required to allocate the portion of each distribution representing stated redemption price first to accrued market discount not previously included in income, and to recognize ordinary income to that extent.

A certificateholder may elect to include market discount in income currently as it accrues rather than including it on a deferred basis in accordance with the foregoing. If made, the election will apply to all market discount bonds acquired by the certificateholder on or after the first day of the first taxable year to which the election applies. In addition, the OID regulations permit a certificateholder to elect to accrue all interest, discount, including de minimis market or original issue discount, and premium in income as interest, based on a constant yield method. If the election were made with respect to a REMIC regular certificate with market discount, the certificateholder would be deemed to have made an election to include currently market discount in income with respect to all other debt instruments having market discount that the certificateholder acquires during the taxable year of the election or thereafter. Similarly, a certificateholder that made this election for a certificate that is acquired at a premium would be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that the certificateholder owns or acquires. See "—Premium" below. Each of these elections to accrue interest, discount and premium with respect to a certificate on a constant yield method or as interest may not be revoked without the consent of the IRS.

However, market discount with respect to a REMIC regular certificate will be considered to be de minimis for purposes of Section 1276 of the Internal Revenue Code if the market discount is less than 0.25% of the remaining stated redemption price of the REMIC regular certificate multiplied by the number of complete years to maturity remaining after the date of its purchase. In interpreting a similar rule with respect to original issue discount on obligations payable in installments, the OID regulations refer to the weighted average maturity of obligations, and it is likely that the same rule will be applied with respect to market discount, presumably taking into account the prepayment assumption. If market discount is treated as de minimis under this rule, it appears that the actual discount would be treated in a manner similar to original issue discount of a de minimis amount. See "—Original Issue Discount." This treatment may result in discount being included in income at a slower rate than discount would be required to be included in income using the method described above.

Section 1276(b)(3) of the Internal Revenue Code specifically authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments, the principal of which is payable in more than one installment. Until regulations are issued by the Treasury Department, certain rules described in the Committee Report apply. The Committee Report indicates that in each accrual period market discount on REMIC regular certificates should accrue, at the certificateholder's option:

- on the basis of a constant yield method,
- in the case of a REMIC regular certificate issued without original issue discount, in an amount that bears the same ratio to the total remaining market discount as the stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the REMIC regular certificate as of the beginning of the accrual period, or
- in the case of a REMIC regular certificate issued with original issue discount, in an amount that bears the same ratio to the total remaining market discount as the original issue discount accrued in the accrual period bears to the total original issue discount remaining on the REMIC regular certificate at the beginning of the accrual period.

Moreover, the prepayment assumption used in calculating the accrual of original issue discount is to be used in calculating the accrual of market discount. Because the regulations referred to in this paragraph have not been issued, it is not possible to predict what effect those regulations might have on the tax treatment of a REMIC regular certificate purchased at a discount in the secondary market.

To the extent that REMIC regular certificates provide for monthly or other periodic distributions throughout their term, the effect of these rules may be to require market discount to be includible in income at a rate that is not significantly slower than the rate at which the discount would accrue if it were original issue discount. Moreover, in any event a holder of a REMIC regular certificate generally will be required to treat a portion of any gain on the sale or exchange of that certificate as ordinary income to the extent of the market discount accrued to the date of disposition under one of the foregoing methods, less any accrued market discount previously reported as ordinary income.

In addition, under Section 1277 of the Internal Revenue Code, a holder of a REMIC regular certificate may be required to defer a portion of its interest deductions for the taxable year attributable to any indebtedness incurred or continued to purchase or carry a REMIC regular certificate purchased with market discount. For these purposes, the de minimis rule referred to above applies. Any deferred interest expense would not exceed the market discount that accrues during that taxable year and is, in general, allowed as a deduction not later than the year in which the market discount is includible in income. If the holder elects to include market discount in income currently as it accrues on all market discount instruments acquired by that holder in that taxable year or thereafter, the interest deferral rule described above will not apply.

Premium

A REMIC regular certificate purchased at a cost, excluding any portion of that cost attributable to accrued qualified stated interest, greater than its remaining stated redemption price will be considered to be purchased at a premium. The holder of a REMIC regular certificate may elect under Section 171 of the Internal Revenue Code to amortize that premium under the constant yield method over the life of the certificate. If made, this election will apply to all debt instruments having amortizable bond premium that the holder owns or subsequently acquires. Amortizable premium will be treated as an offset to interest income on the related REMIC regular certificate, rather than as a separate interest deduction. The OID regulations also permit certificateholders to elect to include all interest, discount and premium in income based on a constant yield method, further treating the certificateholder as having made the election to amortize premium generally. See "—Market Discount." The conference committee report states that the same rules that apply to accrual of market discount, which rules will require use of a prepayment assumption in accruing market discount with respect to REMIC regular certificates without regard to whether those certificates have original issue discount, will also apply in amortizing bond premium under Section 171 of the Internal Revenue Code. It is possible that the use of an assumption that there will be no prepayments may be required in calculating the amortization of premium.

Realized Losses

Under Section 166 of the Internal Revenue Code, both corporate holders of the REMIC regular certificates and noncorporate holders of the REMIC regular certificates that acquire those certificates in connection with a trade or business should be allowed to deduct, as ordinary losses, any losses sustained during a taxable year in which their certificates become wholly or partially worthless as the result of one or more Realized Losses on the mortgage collateral. However, it appears that a noncorporate holder that does not acquire a REMIC regular certificate in connection with a trade or business will not be entitled to deduct a loss under Section 166 of the Internal Revenue Code until the holder's certificate becomes wholly worthless—until its outstanding principal balance has been reduced to zero—and that the loss will be characterized as a short-term capital loss.

Each holder of a REMIC regular certificate will be required to accrue interest and original issue discount with respect to that certificate, without giving effect to any reductions in distributions attributable to defaults or delinquencies on the mortgage collateral or the underlying certificates until it can be established that any reduction ultimately will not be recoverable. As a result, the amount of taxable income reported in any period by the holder of a REMIC regular certificate could exceed the amount of economic income actually realized by the holder in that period. Although the holder of a REMIC regular certificate eventually will recognize a loss or reduction in income attributable to previously accrued and included income that, as the result of a Realized Loss, ultimately will not be realized, the law is unclear with respect to the timing and character of the loss or reduction in income.

Taxation of Owners of REMIC Residual Certificates

General

As residual interests, the REMIC residual certificates will be subject to tax rules that differ significantly from those that would apply if the REMIC residual certificates were treated for federal income tax purposes as direct ownership interests in the mortgage collateral or as debt instruments issued by the REMIC.

A holder of a REMIC residual certificate generally will be required to report its daily portion of the taxable income or, in accordance with the limitations noted in this discussion, the net loss of the REMIC for each day during a calendar quarter that the holder owned the REMIC residual certificate. For this purpose, the taxable income or net loss of the REMIC will be allocated to each day in the calendar quarter ratably using a "30 days per month/90 days per quarter/360 days per year" convention. The daily amounts will then be allocated among the REMIC residual certificateholders in proportion to their respective ownership interests on that day. Any amount included in the gross income or allowed as a loss of any REMIC residual certificateholder by virtue of this allocation will be treated as ordinary income or loss. The taxable income of the REMIC will be determined under the rules described in this prospectus in "—Taxable Income of the REMIC" and will be taxable to the REMIC residual certificateholders without regard to the timing or amount of cash distributions by the REMIC. Ordinary income derived from REMIC residual certificates will be "portfolio income" for purposes of the taxation of taxpayers in accordance with limitations under Section 469 of the Internal Revenue Code on the deductibility of "passive losses."

A holder of a REMIC residual certificate that purchased the certificate from a prior holder of that certificate also will be required to report on its federal income tax return amounts representing its daily portion of the taxable income or net loss of the REMIC for each day that it holds the REMIC residual certificate. These daily portions generally will equal the amounts of taxable income or net loss determined as described above. The Committee Report indicates that modifications of the general rules may be made, by regulations, legislation or otherwise, to reduce, or increase, the income or loss of a REMIC residual certificateholder that purchased the REMIC residual certificate from a prior holder of such certificate at a price greater than, or less than, the adjusted basis (as defined below) that REMIC residual certificate would have had in the hands of an original holder of that Certificate. The REMIC regulations, however, do not provide for any such modifications.

Any payments received by a holder of a REMIC residual certificate in connection with the acquisition of that Certificate will be taken into account in determining the income of that holder for federal income tax purposes. On May 11, 2004, the IRS issued final regulations that require such payment to be included in income over time according to an amortization schedule that reasonably reflects the costs and benefits of holding the REMIC residual certificate over its expected life. The regulations also provide two more specific methods that will be accepted as meeting the general test set forth above for determining the timing and amount of income inclusion. One method generally follows the method of inclusion used by the taxpayer for GAAP purposes, but not over a period shorter than the period over which the REMIC is expected to generate income. The other method calls for ratable inclusion over the remaining anticipated weighted average life of the REMIC as of the time the REMIC residual certificate is transferred to the taxpayer. Holders of REMIC residual certificates are encouraged to consult their tax advisors concerning the treatment of these payments for income tax purposes under the regulations.

The amount of income REMIC residual certificateholders will be required to report, or the tax liability associated with that income, may exceed the amount of cash distributions received from the REMIC for the corresponding period. Consequently, REMIC residual certificateholders should have other sources of funds sufficient to pay any federal income taxes due as a result of their ownership of REMIC residual certificates or unrelated deductions against which income may be offset, subject to the rules relating to "excess inclusions" and "noneconomic" residual interests discussed below. The fact that the tax liability associated with the income allocated to REMIC residual certificateholders may exceed the cash distributions received by the REMIC residual certificateholders for the corresponding period may significantly adversely affect the REMIC residual certificateholders' after-tax rate of return.

Taxable Income of the REMIC

The taxable income of the REMIC will equal the income from the mortgage collateral and other assets of the REMIC plus any cancellation of indebtedness income due to the allocation of Realized Losses to REMIC regular certificates, less the deductions allowed to the REMIC for interest, including original issue discount and reduced by the amortization of any premium received on issuance, on the REMIC regular certificates, and any other class of REMIC certificates constituting "regular interests" in the REMIC not offered hereby, amortization of any premium on the mortgage collateral, bad debt deductions with respect to the mortgage collateral and, except as described below, for servicing, administrative and other expenses.

For purposes of determining its taxable income, the REMIC will have an initial aggregate basis in its assets equal to their fair market value immediately after their transfer to the REMIC. For this purpose, the master servicer or the Certificate Administrator, as applicable, intends to treat the fair market value of the mortgage collateral as being equal to the aggregate issue prices of the REMIC regular certificates and REMIC residual certificates. The aggregate basis will be allocated among the mortgage collateral collectively and the other assets of the REMIC in proportion to their respective fair market values. The issue price of any REMIC certificates offered hereby will be determined in the manner described above under "—Taxation of Owners of REMIC Regular Certificates—Original Issue Discount." Accordingly, if one or more classes of REMIC certificates are retained initially rather than sold, the master servicer or the Certificate Administrator, as applicable, may be required to estimate the fair market value of those interests in order to determine the basis of the REMIC in the mortgage collateral and other property held by the REMIC.

Subject to the possible application of the de minimis rules, the method of accrual by the REMIC of original issue discount income and market discount income with respect to mortgage collateral that it holds will be equivalent to the method of accruing original issue discount income for REMIC regular certificateholders—under the constant yield method taking into account the prepayment assumption. However, a REMIC that acquires collateral at a market discount must include the discount in income currently, as it accrues, on a constant interest basis. See "—Taxation of Owners of REMIC Regular Certificates" above, which describes a method of accruing discount income that is analogous to that required to be used by a REMIC as to mortgage collateral with market discount that it holds.

An item of mortgage collateral will be deemed to have been acquired with discount or premium to the extent that the REMIC's basis therein, determined as described in the preceding paragraph, is less than or greater than its stated redemption price. Any discount will be includible in the income of the REMIC as it accrues, in advance of receipt of the cash attributable to that income, under a method similar to the method described above for accruing original issue discount on the REMIC regular certificates. It is anticipated that each REMIC will elect under Section 171 of the Internal Revenue Code to amortize any premium on the mortgage collateral. Premium on any item of mortgage collateral to which the election applies may be amortized under a constant yield method, presumably taking into account a prepayment assumption.

A REMIC will be allowed deductions for interest, including original issue discount, on the REMIC regular certificates, including any other class of REMIC certificates constituting "regular interests" in the REMIC not offered hereby, equal to the deductions that would be allowed if the REMIC regular certificates, including any other class of REMIC certificates constituting "regular interests" in the REMIC not offered hereby, were indebtedness of the REMIC. Original issue discount will be considered to accrue for this purpose as described above under "—Taxation of Owners of REMIC Regular Certificates— Original Issue Discount," except that the de minimis rule and the adjustments for subsequent holders of REMIC regular certificates, including any other class of certificates constituting "regular interests" in the REMIC not offered hereby, described therein will not apply.

If a class of REMIC regular certificates is issued at an Issue Premium, the net amount of interest deductions that are allowed the REMIC in each taxable year with respect to the REMIC regular certificates of that class will be reduced by an amount equal to the portion of the Issue Premium that is considered to be amortized or repaid in that year. Although the matter is not entirely certain, it is likely that Issue Premium would be amortized under a constant yield method in a manner analogous to the method of accruing original issue discount described above under "—Taxation of Owners of REMIC Regular Certificates—Original Issue Discount."

As a general rule, the taxable income of the REMIC will be determined in the same manner as if the REMIC were an individual having the calendar year as its taxable year and using the accrual method of accounting. However, no item of income, gain, loss or deduction allocable to a prohibited transaction will be taken into account. See "—Prohibited Transactions and Other Possible REMIC Taxes" below. Further, the limitation on miscellaneous itemized deductions imposed on individuals by Section 67 of the Internal Revenue Code, which allows those deductions only to the extent they exceed in the aggregate two percent of the taxpayer's adjusted gross income, will not be applied at the REMIC level so that the REMIC will be allowed deductions for servicing, administrative and other non-interest expenses in determining its taxable income. All of these expenses will be allocated as a separate item to the holders of REMIC residual certificates, subject to the limitation of Section 67 of the Internal Revenue Code. See "—Possible Pass-Through of Miscellaneous Itemized Deductions." If the deductions allowed to the REMIC exceed its gross income for a calendar quarter, the excess will be the net loss for the REMIC for that calendar quarter.

Basis Rules, Net Losses and Distributions

The adjusted basis of a REMIC residual certificate will be equal to the amount paid for that REMIC residual certificate, increased by amounts included in the income of the related certificateholder and decreased, but not below zero, by distributions made, and by net losses allocated, to the related certificateholder.

A REMIC residual certificateholder is not allowed to take into account any net loss for any calendar quarter to the extent the net loss exceeds the REMIC residual certificateholder's adjusted basis in its REMIC residual certificate as of the close of that calendar quarter, determined without regard to the net loss. Any loss that is not currently deductible by reason of this limitation may be carried forward indefinitely to future calendar quarters and, in accordance with the same limitation, may be used only to offset income from the REMIC residual certificate. The ability of REMIC residual certificateholders to deduct net losses may be subject to additional limitations under the Internal Revenue Code, as to which the certificateholders are encouraged to consult their tax advisors.

Any distribution on a REMIC residual certificate will be treated as a non-taxable return of capital to the extent it does not exceed the holder's adjusted basis in the REMIC residual certificate. To the extent a distribution on a REMIC residual certificate exceeds the adjusted basis, it will be treated as gain from the sale of the REMIC residual certificate. Holders of REMIC residual certificates may be entitled to distributions early in the term of the related REMIC under circumstances in which their bases in the REMIC residual certificates will not be sufficiently large that distributions will be treated as nontaxable returns of capital. Their bases in the REMIC residual certificates will initially equal the amount paid for such REMIC residual certificates and will be increased by their allocable shares of taxable income of the trust. However, their basis increases may not occur until the end of the calendar quarter, or perhaps the end of the calendar year, with respect to which the REMIC taxable income is allocated to the REMIC residual certificateholders. To the extent the REMIC residual certificateholders' initial bases are less than the distributions to the REMIC residual certificateholders, and increases in the initial bases either occur after distributions or, together with their initial bases, are less than the amount of the distributions, gain will be recognized to the REMIC residual certificateholders on those distributions and will be treated as gain from the sale of their REMIC residual certificates.

The effect of these rules is that a certificateholder may not amortize its basis in a REMIC residual certificate, but may only recover its basis through distributions, through the deduction of its share of any net losses of the REMIC or upon the sale of its REMIC residual certificate. See "—Sales of REMIC Certificates." For a discussion of possible modifications of these rules that may require adjustments to income of a holder of a REMIC residual certificate other than an original holder in order to reflect any difference between the cost of the REMIC residual certificate to its holder and the adjusted basis the REMIC residual certificate would have had in the hands of the original holder, see "—General."

Excess Inclusions

Any "excess inclusions" with respect to a REMIC residual certificate will be subject to federal income tax in all events. In general, the "excess inclusions" with respect to a REMIC residual certificate for any calendar quarter will be the excess, if any, of (i) the sum of the daily portions of REMIC taxable income allocable to the REMIC residual certificate over (ii) the sum of the "daily accruals" (as defined below) for each day during that quarter that the REMIC residual certificate was held by the REMIC residual certificateholder. The daily accruals of a REMIC residual certificateholder will be determined by allocating to each day during a calendar quarter its ratable portion of the product of the "adjusted issue price" of the REMIC residual certificate at the beginning of the calendar quarter and 120% of the "long-term Federal rate" in effect on the closing date. For this purpose, the adjusted issue price of a REMIC residual certificate as of the beginning of any calendar quarter will be equal to the issue price of the REMIC residual certificate, increased by the sum of the daily accruals for all prior quarters and decreased, but not below zero, by any distributions made with respect to the REMIC residual certificate before the beginning of that quarter. The issue price of a REMIC residual certificate is the initial offering price to the public, excluding bond houses, brokers and underwriters, at which a substantial amount of the REMIC residual certificates were sold. If less than a substantial amount of a particular class of REMIC residual certificates is sold for cash on or prior to the closing date, the issue price of that class will be treated as the fair market value of that class on the closing date. The "long-term Federal rate" is an average of current yields on Treasury securities with a remaining term of greater than nine years, computed and published monthly by the IRS.

For REMIC residual certificateholders, an excess inclusion:

- will not be permitted to be offset by deductions, losses or loss carryovers from other activities,
- will be treated as "unrelated business taxable income" to an otherwise tax-exempt organization and
- will not be eligible for any rate reduction or exemption under any applicable tax treaty with respect to the 30% United States withholding tax imposed on distributions to REMIC residual certificateholders that are foreign investors.

See, however, "—Foreign Investors in REMIC Certificates."

Effective August 1, 2006, temporary regulations issued by the Internal Revenue Service (the "Temporary regulations") have modified the general rule that excess inclusions from a REMIC residual interest are not includible in the income of a non-resident alien individual or foreign corporation for purposes of the 30% United States withholding tax until paid or distributed or when the REMIC residual interest is disposed of. The Temporary regulations accelerate the time both for reporting of, and withholding tax on, excess inclusions allocated to the foreign equity holders of domestic partnerships and certain other pass-through entities. The new rules also provide that excess inclusions are United States sourced income. The timing rules apply to a particular residual interest and a particular foreign person, if the first allocation of income from the residual interest to the foreign person occurs after July 31, 2006. The source rules apply for taxable years ending after August 1, 2006.

Under the Temporary regulations, in the case of REMIC residual interests held by a foreign person through a domestic partnership, the amount of excess inclusion income allocated to the foreign partner is deemed to be received by the foreign partner on the last day of the partnership's taxable year except to the extent that the excess inclusion was required to be taken into account by the foreign partner at an earlier time under section 860G(b) of the Code as a result of a distribution by the partnership to the foreign partner or a disposition in whole or in part of the foreign partner's indirect interest in the REMIC residual interest. A disposition in whole or in part of the foreign partner's indirect interest in the REMIC residual interest may occur as a result of a termination of the REMIC, a disposition of the partnership's residual interest in the REMIC, a disposition of the foreign partner's interest in the partnership, or any other reduction in the foreign partner's allocable share of the portion of the REMIC net income or deduction allocated to the partnership.

Similarly, in the case of a residual interest held by a foreign person indirectly as a shareholder of a real estate investment trust or regulated investment company, as a participant in a common trust fund or as a patron in an organization subject to part I of subchapter T (cooperatives), the amount of excess inclusion allocated to the foreign person must be taken into account for purposes of the 30% United States withholding tax at the same time that other income from the trust, company, fund, or organization would be taken into account.

Under the Temporary regulations, excess inclusions allocated to a foreign person (whether as a partner or holder of an interest in a pass-through entity) are expressly made subject to withholding tax. In addition, in the case of excess inclusions allocable to a foreign person as a partner, the Temporary regulations eliminate an exception to the withholding requirements under which a withholding agent unrelated to a payee is obligated to withhold on a payment only to the extent that the withholding agent has control over the payee's money or property and knows the facts giving rise to the payment.

Furthermore, for purposes of the alternative minimum tax, (i) excess inclusions will not be permitted to be offset by the alternative tax net operating loss deduction and (ii) alternative minimum taxable income may not be less than the taxpayer's excess inclusions; provided, however, that for purposes of (ii), alternative minimum taxable income is determined without regard to the special rule that taxable income cannot be less than excess inclusions. The latter rule has the effect of preventing nonrefundable tax credits from reducing the taxpayer's income tax to an amount lower than the alternative minimum tax on excess inclusions.

In the case of any REMIC residual certificates held by a real estate investment trust, the aggregate excess inclusions with respect to the REMIC residual certificates, reduced, but not below zero, by the real estate investment trust taxable income, within the meaning of Section 857(b)(2) of the Internal Revenue Code, excluding any net capital gain, will be allocated among the shareholders of the trust in proportion to the dividends received by the shareholders from the trust, and any amount so allocated will be treated as an excess inclusion with respect to a REMIC residual certificate as if held directly by the shareholder. Treasury regulations yet to be issued could apply a similar rule to regulated investment companies, common trust funds and some cooperatives; the REMIC regulations currently do not address this subject.

Noneconomic REMIC Residual Certificates

Under the REMIC regulations, transfers of "noneconomic" REMIC residual certificates will be disregarded for all federal income tax purposes if "a significant purpose of the transfer was to enable the transferor to impede the assessment or collection of tax." If the transfer is disregarded, the purported transferor will continue to remain liable for any taxes due with respect to the income on the "noneconomic" REMIC residual certificate. The REMIC regulations provide that a REMIC residual certificate is noneconomic unless, based on the prepayment assumption and on any required or permitted clean up calls, or required qualified liquidation provided for in the REMIC's organizational documents, (1) the present value of the expected future distributions (discounted using the "applicable Federal rate" for obligations whose term ends on the close of the last quarter in which excess inclusions are expected to accrue with respect to the REMIC residual certificate, which rate is computed and published monthly by the IRS) on the REMIC residual certificate equals at least the present value of the expected tax on the anticipated excess inclusions, and (2) the transferor reasonably expects that the transferee will receive distributions with respect to the REMIC residual certificate at or after the time the taxes accrue on the anticipated excess inclusions in an amount sufficient to satisfy the accrued taxes. Accordingly, all transfers of REMIC residual certificates that may constitute noneconomic residual interests will be subject to restrictions under the terms of the related pooling and servicing agreement that are intended to reduce the possibility of any transfer being disregarded. The restrictions will require each party to a transfer to provide an affidavit that no purpose of the transfer is to impede the assessment or collection of tax, including representations as to the financial condition of the prospective transferee, as to which the transferor also is required to make a reasonable investigation to determine the transferee's historic payment of its debts and ability to continue to pay its debts as they come due in the future. Prior to purchasing a REMIC residual certificate, prospective purchasers should consider the possibility that a purported transfer of the REMIC residual certificate by such a purchaser to another purchaser at some future date may be disregarded in accordance with the above-described rules which would result in the retention of tax liability by that purchaser.

The IRS has issued final REMIC regulations that add to the conditions necessary to assure that a transfer of a non-economic residual interest would be respected. The additional conditions require that in order to qualify as a safe harbor transfer of a residual interest, the transferee must represent that it will not cause the income "to be attributable to a foreign permanent establishment or fixed base (within the meaning of an applicable income tax treaty) of the transferee or another U.S. taxpayer" and either (i) the amount received by the transferee be no less on a present value basis (determined using the short-term rate provided by Section 1274(d) of the Internal Revenue Code) than the present value of the net tax detriment attributable to holding the residual interest reduced by the present value of the projected payments to be received on the residual interest or (ii) the transfer is to a domestic taxable corporation with specified large amounts of gross and net assets and that meets certain other requirements where agreement is made that all future transfers will be to taxable domestic corporations in transactions that qualify for the same "safe harbor" provision. Eligibility for the safe harbor requires, among other things, that the facts and circumstances known to the transferor at the time of transfer not indicate to a reasonable person that the taxes with respect to the residual interest will not be paid, with an unreasonably low cost for the transfer specifically mentioned as negating eligibility.

The accompanying prospectus supplement will disclose whether offered REMIC residual certificates may be considered "noneconomic" residual interests under the REMIC regulations. Any disclosure that a REMIC residual certificate will not be considered "noneconomic" will be based upon some assumptions, and the depositor will make no representation that a REMIC residual certificate will not be considered "noneconomic" for purposes of the above-described rules. See "—Foreign Investors in REMIC Certificates" for additional restrictions applicable to transfers of certain REMIC residual certificates to foreign persons.

Mark-to-Market Rules

The mark-to-market requirement applies to all securities owned by a dealer, except to the extent that the dealer has specifically identified a security as held for investment. The Mark-to-Market Regulations provide that for purposes of this mark-to-market requirement, a REMIC residual certificate acquired on or after January 4, 1995 is not treated as a security and thus may not be marked to market. Prospective purchasers of a REMIC residual certificate are encouraged to consult their tax advisors regarding the possible application of the mark-to-market requirement to REMIC residual certificates.

Possible Pass-Through of Miscellaneous Itemized Deductions

Fees and expenses of a REMIC generally will be allocated to the holders of the related REMIC residual certificates. The applicable Treasury regulations indicate, however, that in the case of a REMIC that is similar to a single class grantor trust, all or a portion of those fees and expenses should be allocated to the holders of the related REMIC regular certificates. Fees and expenses will be allocated to holders of the related REMIC residual certificates in their entirety and not to the holders of the related REMIC regular certificates.

With respect to REMIC residual certificates or REMIC regular certificates the holders of which receive an allocation of fees and expenses in accordance with the preceding discussion, if any holder thereof is an individual, estate or trust, or a Pass-Through Entity beneficially owned by one or more individuals, estates or trusts, (i) an amount equal to the individual's, estate's or trust's share of fees and expenses will be added to the gross income of that holder and (ii) the individual's, estate's or trust's share of fees and expenses will be treated as a miscellaneous itemized deduction allowable in accordance with the limitation of Section 67 of the Internal Revenue Code, which permits those deductions only to the extent they exceed in the aggregate two percent of a taxpayer's adjusted gross income. In addition, Section 68 of the Internal Revenue Code provides that the amount of itemized deductions otherwise allowable for an individual whose adjusted gross income exceeds a specified amount will be reduced. The amount of additional taxable income reportable by REMIC certificateholders that are covered by the limitations of either Section 67 or Section 68 of the Internal Revenue Code may be substantial. Furthermore, in determining the alternative minimum taxable income of such a holder of a REMIC certificate that is an individual, estate or trust, or a "Pass-Through Entity" beneficially owned by one or more individuals, estates or trusts, no deduction will be allowed for such holder's allocable portion of servicing fees and other miscellaneous itemized deductions of the REMIC, even though an amount equal to the amount of such fees and other deductions will be included in the holder's gross income. Accordingly, the REMIC certificates may not be appropriate investments for individuals, estates, or trusts, or pass-through entities beneficially owned by one or more individuals, estates or trusts. Any prospective investors are encouraged to consult with their tax advisors prior to making an investment in these certificates.

Tax and Restrictions on Transfers of REMIC Residual Certificates to Certain Organizations

If a REMIC residual certificate is transferred to a Disqualified Organization, a tax would be imposed in an amount, determined under the REMIC regulations, equal to the product of:

- the present value, discounted using the "applicable Federal rate" for obligations whose term ends on the close of the last quarter in which excess inclusions are expected to accrue with respect to the certificate, which rate is computed and published monthly by the IRS, of the total anticipated excess inclusions with respect to the REMIC residual certificate for periods after the transfer; and
- the highest marginal federal income tax rate applicable to corporations.

The anticipated excess inclusions must be determined as of the date that the REMIC residual certificate is transferred and must be based on events that have occurred up to the time of transfer, the prepayment assumption and any required or permitted clean up calls or required liquidation provided for in the REMIC's organizational documents. This tax generally would be imposed on the transferor of the REMIC residual certificate, except that where the transfer is through an agent for a Disqualified Organization, the tax would instead be imposed on that agent. However, a transferor of a REMIC residual certificate would in no event be liable for the tax with respect to a transfer if the transferee furnishes to the transferor an affidavit that the transferee is not a Disqualified Organization and, as of the time of the transfer, the transferor does not have actual knowledge that the affidavit is false. Moreover, an entity will not qualify as a REMIC unless there are reasonable arrangements designed to ensure that:

- residual interests in the entity are not held by Disqualified Organizations; and
- information necessary for the application of the tax described in this prospectus will be made available.

Restrictions on the transfer of REMIC residual certificates and other provisions that are intended to meet this requirement will be included in the pooling and servicing agreement, including provisions:

- requiring any transferee of a REMIC residual certificate to provide an affidavit representing that it is not a Disqualified Organization and is not acquiring the REMIC residual certificate on behalf of a Disqualified Organization, undertaking to maintain that status and agreeing to obtain a similar affidavit from any person to whom it shall transfer the REMIC residual certificate;
- providing that any transfer of a REMIC residual certificate to a Disqualified Organization shall be null and void; and
- granting to the master servicer the right, without notice to the holder or any prior holder, to sell to a purchaser of its choice any REMIC residual certificate that shall become owned by a Disqualified Organization despite (1) and (2) above.

In addition, if a Pass-Through Entity includes in income excess inclusions with respect to a REMIC residual certificate, and a Disqualified Organization is the record holder of an interest in that entity, then a tax will be imposed on the entity equal to the product of (i) the amount of excess inclusions on the REMIC residual certificate that are allocable to the interest in the Pass-Through Entity held by the Disqualified Organization and (ii) the highest marginal federal income tax rate imposed on corporations. A Pass-Through Entity will not be subject to this tax for any period, however, if each record holder of an interest in the Pass-Through Entity furnishes to that Pass-Through Entity (i) the holder's social security number and a statement under penalties of perjury that the social security number is that of the record holder or (ii) a statement under penalties of perjury that the record holder is not a Disqualified Organization. For taxable years beginning after December 31, 1997, notwithstanding the preceding two sentences, in the case of a REMIC residual certificate held by an "electing large partnership," all interests in such partnership shall be treated as held by Disqualified Organizations, without regard to whether the record holders of the partnership furnish statements described in the preceding sentence, and the amount that is subject to tax under the second preceding sentence is excluded from the gross income of the partnership allocated to the partners, in lieu of allocating to the partners a deduction for the tax paid by the partners.

Sales of REMIC Certificates

If a REMIC certificate is sold, the selling certificateholder will recognize gain or loss equal to the difference between the amount realized on the sale and its adjusted basis in the REMIC certificate. The adjusted basis of a REMIC regular certificate generally will equal the cost of that REMIC regular certificate to that certificateholder, increased by income reported by the certificateholder with respect to that REMIC regular certificate, including original issue discount and market discount income, and reduced, but not below zero, by distributions on the REMIC regular certificate received by the certificateholder and by any amortized premium. The adjusted basis of a REMIC residual certificate will be determined as described under "—Taxation of Owners of REMIC Residual Certificates—Basis Rules, Net Losses and Distributions." Except as described below, any gain or loss generally will be capital gain or loss.

Gain from the sale of a REMIC regular certificate that might otherwise be capital gain will be treated as ordinary income to the extent the gain does not exceed the excess, if any, of (i) the amount that would have been includible in the seller's income with respect to the REMIC regular certificate had income accrued thereon at a rate equal to 110% of the "applicable federal rate", which is typically a rate based on an average of current yields on Treasury securities having a maturity comparable to that of the certificate, which rate is computed and published monthly by the IRS, determined as of the date of purchase of the REMIC regular certificate, over (ii) the amount of ordinary income actually includible in the seller's income prior to the sale. In addition, gain recognized on the sale of a REMIC regular certificate by a seller who purchased the REMIC regular certificate at a market discount will be taxable as ordinary income to the extent of any accrued and previously unrecognized market discount that accrued during the period the certificate was held. See "—Taxation of Owners of REMIC Regular Certificates—Discount."

REMIC certificates will be "evidences of indebtedness" within the meaning of Section 582(c)(1) of the Internal Revenue Code, so that gain or loss recognized from the sale of a REMIC certificate by a bank or thrift institution to which that section applies will be ordinary income or loss.

A portion of any gain from the sale of a REMIC regular certificate that might otherwise be capital gain may be treated as ordinary income to the extent that the certificate is held as part of a "conversion transaction" within the meaning of Section 1258 of the Internal Revenue Code. A conversion transaction generally is one in which the taxpayer has taken two or more positions in certificates or similar property that reduce or eliminate market risk, if substantially all of the taxpayer's return is attributable to the time value of the taxpayer's net investment in the transaction. The amount of gain so realized in a conversion transaction that is recharacterized as ordinary income generally will not exceed the amount of interest that would have accrued on the taxpayer's net investment at 120% of the appropriate "applicable Federal rate", which rate is computed and published monthly by the IRS, at the time the taxpayer enters into the conversion transaction, subject to appropriate reduction for prior inclusion of interest and other ordinary income items from the transaction.

Finally, a taxpayer may elect to have net capital gain taxed at ordinary income rates rather than capital gains rates in order to include any net capital gain in total net investment income for the taxable year, for purposes of the limitation on the deduction of interest on indebtedness incurred to purchase or carry property held for investment to a taxpayer's net investment income.

If the seller of a REMIC residual certificate reacquires the certificate, any other residual interest in a REMIC or any similar interest in a "taxable mortgage pool" (as defined in Section 7701(i) of the Internal Revenue Code) within six months of the date of the sale, the sale will be subject to the "wash sale" rules of Section 1091 of the Internal Revenue Code. In that event, any loss realized by the REMIC residual certificateholders on the sale will not be deductible, but instead will be added to the REMIC residual certificateholders' adjusted basis in the newly-acquired asset.

Losses on the sale of a REMIC residual certificate in excess of a threshold amount (which amount could need to be aggregated with similar or previous losses) may require disclosure of such loss on an IRS Form 8886. Investors are encouraged to consult with their tax advisors as to the need to file such forms.

Tax Return Disclosure and Investor List Requirements

Recent Treasury regulations directed at potentially abusive tax shelter activity appear to apply to transactions not conventionally regarded as tax shelters. The regulations require taxpayers to report certain disclosures on IRS Form 8886 if they participate in a "reportable transaction." Organizers and sellers of the transaction are required to maintain records including investor lists containing identifying information and to furnish those records to the IRS upon demand. A transaction may be a "reportable transaction" based upon any of several indicia, one or more of which may be present with respect to your investment in the certificates. There are significant penalties for failure to comply with these disclosure requirements. Investors in REMIC residual certificates are encouraged to consult their own tax advisers concerning any possible disclosure obligation with respect to their investment, and should be aware that the depositor and other participants in the transaction intend to comply with such disclosure and investor list maintenance requirements as they determine apply to them with respect to the transaction.

Prohibited Transactions and Other Possible REMIC Taxes

The Internal Revenue Code imposes a prohibited transactions tax, which is a tax on REMICs equal to 100% of the net income derived from prohibited transactions. In general, subject to specified exceptions a prohibited transaction means the disposition of an item of mortgage collateral, the receipt of income from a source other than an item of mortgage collateral or other Permitted Investments, the receipt of compensation for services, or gain from the disposition of an asset purchased with the payments on the mortgage collateral for temporary investment pending distribution on the REMIC certificates. It is not anticipated that any REMIC will engage in any prohibited transactions in which it would recognize a material amount of net income. In addition, some contributions to a REMIC made after the day on which the REMIC issues all of its interests could result in the imposition of a contributions tax, which is a tax on the REMIC equal to 100% of the value of the contributed property. Each pooling and servicing agreement will include provisions designed to prevent the acceptance of any contributions that would be subject to the tax.

REMICs also are subject to federal income tax at the highest corporate rate on "net income from foreclosure property," determined by reference to the rules applicable to real estate investment trusts. "Net income from foreclosure property" generally means gain from the sale of a foreclosure property that is inventory property and gross income from foreclosure property other than qualifying rents and other qualifying income for a real estate investment trust. It is not anticipated that any REMIC will recognize "net income from foreclosure property" subject to federal income tax.

It is not anticipated that any material state or local income or franchise tax will be imposed on any REMIC.

To the extent permitted by then applicable laws, any prohibited transactions tax, contributions tax, tax on "net income from foreclosure property" or state or local income or franchise tax that may be imposed on the REMIC will be borne by the related master servicer, the Certificate Administrator or the trustee in either case out of its own funds, provided that the master servicer, the Certificate Administrator or the trustee, as the case may be, has sufficient assets to do so, and provided further that the tax arises out of a breach of the master servicer's, the Certificate Administrator's or the trustee's obligations, as the case may be, under the related pooling and servicing agreement and relating to compliance with applicable laws and regulations. Any tax not borne by the master servicer, Certificate Administrator or the trustee will be payable out of the related trust resulting in a reduction in amounts payable to holders of the related REMIC certificates.

Termination

A REMIC will terminate immediately after the distribution date following receipt by the REMIC of the final payment from the mortgage collateral or upon a sale of the REMIC's assets following the adoption by the REMIC of a plan of complete liquidation. The last distribution on a REMIC regular certificate will be treated as a payment in retirement of a debt instrument. In the case of a REMIC residual certificate, if the last distribution on the REMIC residual certificate is less than the certificateholder's adjusted basis in the certificate, the certificateholder should be treated as realizing a loss equal to the amount of the difference, and the loss may be treated as a capital loss.

Reporting and Other Administrative Matters

Solely for purposes of the administrative provisions of the Internal Revenue Code, the REMIC will be treated as a partnership and REMIC residual certificateholders will be treated as partners. The master servicer or the Certificate Administrator, as applicable, will file REMIC federal income tax returns on behalf of the related REMIC and will act as the "tax matters person" for the REMIC in all respects, and may hold a nominal amount of REMIC residual certificates.

As the tax matters person, the master servicer or the Certificate Administrator, as applicable, will have the authority to act on behalf of the REMIC and the REMIC residual certificateholders in connection with the administrative and judicial review of items of income, deduction, gain or loss of the REMIC, as well as the REMIC's classification. REMIC residual certificateholders will be required to report the REMIC items consistently with their treatment on the related REMIC's tax return and may in some circumstances be bound by a settlement agreement between the master servicer or the Certificate Administrator, as applicable, as tax matters person, and the IRS concerning any REMIC item.

Adjustments made to the REMIC tax return may require a REMIC residual certificateholder to make corresponding adjustments on its return, and an audit of the REMIC's tax return, or the adjustments resulting from an audit, could result in an audit of the certificateholder's return. No REMIC will be registered as a tax shelter under Section 6111 of the Internal Revenue Code because it is not anticipated that any REMIC will have a net loss for any of the first five taxable years of its existence. Any person that holds a REMIC residual certificate as a nominee for another person may be required to furnish to the related REMIC, in a manner to be provided in Treasury regulations, the name and address of that person and other information.

Reporting of interest income, including any original issue discount, with respect to REMIC regular certificates is required annually, and may be required more frequently under Treasury regulations. These information reports are required to be sent to individual holders of REMIC regular Interests and the IRS; holders of REMIC regular certificates that are corporations, trusts, securities dealers and other non-individuals will be provided interest and original issue discount income information and the information in the following paragraph upon request in accordance with the requirements of the applicable regulations. The information must be provided by the later of 30 days after the end of the quarter for which the information was requested, or two weeks after the receipt of the request. The REMIC must also comply with rules requiring certain information to be reported to the IRS. Reporting with respect to the REMIC residual certificates, including income, excess inclusions, investment expenses and relevant information regarding qualification of the REMIC's assets will be made as required under the Treasury regulations, typically on a quarterly basis.

As applicable, the REMIC regular certificate information reports will include a statement of the adjusted issue price of the REMIC regular certificate at the beginning of each accrual period. In addition, the reports will include information required by regulations with respect to computing the accrual of any market discount. Because exact computation of the accrual of market discount on a constant yield method requires information relating to the holder's purchase price that the master servicer, or the Certificate Administrator, as applicable, will not have, the regulations only require that information pertaining to the appropriate proportionate method of accruing market discount be provided. See "—Taxation of Owners of REMIC Regular Certificates—Market Discount."

The responsibility for complying with the foregoing reporting rules will be borne by the master servicer, or the Certificate Administrator. Certificateholders may request any information with respect to the returns described in Section 1.6049-7(e)(2) of the Treasury regulations. Any request should be directed to the master servicer or Certificate Administrator, as applicable, at Residential Funding Company, LLC, 8400 Normandale Lake Boulevard, Suite 250, Minneapolis, Minnesota 55437.

Backup Withholding with Respect to REMIC Certificates

Payments of interest and principal, as well as payments of proceeds from the sale of REMIC certificates, may be subject to the "backup withholding tax" under Section 3406 of the Internal Revenue Code if recipients of payments fail to furnish to the payor certain information, including their taxpayer identification numbers, or otherwise fail to establish an exemption from the tax. Any amounts deducted and withheld from a distribution to a recipient would be allowed as a credit against the recipient's federal income tax. Furthermore, penalties may be imposed by the IRS on a recipient of payments that is required to supply information but that does not do so in the proper manner.

Foreign Investors in REMIC Certificates

A REMIC regular certificateholder that is not a United States person and is not subject to federal income tax as a result of any direct or indirect connection to the United States in addition to its ownership of a REMIC regular certificate will not be subject to United States federal income or withholding tax on a distribution on a REMIC regular certificate, provided that the holder complies to the extent necessary with certain identification requirements, including delivery of a statement, signed by the certificateholder under penalties of perjury, certifying that the certificateholder is not a United States person and providing the name and address of the certificateholder; this statement is generally made on IRS Form W-8BEN and must be updated whenever required information has changed or within three calendar years after the statement is first delivered. For these purposes, United States person means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in, or under the laws of, the United States, any state thereof or the District of Columbia, except, in the case of a partnership, to the extent provided in regulations, provided that, for purposes solely of the restrictions on the transfer of residual interests, no partnership or other entity treated as a partnership for United States federal income tax purposes shall be treated as a United States person unless all persons that own an interest in such partnership either directly or through any entity that is not a corporation for United States federal income tax purposes are required by the applicable operating agreement to be United States persons, or an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. To the extent prescribed in regulations by the Secretary of the Treasury, which regulations have not yet been issued, a trust which was in existence on August 20, 1996 (other than a trust treated as owned by the grantor under subpart E of part I of subchapter J of chapter 1 of the Internal Revenue Code), and which was treated as a United States person on August 19, 1996, may elect to continue to be treated as a United States person notwithstanding the previous sentence. It is possible that the IRS may assert that the foregoing tax exemption should not apply with respect to a REMIC regular certificate held by a REMIC residual certificateholder that owns directly or indirectly a 10% or greater interest in the REMIC residual certificates. If the holder does not qualify for exemption, distributions of interest, including distributions of accrued original issue discount, to the holder may be subject to a tax rate of 30%, subject to reduction under any applicable tax treaty.

Special rules apply to partnerships, estates and trusts, and in certain circumstances certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

In addition, the foregoing rules will not apply to exempt a United States shareholder of a controlled foreign corporation from taxation on the United States shareholder's allocable portion of the interest income received by the controlled foreign corporation.

Further, it appears that a REMIC regular certificate would not be included in the estate of a non-resident alien individual and would not be subject to United States estate taxes. However, certificateholders who are non-resident alien individuals are encouraged to consult their tax advisors concerning this question.

Transfers of REMIC residual certificates to investors that are not United States persons will be prohibited under the related pooling and servicing agreement.

Taxation of Classes of Exchangeable Certificates

General

The arrangement pursuant to which the classes of exchangeable certificates are created, sold and administered (referred to herein as the exchangeable certificate trust fund) will be classified as a grantor trust under subpart E, part I of subchapter J of the Code. The interests in the classes of certificates that have been exchanged for exchangeable certificates will be the assets of the exchangeable certificate trust fund, and the exchangeable certificates will represent beneficial ownership of these interests in the classes of certificates.

Tax Status

Exchangeable certificates will represent "real estate assets" within the meaning of Code Section 856(c)(4)(A) and assets described in Section 7701(a)(19)(C) of the Code, and original issue discount and interest accruing on the exchangeable certificates will represent "interest on obligations secured by mortgages on real property" within the meaning of Section 856(c)(3)(B) of the Code, in each case, to the extent the certificates that have been exchanged or income thereon would be qualifying if held directly (although the matter is not entirely clear for Strips, defined below). Exchangeable certificates will be "qualified mortgages" under Section 860G(a)(3) of the Code for a REMIC to the extent the certificates, the interest in which is represented by such exchangeable certificates would be qualifying if held directly.

Tax Accounting for Exchangeable Certificates

An exchangeable certificate represents beneficial ownership of an interest in one or more classes of certificates on deposit in an exchangeable certificate trust fund, as specified in the applicable prospectus supplement. If it represents an interest in more than one class of certificates, a purchaser must allocate its basis in the exchangeable certificate among the interests in the classes of certificates in accordance with their relative fair market values as of the time of acquisition. Similarly, on the sale of such an exchangeable certificate, the holder must allocate the amount received on the sale among the interests in the classes of certificates in accordance with their relative fair market values as of the time of sale.

The holder of an exchangeable certificate must account separately for each interest in a class of certificates (there may be only one such interest). Where the interest represents a pro rata portion of a class of certificates that are REMIC regular certificates, the holder of the exchangeable certificate should account for such interest as described under "REMICs—Taxation of Owners of REMIC Regular Certificates" above. Where the interest represents beneficial ownership of a disproportionate part of the principal and interest payments on a class of certificates (a "Strip"), the holder is treated as owning, pursuant to Section 1286 of the Code, "stripped bonds" to the extent of its share of principal payments and "stripped coupons" to the extent of its share of interest payments on such class of certificates. The master servicer or the Certificate Administrator, as applicable, intends to treat each Strip as a single debt instrument for purposes of information reporting. The IRS, however, could take a different position. For example, the IRS could contend that a Strip should be treated as a pro rata part of the class of certificates to the extent that the Strip represents a pro rata portion thereof, and "stripped bonds" or "stripped coupons" with respect to the remainder. An investor is encouraged to consult its tax advisor regarding this matter.

A holder of an exchangeable certificate should calculate original issue discount with respect to each Strip and include it in ordinary income as it accrues, which may be before the receipt of cash attributable to such income, in accordance with a constant interest method that takes into account the compounding of interest. The holder should determine its yield to maturity based on its purchase price allocated to the Strip and on a schedule of payments projected using a prepayment assumption, and then make periodic adjustments to take into account actual prepayment experience. With respect to a particular holder, Treasury regulations do not address whether the prepayment assumption used to calculate original issue discount would be determined at the time of purchase of the Strip or would be the original prepayment assumption with respect to the related class of certificates. Further, if the related class of certificates is subject to redemption as described in the applicable prospectus supplement, Treasury regulations do not address the extent to which such prepayment assumption should take into account the possibility of the retirement of the Strip concurrently with the redemption of such class of certificates. An investor is encouraged to consult its tax advisor regarding these matters. For purposes of information reporting relating to original issue discount, the original yield to maturity of the Strip, determined as of the date of issuance of the series, will be calculated based on the original prepayment assumption.

If original issue discount accruing with respect to a Strip, computed as described above, is negative for any period, the holder may be entitled to offset such amount only against future positive original issue discount accruing from such Strip (or possibly also against original issue discount from prior periods). The master servicer or the Certificate Administrator, as applicable, intends to report by offsetting negative OID accruals only against future positive accruals of OID. Although not entirely free from doubt, such a holder may be entitled to deduct a loss to the extent that its remaining basis would exceed the maximum amount of future payments to which the holder is entitled with respect to such Strip, assuming no further prepayments of the mortgage loans (or, perhaps, assuming prepayments at a rate equal to the prepayment assumption). Although the issue is not free from doubt, all or a portion of such loss may be treated as a capital loss if the Strip is a capital asset in the hands of the holder.

A holder realizes gain or loss on the sale of a Strip in an amount equal to the difference between the amount realized and its adjusted basis in such Strip. The holder's adjusted basis generally is equal to the holder's allocated cost of the Strip, increased by income previously included, and reduced (but not below zero) by distributions previously received. Except as described below, any gain or loss on such sale generally is capital gain or loss if the holder has held its interest as a capital asset and is long-term if the interest has been held for the long-term capital gain holding period (more than one year). Such gain or loss will be ordinary income or loss (1) for a bank or thrift institution or (2) if the certificates are REMIC regular certificates to the extent income recognized by the holder is less than the income that would have been recognized if the yield on such interest were 110% of the applicable federal rate under Section 1274(d) of the Code.

If a holder exchanges a single exchangeable certificate, an "Exchanged Certificate", for several exchangeable certificates, each, a "Received Certificate," and then sells one of the Received Certificates, the sale may be subject the investor to the coupon stripping rules of Section 1286 of the Code. The holder must allocate its basis in the Exchanged Certificate between the portion of such Exchanged Certificate underlying the Received Certificate that was sold and the portion of the Exchanged Certificate underlying the Received Certificates that were retained, in proportion to their relative fair market values as of the date of such sale. The holder is treated as purchasing the interest retained for the amount of basis allocated to such interest. The holder must calculate original issue discount with respect to the retained interest as described above.

Although the matter is not free from doubt, a holder that acquires in one transaction a combination of exchangeable certificates that may be exchanged for a single exchangeable certificate that is identical to a class of certificates that is on deposit in the related exchangeable certificate trust fund should be treated as owning the relevant class of certificates.

Exchanges of Exchangeable Certificates

An exchange of an interest in one or more exchangeable certificates for an interest in one or more other related exchangeable certificates that are part of the same combination, or vice versa, will not be a taxable exchange. After the exchange, the holder is treated as continuing to own the interests in the exchangeable certificates that it owned immediately before the exchange.

Tax Treatment of Foreign Investors

A foreign holder of an exchangeable certificate is subject to taxation in the same manner as foreign holders of REMIC Regular Certificates. Such manner of taxation is discussed under the heading "REMICs—Foreign Investors in REMIC Certificates."

Backup Withholding

A holder of an exchangeable certificate is subject to backup withholding rules similar to those applicable to REMIC Regular Certificates. Such manner of taxation is discussed under the heading "REMICs—Backup Withholding With Respect to REMIC Certificates."

Reporting and Administrative Matters

Reports will be made to the IRS and to holders of record of exchangeable certificates that are not excepted from the reporting requirements.

State and Other Tax Consequences

In addition to the federal income tax consequences described in "Material Federal Income Tax Consequences," potential investors should consider the state and local tax consequences of the acquisition, ownership, and disposition of the certificates offered hereunder. State tax law may differ substantially from the corresponding federal tax law, and the discussion above does not purport to describe any aspect of the tax laws of any state or other jurisdiction. Therefore, prospective investors are encouraged to consult their tax advisors with respect to the various tax consequences of investments in the certificates offered hereby.

ERISA Considerations

Sections 404 and 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), impose fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA and certain entities in which such plans invest, including bank collective investment funds, insurance company general and separate accounts, and certain other pooled investment funds that are deemed to hold "plan assets" under Section 3(42) of ERISA and the Plan Asset Regulations described below. Section 4975 of the Internal Revenue Code imposes essentially the same prohibited transaction restrictions on certain tax-favored plans, including tax-qualified retirement plans described in Section 401(a) of the Internal Revenue Code and individual retirement accounts described in Section 408 of the Internal Revenue Code.

Section 404 of ERISA imposes general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan. In addition, Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit a broad range of transactions involving assets of employee benefit plans and arrangements and tax-favored plans, which are collectively referred to in this prospectus as "ERISA plans," and persons, called "parties in interest" under ERISA or "disqualified persons" under the Internal Revenue Code, which are collectively referred to in this prospectus as "parties in interest," who have specified relationships to the ERISA plans, unless a statutory or administrative exemption is available. Some parties in interest that participate in a nonexempt prohibited transaction may be subject to a penalty (or an excise tax) imposed under Section 502(i) of ERISA or Section 4975 of the Internal Revenue Code.

Some employee benefit plans, including governmental plans, as defined in Section 3(32) of ERISA, and, if no election has been made under Section 410(d) of the Internal Revenue Code, church plans, as defined in Section 3(33) of ERISA, are not subject to the ERISA requirements discussed in this prospectus. Accordingly, assets of these plans may be invested in certificates without regard to the ERISA considerations described below, subject to the provisions of applicable federal and state law. Any plan that is a tax-qualified plan and exempt from taxation under Sections 401(a) and 501(a) of the Internal Revenue Code, however, is subject to the prohibited transaction rules in Section 503(b) of the Internal Revenue Code.

Plan Asset Regulations

Certificates acquired by an ERISA plan would be assets of that ERISA plan. In addition, an investment of assets of an ERISA plan in certificates offered under this prospectus may cause the underlying loans or any other assets held in the trust issuing such certificates (each an "Issuer") to be deemed ERISA plan assets of the ERISA plan. The U.S. Department of Labor, or DOL, has promulgated regulations at 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the "Plan Asset Regulations"), concerning whether or not an ERISA plan's assets would be deemed to include an interest in the underlying assets of an entity, including an Issuer, for purposes of applying the general fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Internal Revenue Code, when an ERISA plan acquires an "equity interest" in that entity.

The Plan Asset Regulations generally provide that ERISA plan assets may be deemed to include an undivided interest in each asset of an entity, such as an Issuer, in which an ERISA plan holds an "equity interest." The Plan Asset Regulations provide that the term "equity interest" means any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no "substantial equity features." However, exceptions included in the Plan Asset Regulations provide that an ERISA plan's assets will not include an undivided interest in each asset of an entity in which it makes an equity investment if:

- the entity is an operating company;
- the equity investment made by the ERISA plan is either a "publicly offered security" that is "widely held" (both as defined in the Plan Asset Regulations), or a security issued by an investment company registered under the Investment Company Act of 1940, as amended; or
- "benefit plan investors" do not own 25% or more in value of any class of equity securities issued by the entity. For this purpose, "benefit plan investors" include ERISA plans and any entity whose underlying assets include plan assets by reason of an ERISA plan's investment in the entity.

ERISA plans and entities deemed to hold plan assets should not acquire or hold certificates in reliance upon the availability of any exception under the Plan Asset Regulations.

Under the Plan Asset Regulations, the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Internal Revenue Code may apply to the assets of an Issuer and cause the depositor, the master servicer, the administrator, any servicer, any subservicer, any trustee with respect to the Issuer, the obligor under any credit enhancement mechanism or affiliates of those entities to be considered or become parties in interest with respect to an ERISA plan holding an equity interest in an Issuer. If so, the acquisition or holding of certificates by or on behalf of the investing ERISA plan could also give rise to a prohibited transaction under ERISA and Section 4975 of the Internal Revenue Code, unless one or more statutory or administrative exemption is available. Under the Plan Asset Regulations, an Issuer, including the loans or any other assets held in the Issuer, may also be deemed to be assets of each ERISA plan that acquires certificates. Special caution should be exercised before ERISA plan assets are used to acquire a certificate in those circumstances, especially if, for the ERISA plan assets, the depositor, the master servicer, any servicer, any subservicer, the trustee with respect to the Issuer, the obligor under any credit enhancement mechanism or an affiliate thereof either (i) has investment discretion with respect to the investment of the ERISA plan assets; or (ii) has authority or responsibility to give, or regularly gives, investment advice (direct or indirect) with respect to the ERISA plan assets for a fee under an agreement or understanding that this advice will serve as a primary basis for investment decisions with respect to the ERISA plan assets.

Any person who has discretionary authority or control with respect to the management or disposition of ERISA plan assets, and any person who provides investment advice with respect to the ERISA plan assets for a fee, is a fiduciary of the investing ERISA plan. If the loans or any other assets held in an Issuer were to constitute ERISA plan assets, then any party exercising management or discretionary control with respect to those ERISA plan assets may be deemed to be a "fiduciary," and thus subject to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Internal Revenue Code, for any investing ERISA plan. In addition, if the loans or any other assets held in an Issuer were to constitute ERISA plan assets, then the acquisition or holding of certificates by or on behalf of an ERISA plan or with ERISA plan assets, as well as the operation of the Issuer, may constitute or result in a prohibited transaction under ERISA and Section 4975 of the Internal Revenue Code.

Considerations for ERISA Plans Regarding the Purchase of Certificates

Prohibited Transaction Exemptions

The DOL has issued an individual prohibited transaction exemption, or PTE 94-29, 59 Fed. Reg. 14674 (March 29, 1994), as most recently amended by PTE 2002-41, 67 Fed. Reg. 54487 (August 22, 2002), referred to in this prospectus as the "RFC exemption," to Residential Funding Company, LLC and certain of its affiliates. The RFC exemption generally exempts from the application of the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Internal Revenue Code various transactions relating to the operation of Issuers holding pools of certain secured obligations, and the purchase, sale and holding of pass-through certificates or other securities issued by an Issuer as to which:

- the depositor or any of its affiliates is the sponsor, if any entity which has received from the DOL an individual prohibited transaction exemption that is substantially similar to the RFC exemption is the sole underwriter, a manager or co-manager of the underwriting syndicate or a selling or placement agent; or
- the depositor or an affiliate is the underwriter or placement agent,

provided that the conditions of the RFC exemption are satisfied. For purposes of this section, the term "underwriter" includes:

- the depositor and certain of its affiliates;
- any person directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the depositor and certain of its affiliates;
- any member of the underwriting syndicate or selling group of which a person described in the two preceding clauses is a manager or co-manager for a class of securities; or
- any entity which has received an administrative exemption from the DOL relating to securities which is substantially similar to the RFC exemption.

The RFC exemption sets forth several general conditions (certain of which are described below) which must be satisfied for a transaction involving the purchase, sale and holding of certificates to be eligible for exemptive relief thereunder.

- The certificates issued by an Issuer must represent a beneficial ownership interest in the assets of an Issuer that is a trust and which interest entitles the holder of the certificates to certain payments with respect to the assets of the Issuer.

- The assets of the Issuer must consist solely of certain types of obligations, property, cash accounts or certain permitted contractual rights. There are six permitted types of obligations including certain consumer receivables, credit instruments, obligations secured by residential or commercial real property, obligations secured by motor vehicles or equipment, guaranteed governmental mortgage pool certificates and fractional undivided interests in any of the above. Permitted contractual rights include rights of the trustee under the relevant pooling and servicing agreement, rights under any insurance policies, and rights under eligible yield supplement agreements, eligible swap agreements or other credit support arrangements. The RFC exemption also requires that each Issuer meet the following requirements:
  - the Issuer must consist solely of assets of the type that have been included in other investment pools;
  - certificates evidencing interests in those other investment pools must have been rated in one of the four highest categories of one of the exemption rating agencies for at least one year prior to the acquisition of certificates by or on behalf of an ERISA plan or with ERISA plan assets in reliance on an asset-backed exemption; and
  - certificates in the other investment pools must have been purchased by investors other than ERISA plans for at least one year prior to any acquisition of certificates by or on behalf of an ERISA plan or with ERISA plan assets in reliance on an asset-backed exemption.
- The acquisition of certificates by an ERISA plan or with ERISA plan assets must be on terms that are at least as favorable to the ERISA plan as they would be in an arm's length transaction with an unrelated party.
- Certificates must evidence rights and interests that are not subordinated to the rights and interests evidenced by the other certificates of the same Issuer, unless none of the mortgage loans or other assets has an LTV ratio or CLTV ratio that exceeds 100% at the date of issuance of the certificates.
- At the time of acquisition by an ERISA plan or with ERISA plan assets, the certificates must be rated in one of the four highest generic rating categories by Standard & Poor's, a division of The McGraw Hill Companies, Inc., Moody's Investors Service, Inc. or Fitch Ratings, called the exemption rating agencies, if none of the mortgage loans or other assets has an LTV ratio or CLTV ratio that exceeds 100% at the date of issuance of the certificates.
- If the LTV ratio or CLTV ratio of any one- to four-family residential mortgage loan or home equity loan held in the Issuer exceeds 100% but does not exceed 125% (based on fair market value at the date of issuance of the certificates), the certificates must (a) be rated in one of the two highest generic categories by the exemption rating agencies and (b) not be subordinate to other certificates issued by the Issuer.
- The RFC exemption will not apply to any of the certificates if:
  - any mortgage loan or other asset held in the Issuer (other than a one- to four family residential mortgage loan or closed-end home equity loan) has an LTV ratio or CLTV ratio that exceeds 100% at the date of issuance of the certificates; or
  - any one- to four-family residential mortgage loan or closed-end home equity loan has an LTV ratio or CLTV ratio that exceeds 125% at the date of issuance of the certificates.
- The trustee cannot be an affiliate of any other member of the restricted group (which consists of any underwriter, the depositor, the master servicer, the Certificate Administrator, any servicer, any subservicer, the trustee, the swap counterparty in any eligible swap arrangement and any mortgagor with respect to assets of an Issuer constituting more than 5% of the aggregate

unamortized principal balance of the assets in the related Issuer as of the date of initial issuance of the certificates) other than an underwriter.

- The sum of all payments made to and retained by the underwriters must represent not more than reasonable compensation for underwriting the certificates; the sum of all payments made to and retained by the depositor pursuant to the assignment of the assets to the related Issuer must represent not more than the fair market value of those obligations; and the sum of all payments made to and retained by the master servicer, the Certificate Administrator, any servicer and any subservicer must represent not more than reasonable compensation for that person's services under the related pooling and servicing agreement or trust agreement and reimbursement of that person's reasonable expenses in connection therewith.
- The investing ERISA plan or ERISA plan asset investor must be an accredited investor as defined in Rule 501(a)(1) of Regulation D of the Securities and Exchange Commission under the Securities Act of 1933, as amended.
- For Issuers other than common law trusts, the documents establishing the Issuer and governing the transaction must contain provisions as described in the RFC exemption that are intended to protect the assets of the Issuer from creditors of the depositor.
- If a particular class of certificates held by an ERISA plan involves a "ratings dependent swap" or a "non-ratings dependent swap" (collectively, a "swap" or "swap agreement") entered into by the Issuer that issued such certificates, then each particular swap transaction relating to such certificates must be (a) an "eligible swap," (b) with an "eligible counterparty," (c) meet certain additional conditions which depend on whether the swap is a "ratings dependent swap" or a "non-ratings dependent swap" and (d) permit the Issuer to make termination payments to the swap counterparty (other than currently scheduled payments) solely from excess spread or amounts otherwise payable to the servicer, depositor or seller. Certificates to which one or more swap agreements apply may be acquired or held only by "qualified plan investors."

An "eligible swap" is one which: (a) is denominated in U.S. dollars; (b) pursuant to which the Issuer pays or receives, on or immediately prior to the respective payment or distribution date for the class of certificates to which the swap relates, a fixed rate of interest or a floating rate of interest based on a publicly available index (e.g., LIBOR or the U.S. Federal Reserve's Cost of Funds Index (COFI)), with the Issuer receiving such payments on at least a quarterly basis and obligated to make separate payments no more frequently than the counterparty, with all simultaneous payments being netted ("allowable interest rate"); (c) has a notional amount that does not exceed either: (i) the principal balance of the class of certificates to which the swap relates, or (ii) the portion of the principal balance of such class represented solely by obligations held by the Issuer ("allowable notional amount"); (d) is not leveraged (i.e., payments are based on the applicable notional amount, the day count fractions, the fixed or floating rates permitted above, and the difference between the products thereof, calculated on a one-to-one ratio and not on a multiplier of such difference) ("not leveraged"); (e) has a final termination date that is either the earlier of the date on which the Issuer terminates or the related class of certificates are fully repaid and (f) does not incorporate any provision which could cause a unilateral alteration in the requirements described in (a) through (d) above without the consent of the trustee.

An "eligible counterparty" means a bank or other financial institution which has a rating, at the date of issuance of the certificates, which is in one of the three highest long-term credit rating categories or one of the two highest short-term credit rating categories, utilized by at least one of the exemption rating agencies rating the certificates; provided that, if a counterparty is relying on its short-term rating to establish eligibility under the RFC exemption, such counterparty must either have a long-term rating in one of the three highest long-term rating categories or not have a long-term rating from the applicable exemption rating agency.

A "qualified plan investor" is a plan for which the decision to buy such class of certificates is made on behalf of the plan by an independent fiduciary qualified to understand the terms and conditions of the swap transaction used by the Issuer and the effect such swap would have on the credit rating of the certificates, which fiduciary must be (a) a "qualified professional asset manager" ("QPAM") under PTCE 84-14, (b) an "in-house asset manager" under PTCE 96-23 or (c) a plan fiduciary with total assets (both plan and non-plan) under management of at least $100 million at the time the certificates are acquired by the plan.

In "ratings dependent swaps" (where the rating of a class of certificates is dependent on the terms and conditions of the swap and the rating of the counterparty), the swap agreement must provide that if the credit rating of the counterparty is withdrawn or reduced by any exemption rating agency below a level specified by the exemption rating agency, the servicer must, within the period specified under the Pooling and Servicing Agreement: (a) obtain a replacement swap agreement with an eligible counterparty which is acceptable to the exemption rating agency and the terms of which are substantially the same as the current swap agreement (at which time the earlier swap agreement must terminate); or (b) cause the swap counterparty to establish any collateralization or other arrangement satisfactory to the exemption rating agency such that the then current rating by the exemption rating agency of the particular class of certificates will not be withdrawn or reduced (and the terms of the swap agreement must specifically obligate the counterparty to perform these duties for any class of certificates with a term of more than one year). In the event that the servicer fails to meet these obligations, holders of the certificates that are ERISA plans must be notified in the immediately following periodic report which is provided to the holders of the certificates but in no event later than the end of the second month beginning after the date of such failure. Sixty days after the receipt of such report, the exemptive relief provided under the RFC exemption will prospectively cease to be applicable to any class of certificates held by an ERISA plan which involves such ratings dependent swap.

"Non-ratings dependent swaps" (those where the rating of the certificates does not depend on the terms and conditions of the swap or the rating of the counterparty) are subject to the following conditions. If the credit rating of the counterparty is withdrawn or reduced below the lowest level permitted above, the servicer must, within a specified period after such rating withdrawal or reduction: (a) obtain a replacement swap agreement with an eligible counterparty, the terms of which are substantially the same as the current swap agreement (at which time the earlier swap agreement must terminate); (b) cause the counterparty to post collateral with the trustee in an amount equal to all payments owed by the counterparty if the swap transaction were terminated; or (c) terminate the swap agreement in accordance with its terms. With respect to a non-ratings dependent swap, each exemption rating agency must confirm, as of the date of issuance of certificates by the Issuer, that entering into the swap will not affect the rating of the certificates.

The RFC exemption also permits yield supplement agreements to be assets of an Issuer if certain conditions are satisfied.

An "eligible yield supplement agreement" is any yield supplement agreement or similar yield maintenance arrangement or (if purchased by or on behalf of the Issuer) an interest rate cap contract to supplement the interest rates otherwise payable on obligations held by the Issuer ("EYS Agreement"). If the EYS Agreement has a notional principal amount, the EYS Agreement may only be held as an asset of the Issuer if it meets the following conditions: (a) it is denominated in U.S. dollars; (b) it pays an allowable interest rate; (c) it is not leveraged; (d) it does not allow any of these three preceding requirements to be unilaterally altered without the consent of the trustee; (e) it is entered into between the Issuer and an eligible counterparty and (f) it has an allowable notional amount.

An ERISA plan fiduciary contemplating purchasing a certificate must make its own determination that the general conditions described above will be satisfied with respect to that certificate.

If the general conditions of the RFC exemption are satisfied, the RFC exemption may provide an exemption, from the application of the prohibited transaction provisions of Sections 406(a) and 407(a) of ERISA and Sections 4975(c)(1)(A) through (D) of the Internal Revenue Code in connection with the direct or indirect sale, exchange, transfer, holding or the direct or indirect acquisition or disposition in the secondary market of certificates by an ERISA plan or with ERISA plan assets. However, no exemption is provided from the restrictions of Sections 406(a)(1)(E) and 406(a)(2) of ERISA for the acquisition or holding of a certificate by an excluded ERISA plan or with ERISA plan assets of an excluded ERISA plan by any person who has discretionary authority or renders investment advice with respect to ERISA plan assets of the excluded ERISA plan. For this purpose, an "excluded ERISA plan" is an ERISA plan sponsored by any member of the restricted group, which consists of any underwriter, the depositor, the master servicer, any servicer, any subservicer, the trustee, the swap counterparty in any eligible swap arrangement, any yield maintenance provider and any borrower with respect to assets of an Issuer constituting more than 5% of the aggregate unamortized principal balance of the assets in the related Issuer as of the date of initial issuance of the certificates.

If certain additional conditions of the RFC exemption are satisfied, the RFC exemption may provide an exemption from the application of the prohibited transaction provisions of Sections 406(b)(1) and (b)(2) of ERISA and Section 4975(c)(1)(E) of the Internal Revenue Code in connection with the following:

- the direct or indirect sale, exchange or transfer of certificates in the initial issuance of certificates between the depositor or an underwriter and an ERISA plan when the person who has discretionary authority or renders investment advice with respect to the investment of the relevant ERISA plan assets in the certificates is:
    - a borrower with respect to 5% or less of the fair market value of the assets of an Issuer; or
    - an affiliate of such a person;

  provided that, if the certificates are acquired in connection with their initial issuance, the quantitative restrictions described in the RFC exemption are met;

- the direct or indirect acquisition or disposition in the secondary market of certificates by an ERISA plan or by an entity that holds ERISA plan assets; and

- the holding of certificates by an ERISA plan or with ERISA plan assets.

Additionally, if specific conditions of the RFC exemption are satisfied, the RFC exemption may provide an exemption from the application of the prohibited transaction provisions of Sections 406(a), 406(b) and 407(a) of ERISA and Section 4975(c) of the Internal Revenue Code for transactions in connection with the servicing, management and operation of the assets held by the Issuer. The accompanying prospectus supplement will specify whether the depositor expects that the specific conditions of the RFC exemption required for this purpose should be satisfied with respect to the certificates so that the RFC exemption should provide an exemption, from the application of the prohibited transaction provisions of Sections 406(a), 406(b) and 407(a) of ERISA and Section 4975(c) of the Internal Revenue Code, for transactions in connection with the servicing, management and operation of the assets held by the Issuer, provided that the general conditions of the RFC exemption are satisfied.

The RFC exemption also may provide an exemption from the application of the prohibited transaction provisions of Sections 406(a) and 407(a) of ERISA and Sections 4975(c)(1)(A) through (D) of the Internal Revenue Code if those restrictions are deemed to otherwise apply merely because a person is deemed to be a party in interest with respect to an investing ERISA plan, or an ERISA plan holding interests in the investing entity holding ERISA plan assets, by virtue of providing services to the ERISA plan or by virtue of having specified relationships to such a person, solely as a result of the ERISA plan's ownership of certificates.

The Issuer may include certain residential financing transactions that are structured so as to be permissible under Islamic law utilizing declining balance co-ownership structures ("Sharia Mortgage Loans"). The DOL has not specifically considered the eligibility or treatment of Sharia Mortgage Loans under the RFC exemption, including whether they would be treated in the same manner as other single family residential mortgages. Since the remedies in the event of default and certain other provisions of the Sharia Mortgage Loans held by the Issuer are similar to the remedial and other provisions in the residential mortgage loans contemplated by the DOL at the time the RFC exemption was granted, the depositor believes that the Sharia Mortgage Loans should be treated as other single family residential mortgages under the RFC exemption.

Before purchasing a certificate, a fiduciary or other investor of ERISA plan assets should itself confirm that the certificates constitute "securities" for purposes of the RFC exemption and that the specific and general conditions and the other requirements described in the RFC exemption would be satisfied. In addition to making its own determination as to the availability of the exemptive relief provided in the RFC exemption, the fiduciary or other ERISA plan asset investor should consider its general fiduciary obligations under ERISA in determining whether to purchase any certificates with ERISA plan assets.

Any fiduciary or other ERISA plan asset investor that proposes to purchase certificates on behalf of an ERISA plan or with ERISA plan assets is encouraged to consult with its counsel on the potential applicability of ERISA and the Internal Revenue Code to that investment and the availability of the RFC exemption or any other DOL prohibited transaction class exemption, or PTCE, in connection therewith. In particular, in connection with a contemplated purchase of certificates representing a beneficial ownership interest in a pool of single-family residential first and second mortgage loans, the fiduciary or other ERISA plan asset investor should consider the availability of PTCE 83-1 for various transactions involving mortgage pool investment trusts. In addition, the fiduciary or other ERISA plan asset investor should consider the availability of other class exemptions granted by the DOL, which provide relief from certain of the prohibited transaction provisions of ERISA and the related excise tax provisions of Section 4975 of the Internal Revenue Code, including PTCE 95-60, regarding transactions by insurance company general accounts; PTCE 84-14, regarding transactions effected by a "qualified professional asset manager"; PTCE 90-1, regarding transactions by insurance company pooled separate accounts; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 96-23, regarding transactions effected by an "in-house asset manager" (each, an "Investor-Based Exemption"). In addition to the Investor-Based Exemptions listed above, Section 408(b)(17) of ERISA provides a statutory exemption for certain prohibited transactions between an ERISA plan and a person or an entity that is a party in interest to such ERISA plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the ERISA plan involved in the transaction) solely by reason of providing services to the ERISA plan, but only if the ERISA plan pays no more, or receives no less, than adequate consideration (the "Service Provider Exemption"). The Investor-Based Exemptions and the Service Provider Exemption may not provide exemptive relief for all transactions for which exemptive relief is provided by the RFC Exemption. The accompanying prospectus supplement may contain additional information regarding the application of the RFC exemption, the Investor-Based Exemptions, other DOL exemptions or the Service Provider Exemption for the certificates offered thereby. There can be no assurance that any of these exemptions will apply with respect to any particular ERISA plan's or other ERISA plan asset investor's investment in the certificates or, even if an exemption were deemed to apply, that any exemption would apply to all prohibited transactions that may occur in connection with this form of investment.

Representations From Investing ERISA Plans

If the criteria specified in the RFC exemption as described above are not satisfied by (a) one or more classes of certificates, or (b) an Issuer or the mortgage loans, contracts, mortgage securities and other assets held by an Issuer, then the accompanying prospectus supplement will specify whether or not transfers of those certificates to (i) an ERISA plan, (ii) a trustee or other person acting on behalf of any ERISA plan, or (iii) any other person using ERISA plan assets to effect the acquisition, will be registered by the trustee, and whether or not such registration shall be subject to the condition that the transferee provides the depositor, the trustee and the master servicer with an opinion of counsel satisfactory to the depositor, the trustee and the master servicer, which opinion will not be at the expense of the depositor, the trustee or the master servicer, that the purchase of the certificates by or on behalf of the ERISA plan or with ERISA plan assets:

- is permissible under applicable law;
- will not constitute or result in any non-exempt prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code; and
- will not subject the depositor, the trustee or the master servicer to any obligation in addition to those undertaken in the pooling and servicing or trust agreement.

The accompanying prospectus supplement will specify whether or not each beneficial owner of a subordinate certificate offered by this prospectus and the accompanying prospectus supplement (or any interest therein) shall be deemed to have represented, by virtue of its acquisition or holding of such certificate (or any interest therein), that either:

- it is not an ERISA plan, a trustee or other person acting on behalf of an ERISA plan, or any other person using ERISA plan assets to effect such acquisition or holding;
- it has acquired and is holding such subordinate certificate in reliance on the RFC exemption and it understands that there are certain conditions to the availability of the RFC exemption, including the requirement for an Issuer where none of the assets has an LTV that exceeds 100% (based on fair market value at the date of issuance of the certificates) that the subordinate certificates must be rated, at the time of acquisition, in one of the four highest generic rating categories by at least one of the exemption rating agencies; or
- (1) such acquirer or holder is an insurance company, (2) the source of funds used to acquire or hold such certificate (or any interest therein) is an "insurance company general account" (as defined in PTCE 95-60), and (3) the conditions set forth in Sections I and III of PTCE 95-60 have been satisfied.

If any subordinate certificate (or any interest therein) is acquired or held in violation of the conditions described in the preceding paragraph, the next preceding permitted beneficial owner will be treated as the beneficial owner of the subordinate certificate, retroactive to the date of transfer to the purported beneficial owner. Any purported beneficial owner whose acquisition or holding of any subordinate certificate (or any interest therein) was effected in violation of the conditions described in the preceding paragraph shall indemnify and hold harmless the depositor, the trustee, the master servicer, any subservicer and the trust from and against any and all liabilities, claims, costs or expenses incurred by such parties as a result of such acquisition or holding.

Tax-Exempt Investors; REMIC Residual Certificates

An ERISA plan that is a Tax-Exempt Investor nonetheless will be subject to federal income taxation to the extent that its income is "unrelated business taxable income," or UBTI, within the meaning of Section 512 of the Internal Revenue Code. All "excess inclusions" of a REMIC allocated to a REMIC residual security held by a Tax-Exempt Investor will be considered UBTI and thus will be subject to federal income tax. See "Material Federal Income Tax Consequences—Taxation of Owners of REMIC Residual Certificates—Excess Inclusions." In addition, the exemptive relief afforded by the RFC exemption does not apply to the purchase, sale or holding of any class of REMIC residual certificates.

Consultation With Counsel

There can be no assurance that the RFC exemption or any other DOL exemption will apply with respect to any particular ERISA plan that acquires the certificates or, even if all of the specified conditions were satisfied, that the exemption would apply to all transactions involving an Issuer. Prospective ERISA plan investors are encouraged to consult with their legal counsel concerning the impact of ERISA and the Internal Revenue Code and the potential consequences to their specific circumstances prior to making an investment in the certificates.

Before purchasing a certificate, a fiduciary of an ERISA plan should itself confirm that all of the specific and general conditions described in the RFC exemption or one or more of the other DOL exemptions would be satisfied. Before purchasing a certificate in reliance on the RFC exemption, an ERISA plan fiduciary should itself confirm that the certificate constitutes a "security" for purposes of the RFC exemption. In addition to making its own determination as to the availability of the exemptive relief provided in the RFC exemption or any other DOL exemption, an ERISA plan fiduciary should consider its general fiduciary obligations under ERISA in determining whether to purchase a certificate on behalf of an ERISA plan.

Legal Investment Matters

Each class of certificates offered hereby and by the related prospectus supplement will be rated at the date of issuance in one of the four highest rating categories by at least one rating agency. If so specified in the related prospectus supplement, classes that are, and continue to be, rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization will constitute "mortgage related securities" for purposes of the Secondary Mortgage Market Enhancement Act of 1984, as amended, or SMMEA, and, as such, will be legal investments for persons, trusts, corporations, partnerships, associations, business trusts and business entities, including depository institutions, life insurance companies and pension funds, created under or existing under the laws of the United States or of any State whose authorized investments are subject to state regulation to the same extent that, under applicable law, obligations issued by or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof constitute legal investments for those entities. Under SMMEA, if a State enacted legislation on or prior to October 3, 1991 specifically limiting the legal investment authority of any of these entities with respect to "mortgage related securities," these securities will constitute legal investments for entities subject to the legislation only to the extent provided therein. Certain States enacted legislation which overrides the preemption provisions of SMMEA. SMMEA provides, however, that in no event will the enactment of any such legislation affect the validity of any contractual commitment to purchase, hold or invest in "mortgage related securities," or require the sale or other disposition of the securities, so long as the contractual commitment was made or the securities acquired prior to the enactment of the legislation.

SMMEA also amended the legal investment authority of federally-chartered depository institutions as follows: federal savings and loan associations and federal savings banks may invest in, sell or otherwise deal with "mortgage related securities" without limitation as to the percentage of their assets represented thereby, federal credit unions may invest in these securities, and national banks may purchase these securities for their own account without regard to the limitations generally applicable to investment securities set forth in 12 U.S.C. Section 24 (Seventh), subject in each case to any regulations that the applicable federal regulatory authority may prescribe.

The 1998 Policy Statement was adopted by the Federal Reserve Board, the Office of the Comptroller of the Currency, the FDIC, the National Credit Union Administration, or NCUA and the OTS with an effective date of May 26, 1998. The 1998 Policy Statement rescinded a 1992 policy statement that had required, prior to purchase, a depository institution to determine whether a mortgage derivative product that it was considering acquiring was high-risk, and, if so, required that the proposed acquisition would reduce the institution's overall interest rate risk. The 1998 Policy Statement eliminates constraints on investing in certain "high-risk" mortgage derivative products and substitutes broader guidelines for evaluating and monitoring investment risk.

The OTS has issued Thrift Bulletin 73a, entitled "Investing in Complex Securities" or TB 73a, which is effective as of December 18, 2001 and applies to savings associations regulated by the OTS, and Thrift Bulletin 13a, entitled "Management of Interest Rate Risk, Investment Securities, and Derivatives Activities", or TB 13a, which is effective as of December 1, 1998, and applies to thrift institutions regulated by the OTS.

One of the primary purposes of TB 73a is to require savings associations, prior to taking any investment position, to determine that the investment position meets applicable regulatory and policy requirements (including those set forth TB 13a (see below)) and internal guidelines, is suitable for the institution, and is safe and sound. The OTS recommends, with respect to purchases of specific securities, additional analysis, including, among others, analysis of repayment terms, legal structure, expected performance of the issuing entity and any underlying assets as well as analysis of the effects of payment priority, with respect to a security which is divided into separate tranches with unequal payments, and collateral investment parameters, with respect to a security that is prefunded or involves a revolving period. TB 73a reiterates the OTS's due diligence requirements for investing in all securities and warns that if a savings association makes an investment that does not meet the applicable regulatory requirements, the savings association's investment practices will be subject to criticism, and the OTS may require divestiture of such securities. The OTS also recommends, with respect to an investment in any "complex securities," that savings associations should take into account quality and suitability, marketability, interest rate risk, and classification factors. For the purposes of each of TB 73a and TB 13a, "complex security" includes among other things any collateralized mortgage obligation or real estate mortgage investment conduit security, other than any "plain vanilla" mortgage pass-through security (that is, securities that are part of a single class of securities in the related pool that are non-callable and do not have any special features). Accordingly, all classes of the offered certificates would likely be viewed as "complex securities." With respect to quality and suitability factors, TB 73a warns:

- that a savings association's sole reliance on outside ratings for material purchases of complex securities is an unsafe and unsound practice,
- that a savings association should only use ratings and analyses from nationally recognized rating agencies in conjunction with, and in validation of, its own underwriting processes, and
- that it should not use ratings as a substitute for its own thorough underwriting analyses.

With respect the interest rate risk factor, TB 73a recommends that savings associations should follow the guidance set forth in TB 13a.

One of the primary purposes of TB 13a is to require thrift institutions, prior to taking any investment position, to:

- conduct a pre-purchase portfolio sensitivity analysis for any "significant transaction" involving securities or financial derivatives, and
- conduct a pre-purchase price sensitivity analysis of any "complex security" or financial derivative.

The OTS recommends that while a thrift institution should conduct its own in-house pre-acquisition analysis, it may rely on an analysis conducted by an independent third-party as long as management understands the analysis and its key assumptions. Further, TB 13a recommends that the use of "complex securities with high price sensitivity" be limited to transactions and strategies that lower a thrift institution's portfolio interest rate risk. TB 13a warns that investment in complex securities by thrift institutions that do not have adequate risk measurement, monitoring and control systems may be viewed by the OTS examiners as an unsafe and unsound practice.

Prospective investors in the certificates, including in particular the classes of certificates that do not constitute "mortgage related securities" for purposes of SMMEA, should consider the matters discussed in the following paragraph.

There may be other restrictions on the ability of some investors either to purchase some classes of certificates or to purchase any class of certificates representing more than a specified percentage of the investors" assets. The depositor will make no representations as to the proper characterization of any class of certificates for legal investment or other purposes, or as to the ability of particular investors to purchase any class of certificates under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of any class of certificates. Accordingly, all investors whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors in determining whether and to what extent the certificates of any class constitute legal investments or are subject to investment, capital or other restrictions, and, if applicable, whether SMMEA has been overridden in any jurisdiction relevant to the investor.

Use of Proceeds

Substantially all of the net proceeds to be received by the depositor from the sale of certificates will be applied by the depositor to finance the purchase of, or to repay short-term loans incurred to finance the purchase of, the mortgage loans underlying the certificates or will be used by the depositor for general corporate purposes. The depositor expects that it will make additional sales of securities similar to the certificates from time to time, but the timing and amount of any additional offerings will be dependent upon a number of factors, including the volume of mortgage loans purchased by the depositor, prevailing interest rates, availability of funds and general market conditions.

Methods of Distribution

The certificates offered hereby and by the related prospectus supplements will be offered in series through one or more of the methods described below. The prospectus supplement prepared for each series will describe the method of offering being utilized for that series and will state the net proceeds to the depositor from that sale.

The depositor intends that certificates will be offered through the following methods from time to time and that offerings may be made concurrently through more than one of these methods or that an offering of a particular series of certificates may be made through a combination of two or more of the following methods:

- by negotiated firm commitment or best efforts underwriting and public re-offering by underwriters;
- by placements by the depositor with institutional investors through dealers; and
- by direct placements by the depositor with institutional investors.

In addition, if specified in the related prospectus supplement, a series of certificates may be offered in whole or in part to the seller of the related mortgage loans that would comprise the mortgage pool securing the certificates.

If underwriters are used in a sale of any certificates, other than in connection with an underwriting on a best efforts basis, the certificates will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices to be determined at the time of sale or at the time of commitment therefore. These underwriters may be broker-dealers affiliated with the depositor whose identities and relationships to the depositor will be as described in the related prospectus supplement. The managing underwriter or underwriters with respect to the offer and sale of a particular series of certificates will be set forth on the cover of the prospectus supplement relating to that series and the members of the underwriting syndicate, if any, will be named in the related prospectus supplement.

In connection with the sale of the certificates, underwriters may receive compensation from the depositor or from purchasers of the certificates in the form of discounts, concessions or commissions. Underwriters and dealers participating in the distribution of the certificates are underwriters, as defined under the Securities Act of 1933 as amended, in connection with the certificates, and any discounts or commissions received by them from the depositor and any profit on the resale of certificates by them would be underwriting discounts and commissions under the Securities Act.

It is anticipated that the underwriting agreement pertaining to the sale of any series of certificates will provide that the obligations of the underwriters will be subject to certain conditions precedent, that the underwriters will be obligated to purchase all of the certificates if any are purchased, other than in connection with an underwriting on a best efforts basis, and that, in limited circumstances, the depositor will indemnify the several underwriters and the underwriters will indemnify the depositor against certain civil liabilities, including liabilities under the Securities Act, or will contribute to payments required to be made in respect thereof.

The prospectus supplement with respect to any series offered by placements through dealers will contain information regarding the nature of the offering and any agreements to be entered into between the depositor and purchasers of certificates of that series.

The depositor anticipates that the certificates offered hereby will be sold primarily to institutional investors or sophisticated non-institutional investors. Purchasers of certificates, including dealers, may, depending on the facts and circumstances of the purchases, be deemed to be "underwriters" within the meaning of the Securities Act, in connection with reoffers and sales by them of certificates. Holders of certificates should consult with their legal advisors in this regard prior to any reoffer or sale.

Some of the securities offered hereby and by an accompanying prospectus supplement may be subsequently distributed in connection with resecuritization transactions. In a resecuritization transaction, securities offered hereby will be transferred to a trust (or other type of issuing entity) and securities backed by those securities will in turn be offered to investors. There is no assurance that any particular class of security offered hereby will be suitable for inclusion in a resecuritization transaction.

Legal Matters

Certain legal matters, including certain federal income tax matters, will be passed upon for the depositor by Mayer, Brown, Rowe & Maw LLP, New York, New York, or by Orrick, Herrington & Sutcliffe LLP, New York, New York, as specified in the prospectus supplement.

Additional Information

The depositor has filed the registration statement, file number 333-140614 with the Securities and Exchange Commission, or the Commission. The depositor and each issuing entity are also subject to some of the information requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, and, accordingly, each issuing entity will file reports thereunder with the Commission. The registration statement and the exhibits thereto, and reports and other information filed by the depositor and each issuing entity pursuant to the Exchange Act can be read and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the Commission maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission at http://www.sec.gov. For purposes of any electronic version of this prospectus, the preceding uniform resource locator, or URL, is an inactive textual reference only. We have taken steps to ensure that this URL reference was inactive at the time the electronic version of this prospectus was created.

Incorporation of Certain Information by Reference

The Commission allows the depositor to "incorporate by reference" the information filed with the Commission by the depositor, under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, that relates to any trust fund for the certificates. This means that the depositor can disclose important information to any investor by referring the investor to these documents. The information incorporated by reference is an important part of this prospectus, and information filed by the depositor with the Commission that relates to the trust fund for the certificates will automatically update and supersede this information. Documents that may be incorporated by reference with respect to a particular series of certificates include an insurer's financials, a certificate policy, mortgage pool policy, computational materials, collateral term sheets, the related pooling and servicing agreement and amendments thereto, other documents on Form 8-K and Section 13(a), 13(c), 14 or 15(d) of Exchange Act as may be required in connection with the related trust fund.

The depositor will provide or cause to be provided without charge to each person to whom this prospectus and related prospectus supplement is delivered in connection with the offering of one or more classes of the related series of certificates, upon written or oral request of that person, a copy of any or all reports or information incorporated herein by reference, in each case to the extent the reports relate to one or more of the classes of the related series of certificates, other than the exhibits to those documents, unless the exhibits are specifically incorporated by reference in the documents. Requests should be directed in writing to Residential Funding Mortgage Securities I, Inc., 8400 Normandale Lake Boulevard, Suite 250, Minneapolis, Minnesota 55437, or by telephone at (952) 857-7000.

The depositor may provide static pool information, in response to Item 1105 of Regulation AB, through an Internet Web site, and if the depositor decides to provide information through such means, the accompanying prospectus supplement accompanying this prospectus will disclose the specific Internet address where such information is posted.

Glossary

1998 Policy Statement — The revised supervisory statement listing the guidelines for investments in "high risk mortgage securities", and adopted by the Federal Reserve Board, the Office of the Comptroller of the Currency, the FDIC, the National Credit Union Administration, or NCUA and the OTS with an effective date of May 26, 1998.

Additional Collateral — With respect to an Additional Collateral Loan, (1) financial assets owned by the mortgagor, which will consist of securities, insurance policies, annuities, certificates of deposit, cash, accounts or similar assets and/or (2) a third party guarantee, usually by a relative of the mortgagor, which in turn is secured by a security interest in financial assets.

Additional Collateral Loans — A mortgage loan with an LTV ratio at origination in excess of 80%, but not greater than 100% and is secured by Additional Collateral, in addition to the related Mortgaged Property and in lieu of any primary mortgage insurance by Additional Collateral.

Additional Collateral Requirement — The amount of Additional Collateral required for any Additional Collateral Loan, which in most cases will not exceed 30% of the principal amount of such mortgage loan.

Advance — As to any mortgage loan and any distribution date, an amount equal to the scheduled payments of principal, other than any Balloon Amount in the case of a Balloon Loan, and interest at the applicable pass-through rate which were not received as of the close of business on the business day preceding the determination date on the mortgage loans.

Balloon Amount — The full outstanding principal balance on a Balloon Loan due and payable on the maturity date.

Balloon Loans — Fixed rate mortgage loans having original terms to maturity of 5 or 7 years in most cases, with equal monthly payments of principal and interest based on a 30 year amortization schedule.

Bankruptcy Amount — The amount of Bankruptcy Losses that may be borne solely by the subordinate certificates of the related series.

Bankruptcy Losses — A Realized Loss attributable to certain actions which may be taken by a bankruptcy court in connection with a mortgage loan, including a reduction by a bankruptcy court of the principal balance of or the mortgage rate on a mortgage loan or an extension of its maturity.

Buy-Down Account — As to a Buy-Down Mortgage Loan, the custodial account where Buy-Down Funds are deposited.

Buy-Down Funds — As to a Buy-Down Mortgage Loan, the amount contributed by the seller of the Mortgaged Property or another source and placed in the Buy-Down Account.

Buy-Down Mortgage Loan — A mortgage loan subject to a temporary Buy-Down plan.

Buy-Down Period — The early years of the term of or Buy-Down Mortgage Loan when payments will be less than the scheduled monthly payments on the Mortgage Loan, the resulting difference to be made up from the Buy-Down Funds.

Call Certificate — Any Certificate evidencing an interest in a Call Class.

Call Class — A class of certificates under which the holder will have the right, at its sole discretion, to terminate the related trust resulting in early retirement of the Certificates of the series.

Call Price — In the case of a call with respect to a Call Class, a price equal to 100% of the principal balance of the related certificates as of the day of that purchase plus accrued interest at the applicable pass-through rate.

Certificate Account — An account established and maintained by the master servicer in the name of the trustee for the benefit of the holders of each series of certificates, for the disbursement of payments on the mortgage loans evidenced by each series of certificates.

Certificate Administrator — In addition to or in lieu of the master servicer for a series of certificates, the related prospectus supplement may identify a certificate administrator for the trust. The certificate administrator may be an affiliate of the depositor or the master servicer.

Compensating Interest — With respect to any mortgage loan that prepaid in full during the related Prepayment Period or prepaid in part during the preceding calendar month, an additional payment made by the master servicer, to the extent funds are available from the servicing fee and any additional servicing compensation, equal to the amount of Prepayment Interest Shortfalls due to those prepayments.

Convertible Mortgage Loan — ARM loans which allow the mortgagors to convert the adjustable rates on those mortgage loans to a fixed rate at one or more specified periods during the life of the mortgage loans, in most cases not later than ten years subsequent to the date of origination.

Cooperative — With respect to a Cooperative Mortgage Loan, the corporation that owns the related apartment building.

Cooperative Loans — Cooperative apartment loans evidenced by Cooperative Notes secured by security interests in shares issued by Cooperatives and in the related proprietary leases or occupancy agreements granting exclusive rights to occupy specific dwelling units in the related buildings.

Cooperative Notes — A promissory note with respect to a Cooperative Loan.

Credit Scores — A measurement of the relative degree of risk a borrower represents to a Lender obtained from credit reports utilizing, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience.

Custodial Account — The custodial account or accounts created and maintained pursuant to the pooling and servicing agreement in the name of a depository institution, as custodian for the holders of the certificates, for the holders of certain other interests in mortgage loans serviced or sold by the master servicer and for the master servicer, into which the amounts shall be deposited directly. Any such account or accounts shall be an Eligible Account.

Debt Service Reduction — Modifications of the terms of a mortgage loan resulting from a bankruptcy proceeding, including a reduction in the amount of the monthly payment on the related mortgage loan, but not any permanent forgiveness of principal.

Defaulted Mortgage Losses — A Realized Loss attributable to the mortgagor's failure to make any payment of principal or interest as required under the mortgage note, but not including Special Hazard Losses, Extraordinary Losses or other losses resulting from damage to a mortgaged property, Bankruptcy Losses or Fraud Losses.

Deficient Valuation — In connection with the personal bankruptcy of a mortgagor, the difference between the outstanding principal balance of a mortgage loan and a lower value established by the bankruptcy court or any reduction in the amount of principal to be paid that results in a permanent forgiveness of principal.

Designated Seller Transaction — A transaction in which the mortgage loans are provided to the depositor by an unaffiliated seller described in the prospectus supplement.

Direct Puerto Rico Mortgage — With respect to any Puerto Rico Mortgage Loan, a Mortgage to secure a specific obligation for the benefit of a specified person.

Disqualified Organization — For these purposes means:

- the United States, any State or political subdivision thereof, any foreign government, any international organization, or any agency or instrumentality of the foregoing, but would not include instrumentalities described in Section 168(h)(2)(D) of the Internal Revenue Code or Freddie Mac;
- any organization, other than a cooperative described in Section 521 of the Internal Revenue Code, that is exempt from federal income tax, unless it is subject to the tax imposed by Section 511 of the Internal Revenue Code;
- any organization described in Section 1381(a)(2)(C) of the Internal Revenue Code;
- an "electing large partnership", as described in Section 775 of the Internal Revenue Code; or
- any other person so designated by the trustee based upon an opinion of counsel that the holding of an ownership interest in a REMIC certificate by that person may cause the related trust or any person having an ownership interest in the REMIC certificate, other than such person, to incur a liability for any federal tax imposed under the Internal Revenue Code that would not otherwise be imposed but for the transfer of an ownership interest in a REMIC certificate to that person.

Distribution Amount — As to a class of certificates for any distribution date will be the portion, if any, of the amount to be distributed to that class for that distribution date of principal, plus, if the class is entitled to payments of interest on that distribution date, interest accrued during the related interest accrual period at the applicable pass-through rate on the principal balance or notional amount of that class specified in the accompanying prospectus supplement, less certain interest shortfalls, which will include:

- any deferred interest added to the principal balance of the mortgage loans and/or the outstanding balance of one or more classes of certificates on the related due date;
- any other interest shortfalls, including, without limitation, shortfalls resulting from application of the Relief Act or similar legislation or regulations as in effect from time to time, allocable to certificateholders which are not covered by advances or the applicable credit enhancement; and
- Prepayment Interest Shortfalls not covered by Compensating Interest, in each case in an amount that is allocated to that class on the basis set forth in the prospectus supplement.

Due Period — As to any distribution date, the period starting on the second day of the month prior to such distribution date, and ending on the first day of the month of such distribution date, or such other period as specified in the related prospectus supplement.

Eligible Account — An account acceptable to the applicable rating agency.

Endorsable Puerto Rico Mortgage — As to any Puerto Rico Mortgage Loan, a mortgage to secure an instrument transferable by endorsement.

Environmental Lien — A lien imposed by federal or state statute, for any cleanup costs incurred by a state on the property that is the subject of the cleanup costs.

ERISA — Employee Retirement Income Security Act of 1974, as amended.

Extraordinary Loss — A Realized Loss resulting from damage to a mortgaged property that was occasioned by war, civil insurrection, certain governmental actions, nuclear reaction and certain other risks .

Fraud Loss Amount — The amount of Fraud Losses that may be borne solely by the subordinate certificates of the related series.

Fraud Losses — A Realized Loss incurred on defaulted mortgage loans as to which there was fraud in the origination of the mortgage loans.

Insurance Proceeds — Proceeds of any special hazard insurance policy, bankruptcy policy, mortgage pool insurance policy, primary insurance policy and any title, hazard or other insurance policy or guaranty covering any mortgage loan in the mortgage pool together with any payments under any letter of credit.

Interest Only Loans — Mortgage loans with payments of interest only during the early years of the term, followed by fixed monthly payments of principal and interest or periodically increasing monthly payments of principal and interest for the duration of the term or for a specified number of years, as described in the related prospectus supplement.

IRS — Internal Revenue Service.

Issue Premium — As to a class of REMIC regular certificates, the issue price in excess of the stated redemption price of that class.

Liquidated Mortgage Loan — A defaulted mortgage loan for which the related mortgaged property has been sold by the related trust and all recoverable Liquidation Proceeds and Insurance Proceeds have been received.

Liquidation Proceeds — Amounts collected by the subservicer in connection with the liquidation of a mortgage loan, by foreclosure or otherwise.

Mark-to-Market Regulations — The final regulations of the IRS, released on December 24, 1996, relating to the requirement that a securities dealer mark to market securities held for sale to customers.

Net Mortgage Rate — As to a mortgage loan, the mortgage rate net of servicing fees, other administrative fees and any uncertificated interest in a trust asset.

Nonrecoverable Advance — Any Advance or Servicing Advance previously made which the master servicer has determined to not be ultimately recoverable from Liquidation Proceeds, Insurance Proceeds or otherwise.

Note Margin — For an ARM loan, the fixed percentage set forth in the related mortgage note, which when added to the related index, provides the mortgage rate for the ARM loan.

OID — Original issue discount as determined by the Internal Revenue Code.

Parties in Interest — With respect to an ERISA plan, persons who are either "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Internal Revenue Code because they have specified relationships to the ERISA plan.

Pass-through Entity — Any regulated investment company, real estate investment trust, trust, partnership or other entities described in Section 860E(e)(6) of the Internal Revenue Code. In addition, a person holding an interest in a pass-through entity as a nominee for another person will, with respect to that interest, be treated as a pass-through entity.

Permitted Investments — United States government securities and other investment grade obligations specified in the related pooling and servicing agreement.

Pledged Asset Mortgage Loans — Mortgage loans that have LTV ratios at origination of up to 100% and are secured, in addition to the related mortgaged property, by Pledged Assets.

Pledged Assets — As to a Pledged Asset Mortgage Loan, (1) financial assets owned by the mortgagor, which will consist of securities, insurance policies, annuities, certificates of deposit, cash, accounts or similar assets and/or (2) a third party guarantee, usually by a relative of the mortgagor, which in turn is secured by a security interest in financial assets or residential property owned by the guarantor.

Prepayment Interest Shortfall — With respect to a mortgage loan that is subject to a mortgagor prepayment and any distribution date, an amount equal to the aggregate shortfall, if any, in collections of interest, adjusted to the related Net Mortgage Rate, resulting from partial mortgagor prepayments on the related mortgage loan during the preceding calendar month or from mortgagor prepayments in full on the related mortgage loan during the related Prepayment Period but prior to the calendar month of the distribution date.

Prepayment Period — With respect to each distribution date and Principal Prepayments in full, the period commencing on the 16th day of the month prior to that distribution date and ending on the 15th day of the month of that distribution date, or another period specified in the accompanying prospectus supplement.

Principal Prepayments — Any principal payments received with respect to a mortgage loan, in advance of the scheduled due date and not accompanied by a payment of interest for any period following the date of payment.

Qualified Insurer — As to a mortgage pool insurance policy, special hazard insurance policy, bankruptcy policy, certificate insurance policy or surety bond, an insurer qualified under applicable law to transact the insurance business or coverage as applicable.

Realized Loss — As to any defaulted mortgage loan that is finally liquidated, the amount of loss realized, if any, as described in the related pooling and servicing agreement, will equal the portion of the Stated Principal Balance remaining after application of all amounts recovered, net of amounts reimbursable to the master servicer for related Advances, Servicing Advances and other expenses, towards interest and principal owing on the mortgage loan. With respect to a mortgage loan the principal balance of which has been reduced in connection with bankruptcy proceedings, the amount of the reduction will be treated as a Realized Loss. As to any mortgage loan that has been the subject of a Debt Service Reduction, the amount of the reduction will be treated as a Realized Loss as incurred.

REMIC — A real estate mortgage investment conduit as described in section 860D of the Internal Revenue Code.

REMIC Provisions — Sections 860A through 860G of the Internal Revenue Code.

REO Mortgage Loan — A mortgage loan where title to the related mortgaged property has been obtained by the trustee or its nominee on behalf of certificateholders of the related series.

Servicing Advances — Amounts advanced on any mortgage loan to cover taxes, insurance premiums, foreclosure costs or similar expenses, including amounts representing the cost of some related services, if the master servicer and any affiliate of the master servicer provides services such as appraisals and brokerage services that are customarily provided by persons other than servicers of mortgage loans.

Special Hazard Amount — The amount of Special Hazard Losses that may be allocated to the subordinate certificates of the related series.

Special Hazard Losses — A Realized Loss incurred, to the extent that the loss was attributable to (i) direct physical damage to a mortgaged property other than any loss of a type covered by a hazard insurance policy or a flood insurance policy, if applicable, and (ii) any shortfall in insurance proceeds for partial damage due to the application of the co-insurance clauses contained in hazard insurance policies. The amount of the Special Hazard Loss is limited to the lesser of the cost of repair or replacement of the mortgaged property; any loss above that amount would be a Defaulted Mortgage Loss or other applicable type of loss. Special Hazard Losses does not include losses occasioned by war, civil insurrection, certain governmental actions, errors in design, faulty workmanship or materials (except under certain circumstances), nuclear reaction, chemical contamination or waste by the mortgagor.

Special Servicer — A special servicer named pursuant to the pooling and servicing agreement for a series of certificates, which will be responsible for the servicing of delinquent loans.

Stated Principal Balance — As to any mortgage loan as of any date of determination, its principal balance as of the cut-off date, after application of all scheduled principal payments due on or before the cut-off date, whether received or not, reduced by all amounts allocable to principal that are distributed to certificateholders before the date of determination, further reduced to the extent that any Realized Loss has been allocated to any certificates before that date, and increased by the amount of any interest or other amounts owing on the mortgage loan that have been capitalized in connection with a modification.

Subordinate Amount — A specified portion of subordinated distributions with respect to the mortgage loans, allocated to the holders of the subordinate certificates as set forth in the related prospectus supplement.

Subsequent Recoveries — Subsequent recoveries net of reimbursable expenses, with respect to mortgage loans that have been previously liquidated and that resulted in a Realized Loss.

Subservicing Account — An account established and maintained by a subservicer which meets the requirements described in the Client Guide and is otherwise acceptable to the master servicer.

Tax-Exempt Investor — Tax-qualified retirement plans described in Section 401(a) of the Internal Revenue Code and individual retirement accounts described in Section 408 of the Internal Revenue Code.

Tiered REMICs — Two or more REMICs created pursuant to Treasury Regulation Section 1.860F-2(a)(2).

EXHIBIT BB

MINUTES of a Special Meeting of the Board of Residential Capital, LLC ("ResCap" or the "Company"), held by teleconference on due notice on May 9, 2012, at 3:00 p.m. (ET).

PRESENT: Steven M. Abreu
John E. Mack
Thomas F. Marano
Edward F. Smith III
Pamela E. West
James M. Whitlinger

constituting a quorum of the Board. Mr. Jonathan Ilany was unable to attend the meeting.

Invited guests in attendance were Jeffrey M. Cancelliere, Tammy Hamzehpour, and Cathy L. Quenneville.

Invited advisers in attendance were Nilene R. Evans, Gary S. Lee, Larren M. Nashelsky, and James R. Tanenbaum from Morrison & Foerster LLP; David Lerner and Joseph T. Moldovan from Morrison Cohen LLP; and Mark A. Renzi from FTI Consulting, Inc. (collectively, the "advisers").

The Chairman, Mr. Marano, presided and the Secretary, Ms. Quenneville, recorded.

Proposed Legal Settlement

The Committee engaged in full discussion with the advisers in attendance at the meeting regarding the proposed settlement of certain representation and warranty ("R&W") and private label securitization ("PLS") litigation claims. Discussion was given to the claims analysis that was detailed in the written presentation materials distributed in advance of the meeting. During the discussion that took place and at the request of a member of the Board, Mr. Cancelliere described the breakdown of collateral included in the proposed PLS settlement vis-à-vis the proposed settlement amount. He also discussed settlement defect rates and the percentage of R&W and PLS litigation claims that are attributed to GMAC Mortgage, LLC and to Residential Funding Company, LLC.

Mr. Renzi reviewed and discussed the key assumptions in the preliminary economic recovery analysis of preliminary agreements reached with certain constituencies. During the discussion, Mr. Marano requested that a report with separate line items identifying the different settlement amounts be prepared to provide the Board with additional details on the settlements.

Mr. Cancelliere, Mr. Lee, and Mr. Marano responded to various related questions asked by the members of the Board throughout the discussion of the proposed legal settlement.

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After the conclusion of the discussion and consideration of the matters discussed with management and the advisers in attendance at the meeting, upon motion made, seconded and carried, it was unanimously

RESOLVED, that this Board approves Residential Capital, LLC entering into a private label securities and representation and warranty legal settlement agreement substantially as reviewed at its meeting on May 9, 2012, subject to such changes as Residential Capital, LLC management, upon the advice of legal counsel, shall make with the understanding that if such changes are material they will be reviewed with the Board.

Project Bounce Update

Mr. Nashelsky and Mr. Marano briefed the Board on the status of various matters related to a potential ResCap Chapter 11 filing including, but not limited to, the Ally Financial Inc. ("AFI") settlement agreement, the term sheet for a Plan of Reorganization, the debtor-in-possession facility, and negations for possible sales of certain assets to Fortress Investment Group LLC and to AFI.

Mr. Nashelsky commented on next steps and the Chapter 11 filing process.

ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 4:00 p.m. The charts presented at this meeting are on file with the Secretary.

DATED May 9, 2012.

Secretary