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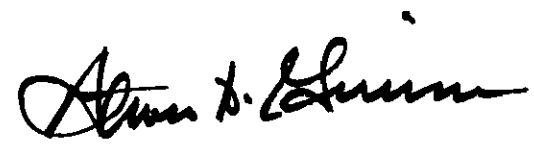

CLERK OF THE COURT

AD
CATHERINE CORTEZ MASTO
Attorney General
SHERI ANN FORBES
Senior Deputy Attorney General
Nevada Bar No. 7337
KRISTINE KUZEMKA
Senior Deputy Attorney General
Nevada Bar No. 8836
555 E. Washington Avenue, #3900
Las Vegas, Nevada 89101
702-486-3085 / 702-486-3283 (fax)
E-mail: sforbes@ag.nv.gov; kkuzemka@ag.nv.gov
Attorneys for State of Nevada

DISTRICT COURT

CLARK COUNTY, NEVADA

IN THE MATTER OF:	)	A-12-670573-B
	)	Case No.:
RBS FINANCIAL PRODUCTS INC.	)	Dept No.: XI
	)	
Respondent	)	**BUSINESS COURT REQUESTED**
	)	**ARBITRATION EXEMPTION**-Action in Equity

ASSURANCE OF DISCONTINUANCE

The Office of the Attorney General herein submits the attached Assurance of Discontinuance, pursuant to NRS 598.0995, entered into between the STATE OF NEVADA, acting through Attorney General Catherine Cortez Masto, Senior Deputy Attorney General Sheri Ann Forbes, and Senior Deputy Attorney General Kristine Kuzemka, and RBS FINANCIAL PRODUCTS INC., acting through its counsel, Gary Goodheart of the law firm Fennemore Craig Jones Vargas.

DATED this 23rd day of October, 2012.

CATHERINE CORTEZ MASTO
Attorney General

/s/ Sheri Ann Forbes
Sheri Ann Forbes (7337)
Senior Deputy Attorney General
Kristine Kuzemka (8836)
Senior Deputy Attorney General
555 E. Washington Avenue, #3900
Las Vegas, Nevada 89101
Attorneys for State of Nevada

RBS Financial Products Inc.

/s/ Gary Goodheart
GARY GOODHEART (1203)
Fennemore Craig Jones Vargas
300 S. Fourth Street, Suite 1400
Las Vegas, Nevada 89101
Attorney for Respondent

ASSURANCE OF DISCONTINUANCE

This Assurance of Discontinuance ("Assurance"), by and between the State of Nevada and RBS Financial Products Inc. ("RBSFP"), is entered into under Nev. Rev. Stat. Chapter 598 et seq. as of this 22nd day of October, 2012 ("Effective Date"). State of Nevada, ex rel. Catherine Cortez Masto, Attorney General and RBSFP hereby agree to the following:

PARTIES

1. State of Nevada, ex rel. Catherine Cortez Masto, Attorney General, 555 East Washington Ave. # 3900, Las Vegas, NV 89101.

2. RBS Financial Products Inc., 600 Washington Boulevard, Stamford, CT 06901 (formerly Greenwich Capital Financial Products Inc.).

STIPULATION

3. The Nevada Attorney General initiated a confidential investigation into RBSFP's residential mortgage acquisition and securitization business, particularly its acquisition and securitization of subprime and payment option adjustable rate mortgage ("Option ARM") loans originated by Countrywide Home Loans, Inc. ("Countrywide") and Option One Mortgage Corporation ("Option One"). From 2004 to 2007, RBSFP provided credit to certain originators of subprime and Option ARM loans and purchased and sold in securitizations subprime and Option ARM loans, including those originated by Countrywide and Option One.

4. The Nevada Attorney General's investigation centered upon potential misrepresentations by loan originators to Nevada consumers who took out subprime and Option ARM loans that were bought and securitized by RBSFP, including: whether loan originators misrepresented the applicable interest rate and loan payments; whether loan originators used inflated appraisals to support loans; and whether loan originators failed to disclose the potential payment shock when the initial teaser rate expired. In addition, the investigation examined whether lenders originated loans with layered risk that lowered borrowers' monthly payments, but did not lower their debt. These layered risks included loans that were adjustable rate, stated income, 100% financed, had extended amortization periods, included prepayment penalties, and/or qualified borrowers at the initial teaser rate, not the adjusted rate that would be in effect for most of the loan's term. The Nevada Attorney General was concerned that many borrowers who took out these loans did not understand the likelihood that they would not be able to repay their loans or that they would have to refinance the loan in the short term, before the payment increased.

5. The Nevada Attorney General also examined the extent to which RBSFP was aware of these subprime and Option ARM lenders' allegedly deceptive practices through its due diligence process and whether RBSFP substantially assisted these lenders by financing and purchasing

their loans. The Nevada Attorney General particularly examined RBSFP's role in the securitization market for Option ARMs.

6. This Assurance sets forth a framework through which RBSFP will address the subject of the Nevada Attorney General's investigation. RBSFP will provide a payment of $36,125,000 to be used, at the State's discretion, to fund relief to be distributed to borrowers, for mortgage, foreclosure and housing related assistance and enforcement. RBSFP also will pay the costs of the State's investigation.

7. RBSFP will pay the costs of a settlement administrator, up to an agreed-upon amount, to manage two distributions of payments to borrowers. RBSFP will select the settlement administrator, subject to the State's approval. From time to time, for twelve months after the Effective Date or until the completion of the relief distribution if sooner, RBSFP will provide information to the State identifying loans that meet selected criteria, including names, property addresses, servicers, and standard loan characteristics, as requested by the State to the extent such information is maintained by RBSFP or can be generated with reasonable effort. RBSFP will have no further reporting obligations under this settlement.

8. RBSFP enters into this agreement solely to resolve the Nevada Attorney General's investigation and neither admits nor denies any wrongdoing. This Assurance is made without any trial or adjudication or finding of any issue of fact or law.

DEFINITIONS

9. ***Usage.*** The following rules apply to the construction of this Assurance:

   a. the singular includes the plural and the plural includes the singular;

   b. "include" and "including" are not limiting;

   c. the headings of the Sections and subsections are for convenience and shall not constitute a part of this Assurance, and shall not affect the meaning, construction, or effect of the applicable provisions of this Assurance;

   d. words such as "hereunder," "hereto," "hereof," and "herein" and other words of like import shall, unless the context clearly indicates to the contrary, refer to the whole of this Assurance and not to any particular Section, subsection or clause.

10. ***Defined Terms.*** The following italicized terms shall have the following meanings in this Assurance unless otherwise required by the context or definition:

    a. *Adjustable rate mortgage ("ARM")*: a mortgage in which the rate of interest is subject to change. When such a change occurs, the monthly payment is adjusted or reset to reflect a new interest rate

    b. *Countrywide Home Loans, Inc. ("Countrywide")*: one of the largest mortgage lenders that originated prime, subprime and Option ARM loans in Nevada and across the

country. A significant percentage of Countrywide's loans in Nevada were Option ARMs with initial teaser rates and other risk factors.

c. *Extended amortization*: a loan whose monthly payments are calculated based on a longer repayment term than the mortgage itself. For example, an extended amortization period of forty (40) years would lower a borrower's monthly payments by allowing the borrower to make payments as if the loan term was forty (40) years, even if the loan's term was thirty (30) years.

d. *Initial teaser rate*: the interest rate initially set on an ARM and advertised in the origination process. The initial interest rate is in effect for a limited period of time and then resets to an index plus a margin value that is potentially much higher than the initial rate.

e. *Option One Mortgage Company ("Option One")*: one of the largest subprime mortgage lenders that made loans in Nevada and across the country. A significant percentage of Option One's subprime loans were ARMs with initial teaser rates and other risk factors.

f. *Payment option adjustable rate mortgage loans ("Option ARM")*: U.S. primary residence mortgage loans financed, purchased in bulk and/or securitized by RBSFP that have a low initial teaser rate, and thereafter have a mortgage interest rate that adjusts periodically based on related index; however, the borrower is only required to make a monthly payment which may not be sufficient to pay the monthly interest accrued, resulting in negative amortization due to the increase in the principal balance of the mortgage loan by the amount of the unpaid interest.

g. *Reasonable Review*: the examination of a sample of loans to be financed or purchased that is adequate to allow RBSFP to evaluate the characteristics (including loan terms and payment histories related to prior mortgage indebtedness, if available, and information concerning the reasonableness of a borrower's stated income) and legal compliance of the population of loans with Nevada law and this Assurance.

h. *Recast*: the point in time when the amortization schedule for an Option ARM is recalculated so that, based on the remaining principal balance and the fully indexed interest rate at the time, the future payments will amortize the mortgage over its remaining term and the borrower no longer may elect a less than fully amortizing payment.

i. *Reset*: the point in time when the initial interest rate on an ARM changes.

j. *Securitize*: refers to the process of pooling, in this instance, mortgage loans, into securities backed by those loans to be sold to investors.

k. *Subprime mortgage loans*: U.S. primary residence mortgage loans financed, purchased in bulk and/or securitized by RBSFP. For purposes of this Assurance, "subprime" will be defined as a qualifying FICO score of 660 or lower at the time of origination.

PROSPECTIVE CONDUCT PROVISIONS

11. To the extent that RBSFP purchases, securitizes, or finances Subprime or Option ARM mortgage loans originated after the Effective Date of this Assurance, RBSFP agrees that it will only finance or purchase such Subprime or Option ARM mortgage loans secured by Nevada properties from the originating lender if RBSFP has engaged in Reasonable Review and determined, based on that review, that it has a reasonable basis to believe such reviewed loans are in compliance with (and not deceptive within the meaning of) NRS § 598 et seq. Reasonable Review and compliance with Nevada law requires that RBSFP not finance or purchase Subprime or Option ARM loans from the originating lender originated after the Effective Date of this Assurance with respect to which:

    a. it has reasonable grounds to believe that the lenders have not disclosed the existence of an initial teaser rate and/or the potential for negative amortization on the loan if only minimum payments are made, the potential maximum cost of the adjusted interest rate and/or negative amortization, the potential maximum payments that could be due through the term of the mortgage loan, and the potential for payment shock if payments increase after a loan reset and/or loan recast; or

    b. it determines that the borrower's stated income in a stated income loan product was unreasonable based on prudent lending standards and that the borrower would not have qualified for the loan under the lender's guidelines but for the overstatement.

12. The restrictions set forth in paragraph 11 shall not apply to (a) re-securitizations of RMBS; (b) securitizations of mortgage loans acquired from or owned by lenders, banks, or other financial institutions that are in state or federal receivership, conservatorship, or other comparable oversight; or (c) purchases, securitizations, or financing of mortgage loans seasoned for at least 180 days.

PAYMENTS TO THE NEVADA ATTORNEY GENERAL

13. Within fifteen (15) days of the Effective Date, RBSFP will pay $42,500,000 to the State of Nevada for the purposes described in paragraph six of this AOD.

ENFORCEMENT

14. RBSFP is responsible to the State of Nevada for performance of all of its undertakings in this Assurance.

15. Nothing in this Assurance shall be construed as authorizing any person or entity other than the State of Nevada, acting through its Attorney General, to enforce or seek remedies under this Assurance or as a result of this Assurance or a breach thereof.

16. This Court shall retain jurisdiction over this matter for the purpose of: (a) enabling the Nevada Attorney General to apply, at any time, for enforcement of any provision of this Assurance; (b) enabling any party to this Assurance to apply, upon giving thirty (30) days written notice to all other parties, for such further orders and directions as might be necessary

or appropriate either for the construction or carrying out of this Assurance; and (c) for the purpose of administering this Assurance, enabling any party to this Assurance to request information from a party or third party, with notice to counsel for the parties and subject to the parties' and any third parties' right to object and to move to quash.

RELEASES

17. Effective upon receipt of the payment specified in paragraph 13, the State releases and discharges any and all claims, known or unknown, by the State of Nevada against RBSFP and all parents, subsidiaries, affiliates, assigns, predecessors, and successors (including any purchasers of all or substantially all of the assets of RBSFP or its parents, subsidiaries, or affiliates as to the purchased assets), and any of their current or former directors, officers, and employees (the "RBSFP releasees"), relating to or concerning residential mortgages financed, purchased and/or securitized by any of the RBSFP releasees through the Effective Date of the Assurance. The release encompasses any and all potential claims related to the offer or sale of residential mortgage backed securities by the RBSFP releasees. The release does not cover any claims related to potential manipulation of LIBOR rates by RBS. The State will not solicit or require borrowers to release any potential claims against RBSFP as a condition of or in exchange for payments pursuant to this settlement.

18. In the event of a subsequent settlement between any of the RBSFP releasees and other state or federal government entities covering any of the activities subject to the release set forth in paragraph 17 above, the State agrees to provide dollar for dollar credit for this settlement against the proportional share of any settlement amounts allocated to the State and to accept only that amount (if any) that exceeds $42.5 million.

19. The costs and fees of the investigation are fully satisfied by RBSFP's payment to the Nevada Attorney General's Office. The State releases RBSFP from any claim relating to the costs and fees of the investigation.

20. This Assurance is not intended to indicate that RBSFP or the RBSFP releasees shall be subject to any disqualifications contained in the federal securities laws, the rules and regulations thereunder, the rules and regulations of self-regulatory organizations or various states' securities laws, including any disqualifications from relying upon registration exemptions or safe harbor provisions. In addition, this Assurance is not intended to form the basis for any such disqualifications.

MISCELLANEOUS PROVISIONS

21. *Submission to Jurisdiction for Limited Purpose.* RBSFP submits to the jurisdiction of the court in the State of Nevada for the limited purpose of entering into and enforcing this Assurance only. Any acts, conduct or appearance by RBSFP does not constitute and shall not be construed as a submission to the general jurisdiction of any court in the State of Nevada for any purpose whatsoever.

22. *Jurisdiction; Choice of Law; Venue.* The Assurance shall be construed and enforced in

accordance with the laws of the State of Nevada. In any action or dispute relating to this Assurance, the jurisdiction and venue shall be in the District Court of the State of Nevada.

23. *Voluntary Agreement.* This Assurance is entered into voluntarily and no promises, other than what is contained in this Assurance, or threats have been made by the Nevada Attorney General's Office or any member thereof to induce RBSFP to enter into this Assurance.

24. *No Third Party Beneficiaries Intended.* This Assurance is not intended to confer upon any person any rights or remedies, including rights as a third party beneficiary. This Assurance is not intended to create a private right of action on the part of any person or entity other than the parties hereto.

25. *Service of Notices.* Service of notices or reports required or permitted by this Assurance or its enforcement shall be in writing and delivered on the following persons, or any person subsequently designated by the parties:

For RBSFP:

James M. Esposito, Esq.
RBS Financial Products Inc.
600 Washington Boulevard
Stamford, CT 06901

For the Nevada Attorney General:

Chief Deputy Attorney General Ernest Figueroa
Office of the Attorney General
100 North Carson Street
Carson City, NV 89701

Any party may change the designated person and address for delivery with respect to itself by giving notice to the other parties as specified herein.

26. *Waiver.* The failure of any party to exercise any rights under this Assurance shall not be deemed a waiver of any right.

27. *Severability.* If any part hereof shall for any reason be found or held invalid or unenforceable by any court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder hereof, which shall survive and be construed as if such invalid or unenforceable part had not been contained herein.

28. *Counterparts.* This Assurance may be signed in one or more counterparts, each of which shall be deemed an original. Facsimile or electronic copies of this Assurance and the signatures hereto may be used with the same force and effect as an original.

29. *Inurement.* This Assurance is binding and inures to the benefit of the parties hereto and their respective predecessors, successors and assigns.

30. *Integration.* This Assurance constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter thereof.

31. *Amendment.* This Assurance may be amended solely by written agreement signed by the Nevada Attorney General and RBSFP.

32. *Authority.* RBSFP and the State of Nevada each represents and warrants that it has the full legal power, authority, and capacity to enter into and perform this Assurance and, as to RBSFP, will coordinate with its affiliates involved in its mortgage financing and securitization business as necessary to ensure such performance.

RBS Financial Products Inc.
By: James M. Esposito
Title: General Counsel / Managing Director
Date: Oct. 22, 2012

Nevada Attorney General
By: Ernest Figueroa
Title: Chief Deputy Attorney General
Date: 10-22-12