SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

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In the matter of the application of THE BANK OF NEW YORK MELLON, in its Capacity as Trustee for 278 Residential Mortgage-Backed Securitization Trusts, Petitioner, For Judicial Instructions Under CPLR Article 77 Concerning the Proper Pass-Through Rate Calculation for CWALT Interest Only Senior Certificates.	Index No. 150738/2019 Assigned to: Friedman, J.
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RESPONSE BRIEF OF THE INSTITUTIONAL INVESTORS, AIG PARTIES, FEDERAL HOME LOAN BANK OF SAN FRANCISCO, and TILDEN PARK (in accordance with Revised Stipulation Regarding Briefing Schedule dated June 25, 2019, Dkt. No. 55)

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INTRODUCTION

The structure of the Trusts at issue here is straightforward. Borrowers pay principal and interest every month on their mortgage loans, and those payments are divided into the three types of cash flows they represent: principal payments, interest payments up to a certain rate called a Required Coupon, and excess interest payments on high-interest loans above the Required Coupon. Holders of Interest-Only (IO) Certificates here, like Och-Ziff, made a particular market bet: that the underlying mortgage loans would continue to generate excess interest, thereby entitling them to that cash flow of high-interest payments. But Och-Ziff has now placed its chips on a legal bet: that this Court would grant it a windfall of over a quarter of a billion dollars by seizing cash flows from the Principal and Interest (P&I) certificateholders to guarantee an unchanging flow of excess interest to Och-Ziff's IO Certificates—even when the underlying loans no longer generate that excess interest because their interest rates were modified downward.

Och-Ziff, however, fails to show why it is entitled to guaranteed excess interest payments when no excess exists. To the contrary, the plain text of the PSAs requires the use of the Dynamic Method, which calculates "excess" interest payments on the IO Certificates on the basis of the mortgages' *current*, post-modification rates. Och-Ziff's primary textual argument—that the PSAs' definition of "Mortgage Note" references "the original executed note" and, therefore, requires that the initial rate of interest be utilized in perpetuity—completely ignores the second half of the definition, which includes "other evidence of indebtedness" such as loan-modification documentation. In eschewing the text, Och-Ziff offers a structural argument that relies primarily on a talismanic incantation that its IO Certificates are "senior" certificates. But so too are many of the P&I Certificates. The IOs' "senior" status simply means they have a senior claim to the *particular* cash flow stream to which they are entitled, that is, any excess interest generated by

high-interest loans. If that cash flow stream goes away, the IO Certificates stop receiving it—plain and simple.

ARGUMENT

I. The Plain Text of the PSAs Unambiguously Requires the Dynamic Method.

Och-Ziff's opening brief spends little time grappling with the actual text of the provisions at issue. And while the Opening Briefs of the Trustee and Och-Ziff describe what they contend extrinsic evidence *might* demonstrate, the parties have agreed to postpone discovery until the Court has an opportunity to interpret the contracts, as a matter of law, through the current briefing round.[1] If the contracts are unambiguous, extrinsic evidence outside the four corners of the contracts may not be considered in the interpretation of their terms.[2] The threshold question before the Court is thus a narrow one: whether the plain text of the PSAs unambiguously instructs how distributions to IO certificateholders are to be calculated. Extrinsic evidence is unnecessary here because the Court need look no further than the face of the PSAs to conclude that the Dynamic Method is required.

A. The Definition of "Mortgage Note" Includes the Mortgage Note and "Other Evidence of Indebtedness," Which the Only On-Point Precedent Confirms Includes Mortgage Modification Documentation.

In its perfunctory discussion of the PSAs' text, Och-Ziff's central argument is that the Mortgage Rate must be the rate listed in the initial mortgage note because "Mortgage Note" is defined as "[t]he original executed note."[3] Och-Ziff then argues that the meaning of "original"

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[1] Joint Letter to Court dated July 12, 2019 (Dkt. No. 77).

[2] *See, e.g.*, *Chelsea Piers L.P. v. Hudson River Park Tr.*, 106 A.D.3d 410, 412 (1st Dep't 2013) (a party "may not resort to extrinsic evidence" when interpreting an unambiguous contract).

[3] Och-Ziff Br. at 7–8 (citing PSA I-17).

must refer to information set forth on the face of the note at the time the mortgage was first issued, not whether the note is physically an original or a photocopy.[4]

Och-Ziff's argument misses the point entirely, because whether a photocopy of the mortgage documentation counts as the "original" note is irrelevant. The dispositive clause is in the second half of the definition of "Mortgage Note" that expressly includes "***other evidence of indebtedness*** evidencing the indebtedness of a Mortgagor under a Mortgage Loan."[5] Och-Ziff has not yet devoted a single word in its 70 pages of prior submissions to explaining this crucial language, or why, in Och-Ziff's view, the Court should ignore it. The Investor Group discussed this point at length in both its Initial Statements and Opening Brief, but Och-Ziff remained silent.

There is no doubt that "other evidence of indebtedness" includes documentation of an interest-rate reduction modification. On its face, modification documentation "evidence[s]" the new stream of principal and interest payments a borrower owes on the mortgage—*i.e.*, the borrower's "indebtedness." Indeed, following a modification it is *only* these documents that reflect the "annual rate of interest borne by [the] Mortgage Note."[6] Once a mortgage loan has been modified, it is the *modification documentation*—rather than the initial mortgage loan documentation—that evidences the "obligation" actually borne by the borrower, since the interest rate on the initial executed note no longer represents any obligation at all.

In the only case to have addressed the issue raised here, the Minnesota Court of Appeals analyzed virtually identical definitions of "Mortgage Note" and "Mortgage Rate" under New York law and rejected precisely the position Och-Ziff now takes. *See Matter of Am. Home Mortg. Assets Tr. 2007-5*, No. A18-0768, 2019 WL 1431923, at *5 (Minn. Ct. App. Apr. 1, 2019) (hereafter

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[4] Och-Ziff Br. at 7–9.

[5] PSA, art. I, I-17 (emphasis added).

[6] PSA, art. I, I-17.

American Home). In *American Home*, an IO Certificateholder named LibreMax argued that those definitions required IO distributions to be calculated using the loans' initial interest rates.

The court first found that "LibreMax's interpretation fail[ed] to account for the definition of Mortgage Note [because] [t]he PSA defines Mortgage Note more broadly than just the note itself," as it includes "[t]he note ***or other evidence of the indebtedness*** of a Mortgagor under a Mortgage Loan."[7] Crucially, the court concluded that the "phrase 'other evidence of the indebtedness of a Mortgagor under a Mortgage Loan' is ***broad enough to include a loan-modification agreement***."[8]

In so deciding, the court analyzed the meaning of the term "indebtedness," defined as the "condition of owing money."[9] Because the very nature of a "loan-modification agreement" is that it "lists the principal amount of money still owed by the Mortgagor on the Mortgage Loan, the annual interest rate, and any annual changes to the interest rate," such documentation constitutes "other evidence of indebtedness."[10] "Thus," the court concluded, "a loan-modification agreement is "other evidence of the indebtedness of a Mortgagor under a Mortgage Loan within the meaning of the definition of Mortgage Note."[11] Accordingly, the "the definitions of Mortgage Rate and Mortgage Note—taken together—inform [the Trustee] to consider adjustments in the interest rate due to loan modification agreements . . . when calculating interest."[12] *American Home* confirms the use of the Dynamic Method, which is by no means the "outlier approach" Och-Ziff claims.

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[7] *American Home* at *5 (emphasis added).

[8] *Id.* (emphasis added).

[9] *Id.* (quoting Black's Law Dictionary 885 (10th ed. 2014)).

[10] *Id.*

[11] *Id.*

[12] *Id.* at *5–*6.

Other provisions of the PSAs confirm this result. For example, the PSAs expressly require the Depositor to deposit each of the initial mortgage notes into the Trust Fund.[13] But the Depositor then has a *continuing* obligation to deposit into the Trust Fund "from time to time" any "additional original documents evidencing an assumption or *modification of a Mortgage Loan*."[14] Thus, the mortgage modification documentation becomes part of the corpus of the Trust itself.

Och-Ziff cites this very provision, arguing that because the PSAs instruct that both the "original Mortgage Note" and "the original or copies of each . . . modification" must be deposited into the corpus of the Trust, the term "original" must refer to the initial Mortgage Note rather than a photocopy.[15] But as explained above, that argument misses the point. The definition of Mortgage Rate makes clear that interest payments must be calculated in light of "other evidence of indebtedness"—*i.e.*, mortgage-modification agreements—and the PSAs make clear that loan-modification agreements *must themselves be made a part of the corpus of the Trust*.[16]

After all, a certificate is simply evidence of an interest in that Trust Fund.[17] As the Trust Fund changes over time, the certificates' entitlements change as well. It would make no sense to pay the IO Certificates on the fiction that the Trust Fund still contains mortgage loans with high

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[13] PSA, art. II, II-1 (Section 2.01). "Trust Fund" is defined as follows: "The corpus of the trust created hereunder consisting of (i) *the Mortgage Loans and all interest and principal received on or with respect thereto* after the Cut-off Date to the extent not applied in computing the Cut-off Date Principal Balance thereof; (ii) the Certificate Account, the Distribution Account, the Pre-funding Account and the Capitalized Interest Account, and all amounts deposited therein pursuant to the applicable provisions of this Agreement; (iii) property that secured a Mortgage Loan and has been acquired by foreclosure, deed-in-lieu of foreclosure or otherwise; and (iv) all proceeds of the conversion, voluntary or involuntary, of any of the foregoing." PSA, art. I, I-34 (emphasis added).

[14] PSA, art. II, II-3 (Section 2.01(c)) (emphasis added).

[15] Och-Ziff Br. at 8–9.

[16] PSA, art. II, II-3 (Section 2.01(c)) ("The Depositor shall forward or cause to be forwarded to the Trustee from time to time additional original documents evidencing an assumption or modification of a Mortgage Loan . . . .").

[17] *See* PSA, Preliminary Statement, at 1 ("The Depositor is the owner of the Trust Fund that is hereby conveyed to the Trustee in return for the Certificates.").

interest rates—when in fact, it does not.

The upshot of all of this is inescapable: The Mortgage Rate is "[t]he annual rate of interest borne by a Mortgage Note," which in turn by definition encompasses "other evidence of indebtedness," including loan-modification agreements.[18] The unambiguous text of the PSAs requires the Dynamic Method in calculating payments to the IO Certificates.

B. The Definitions of "Adjusted Net Mortgage Rate" and "Mortgage Rate" Unambiguously Require the Dynamic Method through the Temporal Language "At Any Time" and "From Time to Time."

The temporal language in the definitions of "Adjusted Net Mortgage Rate" and "Mortgage Rate" confirm what the definition of Mortgage Note requires: that the Mortgage Rate used to calculate IO distributions be the one reflected in the operative loan-modification agreement deposited in the Trust corpus. The PSAs define "Adjusted Net Mortgage Rate" as a rate equal to "*at any time*, the per annum rate equal to the Mortgage Rate [less certain fixed percentage fees not relevant here]."[19] And they go on to define "Mortgage Rate" as a rate equal to "[t]he annual rate of interest borne by a Mortgage Note *from time to time* . . . ."[20] The language is clear: the operative interest rate may change *from time to time*, including as a result of loan modifications. This temporal language, in two of the key terms that comprise the Pass-Through Rate, would be meaningless and superfluous if it did not refer to current interest rates.

Och-Ziff distorts the plain meaning of this language mainly by arguing that "from time to time" merely describes the payment intervals inherent in all interest rates or, alternatively, that the language was possibly intended to encompass adjustable-rate mortgages. Both arguments fail.

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[18] PSA, art. I, I-17.

[19] PSA, art. I, I-17 (emphasis added).

[20] *Id.*

First, the text of the PSAs contradicts Och-Ziff's position that the "from time to time" language reflects the descriptive fact that interest rates are paid at certain intervals.[21] If this were indeed the drafters' intent, they would have included such temporal language in the definitions of *all* rates payable at intervals—including those that have a static rate. Instead, this language is entirely ***absent*** from the definitions of indisputably static rates, even though they too are paid at intervals. For example, the PSAs define "Master Servicing Fee Rate," a static rate, as "[w]ith respect to each Mortgage Loan, 0.25% per annum." The definition does not include "from time to time" or similar modifiers, despite the fact that the Master Servicing Fees were expressly intended to be paid at regular intervals, on a monthly basis. Similarly, the definition of "Trustee Fee Rate," another static rate paid monthly, also does not contain such temporal modifiers.[22]

Further, as set forth in the Investor Group's opening brief, the same "from time to time" language appears elsewhere in the PSAs to refer to interest rates that indisputably *change* over time.[23] For example, both LIBOR and the Prime Rate have "from time to time" qualifiers and both indisputably require the use of *current* rates, not the LIBOR and Prime Rates that were in effect when those certificates were issued. The use of the phrase "from time to time" with respect to these indisputably dynamic rates confirms that it was intended to require the use of the mortgages' ***current*** rates in effect "from time to time"—not their initial rates.

Second, Och-Ziff speculates that "from time to time" was not intended to reflect mortgage-rate modifications, but instead is "properly [] read together with the term 'original' in the definition

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[21] Och-Ziff Br. at 9.

[22] Och-Ziff also argues that, because Adjusted Net Mortgage Rate is derivative of Mortgage Rate, the "at any time" language in its definition also does not mandate the use of the Dynamic Rate. However, because Och-Ziff fails to establish that the temporal language in the definition of Mortgage Note should be disregarded, Och-Ziff's argument concerning Adjusted Net Mortgage Rate fails as well.

[23] Investor Group Br. at 5.

of Mortgage Note" to encompass only periodic rate adjustments on adjustable-rate mortgages.[24] In so arguing, Och-Ziff again ignores the second half of the definition of "Mortgage Note," which as explained *supra* Section I, includes "[t]he original executed note *or other evidence of indebtedness*," such as a loan-modification agreement.[25] And nowhere do the PSAs limit the temporal language in the definitions of "Adjusted Net Mortgage Rate" and "Mortgage Rate" to adjustable-rate mortgages. Instead, the PSAs mean what they say: the applicable Mortgage Rate is the rate in effect "from time to time" and "at any time," for *any* Mortgage Loan.

Och-Ziff is also wrong on substantive grounds. Och-Ziff purchased the IO Certificates in 156 Trusts, ***155 of which contain exclusively fixed-rate mortgage loans***.[26] Och-Ziff is left to point to a single Trust containing some adjustable rate mortgages—which do not even back Och-Ziff's certificates. Och-Ziff's careful phrasing appears to acknowledge as much, as it argues that the PSA language could have meaning in the "broader context" of *other* Countrywide trusts not before the Court.[27] In other words, Och-Ziff speculates that the drafters left in temporal language in the ***hundreds of Trusts*** before the Court even though it was ***entirely superfluous***—just so they could have the "flexibility" to recycle that same language in other trusts "without requiring the drafters of each PSA to tailor these definitions to the particular characteristics of the mortgage pools."[28] But this "lazy-drafters theory" is no canon of contract interpretation. Instead, New York law "requires a court to 'give full meaning and effect to all of [the contract's] provisions'" to avoid

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[24] Och-Ziff Br. at 10.

[25] PSA, art. I, I-17. *See also American Home* at *5 ("Thus, a loan-modification agreement is 'other evidence of the indebtedness of a Mortgagor under a Mortgage Loan' within the meaning of the definition of Mortgage Note.").

[26] *See* Affidavit of David M. Sheeren, filed herewith, at ¶¶ 3-4.

[27] Och-Ziff Br. at 10.

[28] Och-Ziff Br. at 10.

"'interpretations that render contract provisions meaningless or superfluous.'"[29]

C. Och-Ziff Does Not Respond to Other Plain Textual Provisions That Require the Dynamic Method.

Och-Ziff also has yet to acknowledge—let alone rebut—two of the Investor Group's additional textual arguments going back to their Initial Statements.

First, Och-Ziff has ignored that the Dynamic Method is required by the undeniably dynamic usage of the term "Mortgage Rate" in Section 3.11(b) of the PSAs,[30] which authorizes the servicer to modify a mortgage loan to keep a borrower from refinancing her loan at another bank. Specifically, the "*Mortgage Rate* on the Modified Mortgage Loan [must be] approximately a prevailing market rate for newly-originated mortgage loans having similar terms . . . ."[31] In other words, the defined term "Mortgage Rate" on a modified loan necessarily refers to the *modified rate*, not the initial rate. Och-Ziff's interpretation of "Mortgage Rate" as the initial rate on a loan would require the nonsensical result that the *initial rate* be "approximately a prevailing market rate for newly-originated mortgage loans having similar terms." By using the defined term "Mortgage Rate" to refer to the new, modified rate on a refinanced loan, Section 3.11(b) confirms that the term is a dynamic one that refers to a loan's changing interest rates.[32]

Second, Och-Ziff has so far failed to address the fact that "Mortgage Rate" necessarily cannot be a static rate fixed at the Trusts' inception because it is defined to be "*net* of any interest premium charged by the mortgagee to obtain or maintain any Primary Insurance Policy," which

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[29] *In re Lehman Bros. Inc.*, 478 BR 570, 586 (S.D.N.Y. 2012), *aff'd sub nom. In re Lehman Bros. Holdings Inc.*, 761 F.3d 303 (2d Cir 2014), *and aff'd sub nom. In re Lehman Bros. Holdings Inc.*, 590 Fed. App'x 92 (2d Cir. 2015) (quoting *Katel Ltd. Liab. Co. v. AT&T Corp.*, 607 F.3d 60, 64 (2d Cir. 2010), and *Manley v. AmBase Corp.*, 337 F.3d 237, 250 (2d Cir. 2003)).

[30] *See* AIG Parties' Initial Statement.at 3 and Opening Brief of Investor Group at 5-6.

[31] PSA, art. III, III-14 (emphasis added).

[32] PSA, art. III, III-14; *see* Inv. Group Opening Brief at 6.

premium will decrease as the borrower pays off the loan.[33] As such insurance premiums decrease over time, the *net* mortgage rates on the loans—*i.e.*, the "Adjusted Net Mortgage Rate"—will necessarily increase. Thus, whether or not the mortgages' initial or current interest rates are used, these *dynamic* primary mortgage insurance premiums result in an "Adjusted Net Mortgage Rate" that, in turn, is necessarily *dynamic*. So, Och-Ziff is left to argue that Adjusted Net Mortgage Rate is static as to the mortgages' interest rate, but dynamic as to the mortgages' insurance premiums. This, like so many other of Och-Ziff's arguments, does not withstand even minimal scrutiny.

II. Och-Ziff's Structural and Circumstantial Arguments Are Meritless.

Short on textual arguments concerning the key definition of Pass-Through Rate, Och-Ziff instead relies primarily on structural and circumstantial arguments that conflict with the PSAs' text, are inconsistent with the economic purpose of the Trusts, and defy common sense.

A. Excess Interest IOs Are Only "Senior" With Respect to Excess Interest.

Och-Ziff's key structural argument is that the IO Certificates, like many of the P&I Certificates held by the Investor Group, are labeled "senior" certificates in the Preliminary Statement of the PSAs.[34] But of course, this label does not mean that Och-Ziff has a senior entitlement to all cash flows, for all purposes. Rather, the IO Certificates have a senior claim on the *particular* cash flow stream to which they are entitled under the PSAs: "excess" interest cash flows generated by Non-Discount Mortgage Loans, calculated as the excess of (a) the interest generated by the Non-Discount Mortgage Loans, over (b) the Required Coupon.[35] It is undisputed that the IO Certificates are senior with respect to those excess interest cash flows—indeed, no

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[33] PSA, art. I, I-1y; *see* Inv. Group Opening Brief at 8-9.

[34] PSA Preliminary Statement at 13.

[35] The entitlement of the IO Certificates to excess interest cash flows is set out in Section 4.02 of the PSA (the distribution waterfall), and the definition of Pass-Through Rate and Class Optimal Interest Distribution Amount.

other certificates have any claim at all to them, whether senior or subordinate to the IO Certificates.

What Och-Ziff misses is that these "excess" interest cash flows are only one of ***three*** cash flow streams from the mortgages. The other two independent cash flow streams are: (i) the principal payments; and (ii) the interest generated by Non-Discount Mortgage Loans *up to* the Required Coupon. The IO Certificates do not have a claim to these cash flows; only the P&I Certificates do. Even the Trusts' monthly remittance reports, listed on the Trustee's public investor-reporting website, show that the IO Certificates are not "senior" as to all Trust cash flows. The reports designate some certificates "Senior" and others "Junior" or "Mezzanine."[36] The IO Certificates, however, are designated "Strip IO," not "Senior," in recognition that they are not senior with respect to all cashflows and over all other certificates in the Trust.

If, as Och-Ziff argues, the IO Certificates are guaranteed excess interest on Non-Discount Mortgage Loans even if those loans ***stop generating excess interest***, then this guarantee has to be paid for out of the two other cash flow streams (*i.e.*, principal payments, and interest paid *up to* the Required Coupon) that were for the P&I Certificates. In other words, to pay for Och-Ziff's supposed excess-interest guarantee, Och-Ziff effectively asks that the Trustee take cash flows away from the two P&I cash flow streams and pay it to the IO Certificates.

As to the principal-payment cash flows, however, even Och-Ziff admits that it is not entitled to the principal payments.[37] Thus, Och-Ziff can hardly argue that the Trusts' principal cash flows should be diverted to the IO Certificates to pay Och-Ziff its purported excess-interest guarantee. So, Och-Ziff is left to argue that its excess-interest guarantee should be paid for from the third and final cash flow stream: interest payments on the mortgages *up to the Required*

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[36] *See, e.g.*, Remittance Report for CWALT 2006-6CB.

[37] *See Silian Ventures LLC v. Bank of New York Mellon*, Och-Ziff's Complaint ¶ 45 (S.D.N.Y. Case No. 18-cv-11763) ("The IO senior certificates are not entitled to principal payments.").

Coupon. In other words, Och-Ziff argues that even when modified Non-Discount Mortgage Loans stop generating interest ***in excess of*** the Required Coupon, the IO Certificates should be paid excess interest from the interest generated by Non-Discount Mortgage Loans ***below*** the Required Coupon. This absurd result would divert interest away from the certificates which were supposed to receive it—the P&I Certificates (both senior and subordinate)—and to the IO Certificates, to pay their purported "excess" interest guarantee.

Och-Ziff's only alleged textual support for its argument that it should be able to dip into these two P&I cash flow streams is found in Och-Ziff's selective reading of the offering documents.[38] The full passages from the offering documents, shown below, demonstrate that (i) a senior certificate is only 'senior' "*to the extent described in the prospectus supplement*" and (ii) the subordination structure is only intended to increase the likelihood that senior certificates "receive the maximum amount *to which they are entitled*." In other words, senior certificates are only "senior" to the extent they are actually entitled to a senior cash flow in the documents. With respect to the IO Certificates, the documents make clear that the IO Certificates' senior claim is limited to excess interest on Non-Discount Mortgage Loans. In its submissions, Och-Ziff only quotes the underlined portions below, but the key clarifying language appears in ***bold italics***:

> The rights of the holders of the subordinated certificates to receive distributions with respect to the mortgage loans will be subordinated to the rights of the holders of the senior certificates and the rights of the holders of each class of subordinated certificates . . . to receive the distributions will be further subordinated to the rights of the class or classes of subordinated certificates with higher distribution priorities, ***in each case only to the extent described in this prospectus supplement***. The subordination of the subordinated certificates to the senior certificates, the subordination of the classes of subordinated certificates to the subordination of the classes of subordinated certificates with lower distribution priorities to those with higher distribution priorities ***is intended to increase the likelihood of receipt***, respectively, ***by the senior certificateholders*** and the holders of subordinated

[38] Och-Ziff Opening Brief at 15-16.

> certificates with higher distribution priorities ***of the maximum amount to which they are entitled on any Distribution Date and to provide the holders protection against Realized Losses***.[39]

The extent of the IO Certificates' seniority is thus limited to a claim to excess interest cash flows generated by Non-Discount Mortgage Loans—*on top of* the Required Coupon. The IO Certificates have no claim—senior or subordinate—to the other two cash flow streams (principal payments and interest up to the Required Coupon).

B. Och-Ziff's Method Would Turn the Seniority Structure Upside Down.

Further, Och-Ziff simply ignores other provisions of the offering documents, which show that the purpose of subordination is to protect the senior certificates against a particular risk: the risk of suffering "Realized Losses." Realized Losses only occur, however, when the liquidation proceeds recovered on a defaulted mortgage loan are less than the unpaid amounts still owed to the P&I Certificates with respect to that mortgage loan.[40] Because the IO Certificates are not entitled to principal payments, they are not subject to Realized Losses—as Och-Ziff admits.[41] Thus, contrary to Och-Ziff's depiction, the purpose of the senior/subordinate structure does not actually protect Och-Ziff in the way it describes, because under no circumstances will it ever suffer Realized Losses. The offering materials describe the purpose of the subordination structure:

> Subordination is designed to provide the holders of certificates with a higher payment priority with protection against losses realized when the remaining unpaid principal balance of a mortgage loan exceeds the proceeds recovered upon the liquidation of that mortgage loan. In general, this loss protection is accomplished by allocating the realized losses . . . first, to the subordinated certificates, . . ., and second to the related senior certificates (other than the notional amount certificates [***including the IO Certificates***]) . . . .[42]

[39] Prospectus Supplement for the 2006-6CB Trust, at S-135 (attached as Ex. 1 to Sheeren Affdavit).

[40] *Id.* at S-20 (realized losses occur "when the remaining unpaid principal balance on a mortgage loan exceeds the amount of proceeds recovered upon the liquidation of that mortgage loan").

[41] *See Silian Ventures LLC v. Bank of New York Mellon*, Och-Ziff's Complaint ¶ 45 (S.D.N.Y. Case No. 18-cv-11763).

[42] Prospectus Supplement for the 2006-6CB Trust, at S-19 to S-20 (attached as Ex. 1 to Sheeren Affdavit).

As this passage makes clear, Subordinate P&I Certificates are designed to protect *Senior* P&I Certificates against the risk of suffering Realized Losses. If Och-Ziff is permitted to dip into the two cash flow streams intended for the P&I certificates, write-downs of the Subordinate P&I certificates would result, as even Och-Ziff concedes.[43] And if the Subordinate P&I Certificates were written down, they would no longer be available to provide protection to the *senior* P&I Certificates against the risk of Realized Losses. Thus, perversely, Och-Ziff's proposed diversion of cash flows to the IO Certificates would actually ***increase*** the precise risk that subordination is intended to ***decrease*** by making it more likely that the Senior P&I Certificates will suffer Realized Losses. With the full text of the prospectuses in view—not just selective quotes—Och-Ziff's structural arguments are exposed as smoke and mirrors.

C. There Are No Inconsistencies in the Use of the Dynamic Method.

As noted above, Och-Ziff's brief largely runs from the plain text that controls the outcome of this case: the definitions of Mortgage Rate, Adjusted Net Mortgage Rate, and Mortgage Note. Instead, it seeks to divert attention from the text by arguing that the Dynamic Method would require the Trustee to employ these terms in inconsistent ways through the document. Some of these theories are old, and a couple of them are new. None has any merit.

1. Bucketing of Non-Discount Mortgage Loans and Calculation of PO Percentage

All parties agree that the two "buckets" of loans in the Trusts—the Non-Discount Mortgage Loans and the Discount Mortgage Loans—are fixed at the inception of the Trust. In Och-Ziff's view, this is inconsistent with the Dynamic Method. As set out in the Investor Group's Opening

[43] Och-Ziff Br. at 15-16.

Brief, that is incorrect. The definitions of Non-Discount Mortgage Loan and Adjusted Net Mortgage Rate require this bucketing to occur *once*, at the Trusts' inception.[44] Unlike other key definitions in the PSAs, the definition of Non-Discount Mortgage Loans does not include any temporal language that would require the calculation to be performed again after the inception of the Trust. As the Investor Group explained at length, the PSAs use dynamic language to instruct the Trustee when to make a given calculation on an ongoing basis.[45] The provisions governing the bucketing of Non-Discount Mortgage Loans and Discount Mortgage Loans contains no such language.[46] Thus, the Dynamic Method is entirely consistent with a "one-time" bucketing.

Moreover, Och-Ziff's approach suffers from a glaring flaw that Och-Ziff has ignored so far: a mortgage's Adjusted Net Mortgage Rate depends not only on the mortgage's interest rate, but also on the primary mortgage insurance premiums for that loan, as described above. When a mortgage is paid down and this insurance premium decreases, the Adjusted Net Mortgage Rate necessarily increases. If, for example, a loan has an Adjusted Mortgage Rate *just below* the Required Coupon at the Trust's inception, then pays down to a level that no longer requires primary mortgage insurance (typically, below a loan-to-value ratio of 80%), then its Adjusted Net Mortgage Rate could increase to a level *just above* the Required Coupon. Under Och-Ziff's view of the definition of Non-Discount Mortgage Loan, this loan would then "become" a Non-Discount Mortgage Loan. But Och-Ziff, like all the other parties, stresses that the pool of Non-Discount Mortgage Loans *must* be fixed at the Trusts' inception to avoid untenable results.[47] This shows

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[44] *See* Investor Group Opening Brief at 16-18.

[45] *Id*. at 17.

[46] *See* Investor Group Opening Brief at 16-18.

[47] *See* Och-Ziff Opening Brief at 12; BNYM Petition ¶ 60.

that the Non-Discount bucketing must occur just ***once***, at the Trusts' inception.

Och-Ziff's PO-Percentage argument is the same as its Non-Discount Mortgage Loan bucketing argument and wrong for the same reasons. Och-Ziff argues that because all parties agree the PO Percentage cannot change over time,[48] it must depend on the mortgages' initial mortgage rates. But the definition of "PO Percentage" does not include any temporal language that suggests it is to be performed again after the inception of the trust.[49] Moreover, the term "Adjusted Net Mortgage Rate" clarifies that for substitute loans deposited into the Trust after its inception, the PO Percentage for the new loan is deemed to be the PO Percentage for the loan it replaced.[50] That result would make no sense if the PO Percentage were calculated monthly over the life of the Trust, depending on the mortgages' then-current interest rates. Further, Och-Ziff's PO Percentage argument suffers from the same glaring flaw as its Non-Discount Mortgage Loan "bucketing" argument—even under Och-Ziff's approach, the PO Percentage on a given loan would *change* over the life of the Trust as a result of changing insurance premiums—leading to precisely the untenable result that Och-Ziff admits cannot happen.

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[48] The PO Percentage depends entirely on how much "principal stripping" should occur from the Discount Mortgage Loans *at the inception of the Trust* in order to set an effective interest rate on Discount Mortgage Loans equal to the Required Coupon. As an example, if the Required Coupon is 5%, a Discount Mortgage Loan has a balance of $100,000, and the mortgage rate is 4%, then $20,000 would be "stripped" from the principal balance of the mortgage at the inception of the Trust, with that $20,000 being the initial balance of a Principal Only ("PO") Certificate. The interest payments on the remaining $80,000 balance on that loan would now appear to be a stream of interest payments at a 5% interest rate (*i.e.*, 4% interest on the $100,000 loans = $4,000 annual interest, which equates to 5% interest on an $80,000 mortgage loan). This "principal stripping" determines, among other things, the initial certificate balance of the PO Certificates, which receive "stripped principal" from the Discount Loans (i.e., the $20,000 in this example).

[49] *Compare* PSA, art. I, I-17 (defining Non-Discount Mortgage Loan as "any Mortgage Loan in a Loan Group with an Adjusted Net Mortgage Rate that is greater than or equal to the Required Coupon for such Loan Group"), *with* PSA, art. I, I-22 (defining PO Percentage as "as fraction (expressed as a percentage) the numerator of which is the excess of the Required Coupon … over the Adjusted Net Mortgage Rate of such Discount Mortgage Loan and the denominator of which is such Required Coupon").

[50] PSA, art. I, I-1 ("For purposes of determining whether any Substitute Mortgage Loan is a Discount Mortgage Loan or a Non-Discount Mortgage Loan and for purposes of calculating the applicable PO Percentage and the applicable Non-PO Percentage, each Substitute Mortgage Loan shall be deemed to have an Adjusted Net Mortgage Rate equal to the Adjusted Net Mortgage Rate of the Deleted Mortgage Loan for which it is substituted.").

2. Allocable Share

Och-Ziff's argument concerning the definition of "Allocable Share" is similarly irrelevant to whether a loan's modified interest rate should be used to calculate the Pass-Through Rate. The "Allocable Share" mechanism is used for one specific purpose in the PSAs: to allocate the cost of two special types of interest-rate reductions, Debt Service Reductions (consisting of court-ordered reductions in bankruptcy proceedings) and Relief Act Reductions (for members of the Armed Forces whose interest rates are reduced during their deployments).[51]

The essence of the Allocable Share calculation is to allocate the "cost" of these specialized interest rate reductions *pro rata* across all interest-bearing certificates—including P&I and IO Certificates.[52] Under the PSAs' plain terms, the "Allocable Share" used to split the cost of these specialized interest rate reductions simply looks to the Adjusted Net Mortgage Rate ***just before*** such a specialized modification, and calculates how much was being paid to the IO Certificates, and how much was being paid to the P&I Certificates. For example, if the Adjusted Net Mortgage Rate on a servicemember's loan just prior to deployment was 7%, and the Required Coupon was 5%, then 2/7ths of any interest rate reduction would be borne by the IO Certificates, and 5/7ths would be borne by the P&I Certificates—thereby distributing the interest rate reduction proportionally to the amount of interest each type of certificate was receiving. The PSA does not, however, specify whether the Adjusted Net Mortgage Rate just prior to the deployment is the mortgage loan's initial rate of interest, or the loan's then-current rate of interest. For instance, if the initial mortgage rate on this loan was 8%, but was then modified to 7% through an interest rate modification, the definition of Allocable Share sheds no light at all at whether the initial 8% rate

[51] PSA, art. IV, 4.02(d).

[52] PSA, art. IV, 4.02(d).

should be used, or the current 7% rate should be used—which is the crux of this case.

Relatedly, Och-Ziff again argues that the Dynamic Method improperly "double counts" interest-rate reductions on these specialized modifications for servicemembers and certain bankruptcy situations.[53] This is yet another red herring; there is no such double counting. As Och-Ziff must know from the Trusts' monthly remittance reports, which are available on the Trustee's public investor-reporting website, these specialized interest-rate reductions are tracked, aggregated, and reported across all affected loans every month. Och-Ziff must also know that the Trustee calculates the interest owing to the IO Certificates on the basis of these loans' most recent, dynamic mortgage rate, assuming that these specialized interest rate reductions such as Debt Service Reductions did not occur. Only ***after*** calculating the Pass-Through Rate in this way does the Trustee allocate the Debt Service Reductions across all interest-bearing certificates according to their Allocable Shares. This methodology, discernable from the Trustee's public reporting, prevents the "double counting" that Och-Ziff alleges. Thus, Och-Ziff's argument in this regard should be seen for what it is: an attempt to conjure up the appearance of a fact issue to distract from the text of the PSAs which, for the reasons explained above, requires the Dynamic Method.

3. CWALT 2005-1CB

Och-Ziff makes a new argument as to one Trust, CWALT 2005-1CB, for which Och-Ziff implies the Trustee has somehow diverged from the Dynamic Method. But there is no dispute that the Trustee's distributions to the IO holders of this Trust are based on the mortgages' current rates, not their initial rates. Although Och-Ziff is correct that the Notional Amount reporting and excess interest cash flows are performed differently for this Trust, they lead to the exact same mathematical outcome: the IO Certificates' cash flows depend on the current mortgage rates.

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[53] *See* Och-Ziff Opening Brief at 16-17.

Again, Och-Ziff strains to find complicating issues where none exists.

4. The Mortgage Loan Schedule

Och-Ziff notes that all the loans under the PSAs are tallied on a list called a "Mortgage Loan Schedule" that includes certain descriptive information about each loan at the Trusts' inception (such as its loan number, type of dwelling, and scheduled payments).[54] The definition of "Mortgage Loan Schedule" states that it is a "list of Mortgage Loans []as from time to time amended by the Master Servicer to reflect" the addition or deletion of loans from the Trust.[55] From this alone, Och-Ziff contends without citation or analysis that *only* those changes may be made to the list—and that "[t]hus, the Mortgage Loan Schedule contemplates a static Mortgage Rate."[56]

Och-Ziff's conclusions do not follow. Nothing in the text of the definition prevents other updates from being made to the Mortgage Loan Schedule. But even if it did, it would show only what the Mortgage Loan Schedule is—a way to track the deletion or addition of mortgage loans, not changes to the loan characteristics for any individual loan. For instance, the loans' loan-to-value ratios change every month but are not amended in the Mortgage Loan Schedule. And nothing in the definition of Pass-Through Rate instructs the Trustee to look to the interest rates listed in the Mortgage Loan Schedule, nor in any way invokes or references that Schedule. It is simply irrelevant to the interest-payment calculations at issue here. That Och-Ziff is reaching for this argument at all only highlights how bereft of textual support its position is.

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[54] Och-Ziff Br. at 9 (citing PSA, art. I, I-16).

[55] PSA, art. I, I-16.

[56] Och-Ziff Br. at 9.

III. Independent of the Dispute over the Dynamic Method, the Investor Parties Agree That the Trustee Should Employ a Pool-Level Calculation.

As to the second question before the Court, there is no dispute between the Investor Group and Och-Ziff that the Trustee should calculate IO cash flows as the excess of the weighted average interest rate of all the Non-Discount Mortgage Loans (whether or not their mortgage rates have fallen below the Required Coupon), over the Required Coupon (the "pool-level" approach).[57] Och-Ziff already endorsed this pool-level approach in its Initial Statement, though its attempts to walk that position back in its Opening Brief by asking the Court not to address the issue.[58] Och-Ziff does not argue that the *text* of the PSA requires the alternative "loan-level" approach; rather Och-Ziff suggests that the pool-level approach would be "unreasonable" because it would lead to less cash paid to the IO Certificates.[59] But that outcome does not make the pool-level approach unreasonable, because the PSAs' plain language *requires* reductions in IO Certificates' cash flows when Non-Discount Mortgage Loans collectively produce less "excess" interest. This question concerning the "pool-level" method is properly before the Court—given that the Court specifically directed supplemental notice on this issue—and the Court should instruct the Trustee to utilize the pool-level method.

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[57] *See* Och-Ziff Initial Statement (Dkt. No. 31) at 6 ("[T]he PSAs require the calculation of the Pass-Through Rate on a portfolio basis (i.e., calculating the weighted average of all Non-Discount Mortgage Loans before subtracting the Required Coupon of 5.50%).").

[58] *See* Och-Ziff Br. at 7.

[59] Och-Ziff Br. at 16.

Dated: New York, New York

July 19, 2019

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

In the matter of the application of THE BANK OF NEW YORK MELLON, in its Capacity as Trustee for 278 Residential Mortgage-Backed Securitization Trusts, Petitioner, For Judicial Instructions Under CPLR Article 77 Concerning the Proper Pass-Through Rate Calculation for CWALT Interest Only Senior Certificates.	Index No. 150738/2019 Assigned to: Friedman, J. **AFFIDAVIT OF DAVID M. SHEEREN**

DAVID M. SHEEREN, being duly sworn, hereby deposes and says as follows:

1. I am a member of the firm of Gibbs & Bruns, LLP, 1100 Louisiana, Suite 5300, Houston, Texas 77002, national counsel for the Institutional Investors in this litigation. I am familiar with the proceedings in this case, and represent, together with Kenneth E. Warner of Warner Partners, P.C., the Institutional Investors in this matter.[1] I have personal knowledge of the facts stated in this affidavit, and they are all true and correct. I make this affidavit in support of the Response Brief of the Investor Group, filed in this proceeding.

2. I have personally reviewed public information available through Bloomberg Finance L.P. ("Bloomberg") concerning the mortgage loans deposited into the 156 trusts identified by Silian Ventures LLC in its lawsuit against BNY Mellon (the "156 Trusts"). *See Silian Ventures LLC, v. The Bank of New York Mellon*, Case No. 1:18-cv-11763.

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[1] My *pro hac vice* application, which we expect to submit by stipulation among all parties, is forthcoming.

3. The information available in Bloomberg indicates that only one of the 156 Trusts contained adjustable rate mortgages at the trust's inception. That trust, CWALT 2006-J7, is also the only trust identified in Silian's Opening Brief as containing adjustable rate mortgages. *See* Dkt. No. 66 at p. 10 (Silian's Opening Brief) & Dkt. No. 69 (Pooling and Servicing Agreement for CWALT 2006-J7, attached to Affidavit of Jon Pickhardt).

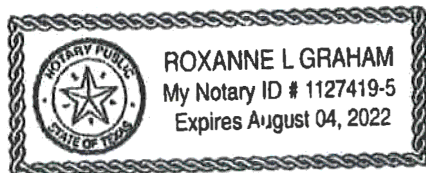
4. The information available in Bloomberg indicates that for the remaining 155 trusts, each of the mortgage loans at the trusts' inception was a fixed rate mortgage loan.

5. Attached as **Exhibit 1** to this Affidavit is a true and correct copy of excerpts of the Prospectus Supplement for CWALT 2006-6CB.

FURTHER AFFIANT SAYETH NOT.

DAVID M. SHEEREN

SWORN TO AND SUBSCRIBED before me on the 19th day of July, 2019.



Notary Public in and for The State of Texas

Exhibit 1

To Sheeren Affidavit

FILED: NEW YORK COUNTY CLERK 07/19/2019 05:21 PM

NYSCEF DOC. NO. 80

INDEX NO. 150738/2019

RECEIVED NYSCEF: 07/19/2019

PROSPECTUS SUPPLEMENT
(To Prospectus dated March 27, 2006)

$2,164,334,096
(Approximate)

CWALT, INC.
Depositor

Countrywide®
HOME LOANS

Sponsor and Seller

Countrywide Home Loans Servicing LP
Master Servicer

Alternative Loan Trust 2006-6CB
Issuing Entity

Mortgage Pass-Through Certificates, Series 2006-6CB
Distributions payable monthly, beginning April 25, 2006

The issuing entity will issue certificates, including the following classes of certificates, that are offered pursuant to this prospectus supplement and the accompanying prospectus:

	Initial Class Certificate Balance/ Initial Notional Amount(1)	Pass-Through Rate(2)		Initial Class Certificate Balance/ Initial Notional Amount(1)	Pass-Through Rate(2)
Class 1-A-1	$ 46,428,750	5.50%	Class 2-A-7	$ 15,000,000	Floating
Class 1-A-2	$ 446,987,000	Floating	Class 2-A-8	$ 166,040,900(3)	Floating
Class 1-A-3	$ 446,987,000(3)	Floating	Class 2-A-9	$ 22,640,000	5.75%
Class 1-A-4	$ 140,597,250	5.50%	Class 2-A-10	$ 132,058,500	6.00%
Class 1-A-5	$ 65,349,000	5.50%	Class 2-A-11	$ 132,058,500	5.50%
Class 1-A-6	$ 25,000,000	Floating	Class 2-A-12	$ 11,680,600	5.75%
Class 1-A-7	$ 25,000,000(3)	Floating	Class 2-A-13	$ 101,040,900	Floating
Class 1-A-8	$ 506,249,850	5.50%	Class 2-A-14	$ 590,909(3)	Floating
Class 1-A-9	$ 8,752,750	5.50%	Class 2-A-15	$ 10,000,000	5.75%
Class 1-A-10	$ 216,965,000	5.50%	Class 2-A-16	$ 4,500,000	5.75%
Class 1-A-11	$ 3,820,000	5.50%	Class 2-A-17	$ 1,639,975	5.75%
Class 1-X	$ 1,359,441,862(3)	Variable	Class 2-X	$ 655,268,271(3)	Variable
Class 2-A-1	$ 66,900,000	Floating	Class PO	$ 2,911,796	(4)
Class 2-A-2	$ 66,900,000(3)	Floating	Class A-R	$ 100	5.50%
Class 2-A-3	$ 1,000,000	5.75%	Class M	$ 43,679,900	Variable
Class 2-A-4	$ 49,490,425	5.75%	Class B-1	$ 16,379,900	Variable
Class 2-A-5	$ 30,100,000	5.75%	Class B-2	$ 13,103,900	Variable
Class 2-A-6	$ 50,000,000	Floating			

Consider carefully the risk factors beginning on page S-24 in this prospectus supplement and on page 2 in the prospectus.

The certificates represent obligations of the issuing entity only and do not represent an interest in or obligation of CWALT, Inc., Countrywide Home Loans, Inc. or any of their affiliates.

This prospectus supplement may be used to offer and sell the offered certificates only if accompanied by the prospectus.

(1) This amount is subject to a permitted variance in the aggregate of plus or minus 5%.

(2) The classes of certificates offered by this prospectus supplement are listed, together with their pass-through rates (and, in the case of the floating rate certificates, the index on which the pass-through rates are based) and their initial ratings, in the tables under “Summary — Description of the Certificates” beginning on page S-7 of this prospectus supplement.

(3) The Class 1-A-3, Class 1-A-7, Class 2-A-2, Class 2-A-8, Class 2-A-14, Class 1-X and Class 2-X Certificates are interest only notional amount certificates and are not included in the aggregate class certificate balance of all of the certificates offered.

(4) The Class PO Certificates are principal only certificates and will not accrue interest.

This prospectus supplement and the accompanying prospectus relate only to the offering of the certificates listed above and not to the other classes of certificates that will be issued by the issuing entity. The certificates represent interests in a pool consisting of two loan groups of primarily 30-year conventional, fixed rate mortgage loans secured by first liens on one- to four-family residential properties.

Credit enhancement and other support for the transaction will consist of:
- Subordination; and
- Cross-collateralization between loan groups.

The credit enhancement for each class of certificates varies. Not all credit enhancement is available for every class. The credit enhancement for the certificates is described in more detail in this prospectus supplement.

The Class 1-A-2, Class 1-A-6, Class 2-A-1, Class 2-A-6, Class 2-A-7 and Class 2-A-13 Certificates also will have the benefit of separate interest rate corridor contracts.

These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus supplement or the prospectus. Any representation to the contrary is a criminal offense.

Deutsche Bank Securities Inc. will offer the Class A Certificates and Countrywide Securities Corporation will offer the Class M, Class B-1 and Class B-2 Certificates to the public at varying prices to be determined at the time of sale. The proceeds to the depositor from the sale of these classes of certificates are expected to be approximately $2,116,983,769, plus accrued interest, before deducting expenses. The Class PO and Class X Certificates will not be purchased by Deutsche Bank Securities Inc. or Countrywide Securities Corporation. They will be transferred to Countrywide Home Loans, Inc. on or about March 30, 2006 as partial consideration for the sale of the mortgage loans to the depositor. See “Method of Distribution” in this prospectus supplement.

Deutsche Bank Securities **Countrywide Securities Corporation**

March 29, 2006

class certificate balances and distributed in the sequential order described above.

Allocation of Realized Losses

On each distribution date, the amount of any realized losses on the mortgage loans in a loan group will be allocated as follows:

- the applicable PO percentage of any realized losses on a discount mortgage loan in a loan group will be allocated to the related Class PO Component; provided, however, that on or before the senior credit support depletion date, (i) those realized losses will be treated as Class PO Deferred Amounts and will be paid on the related Class PO Component (to the extent funds are available from amounts otherwise allocable to the subordinated principal distribution amount) before distributions of principal on the subordinated certificates and (ii) the class certificate balance of the class of subordinated certificates then outstanding with the lowest distribution priority will be reduced by the amount of any payments of Class PO Deferred Amounts; and

- the applicable non-PO percentage of any realized losses on the mortgage loans in a loan group will be allocated in the following order of priority:

  - first, to the subordinated certificates in the reverse order of their priority of distribution, beginning with the class of subordinated certificates outstanding, with the lowest distribution priority until their respective class certificate balances are reduced to zero;

  - second, (x) with respect to the realized losses on the mortgage loans in loan group 1, to the Class 1-A-11 Certificates, until its class certificate balance is reduced to zero, and (y) with respect to the realized losses on the mortgage loans in loan group 2, to the Class 2-A-17 Certificates, until its class certificate balance is reduced to zero; and

  - third, concurrently to the senior certificates (other than the Class 1-A-11 and Class 2-A-17 Certificates, notional amount certificates and the related Class PO Component) related to that loan group, pro rata, based upon their respective class certificate balances, or in the case of the accrual certificates, based on the lesser of the original class certificate balances or their current class certificate balances; except that (i) a portion of the non-PO percentage of any realized losses on the mortgage loans in loan group 1 that would otherwise be allocated to the Class 1-A-4 and Class 1-A-5 Certificates will instead be allocated to the Class 1-A-9 Certificates, until its class certificate balance is reduced to zero, and (ii) a portion of the non-PO percentage of any realized losses on the mortgage loans in loan group 2 that would otherwise be allocated to the Class 2-A-1, Class 2-A-4, Class 2-A-6 and Class 2-A-10 Certificates will instead be allocated to the Class 2-A-12 Certificates, until its class certificate balance is reduced to zero.

Credit Enhancement

The issuance of senior certificates and subordinated certificates by the issuing entity is designed to increase the likelihood that senior certificateholders will receive regular distributions of interest and principal.

Subordination

The senior certificates will have a distribution priority over the classes of subordinated certificates. Among the subordinated certificates offered by this prospectus supplement, the Class M Certificates will have a distribution priority over the Class B Certificates. Within the Class B Certificates, each class of certificates will have a distribution priority over those classes of certificates, if any, with a higher numerical designation.

Subordination is designed to provide the holders of certificates with a higher distribution priority

with protection against losses realized when the remaining unpaid principal balance of a mortgage loan exceeds the proceeds recovered upon the liquidation of that mortgage loan. In general, this loss protection is accomplished by allocating the realized losses on the mortgage loans in a loan group first, to the subordinated certificates, beginning with the class of subordinated certificates then outstanding with the lowest payment priority, and second to the related senior certificates (other than the notional amount certificates) in accordance with the priorities set forth above under "— *Allocation of Realized Losses.*" Further, the class certificate balance of the class of subordinated certificates with the lowest distribution priority will be reduced by the amount of distributions on the Class PO Certificates in reimbursement for the Class PO deferred amounts as described above under "— *Allocation of Losses.*"

Additionally, as described above under "— *Principal Payments*," unless certain conditions are met, the senior prepayment percentage related to a loan group (which determines the allocation of unscheduled payments of principal between the related senior certificates and the subordinated certificates) will exceed the related senior percentage (which represents such senior certificates' pro rata percentage interest in the mortgage loans in that loan group). This disproportionate allocation of unscheduled payments of principal will have the effect of accelerating the amortization of the senior certificates which receive these unscheduled payments of principal while, in the absence of realized losses, increasing the interest in the principal balance of the mortgage pool evidenced by the subordinated certificates. Increasing the respective interest of the subordinated certificates relative to that of the senior certificates is intended to preserve the availability of the subordination provided by the subordinated certificates.

See "Description of the Certificates — Allocation of Losses" in this prospectus supplement and "Credit Enhancement — Subordination" in this prospectus supplement and in the prospectus.

Cross-Collateralization

If on any distribution date the aggregate class certificate balance of the senior certificates of a senior certificate group, other than the Class PO Component and related notional amount certificates, after giving effect to distributions to be made on that distribution date, is greater than the non-PO pool balance for that loan group (any such group, an *"undercollateralized group"*), all amounts otherwise distributable as principal to the subordinated certificates (or, following the senior credit support depletion date, the amounts described in the following sentence) will be distributed as principal to the senior certificates of that undercollateralized group, other than the related Class PO Component and related notional amount certificates, until the aggregate class certificate balance of the senior certificates, other than the related Class PO Component and related notional amount certificates, of the undercollateralized group equals the non-PO pool balance for that loan group (such distribution, an *"undercollateralization distribution"*). If the senior certificates, other than the related Class PO Component and related notional amount certificates, of a senior certificate group constitute an undercollateralized group on any distribution date following the senior credit support depletion date, undercollateralization distributions will be made from the excess of the available funds for the other loan group remaining after all required amounts for that distribution date have been distributed to the senior certificates, other than the related Class PO Component and related notional amount certificates, of that senior certificate group.

Accordingly, the subordinated certificates will not receive distributions of principal until each undercollateralized group is no longer undercollateralized.

All distributions described in this *"Cross-Collateralization"* section will be made in accordance with the priorities set forth below under *"Distributions on the Certificates — Principal — Senior Principal Distribution*

Amount" and "— Subordinated Principal Distribution Amount."

Advances

The master servicer will make cash advances with respect to delinquent payments of principal and interest on the mortgage loans to the extent the master servicer reasonably believes that the cash advances can be repaid from future payments on the mortgage loans. These cash advances are only intended to maintain a regular flow of scheduled interest and principal payments on the certificates and are not intended to guarantee or insure against losses.

See "Servicing of Mortgage Loans — Advances" in this prospectus supplement.

Repurchase, Substitution and Purchase of Mortgage Loans

The sellers may be required to repurchase, or substitute with a replacement mortgage loan, any mortgage loan as to which there exists deficient documentation or as to which there has been an uncured breach of any representation or warranty relating to the characteristics of the mortgage loans that materially and adversely affects the interests of the certificateholders in that mortgage loan.

Additionally, the master servicer may purchase from the issuing entity any mortgage loan that is delinquent in payment by 151 days or more.

Countrywide Home Loans, Inc. also will be obligated to purchase any mortgage loan with respect to which it has modified the mortgage rate at the request of the borrower. *See "Servicing of Mortgage Loans — Certain Modifications and Refinancings" in this prospectus supplement.*

The purchase price for any mortgage loans repurchased or purchased by a seller or the master servicer will be generally equal to the stated principal balance of the mortgage loan plus interest accrued at the applicable mortgage rate (and in the case of purchases by the master servicer, less the master servicing fee rate).

See "The Mortgage Pool — General", "— Assignment of the Mortgage Loans" and "Description of the Certificates — Optional Purchase of Defaulted Loans" in this prospectus supplement and "Loan Program — Representations by Sellers; Repurchases" in the prospectus.

Optional Termination

The master servicer may purchase all of the remaining assets of the issuing entity and retire all the outstanding classes of certificates on or after the distribution date on which the aggregate stated principal balance of the mortgage loans and any related real estate owned by the issuing entity is less than or equal to 10% of the sum of (x) the aggregate stated principal balance of the mortgage loans as of the initial cut-off date and (y) any pre-funded amounts.

See "Description of the Certificates — Optional Termination" in this prospectus supplement.

Tax Status

For federal income tax purposes, the issuing entity (exclusive of the pre-funding account and the capitalized interest accounts) will consist of one or more REMICs: one or more underlying REMICs (if any) and the master REMIC. The assets of the lowest underlying REMIC in this tiered structure (or the master REMIC if there are no underlying REMICs) will consist of the mortgage loans and any other assets designated in the pooling and servicing agreement. The master REMIC will issue the several classes of certificates, which, other than the Class A-R Certificates, will represent the regular interests in the master REMIC. The Class 1-A-2, Class 1-A-6, Class 2-A-1, Class 2-A-6, Class 2-A-7 and Class 2-A-13 Certificates will also represent the right to receive yield supplement amounts. The Class A-R Certificates will represent ownership of both the residual interest in the master REMIC and the residual interests in any underlying REMICs.

See "Material Federal Income Tax Consequences" in this prospectus supplement and in the prospectus.

ERISA Considerations

The offered certificates (other than the Class 1-X, Class 2-X, Class PO and Class A-R Certificates) may be purchased by a pension or other benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, or by an entity investing the assets of such a benefit plan, so long as certain conditions are met. The Class 1-A-2, Class 1-A-6, Class 2-A-1, Class 2-A-6, Class 2-A-7 and Class 2-A-13 Certificates may not be acquired or held by a person investing assets of any such plans or arrangements before the termination of the related corridor contract, unless such acquisition or holding is eligible for the exemptive relief available under one of the class exemptions described in this prospectus supplement under "*ERISA Considerations—ERISA Considerations With Respect to the Corridor Contract*."

A fiduciary of such plans or arrangements must determine that the purchase of a Certificate is consistent with its fiduciary duties and does not result in a nonexempt prohibited transaction under applicable law.

See "ERISA Considerations" in this prospectus supplement and in the prospectus.

Legal Investment

The senior certificates and the Class M Certificates will be "mortgage related securities" for purposes of the Secondary Mortgage Market Enhancement Act of 1984 as long as they are rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization. None of the other classes of offered certificates will be "mortgage related securities" for purposes of the Secondary Mortgage Market Enhancement Act of 1984.

See "Legal Investment" in the prospectus.

Voting Rights

As of any date of determination:

- holders of each class of Notional Amount Certificates will each be allocated 1% of all voting rights in respect of the certificates (collectively, the "Voting Rights") for a total of 7% of the Voting Rights, and
- holders of the other classes of certificates will be allocated the remaining Voting Rights in proportion to their respective outstanding Class Certificate Balances.

Voting Rights will be allocated among the certificates of each class in accordance with their respective percentage interests.

Restrictions on Transfer of the Class A-R Certificates

The Class A-R Certificates will be subject to the restrictions on transfer described in the prospectus under *"Material Federal Income Tax Consequences — Taxation of the REMIC and Its Holders," "— Taxation of Holders of Residual Interests — Restrictions on Ownership and Transfer of Residual Interests," and "— Tax Treatment of Foreign Investors."* The Class A-R Certificates (in addition to other ERISA- restricted classes of certificates, as described in the pooling and servicing agreement) may not be acquired by a Plan. See *"ERISA Considerations"* in this prospectus supplement. Each Class A-R Certificate will contain a legend describing the foregoing restrictions.

Ownership of the Residual Certificates

The trustee will be initially designated as "tax matters person" under the pooling and servicing agreement and in that capacity will hold a Class A-R Certificate in the amount of $0.01. As the tax matters person, the trustee will be the primary representative of the issuing entity with respect to any tax administrative or judicial matter. As trustee, the trustee will be responsible for making a REMIC election with respect to each REMIC created under the pooling and servicing agreement and for preparing and filing tax returns with respect to each REMIC.

Restrictions on Investment, Suitability Requirements

An investment in the certificates may not be appropriate for all investors due to tax, ERISA or other legal requirements. Investors should review the disclosure included in this prospectus supplement and the prospectus under *"Material Federal Income Tax Consequences," "ERISA Considerations"* and *"Legal Matters"* prior to any acquisition and are encouraged to consult with their advisors prior to purchasing the certificates.

Yield, Prepayment and Maturity Considerations

General

The effective yield to the holders of each interest-bearing class of certificates (other than the LIBOR Certificates) will be lower than the yield otherwise produced by the applicable rate at which interest is passed through to the holders and the purchase price of the certificates because monthly distributions will not be payable to the holders until the 25th day (or, if that day is not a business day, the following business day) of the month following the month in which interest accrues on the mortgage loans (without any additional distribution of interest or earnings on them for the delay).

Delinquencies on the mortgage loans that are not advanced by or on behalf of the master servicer (because amounts, if advanced, would be nonrecoverable) will adversely affect the yield on the related certificates. Because of the priority of distributions, shortfalls resulting from delinquencies not so advanced will be borne first by the subordinated certificates, in the reverse order of their numerical class designations, then by the senior certificates of the senior certificate groups to which the shortfall relates. If, as a result of the shortfalls, the aggregate of the Class Certificate Balances of all classes of certificates exceeds the pool principal balance, the Class Certificate Balance of the class of subordinated certificates then outstanding with the highest numerical class designation will be reduced by the amount of the excess.

Net Interest Shortfalls will adversely affect the yields of the certificates. Any Net Interest Shortfalls allocable to the Class 2-A-3 Certificates will reduce the Class 2-A-3 Accrual Amount, thereby reducing the amount of funds available for distribution of principal on the classes of certificates entitled to receive such amounts. In addition, all losses initially will be borne by the subordinated certificates, in the reverse order of their distribution priorities (either directly or through distributions in respect of Class PO Deferred Amounts on the related Class PO Component). Moreover, since the Subordinated Principal Distribution Amount for each Distribution Date will be reduced by the amount of any distributions on the Distribution Date in respect of Class PO Deferred Amounts, the amount distributable as principal on each Distribution Date to each class of subordinated certificates then entitled to a distribution of principal will be less than it otherwise would be in the absence of the Class PO Deferred Amounts. As a result, the yields on the certificates will depend on the rate and timing of Realized Losses.

For purposes of allocating losses and shortfalls resulting from delinquencies to the subordinated certificates, the Class M Certificates will be considered to have a lower numerical class designation than each other class of subordinated certificates.

Prepayment Considerations and Risks

The rate of principal payments on the certificates, the aggregate amount of distributions on the certificates and the yield to maturity of the certificates will be related to the rate and timing of payments of principal on the mortgage loans. The rate of principal payments on the mortgage loans will in turn be affected by the amortization schedules of the mortgage loans and by the rate of principal prepayments, including for this purpose, prepayments resulting from refinancing, liquidations of the mortgage loans due to defaults, casualties, condemnations and repurchases by the sellers or master servicer. Except for approximately 4.34% and 7.35% of the Initial Mortgage Loans in loan group 1 and loan group 2, respectively, in each case by aggregate Stated Principal Balance of the Initial Mortgage Loans in that loan group as of the initial cut-off date, which have a prepayment charge if the related mortgagor prepays such mortgage loan during a period ranging from six months to five years after origination, the mortgage loans may be prepaid by the mortgagors at any time without a prepayment charge. Because certain of the mortgage loans contain prepayment charges, the rate of principal prepayments may be less than the rate of principal prepayments for mortgage loans that did not have prepayment penalties. In addition, approximately 36.08% and 45.67% of the Initial Mortgage Loans in loan group 1 and loan group 2, respectively, in each case by aggregate Stated Principal Balance of the Initial Mortgage Loans in that loan group as of the initial cut-off date, do not provide for any payments of principal for the first ten or fifteen years following their origination. These mortgage loans may involve a greater degree of risk because, if the related mortgagor defaults, the outstanding principal balance of that mortgage loan will be higher than for an amortizing mortgage loan. During their interest-only periods, these mortgage loans may be less likely to prepay as the interest-only feature may reduce the perceived benefits of refinancing due to the smaller monthly payment. However, as an interest-only mortgage loan approaches the end of its interest-only period, it may be more likely to be prepaid, even if market interest rates at the time are only slightly higher or lower than the interest rate on the interest-only mortgage loans as the related borrowers seek to

avoid increases in their respective monthly mortgage payment. The mortgage loans are subject to the "due-on-sale" provisions included therein. See *"The Mortgage Pool"* in this prospectus supplement.

Prepayments, liquidations and purchases of the mortgage loans in a loan group will result in distributions on the certificates related to that loan group of principal amounts which would otherwise be distributed over the remaining terms of these mortgage loans. This includes any optional purchase by the master servicer of a defaulted mortgage loan and any optional repurchase of the remaining mortgage loans in all of the loan groups in connection with the termination of the issuing entity, in each case as described in this prospectus supplement. Since the rate of payment of principal of the mortgage loans will depend on future events and a variety of factors, no assurance can be given as to the rate of payment of principal of the mortgage loans or the rate of principal prepayments. The extent to which the yield to maturity of a class of certificates may vary from the anticipated yield will depend upon the degree to which the certificate is purchased at a discount or premium, and the degree to which the timing of payments thereon is sensitive to prepayments, liquidations and purchases of the mortgage loans in that loan group. Further, an investor should consider the risk that, in the case of the Class PO Certificates and any other certificate purchased at a discount, a slower than anticipated rate of principal payments (including prepayments) on the mortgage loans in that loan group could result in an actual yield to the investor that is lower than the anticipated yield and, in the case of the notional amount certificates and any other certificate purchased at a premium, a faster than anticipated rate of principal payments could result in an actual yield to the investor that is lower than the anticipated yield. Investors in the notional amount certificates should carefully consider the risk that a rapid rate of principal payments on the Non-Discount mortgage loans in the related loan group could result in the failure of the investors to recover their initial investments.

The rate of principal payments (including prepayments) on pools of mortgage loans may vary significantly over time and may be influenced by a variety of economic, geographic, social and other factors, including changes in mortgagors' housing needs, job transfers, unemployment, mortgagors' net equity in the mortgaged properties, servicing decisions, as well as the characteristics of the mortgage loans included in the mortgage pool as described under *"The Mortgage Pool — General"* and *"—Underwriting Process"* in this prospectus supplement. In addition, Countrywide Home Loans' Streamlined Documentation Program may affect the rate of prepayments on the mortgage loans. In general, if prevailing interest rates were to fall significantly below the mortgage rates on the mortgage loans, the mortgage loans could be subject to higher prepayment rates than if prevailing interest rates were to remain at or above the mortgage rates on the mortgage loans. Conversely, if prevailing interest rates were to rise significantly, the rate of prepayments on the mortgage loans would generally be expected to decrease. No assurances can be given as to the rate of prepayments on the mortgage loans in stable or changing interest rate environments. Furthermore, with respect to up to 50% of the Group 1 Closing Date Mortgage Loans, 50% of the group 2 mortgage loans and 90% of the Supplemental Mortgage Loans, the depositor may deliver all or a portion of each related mortgage file to the trustee after the closing date or the related Supplemental Transfer Date, as applicable. Should Countrywide Home Loans or any other seller fail to deliver all or a portion of any mortgage files to the depositor or other designee of the depositor or, at the depositor's direction, to the trustee, within that period, Countrywide Home Loans will be required to use its best efforts to deliver a replacement mortgage loan for the related delayed delivery mortgage loan or repurchase the related delayed delivery mortgage loan. Any repurchases pursuant to this provision would also have the effect of accelerating the rate of prepayments on the mortgage loans.

As described under *"Description of the Certificates — Principal"* in this prospectus supplement, the Senior Prepayment Percentage of the applicable Non-PO Percentage of all principal prepayments on the mortgage loans in a loan group will be initially distributed to the classes of related senior certificates (other than the notional amount certificates and the related Class PO Component) then entitled to receive principal prepayment distributions. This may result in all (or a disproportionate percentage) of the principal prepayments being distributed to holders of the classes of senior certificates (other than the Class

PO Certificates) and none (or less than their *pro rata* share) of the principal prepayments being distributed to holders of the subordinated certificates during the periods of time described in the definition of each "Senior Prepayment Percentage." The Class 1-A-4, Class 1-A-9, Class 1-A-11, Class 2-A-4, Class 2-A-12 and Class 2-A-17 Certificates generally will not receive principal distributions for the first five years after the closing date.

The yields to maturity on the senior certificates (other than the Class PO Certificates) will reflect the prepayment experience on the mortgage loans in the related loan group, and the yields on the subordinated certificates and the Class PO Certificates will reflect a combination of prepayment experience on the mortgage loans in both loan groups. Since the mortgage loans in each loan group may exhibit different prepayment behavior either simultaneously or over time, it will be more difficult to estimate the possible prepayment experience on and the resulting effects on the yields to maturity of those certificates.

The timing of changes in the rate of prepayments on the mortgage loans may significantly affect an investor's actual yield to maturity, even if the average rate of principal payments is consistent with an investor's expectation. In general, the earlier a prepayment of principal on the mortgage loans, the greater the effect on an investor's yield to maturity. The effect on an investor's yield as a result of principal payments occurring at a rate higher (or lower) than the rate anticipated by the investor during the period immediately following the issuance of the offered certificates may not be offset by a subsequent like decrease (or increase) in the rate of principal payments.

The tables in this *"Yield, Prepayment and Maturity Considerations"* section indicate the sensitivity of the pre-tax corporate bond equivalent yields to maturity of the illustrated classes of certificates to various constant percentages of the Prepayment Assumption, as applicable, and, in the case of the Inverse Floating Rate Certificates, to various levels of LIBOR. The yields set forth in the tables were calculated by determining the monthly discount rates that, when applied to the assumed streams of cash flows to be paid on the applicable classes of certificates, would cause the discounted present value of the assumed streams of cash flows to equal the assumed aggregate purchase prices of the applicable classes and converting the monthly rates to corporate bond equivalent rates. Those calculations do not take into account variations that may occur in the interest rates at which investors may be able to reinvest funds received by them as distributions on the certificates and consequently do not purport to reflect the return on any investment in any class of certificates when the reinvestment rates are considered.

Mandatory Prepayment

In the event that at the end of the Pre-funding Period there are amounts on deposit in the Pre-funding Account, the holders of the group 1 senior certificates will receive an additional distribution allocable to principal in an amount equal to that amount on deposit in the Pre-funding Account at that time.

Sensitivity of the Inverse Floating Rate Certificates

The yields to investors on the Class 1-A-3, Class 1-A-7, Class 2-A-2, Class 2-A-8 and Class 2-A-14 Certificates (we sometimes refer to these classes as "Inverse Floating Rate Certificates") will be very sensitive to the level of LIBOR and the rate and timing of principal payments (including prepayments) of the mortgage loans in the related loan group, which can be prepaid at any time. As indicated in the table below, an increasing level of prepayments and/or LIBOR will have a negative effect on the yields to investors in the Inverse Floating Rate Certificates.

Changes in the level of LIBOR may not correlate with changes in prevailing mortgage interest rates. It is possible that lower prevailing mortgage interest rates, which might be expected to result in faster prepayments, could occur concurrently with an increased level of LIBOR.

The following tables were prepared on the basis of the structuring assumptions and the assumptions that (i) the interest rates applicable to the Inverse Floating Rate Certificates for each applicable interest accrual period, subsequent to their initial interest accrual period, will be based on the indicated level of LIBOR and (ii) the respective purchase prices of the Inverse Floating Rate Certificates (expressed as percentages of their initial notional amounts) are as follows:

Class	Price*
Class 1-A-3	0.3125%
Class 1-A-7	0.3750%
Class 2-A-2	0.3750%
Class 2-A-8	0.5000%
Class 2-A-14	1.7500%

* These prices do not include accrued interest. Accrued interest has been added to each such price in calculating the yields set forth in the tables below.

Sensitivity of the Class 1-A-3 Certificates to Prepayments and LIBOR
(Pre-Tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
LIBOR	0%	50%	75%	150%	200%
3.75%	793.6%	756.3%	706.9%	543.3%	433.7%
4.25%	418.6%	386.7%	348.4%	220.9%	142.9%
4.75%	141.5%	112.1%	76.5%	(24.6)%	(71.8)%
5.10% and above	**	**	**	**	**

** Less than (99.9)%

Sensitivity of the Class 1-A-7 Certificates to Prepayments and LIBOR
(Pre-Tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
LIBOR	0%	50%	75%	150%	200%
3.75%	402.4%	388.3%	388.2%	371.8%	343.0%
4.25%	179.7%	170.1%	168.9%	135.9%	100.6%
4.75%	12.7%	2.9%	(21.7)%	**	**
4.80% and above	**	**	**	**	**

** Less than (99.9)%

Sensitivity of the Class 2-A-2 Certificates to Prepayments and LIBOR
(Pre-Tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
LIBOR	0%	50%	100%	150%	200%
3.75%	566.0%	538.5%	487.3%	430.2%	367.8%
4.25%	298.5%	276.1%	235.2%	187.4%	136.1%
4.75%	94.5%	76.0%	37.0%	(9.3)%	(51.3)%
5.05% and above	**	**	**	**	**

** Less than (99.9)%

Sensitivity of the Class 2-A-8 Certificates to Prepayments and LIBOR
(Pre-Tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
LIBOR	0%	50%	100%	150%	200%
3.75%	523.7%	482.6%	396.9%	303.4%	214.7%
4.25%	320.4%	284.3%	209.3%	130.2%	60.8%
4.75%	154.2%	121.2%	50.0%	(15.6)%	(65.3)%
5.35% and above	**	**	**	**	**

** Less than (99.9)%

Sensitivity of the Class 2-A-14 Certificates to Prepayments and LIBOR
(Pre-Tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
LIBOR	0%	50%	100%	150%	200%
3.75%	603.5%	561.3%	473.1%	376.7%	283.5%
4.25%	603.5%	561.3%	473.1%	376.7%	283.5%
4.75%	603.5%	561.3%	473.1%	376.7%	283.5%
5.40% and above	**	**	**	**	**

** Less than (99.9)%

It is highly unlikely that all of the mortgage loans in a loan group will have the characteristics assumed or that those mortgage loans will prepay at the same rate until maturity or that all of the mortgage loans in a loan group will prepay at the same rate or time. In addition, there can be no assurance that LIBOR will correspond to the levels shown herein and it is highly unlikely that the level of LIBOR will remain constant. As a result of these factors, the pre-tax yields on the Inverse Floating Rate Certificates are likely to differ from those shown in the tables above, even if all of the mortgage loans in the related loan group prepay at the indicated percentages of the Prepayment Assumption and LIBOR is at the indicated level. No representation is made as to the actual rate of principal payments on the mortgage loans in any loan group, the level of LIBOR for any period or over the lives of the Inverse Floating Rate Certificates or as to the yields on the Inverse Floating Rate Certificates. Investors must make their own decisions as to the appropriate combinations of prepayment assumptions and assumptions regarding the level of LIBOR to be used in deciding whether to purchase the Inverse Floating Rate Certificates.

Sensitivity of the Class 1-X and Class 2-X Certificates

The yields to investors in the Class 1-X and Class 2-X Certificates will be sensitive to the rate of principal payments (including prepayments) on the Non-Discount mortgage loans in the related loan group (particularly those with high net mortgage rates), which generally can be prepaid at any time. On the basis of the structuring assumptions and prices below, the yields to maturity on the Class 1-X and Class 2-X Certificates would be approximately 0% if prepayments of the Non-Discount mortgage loans in the related loan group were to occur at a constant rate of approximately 100% and 104%, respectively, of the Prepayment Assumption. If the actual prepayment rate of the Non-Discount mortgage loans in the related loan group were to exceed the foregoing levels for as little as one month while equaling the levels for the remaining months, the investors in the Class 1-X and Class 2-X Certificates would not fully recoup their initial investments.

As described under *"Description of the Certificates — General,"* the pass-through rates of the Class 1-X and Class 2-X Certificates in effect from time to time are calculated by reference to the net mortgage rates of the Non-Discount mortgage loans in the related loan group. The Non-Discount mortgage loans in the related loan group will have higher net mortgage rates (and higher mortgage rates) than the

other mortgage loans in that loan group. In general, mortgage loans with higher mortgage rates tend to prepay at higher rates than mortgage loans with relatively lower mortgage rates in response to a given change in market interest rates. As a result, the Non-Discount mortgage loans in a loan group may prepay at higher rates, thereby reducing the related pass-through rate and related notional amount of the Class 1-X and Class 2-X Certificates, as applicable.

The information set forth in the following table has been prepared on the basis of the structuring assumptions and on the assumption that the respective purchase prices of the Class 1-X and Class 2-X Certificates (expressed as percentages of their respective initial notional amounts) are as follows:

Class	Price*
Class 1-X	1.670%
Class 2-X	1.863%

* The prices do not include accrued interest. Accrued interest has been added to each such price in calculating the yields set forth in the tables below.

Sensitivity of the Class 1-X Certificates
to Prepayments
(Pre-tax Yields to Maturity)

	Percentage of Prepayment Assumption				
Class	0%	50%	75%	150%	200%
Class 1-X	26.3%	13.7%	7.0%	(14.4)%	(30.2)%

Sensitivity of the Class 2-X Certificates
to Prepayments
(Pre-tax Yields to Maturity)

	Percentage of Prepayment Assumption				
Class	0%	50%	100%	150%	200%
Class 2-X	27.7%	14.9%	1.2%	(13.6)%	(29.7)%

It is unlikely that the Non-Discount mortgage loans in any loan group will have the precise characteristics described in this prospectus supplement or that the Non-Discount mortgage loans in any loan group will all prepay at the same rate until maturity or that all of the Non-Discount mortgage loans in any loan group will prepay at the same rate or time. As a result of these factors, the pre-tax yields on the Class 1-X and Class 2-X Certificates are likely to differ from those shown in the tables above, even if all of the Non-Discount mortgage loans in the related loan group prepay at the indicated percentages of the Prepayment Assumption. No representation is made as to the actual rate of principal payments on the Non-Discount mortgage loans in any loan group for any period or over the lives of the Class 1-X and Class 2-X Certificates or as to the yields on those Certificates. Investors must make their own decisions as to the appropriate prepayment assumptions to be used in deciding whether to purchase the Class 1-X and Class 2-X Certificates.

Sensitivity of the Class PO Certificates

The Class PO Certificates will be "principal only" certificates and will not bear interest. As indicated in the following table, a lower than anticipated rate of principal payments (including prepayments) on the Discount mortgage loans will have a negative effect on the yields to investors in the Class PO Certificates.

As described above under *"Description of the Certificates — Principal"* in this prospectus supplement, each Class PO Principal Distribution Amount is calculated by reference to the principal payments (including prepayments) on the Discount mortgage loans in the related loan group. The Discount mortgage loans in each loan group will have lower net mortgage rates (and lower mortgage rates) than the other mortgage loans in that loan group. In general, mortgage loans with higher mortgage rates tend to prepay at higher rates than mortgage loans with relatively lower mortgage rates in response to a given change in market interest rates. As a result, the Discount mortgage loans in each loan group may prepay at lower rates, thereby reducing the rate of payment of principal and the resulting yield of the Class PO Certificates.

The information set forth in the following table has been prepared on the basis of the structuring assumptions and on the assumption that the purchase price of the Class PO Certificates (expressed as a percentage of its initial Class Certificate Balance) is as follows:

Class	Price
Class PO	66.0%

Sensitivity of the Class PO Certificates to Prepayments
(Pre-tax Yield to Maturity)

	Percentage of the Prepayment Assumption				
Class	0%	50%	75%	150%	200%
Class PO	2.1%	6.9%	10.0%	20.2%	27.6%

It is unlikely that the Discount mortgage loans in any loan group will have the precise characteristics described in this prospectus supplement or that the Discount mortgage loans in any loan group will all prepay at the same rate until maturity or that the Discount mortgage loans will prepay at the same rate or time. As a result of these factors, the pre-tax yield on the Class PO Certificates is likely to differ from those shown in the table above, even if all of the Discount mortgage loans prepay at the indicated percentage of the Prepayment Assumption. No representation is made as to the actual rate of principal payments on the Discount mortgage loans for any period or over the life of the Class PO Certificates or as to the yield on the Class PO Certificates. Investors must make their own decisions as to the appropriate prepayment assumptions to be used in deciding whether to purchase the Class PO Certificates.

Weighted Average Lives of the Offered Certificates

The weighted average life of an offered certificate is determined by (a) multiplying the amount of the net reduction, if any, of the Class Certificate Balance or notional amount, as applicable, of the certificate on each Distribution Date by the number of years from the date of issuance to the Distribution Date, (b) summing the results and (c) dividing the sum by the aggregate amount of the net reductions in Class Certificate Balance or notional amount, as applicable, of the certificate referred to in clause (a).

For a discussion of the factors which may influence the rate of payments (including prepayments) of the mortgage loans, see *"— Prepayment Considerations and Risks"* in this prospectus supplement and *"Yield, Maturity and Prepayment Considerations"* in the prospectus.

In general, the weighted average lives of the offered certificates will be shortened if the level of prepayments of principal of the mortgage loans in the related loan group or loan groups increases. However, the weighted average lives of the offered certificates will depend upon a variety of other factors, including the timing of changes in such rate of principal payments, the priority sequence of distributions of principal of the related classes of certificates and the distribution of the amount available for distribution of principal to the related classes of senior certificates (other than the notional amount certificates and the related Class PO Component) in accordance with the rules governing the priorities of payment among the related classes of senior certificates set forth in this prospectus supplement. See *"Description of the Certificates — Principal"* in this prospectus supplement.

The interaction of the foregoing factors may have different effects on various classes of offered certificates and the effects on any class may vary at different times during the life of the class. Accordingly, no assurance can be given as to the weighted average life of any class of offered certificates. Further, to the extent the prices of the offered certificates represent discounts or premiums to their respective initial Class Certificate Balances or initial notional amounts, as the case may be, variability in the weighted average lives of the classes of offered certificates will result in variability in the related yields to maturity. For an example of how the weighted average lives of the classes of offered certificates may be affected at various constant percentages of the Prepayment Assumption, see the Decrement Tables under the next heading.

Decrement Tables

The following tables indicate the percentages of the initial Class Certificate Balances or initial notional amounts of the classes of offered certificates (other than the Class 1-X and Class 2-X Certificates) that would be outstanding after each of the dates shown at various constant percentages of the Prepayment Assumption and the corresponding weighted average lives of the classes. The tables have been prepared on the basis of the structuring assumptions. It is not likely that the mortgage loans will have the precise characteristics described in this prospectus supplement or that all of the mortgage loans will prepay at the constant percentages of the Prepayment Assumption specified in the tables or at any other constant rate. Moreover, the diverse remaining terms to maturity of the mortgage loans could produce slower or faster principal distributions than indicated in the tables, which have been prepared using the specified constant percentages of the Prepayment Assumption even if the remaining term to maturity of the mortgage loans is consistent with the remaining terms to maturity of the mortgage loans specified in the structuring assumptions.

distributions. Accelerating the amortization of the classes of subordinated certificates with higher distribution priorities relative to the other classes of subordinated certificates is intended to preserve the availability of the subordination provided by the other classes.

For purposes of allocating losses and prepayments to the subordinated certificates, the Class M Certificates will be considered to have a lower numerical class designation and a higher distribution priority than each other class of subordinated certificates.

Credit Enhancement

Subordination

Realized Losses allocable to the senior certificates will be allocated as set forth under *"Description of the Certificates — Allocation of Losses"* in this prospectus supplement.

The rights of the holders of the subordinated certificates to receive distributions with respect to the mortgage loans will be subordinated to the rights of the holders of the senior certificates and the rights of the holders of each class of subordinated certificates (other than the Class M Certificates) to receive the distributions will be further subordinated to the rights of the class or classes of subordinated certificates with higher distribution priorities, in each case only to the extent described in this prospectus supplement. The subordination of the subordinated certificates to the senior certificates, the subordination of the classes of subordinated certificates to the subordination of the classes of subordinated certificates with lower distribution priorities to those with higher distribution priorities is intended to increase the likelihood of receipt, respectively, by the senior certificateholders and the holders of subordinated certificates with higher distribution priorities of the maximum amount to which they are entitled on any Distribution Date and to provide the holders protection against Realized Losses. The applicable Non-PO Percentage of Realized Losses will be allocated to the class of subordinated certificates then outstanding with the lowest distribution priority.

Use of Proceeds

We expect the proceeds to the depositor from the sale of the offered certificates (other than the Class PO and Class X Certificates) to be approximately $2,116,983,769, plus accrued interest, before deducting issuance expenses payable by the depositor. The depositor will apply the net proceeds from the sale of these classes of certificates against the purchase price of the Group 1 Closing Date Mortgage Loans and to fund the Pre-funding Account and Capitalized Interest Account.

Legal Proceedings

There are no legal proceedings against Countrywide Home Loans, the depositor, the trustee, the issuing entity or the master servicer, or to which any of their respective properties are subject, that is material to the certificateholders, nor is the depositor aware of any proceedings of this type contemplated by governmental authorities.

Material Federal Income Tax Consequences

The following discussion and the discussion in the prospectus under the caption "Material Federal Income Tax Consequences" is the opinion of Sidley Austin LLP ("Tax Counsel") on the anticipated material federal income tax consequences of the purchase, ownership, and disposition of the offered certificates. It is based on the current provisions and interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), and the accompanying Treasury regulations and on current judicial and