International
Presale Report

BHN IV Mortgage Trust, Series 2000-1

Expected Rating

US$100,000,000 Class A
Mortgage Bonds* .... A+

*Privately placed pursuant to Rule 144A and Regulation S of the Securities Act of 1933.

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■ Summary

BHN IV Mortgage Trust's (BHN IV) class A mortgage bonds, series 2000-1, are expected to be rated 'A+'. The mortgage bonds are issued by First Trust of New York, N.A., as financial trustee, on behalf of BHN IV, a limited purpose Argentine financial trust domiciled in Argentina.

The expected rating is based on the quality of the collateral; the inconvertibility insurance policy provided by Steadfast Insurance Co., a wholly owned subsidiary of Zurich U.S. Political Risk; available credit enhancement; the mortgage underwriting and master servicing capabilities of Banco Hipotecario S.A. (Banco Hipotecario, or the bank); and the sound financial and legal structures of the transaction. The rating is also based on the current status of economic and political stability in Argentina and certain other Argentine risks. As such, the rating is linked with Fitch IBCA's 'BB' foreign currency rating of Argentina.

Credit enhancement of 20% is provided by subordination of the class B bonds and certificates. Principal payments to the class B bonds will commence after the class A bonds are paid in full. Excess spread is also available to cover losses. An offshore master servicer reserve fund is available to cover master servicer transfer risk and is sized to cover one month of interest payments on the class A bonds. To mitigate transfer and convertibility risk, several reserve funds, collectively called the special support property, are available for the benefit of the class A bonds. Included in the special support property is the inconvertibility insurance policy, which covers 36 months of interest payments when combined with the liquidity reserve fund. Also included is a premium reserve fund to maintain the insurance policy. Finally, an expense reserve fund is available to cover fees and expenses. All the reserve funds, except the premium reserve fund, are expected to be fully funded at closing. The premium reserve fund will be funded over time. All reserve funds will be held in U.S. dollars in New York.

■ Sovereign Analysis

The expected 'A+' rating of this transaction denotes a higher capacity to pay foreign currency liabilities than the Republic of Argentina (rated 'BB' by Fitch IBCA). The higher rating is based on a combination of credit enhancement, including subordination to support an 'A+' stress on cash flows, as well as the political risk insurance provided by Zurich. A sovereign downgrade of one or more notches is not likely to cause a transaction downgrade, as the structure and available credit enhancement are sufficiently sized.

Country risk enters into the rating equation in several ways. The general economic and business environment, which can determine underlying creditworthiness, is directly affected by government macroeconomic policies. In addition, changes in relevant legislation may affect the debt-paying capacity of the issuer. However, when rating foreign currency debt above the respective sovereign ceiling,

Key Information

Financial Trustee: First Trust of New York, N.A., Argentine Permanent Representation

Special Support Trustee: First Trust of New York, N.A., New York

Master Servicer: Banco Hipotecario S.A.

Custodian: Banco Hipotecario S.A.

Underwriter: Bear, Stearns & Co. Inc.

Inconvertibility Insurance: Steadfast Insurance Co.

Cutoff Date: To be announced

Closing Date: To be announced

transfer and convertibility risk are the key considerations. In the past, many countries, including Argentina, imposed exchange controls and other similar actions during a foreign debt crisis. Thus, the preliminary concern for this transaction is how the borrowers, servicers, and/or the bank would access dollars and transfer them to bondholders outside of Argentina if Argentina were to default on its debt obligations and impose exchange controls.

Although history illustrates that some countries have prevented otherwise creditworthy debtors from servicing their debt, this has not always been the case. These countries had clear incentives to avoid measures that would aggravate their crisis and opted to let resident debtors continue servicing their debt. In recent years, the globalization of the capital markets, a greater embrace of market policies, and an increasing awareness among local policymakers of the consequences of forced defaults on a nation's economy have all increased the usage of these incentives. This does not guarantee against Argentina imposing controls under all default scenarios, but there is some possibility that it would not impose controls.

The BHN IV structure benefits from a political risk insurance policy that specifically bypasses the risks of transfer and convertibility controls. Thus, the transaction rating is not constrained by the sovereign ceiling but, rather, looks to the credit quality of the insurance policy provider as well as the strength of the underlying cash flows.

Under the insurance policy, upon an inconvertibility event, the insurer will, according to schedule, provide offshore funding to meet timely interest payment requirements. Implicit in the definition of currency inconvertibility is the action of the government freezing assets, including deposits, which is a possibility under an 'A+' stress scenario. For example, if the government were to freeze assets and restrict withdrawals on deposit accounts, borrowers would not be able to make payments on their mortgages. However, as this is a covered event under the Zurich policy, payments to bondholders would continue to be made on a timely basis. The size of the insurance policy sufficiently meets Fitch IBCA's expectation of the duration of controls at the 'A+' level. Other sovereign-related risks, such as devaluation, increased unemployment, and commercial failure, are not covered by the insurance policy but, rather, by additional forms of credit enhancement.

An alternative mechanism for accessing foreign currency currently exists in Argentina. In the 1980s, when foreign exchange restrictions were in place, Argentina residents were able to get dollars by buying U.S. dollar-denominated government bonds of Bonos Externos of Argentina (Bonex bonds) in pesos and selling them for dollars abroad. This market became quite developed and was used by state-owned companies.

Contrary to the circumstances of the Venezuelan exchange controls imposed during the mid-1990s, when a similar market based on Brady bonds developed, the Argentine government did not attempt to control or impede the parallel Bonex market in any way. The market is independent of the actual price of the bonds, which represent a means of currency exchange rather than an investment tool. An outright government prohibition of bond trading would be needed to destroy the Bonex market, something that has never occurred in Argentina.

Almost all bond issues from Argentina, including this transaction, carry a Bonex clause, requiring the issuers to access dollars through this mechanism if a formal market is unavailable. This requirement is also included in the bank's mortgages, requiring that each mortgageholder obtain U.S. dollars through the Bonex market if warranted. The Bonex clause represents an additional method of accessing dollars; however, Fitch IBCA's analysis at the 'A+' level does not depend solely on the availability of this mechanism.

To achieve the preliminary 'A+' rating, Fitch IBCA made various sovereign-related assumptions to test the adequacy of cash flows. First, in the event that an economic crisis is severe and continuing, the possible effects of a Central Bank-imposed borrower relief program were reviewed. The transaction is able to withstand a reduction in interest rates, as well as a prolonged time frame for foreclosure, while exchange controls are simultaneously imposed. In addition, Fitch IBCA assumed the banks, including Banco

Hipotecario, were not able to make advances of principal and interest to the borrowers, and all advances were solely made using the overcollateralization cash flow within the transaction.

These estimated actions are based on actual events that occurred during the Mexican peso devaluation crisis. Fitch IBCA ran several cash flow scenarios, stressing the aforementioned assumptions to different levels. For example, one ‘A+’ stress scenario included the effects of inconvertibility, a 20% government imposed reduction in interest rates, and an increase in the length of foreclosure to three years. The cash flows proved to be sufficiently robust, even with these assumptions.

■ Origination

Banco Hipotecario’s lending programs provide financing for the acquisition, construction, enlargement, repair, and refinancing of homes in Argentina. Loans are originated by the bank through one of its 24 branches or by one of the 49 banks and other financial institutions included in the branch network. The originators use underwriting guidelines established and administered by the bank and are responsible for credit analysis and property appraisals. Banco Hipotecario fully funds all the loans. Nearly 80% of the loans in the BHN IV pool were originated through banks (other than Banco Hipotecario) included in the branch network.

The New Immediate Access Program was initiated in May 1996 to provide U.S. dollar and peso financing for home purchases, constructions, additions, refinancing, or combination of purposes. The loan terms range from three to 20 years, in amounts ranging from US$10,000–US$80,000 with fixed rates between 10%–15% based on loan term and currency. Since August 1997, the bank has introduced limits up to US$250,000 and adjustable-rate loans. Approximately 95% of the loans in the BHN IV pool were originated under this program. Under this program, the bank requires property insurance and, in some cases, credit life, unemployment, or earthquake insurance.

Before April 1997, all the originators were required to guarantee the full payment of principal and interest on all loans. Since then, originators other than Banco Hipotecario have been providing partial 20% guarantees on some loans or no guarantees. The loans originated through Banco Hipotecario’s branches have no guarantees. Approximately 34% of the loans in the BHN IV pool carry no guarantee, 34% a partial guarantee, and 32% a full guarantee. If the originating financial institution defaults on its guarantee, Banco Hipotecario has direct access to the Central Bank accounts of the originating institutions and is mandated to withdraw the funds as necessary. Because of the significance of these guarantees, Fitch IBCA believes that the originators exercise extreme care when underwriting loans with guarantees. In instances when an underlying financial institution fails or is liquidated, the guarantee may or may not be assumed by another financial institution.

■ Servicing

Primary Loan Servicing

Primary loan servicing is performed by the originating financial institutions, as governed by the servicing guidelines produced and maintained by Banco Hipotecario. The borrower pays approximately 5% of each monthly payment to cover the cost of servicing. There are 35 servicers for the BHN IV pool, including Banco Hipotecario, which services 34% of the pool, and Banco del Suquía S.A., servicing 17% of the pool.

Each month, the borrower is mailed a statement by the servicer, as prepared by Banco Hipotecario. A typical borrower will make the mortgage payment (principal and interest plus insurance, servicing fees, and a value-added tax) in cash or via account transfer at the local branch of the originator/servicer between the first and ninth of the month. The branch posts the cash collected from mortgage payments daily. The servicer holds the collected funds for the benefit of the bondholders until the 10th of each month (the remittance date). To account for the commingling risk during this period, additional credit enhancement was incorporated into the final level. On the 10th day, the servicer calculates the amount of delinquent borrower payments and forwards this amount (the servicer advance) plus collected borrower payments to Banco Hipotecario.

Servicers are obligated to make these advances to the master servicer whether or not they are deemed recoverable, except for Banco Hipotecario acting as servicer. The servicer is required to advance from the first delinquency through the sale of the property. In addition, in the event proceeds of any liquidation are less than the principal balance of the loan plus unpaid and accrued interest in the case of partially or fully guaranteed loans, the servicer is responsible for remitting the amount of this mortgage loan loss from its own funds to the master servicer.

The servicer is required to prepare a loan-by-loan report that details the status of each loan, including information on delinquencies and foreclosures. Borrowers are considered to be delinquent if they have not paid by the 10th of the month, at which time the servicer will begin a letter writing campaign. Letters will continue to be sent to borrowers every 30 days until payment is made or foreclosure proceedings commence. Chronically delinquent borrowers will begin receiving letters before the late charge date.

The servicer is required to begin foreclosure proceedings before the 150th day of delinquency. At the end of the foreclosure period, an auction is held to sell the foreclosed property. Although Banco Hipotecario has experienced a minimal number of foreclosures, the length of time from first delinquency to foreclosure is an estimated 12–24 months.

Master Servicing

Banco Hipotecario will act as master servicer in this transaction. The bank has the systems and servicing experience necessary to step in as servicer if a primary servicer is removed or the financial institution fails. Since all the original loan information is entered into Banco Hipotecario’s systems before funding and it generates the borrowers’ monthly statements, the bank effectively acts as the “hot” backup servicer. In certain cases in the past where originating banks have failed, Banco Hipotecario or one of the financial institutions included in the branch network was able to take over the serving operations on a timely basis. In addition, Banco Hipotecario has the option to repurchase the defaulted loans from the pool.

■ Advances

Banco Hipotecario, as master servicer, is required to advance all scheduled monthly payments to the trustee in the event that the servicer fails to advance payments and the funds are deemed recoverable. These advances are required to be made from first delinquency through liquidation of the property.

With respect to prepayments, Banco Hipotecario will calculate whether an interest shortfall exits. Interest shortfalls will be advanced to the trust to the extent that they are covered by the master servicing fee. Fitch IBCA considered the possibility that, in an ‘A+’ economic stress scenario, many of the banks, including Banco Hipotecario as master servicer, would not be able to perform their advancing obligations due to an assumed liquidity crisis in Argentina. Even with little to no bank advancing due to the credit quality of the underlying mortgage loans and the effect of the 20% overcollateralization being used as liquidity, full repayment of the class A bonds does occur in Fitch IBCA’s worst case scenario.

■ Servicer Qualification and Review

To be approved as a primary servicer, Banco Hipotecario reviews the servicing capabilities and financial statements of the candidate institution. Periodic audits are performed to ensure that the servicer maintains its standards throughout the term of the servicing relationship. Banco Hipotecario, as master servicer, may terminate the servicer with or without cause. This termination will not invalidate the guarantee if provided by the institution. However, if a new servicer replaces a terminated servicer, it may take over the guarantee of the former servicer but is not obligated to do so.

■ Collection and Remittance Process

Banco Hipotecario has precise guidelines for the collection of funds and the subsequent remittance to the trust. On the 25th day of the month before a payment, Banco Hipotecario sends each servicer a report of expected payments to be remitted to Banco Hipotecario by the 10th of the month. These payments are deposited into Banco Hipotecario’s Central Bank account. If Banco Hipotecario has not received the payment from the servicer by the 15th of the month, it will automatically debit the servicer’s central bank account on the 17th day.

On the 15th day of each month, Banco Hipotecario provides instruction for its accounting department to transfer the funds received to the internal trust account set up in the name of the trustee. Finally, the funds are credited to the New York fiduciary account of the trustee, First Trust of New York. On the 20th day of the month, Banco Hipotecario reconciles all cash received and any necessary adjustments are made. All moneys held in the trust are invested in eligible investments until they are due to be paid.

■ Argentine Mortgage Market

Argentine mortgages are documented by a testimonio, which is created by a specialized lawyer called an escribano. The testimonio is the only legal document representing the mortgage and combines the note, mortgage, and title policy provisions in one document. The testimonio has two originals, one of which is recorded and held in public records by the “college of escribanos.” The other is kept by the mortgageholder. Since the escribano has provided a thorough title search and holds the recorded document, there have been no instances of lien or title issues in Argentina.

The holder of a mortgage is granted a priority on the underlying real property on the date that the mortgage is granted and registered with the Argentine Real Estate Registry. The priority granted to the holder of the mortgage includes all unpaid principal and interest through and until all amounts are paid in full. The holder of a first mortgage is given priority over all other creditors subsequently secured by the real property. Only expenses incurred in connection with bankruptcy proceedings with respect to the property, unpaid federal and municipal taxes, and other minor exceptions are given higher priority than the holder of the first mortgage. All the mortgage loans in the transaction pool have been registered.

The actual foreclosure process is often postponed or avoided, as banks find it economically advantageous to reach a workout agreement. There are currently two foreclosure procedures for residential mortgages. Mortgages originated after the trust law enacted in January 1995 use a new out-of-court procedure, while mortgages originated before 1995 follow the National Code of Civil and Commercial Procedures.

The latter procedure, starting with the presentation of a demand for payment from the mortgagee until the auction of property, may take 18–24 months. This is a relatively new trust law process. The estimated time frame for the entire process is 100 days; however, since it is relatively untested, Fitch IBCA will consider the same time frame as the National Code until the new process is proven. All the mortgage loans in the pool were originated after January 1995.

The mortgage loans are denominated in U.S. dollars. The mortgage obligation contains provisions requiring that the principal and interest on the mortgage loans are payable in U.S. dollars, even if the borrower cannot obtain U.S. dollars due to government-imposed foreign exchange restrictions. In such a case, the borrower may pay in Argentine currency in an amount equivalent to the seller exchange rate established by Banco Nacional de Argentina. When foreign exchange restrictions are lifted, the debt again becomes payable in U.S. dollars. Alternatively, if the Argentine government prohibits currency convertibility, the borrowers have the option to obtain U.S. dollars through the purchase of Bonex bonds or any other tradable security denominated in U.S. dollars.

■ Credit Analysis

Borrower Default

Fitch IBCA's borrower default probability is estimated according to the credit quality of the borrower, the borrower's debt-to-income ratio, and the loan-to-value ratio (LTV). Each of these factors is discussed below and on page 6.

Credit: Borrowers in Argentina have a strong willingness to repay their loans, and these borrowers, in particular, are considered to be of 'A' quality. However, Fitch IBCA stressed borrower credit down to a 'B–' quality due to the effects of an economic crisis on a borrower's ability to pay, thereby increasing default probability. This is a conservative approach, as stringent lending guidelines require that most borrowers must have down payments of at least 30% of the value of the home and debt-to-income ratios of 30%. In addition, mortgages are often arranged based on borrower relationships with the regional banks.

Debt-to-Income Ratio: The bank's underwriting guidelines denote debt-to-income ratio requirements of 30% of pretax income for fixed-rate mortgages. (In the U.S., most 'A' credit program guidelines require total debt-to-income ratios of 38% of gross income.) The average debt-to-income ratio of the BHN IV mortgage pool is 16.98%. However, to account for a potential devaluation forcing borrowers to use more of their earnings to meet their U.S. dollar-denominated mortgage payments, Fitch IBCA increased the maximum net debt-to-income ratio of 30% to a gross 70%. This increased the default probability significantly.

Collateral Characteristics
(%)

Collateral Balance (US$)	156,248,692
Number of Loans	4,956
Average Current Balance (US$)	31,527
Weighted Average Coupon	10.98
Total Property Value (US$)	315,955,511
Average Property Value (US$)	63,752
Weighted Average Approval LTV	59.7
Weighted Average Current LTV	55.5
Seasoning (Mos.)	
Weighted Average Seasoning	22
Weighted Average Original Term	171
Weighted Average Remaining Term to Maturity	149
Maximum Remaining Term to Maturity	238
Guarantees (% of Total Pool)	
Loans with No Guarantee	33.9
Loans with Partial Guarantee	34.3
Loans with Full Guarantee	31.8
Distribution in Top Three Provinces	
Buenos Aires	24.9
Capital Federal	18.4
Santa Fe	15.1
Distribution by Top Five Servicers	
Banco Hipotecario	33.9
Banco del Suquía	17.1
Provincia	7.7
de la Pampa	7.2
BISEL	6.1

LTV – Loan-to-value ratio. Note: All loans have fixed-rate coupons.

Loan-to Value Ratio: The weighted average current LTV of the pool is 55.5%. Fitch IBCA increased the LTV to account for possible appraisal discrepancies. This results in an increased loss severity and default probability for the pool. The bank's underwriting guidelines denote that the maximum LTV on a standard loan is 70%. In certain instances, such as construction loans and second mortgages, the maximum may be increased. The BHN IV pool consists of owner-occupied and first lien mortgages.

Conclusion: To account for the effects of an 'A+' economic stress scenario, including a liquidity crisis, increased unemployment, and devaluation, Fitch IBCA expects a default probability of 31.25% on the pool of mortgage loans. This is extremely conservative compared with that for a U.S. mortgage pool of loans with similar characteristics. For comparison, in the U.S., an 'A' rated subprime borrower with a 35% debt-to-income ratio and a 55% LTV would have an 'AAA' default probability of 7.5%.

■ Loss Severity

Fitch IBCA focused primarily on home price movements and estimated foreclosure costs to determine loss severity. To assess the effect of a severe economic crisis on home price movements, the bank retained an independent appraisal company to reappraise a sample of properties in their mortgage portfolio soon after the "tequila crisis," which occurred in the mid-1990s as a result of the December 1994 Mexican peso devaluation.

Bandino-Colliers, the company selected, used an appraisal form similar to the Freddie Mac form, which incorporates comparable property valuations, photographs, and analysis of the neighborhood. A sample of 464 properties throughout Argentina was randomly selected.

The results of the study showed that, in 34% of the cases, the reappraisal was less than the original appraisal (performed before the tequila crisis) by an average of 32%; in approximately 18% of the cases, the reappraisal was within 5% of the original appraisal, and, in 48% of the cases, the reappraisal was greater than the original appraisal by approximately 17%. Overall, the weighted average decline in home prices was 7.5%.

Conclusion: Based on expectations of market value declines and foreclosure costs, Fitch IBCA's loss severity estimate is 64%. This estimate does not give credit to partial or full guarantees from the originating banks, as Fitch IBCA's expectations on the condition of the banking system in an 'A+' crisis would make fulfillment of the guarantees difficult.

To size the amount of expected loss, Fitch IBCA's estimates on loss severity and default probability are multiplied. The required level of credit enhancement to cover the risk of credit losses on the collateral is 20%. Fitch IBCA also considered that during the 1998–1999 economic crisis experienced across the emerging markets, performance on the BHN III trust was excellent, with no losses incurred. Based on the strong historical performance of this trust, Fitch IBCA believes that the loss projections at the 'A+' level are more than sufficient.

■ Cash Flow Analysis

In addition to the credit quality of the collateral, Fitch IBCA evaluated the financial structure of the transaction, including the strength and timing of cash flows, the sufficiency of liquidity (via reserve funds), and the amount of excess spread available to cover credit losses. The cash flows were stressed to the 'A+' level and included various constant prepayment rate assumptions, applicable taxes, and the effects of an economic crisis in Argentina. The cash flows and available credit enhancement adequately met all Fitch IBCA's stress scenario assumptions.

■ Banco Hipotecario S.A.

Fitch IBCA rates the long-term foreign currency obligations of Banco Hipotecario 'BB'. The rating reflects the bank's high capital levels, dominant niche market share, and well reserved nonperforming loans. Concerns factored into the rating include its poor asset quality in its pre-1990 loan portfolio and a lack of regular funding. At June 30, 1999, the bank had total assets of 5,024.0 million pesos and shareholders' equity of 2,410.7 million pesos.

Banco Hipotecario, based in Buenos Aires, was established in 1886 as a state-owned bank specializing in mortgage lending. The bank was created to finance housing and develop housing projects for the middle-income sector. It is Argentina's eighth largest bank ranked by total assets and the largest ranked by equity. The bank has a 41% market share of residential mortgages and a distribution channel that includes 24 branches located in each Argentine province and the Buenos Aires metropolitan area and a network of 49 private and state-owned banks and housing constructors.

In February 1999, the Argentine government privatized the bank in connection with the Bank Privatization Law passed in 1997. The government will eventually reduce its ownership take from 56%.

There is no guarantee of bank support by the Argentine authorities, and, under current legislation, the Central Bank is able to provide liquidity support for banks on a temporary basis. Despite the bank's partial state ownership, its operations have no guarantee from the federal government. However, in view of the bank's key position in the market and even in the event of its full privatization, Fitch IBCA considers support likely but not certain. In a severe economic stress scenario, Argentina's current economic position may limit its ability to provide support to foreign currency creditors.

Zurich Insurance Co.

Zurich U.S. Political Risk, rated in the 'AA' category and a wholly owned subsidiary of Zurich Insurance Co. (collectively, Zurich), has been providing political risk insurance to large and middle-market international companies, contractors, and infrastructure developers since June 1997 via its wholly owned subsidiary, Steadfast Insurance Co. In general, Zurich's political risk policy can protect against currency inconvertibility, expropriation, and political violence. Since inception, more than 100 policies have been underwritten in 55 countries, representing approximately $2 billion in coverage. Zurich's political risk policy has a $100 million per risk coverage maximum as well as a 15-year maximum tenor. To date, no claims have been made on any of the political risk policies, although response procedures are in place.

Zurich's policy for BHN IV provides for compensation due to currency inconvertibility and is sized to cover a maximum aggregate limit equal to 31 months of interest, as interest is required to be paid on a timely basis. Currency inconvertibility is defined as the inability to either convert Argentine pesos into U.S. dollars or transfer U.S. dollars abroad. Implicit in this definition are the effects of a government-imposed freeze on assets, such as bank deposits. The policy covers up to 95% of the interest due on the class A bonds, with a maximum aggregate liability sized to cover 31 months worth of interest.

Upon an inconvertibility event, the trustee has up to 30 days to apply for compensation. Zurich has a waiting period on compensation of 150 days from the scheduled payment date. To account for the liquidity gaps, a reserve fund covering the 5% uninsured balance and the waiting period, a liquidity reserve fund will be established to ensure the timely payment of interest. The insurance policy, together with the liquidity reserve fund, will cover an aggregate 36 months of interest.

Once an inconvertibility event occurs, the liquidity reserve fund will be used first to pay interest to bondholders. Upon compensation from Zurich, the reserve fund will be replenished. The reserve fund will be sized annually on the anniversary of the closing date using the current outstanding balance of the class A bonds. As such, during the course of a 12-month period, assuming there is no inconvertibility event, amortization of the class A bonds will create an overcollateralization situation. At the end of the 12-month period, when the size of the reserve fund is adjusted, the excess cash will be used to turbo pay the class A bonds.

In addition to the compensation time frame, Fitch IBCA has reviewed the exclusions from compensation provisioned in the policy. Similar to other political risk insurance contracts, Zurich's policy does not provide compensation if losses result from a devaluation or commercial failure, such as the insolvency and/or bankruptcy of the master servicer (or its successor) or trustee. As such, these risk factors are addressed using other forms of credit enhancement, such as the master servicer reserve fund and subordination.

The policy has a non-negotiable tenor of 10 years. Based on certain stress scenarios, the maturity could possibly extend beyond the initial 10-year tenor, although this is highly unlikely. In the event that it does, the loss of the insurance policy due to termination could result in a downgrade of the transaction to Argentina's sovereign rating.

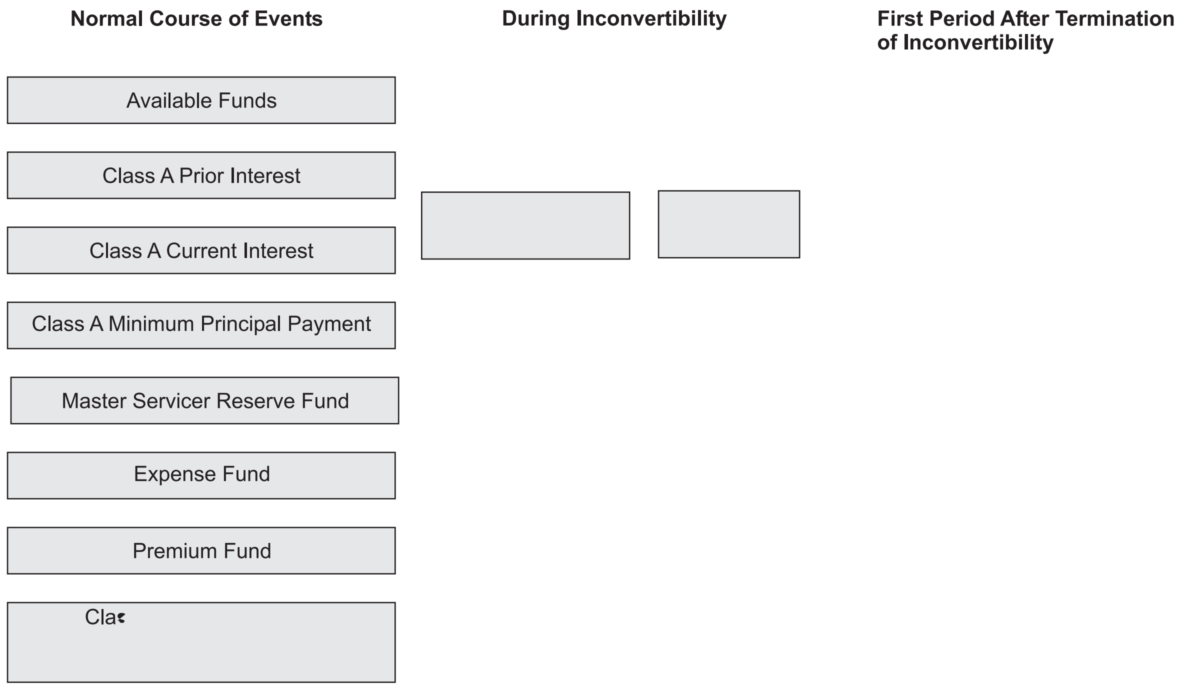
The policy is structured with annual premium payments, with the first three payments paid up-front in a premium reserve fund. After the first three years, the premiums will be paid using the reserve fund that will be funded with excess spread.

Transaction Structure

Priority of Payments

Payments to the securities are made in the following order: to pay accrued prior and current interest to the class A bonds; to the minimum principal payment to the class A bonds; to the master servicer reserve fund; to the expense and premium reserve funds; and, following the stepdown date, to interest on the class B bonds. Remaining funds will be used to pay down the class A bonds. Payments of principal to the class B bonds will only be made after the senior bonds have been paid in full.

Priority of Payments



If an inconvertibility event occurs, payments of interest to the class A bonds will be made by the offshore liquidity reserve fund and, when available, by Zurich. Collections will be kept onshore in eligible accounts and released once restrictions are lifted in the following order: first, to the insurer, any amounts paid during the inconvertibility event; second, to the liquidity reserve fund; third, to the premium reserve fund; fourth, to the class A bonds, the minimum principal payments not made; and, finally, to the original waterfall. As this is a pass-through structure, principal will be ultimately repaid in full by the final legal maturity.

Credit Enhancement

The first layer of credit enhancement is provided by the subordinated tranches — mezzanine class B bonds and a subordinated certificate tranche. The sum of the two subordinated classes will initially be 20% of the principal balance of the loans. Further credit enhancement is provided by the inconvertibility insurance, monthly excess interest, and the liquidity, master servicer, and premium reserve funds as described. Also available is an expense fund to cover fees, taxes, and expenses.

Given Argentina’s current economic situation, the available credit enhancement supports an ‘A+’ rating on the class A bonds. However, if the economic situation of Argentina were to worsen, such that Argentina’s rating is downgraded, the rating of the transaction would be re-evaluated due to potential short-term liquidity concerns that could affect timely payment to bondholders.

Stepdown Date

All payments of principal and interest will be made to the class A bonds until a required stepdown date has been reached. The stepdown is the later of one year or the date at which the senior credit enhancement percentage is 25%. After the stepdown date, interest payments will be distributed to the class B bonds, as long as the senior credit enhancement level remains at least 25%.

Credit Enhancement Structure