

due at such time. As a condition to defeasance, all fees and expenses are paid at the substitution of the government securities for the mortgage lien.

Mechanically, the government securities are transferred to a custodian which holds them as collateral for the securitization trust. The payments on the government securities are actually made directly to the trust so that the SPE does not receive any payments or make any payments.

Whether the original mortgage obligation is replaced with a new securitized obligation or the original obligation remains an asset of the trust, is usually dictated by how the transaction is treated for mortgage recording tax purposes under state law. Both call protection and defeasance are intended to protect investors from the risk of prepayments of the loans.

Disclosure

38. In connection with the original issuance of certificates, the prospectus or private placement memorandum will be furnished to investing plans. The prospectus or private placement memorandum will contain information material to a fiduciary's decision to invest in the certificates.²⁵

Reports indicating the amount of payments of principal and interest are provided to certificateholders at least as frequently as distributions are made to certificateholders. Certificateholders will also be provided with periodic information statements setting forth material information concerning the underlying assets, including, where applicable, information as to the amount and number of delinquent and defaulted loans or receivables.

In the case of a trust that offers and sells certificates in a registered public offering, the trustee, the servicer or the sponsor will file periodic reports in the form and to the extent required under the Securities Exchange Act of 1934 and current interpretations thereof.

At or about the time distributions are made to certificateholders, a report will be delivered to the trustee as to the status of the trust and its assets, including underlying obligations. Such report will typically contain information regarding the trust's assets (including those purchased by the trust from any pre-funding account), payments received or collected by the servicer, the amount of prepayments, delinquencies, servicer advances, defaults and foreclosures, the amount of any

payments made pursuant to any credit support, and the amount of compensation payable to the servicer. Such report also will be delivered to or made available to the rating agency or agencies that have rated the trust's certificates.

In addition, promptly after each distribution date, certificateholders will receive a statement prepared by the servicer, paying agent or trustee summarizing information regarding the trust and its assets. Such statement will include information regarding the trust and its assets, including underlying receivables. Such statement will typically contain information regarding payments and prepayments, delinquencies, the remaining amount of the guaranty or other credit support and a breakdown of payments between principal and interest.

Forward Delivery Commitments

39. To date, no forward delivery commitments have been entered into by RBC-DR in connection with the offering of any certificates, but RBC-DR may contemplate entering into such commitments. The utility of forward delivery commitments has been recognized with respect to offering similar certificates backed by pools of residential mortgages, and RBC-DR may find it desirable in the future to enter into such commitments for the purchase of certificates.

Secondary Market Transactions

40. It is the Applicant's normal policy to attempt to make a market for certificates for which it is lead or co-managing underwriter, and it is the Applicant's intention to make a market for any certificates for which the Applicant is a lead or co-managing underwriter, although it will have no obligation to do so. At times the Applicant will facilitate sales by investors who purchase certificates if the Applicant has acted as agent or principal in the original private placement of the certificates and if such investors request the Applicant's assistance.

Retroactive Relief

41. RBC-DR represents that it has not assumed that retroactive relief would be granted prior to the date of its application, and therefore has not engaged in transactions related to mortgage-backed and asset-backed securities based on such an assumption. However, RBC-DR requests the exemptive relief granted to be retroactive to the date of its application, and would like to rely on such retroactive relief for transactions entered

into prior to the date exemptive relief may be granted.

Summary

42. In summary, the Applicant represents that the transactions for which exemptive relief is requested satisfy the statutory criteria of section 408(a) of the Act due to the following:

(a) The Issuers contain "fixed pools" of assets. There is little discretion on the part of the sponsor to substitute receivables contained in the Issuer once the Issuer has been formed;

(b) In the case where a pre-funding account is used, the characteristics of the receivables to be transferred to the Issuer during the pre-funding period must be substantially similar to the characteristics of those transferred to the Issuer on the closing date thereby giving the sponsor and/or originator little discretion over the selection process, and compliance with this requirement will be assured by the specificity of the characteristics and monitoring mechanisms contemplated under the exemptive relief proposed. In addition, certain cash accounts will be established to support the certificate interest rate and such cash accounts will be invested in short-term, conservative investments; the pre-funding period will be of a reasonably short duration; a pre-funding limit will be imposed; and any Internal Revenue Service requirements with respect to pre-funding intended to preserve the passive income character of the Issuer will be met. Thus, the fiduciary of the plans making the decision to invest in securities will be fully apprised of the nature of the receivables which will be held in the Issuer and will have sufficient information to make a prudent investment decision;

(c) Securities for which exemptive relief is requested will have been rated in one of the three highest rating categories (or four in the case of Designated Transactions) by a rating agency. The rating agency, in assigning a rating to such securities, will take into account the fact that Issuers may hold interest rate swaps or yield supplement agreements with notional principal amounts or, in Designated Transactions, securities may be issued by Issuers holding residential and home equity loans with LTV ratios in excess of 100%. Credit support will be obtained to the extent necessary to attain the desired rating;

(d) Securities will be issued by Issuers whose assets will be protected from the claims of the sponsor's creditors in the event of bankruptcy or other insolvency of the sponsor, and both equity and debt securityholders will have a beneficial or

²⁵ See the Proposal to PTE 2000-58 (August 23, 2000, 65 FR 51454, at page 51486) for a description of types of disclosure.