# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarter ended March 31, 2003**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

# MERIT SECURITIES CORPORATION
**(Exact name of registrant as specified in its charter)**

**Commission file number 33-83524**

| | |
|---|---|
| **Virginia**<br>(State or other jurisdiction of incorporation or organization) | **54-1736551**<br>(I.R.S. Employer Identification No.) |
| **4551 Cox Road, Suite 300, Glen Allen, Virginia**<br>(Address of principal executive offices) | **23060**<br>(Zip Code) |

**(804) 217-5800**
(Registrant's telephone number, including area code)

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days.**
☑ **Yes** ☐ **No**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
☐ **Yes** ☑ **No**

As of May 10, 2003, the latest practicable date, there were 1,000 shares of Merit Securities Corporation common stock outstanding.

The registrant meets the conditions set forth in General Instructions H (1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

MERIT SECURITIES CORPORATION
FORM 10-Q
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**MERIT SECURITIES CORPORATION**
(*amounts in thousands except share data*)

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| ASSETS: | | |
| Collateral for collateralized bonds: | | |
| Loans | $ 954,426 | $ 1,017,446 |
| Debt securities, available-for-sale | 305,096 | 323,791 |
| Other loans | 5,786 | 6,505 |
| Asset-backed Securities, held-to-maturity | 1,386 | 1,644 |
| Due from affiliates, net | 18,233 | 11,507 |
| | $ 1,284,927 | $ 1,360,893 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| LIABILITIES: | | |
| Non-recourse debt – collateralized bonds | $ 1,220,231 | $ 1,299,113 |
| SHAREHOLDER'S EQUITY: | | |
| Common stock, no par value, 10,000 shares authorized, 1,000 shares issued and outstanding | 10 | 10 |
| Additional paid-in capital | 68,674 | 68,674 |
| Accumulated other comprehensive income | 464 | (134) |
| Retained earnings | (4,452) | (6,770) |
| | 64,696 | 61,780 |
| | $ 1,284,927 | $ 1,360,893 |

*See notes to unaudited condensed financial statements.*

**MERIT SECURITIES CORPORATION**
**Condensed Consolidated Statements of Operations, Unaudited**
(*amounts in thousands*)

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 |
|---|---|---|
| Interest income: | | |
| Collateral for collateralized bonds | $ 22,190 | $ 26,815 |
| Other loans | 38 | – |
| Asset-backed securities, held-to-maturity | 62 | – |
| | 22,290 | 26,815 |
| Interest and related expense: | | |
| Interest expense on collateralized bonds | 13,353 | 16,869 |
| Other collateralized bond expense | 234 | 435 |
| | 13,587 | 17,304 |
| Net interest margin before provision for losses | 8,703 | 9,511 |
| Provision for losses | (5,003) | (5,877) |
| Net margin | 3,700 | 3,634 |
| Impairment charges | (1,382) | (1,961) |
| Net income | 2,318 | 1,673 |
| Other comprehensive income | 464 | 108 |
| Comprehensive Income | $ 2,782 | $ 1,781 |

*See notes to unaudited condensed financial statements.*

**MERIT SECURITIES CORPORATION**
**Condensed Consolidated Statements of Cash Flows, Unaudited**
(*amounts in thousands*)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Operating activities: | | |
| Net income | $ 2,318 | $ 1,673 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairment charges | 1,382 | 1,961 |
| Provision for losses | 5,003 | 5,877 |
| Amortization, net | 1,018 | 2,903 |
| Other | 909 | 1,073 |
| Net cash provided by operating activities | 10,630 | 13,487 |
| Investing activities: | | |
| Principal payments on collateral | 76,070 | 145,578 |
| Net cash provided by investing activities | 76,070 | 145,578 |
| Financing activities: | | |
| Principal payments on collateralized bonds | (79,666) | (148,325) |
| Payments to affiliates | (7,034) | 582 |
| Dividends and capital distributions | – | (11,322) |
| Net cash used in financing activities | (86,700) | (159,065) |
| Net decrease in cash | – | – |
| Cash, beginning of period | – | – |
| Cash, end of period | $ – | $ – |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 13,181 | $ 16,256 |

*See notes to unaudited condensed consolidated financial statements.*

**MERIT SECURITIES CORPORATION**
**Notes to Unaudited Condensed Consolidated Financial Statements**
March 31, 2003
*(amounts in thousands except share data)*

## NOTE 1 — BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the United States of America, hereinafter referred to as "generally accepted accounting principles" for complete financial statements. The financial statements include the accounts of Merit Securities Corporation (the "Company") and its wholly owned subsidiary, Financial Asset Securitization, Inc. ("FASI"), which was purchased from Dynex Capital, Inc. ("Dynex"), its parent, on March 31, 2002. The Company is a wholly owned, limited-purpose finance subsidiary of Issuer Holding Corporation ("IHC"). IHC was formed on September 4, 1996 to acquire all of the outstanding stock of the Company and certain other affiliates of Dynex. IHC is a wholly owned subsidiary of Dynex. Dynex has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes under the Internal Revenue Code of 1986. Accordingly, the Company is not subject to federal income tax. The Company was organized to facilitate the securitization of loans through the issuance and sale of collateralized bonds (the "Bonds"). All inter-company balances and transactions have been eliminated in the consolidation of the Company.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the financial statements have been included. The Condensed Consolidated Balance Sheet at March 31, 2003 and December 31, 2002, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2003 and 2002, the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2003 and 2002, and the related notes to condensed consolidated financial statements are unaudited. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Certain amounts for 2002 have been reclassified to conform to the presentation for 2003.

## NOTE 2 — COLLATERAL FOR COLLATERALIZED BONDS

Collateral for collateralized bonds consists of loans and debt securities backed primarily by adjustable-rate and fixed-rate mortgage loans secured by first liens on single family residential housing and manufactured housing installment loans secured by a UCC filing. All collateral for collateralized bonds is pledged to secure repayment of the related collateralized bonds. All principal and interest (less servicing-related fees) on the collateral is remitted to a trustee and is available for payment on the collateralized bonds. The Company's exposure to loss on collateral for collateralized bonds is generally limited to the amount of collateral pledged in excess of the related collateralized bonds issued, as the collateralized bonds issued are non-recourse to the Company. The collateral for collateralized bonds can be sold by the Company, but only subject to the lien of the collateralized bond indenture.

The Company has classified all of its debt securities included within collateral for collateralized bonds as available-for-sale. As such, debt securities included within collateral for collateralized bonds at March 31, 2003 and December 31, 2002 are reported at fair value, with unrealized gains and losses excluded from earnings and reported as accumulated other comprehensive income. Loans included within collateral for collateralized bonds are reported at amortized cost.

The following table summarizes the components of collateral for collateralized bonds as of March 31, 2003 and December 31, 2002:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Loans, at amortized cost | $ 975,377 | $ 1,038,146 |
| Allowance for loan losses | (20,951) | (20,700) |
| | 954,426 | 1,017,446 |
| Debt Securities, at fair value | 305,096 | 323,791 |
| | $ 1,259,522 | $ 1,341,237 |

The following table summarizes the amortized cost basis, gross unrealized gains and losses and estimated fair value of debt securities pledged as collateral for collateralized bonds as of March 31, 2003 and December 31, 2002:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Debt securities, at amortized cost | $ 304,482 | $ 323,728 |
| Gross unrealized gains | 614 | 63 |
| Estimated fair value | $ 305,096 | $ 323,791 |

**NOTE 3 — DUE FROM AFFILIATES, NET**

Cash flows generated by operations are loaned by the Company to its parent and interest is charged to the parent at the Prime rate.

**NOTE 4 — FAIR VALUE**

Securities classified as available-for-sale are carried in the accompanying financial statements at estimated fair value. The Company uses estimates in establishing fair value for its available-for-sale securities. Estimates of fair value for securities may be based on market prices provided by certain dealers. Estimates of fair value for certain other securities are determined by calculating the present value of the projected cash flows of the instruments using market-based discount rates, prepayment rates and credit loss assumptions. The estimate of fair value for securities pledged as collateral for collateralized bonds is determined by calculating the present value of the projected cash flows of the instruments using prepayment rate assumptions and credit loss assumptions based on historical experience and estimated future activity, and using discount rates commensurate with those believed would be used by third parties. Such discount rate used in the determination of fair value of securities pledged as collateral for collateralized bonds was 16% at March 31, 2003 and December 31, 2002. Prepayment rate assumptions at March 31, 2003, and December 31, 2002, were generally at a “constant prepayment rate,” or CPR ranging from 30%-45% for both 2003 and 2002, for collateral for collateralized bonds consisting of securities backed by single-family mortgage loans, and a CPR equivalent of 8% for 2003 and 11% for 2002 for collateral for collateralized bonds consisting of securities backed by manufactured housing loans. CPR assumptions for each year are based in part on the actual prepayment rates experienced for the prior six-month period and in part on management’s estimate of future prepayment activity. The loss assumptions utilized vary depending on the collateral pledged.

Estimates of fair value for other financial instruments are based primarily on management’s judgment. Since the fair value of the Company’s financial instruments is based on estimates, actual gains and losses recognized may differ from those estimates recorded in the consolidated financial statements.

**NOTE 5 — ALLOWANCE FOR LOAN LOSSES**

The following table summarizes the activity for the allowance for loan losses on loans within collateral for collateralized bonds for the three months ended March 31, 2003 and March 31, 2002:

| | 2003 | 2002 |
|---|---|---|
| Beginning balance | $ 20,700 | $ 15,364 |
| Provision for losses | 5,003 | 5,877 |
| Losses charged-off, net of recoveries | (4,752) | (4,882) |
| Ending balance | $ 20,951 | $ 16,359 |

The Company has limited exposure to credit risk retained on loans, which it has securitized through the issuance of collateralized bonds. The aggregate loss exposure is generally limited to the amount of collateral in excess of the related investment-grade collateralized bonds issued (commonly referred to as "overcollateralization"), excluding price premiums and discounts and hedge gains and losses. The allowance for loan losses is included in loans within collateral for collateralized bonds in the accompanying balance sheets.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Company was organized to facilitate the securitization of loans through the issuance and sale of collateralized bonds (the "Bonds"). The Bonds will be secured primarily by: (i) mortgage loans secured by first or second liens on residential property, (ii) Federal National Mortgage Association Mortgage-Backed Certificates, (iii) Federal Home Loan Mortgage Corporation Mortgage-Backed Certificates, (iv) Government National Mortgage Association Mortgage-Backed Certificates, (v) other mortgage pass-through certificates or mortgage-collateralized obligations and (vi) consumer installment loans (collectively, the "Collateral"). In the future, the Company may also securitize other types of loans.

After payment of the expenses of an offering and certain administrative expenses, the net proceeds from an offering of Bonds will be used to purchase Collateral from IHC or various third parties. IHC can be expected to use the proceeds from the collateral to reduce indebtedness incurred to obtain such loans or to acquire additional Collateral. After the issuance of a series of Bonds, the Company may sell the Collateral securing that series of Bonds, subject to the lien of the Bonds.

**FINANCIAL CONDITION**

| *(amounts in thousands except series outstanding)* | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Collateral for collateralized bonds | $ 1,259,522 | $ 1,341,237 |
| Other loans | 5,786 | 6,505 |
| Asset-backed Securities | 1,386 | 1,644 |
| Non-recourse debt collateralized bonds | 1,220,231 | 1,299,113 |
| Shareholder's equity | 64,696 | 61,780 |
| Collateralized bond series outstanding | 4 | 4 |

**Collateral for collateralized bonds**

As of both March 31, 2003 and December 31, 2002, the Company had 4 series of collateralized bonds outstanding. The collateral for collateralized bonds decreased to $1.26 billion at March 31, 2003 compared to $1.34 billion at December 31, 2002. This decrease of $81.7 million is the result of $75.0 million in paydowns on the collateral, $5.0 million of increased provisions for loan losses, and $1.5 million of impairment losses on securities.

**Other loans**

Other loans decreased to $5.8 million at March 31, 2003 from $6.5 million at December 31, 2002. Other loans is composed of non-performing loans not included in the securitization completed in April 2002 which were reclassified to Other loans from collateral for collateralized bonds. This decrease resulted from paydowns on the loans of $0.7 million.

**Asset-backed Securities**

Asset-backed securities decreased to $1.4 million at March 31, 2003, compared to $1.6 million at December 31, 2002, as a result of principal payments of $0.3 million during the year partially offset by $0.1 million in discount amortization and accrued interest.

**Non-recourse debt - collateralized bonds**

Collateralized bonds decreased to $1.22 billion at March 31, 2003 from $1.30 billion at December 31, 2002. This decrease of $78.9 million is the result of $79.7 million in paydowns offset by $0.9 million of amortization of premium and discounts during the three months ended March 31, 2003.

**Shareholder's Equity**

Shareholder's equity increased to $64.7 million at March 31, 2003 from $61.8 million at December 31, 2002. This increase was primarily the result of net income of $2.3 million during the three months ended March 31, 2003 and an increase in accumulated other comprehensive income of $0.6 million.

## RESULTS OF OPERATIONS

| | Three Months Ended March 31, | |
|---|---|---|
| *(amounts in thousands)* | 2003 | 2002 |
| Interest income | $ 22,290 | $ 26,815 |
| Interest expense | 13,587 | 17,304 |
| Provision for losses | 5,003 | 5,877 |
| Net interest margin | 3,700 | 3,634 |
| Impairment charges | 1,382 | 1,961 |
| Net income | 2,318 | 1,673 |

Interest income decreased to $22.3 million for the three months ended March 31, 2003 from $26.8 million for the same period in 2002. This decrease was primarily a result of paydowns of interest earning assets from $1.5 billion at March 31, 2002 to $1.3 billion at March 31, 2003 and lower interest rates between the respective periods.

Interest and other expense decreased to $13.6 million for the three months ended March 31, 2003 from $17.3 million for the three months ended March 31, 2002. This decrease resulted from the decline in collateralized bonds due to prepayments on the related assets and normal scheduled bond paydowns as well as a decrease in interest rates during the period.

Provision for losses decreased to $5.0 million for the three months ended March 31, 2003 from $5.9 million for the same period in 2002due to lower expected losses resulting from lower principal balances.

Net interest margin for the three months ended March 31, 2003 was $3.7 million compared to $3.6 million for the same period in 2002. This increase for the three months ended March 31, 2003 was the result of an decrease in provision for losses coupled with reduced borrowing costs on collateralized bonds outstanding, offset by a decline in interest earning assets.

Impairment charges decreased to $1.4 million for the three months ended March 31, 2003 from $2.0 million for the same period in 2002. Credit losses experienced by one security have decreased due to lower principal balances.

**Credit Exposures**

With collateralized bond structures, the Company retains credit risk relative to the amount of overcollateralization required in conjunction with the bond issuance. Losses are generally first applied to the overcollateralized amount, or in some instances surplus cash and then the overcollaterialized amount, with any losses in excess of that amount borne by the bond insurer or the holders of the collateralized bonds. The Company only incurs credit losses to the extent that losses are incurred in the repossession, foreclosure and sale of the underlying collateral. Such losses generally equal the excess of the principal amount outstanding, less any proceeds from mortgage or hazard insurance, over the liquidation value of the collateral. To compensate the Company for retaining this loss exposure, the Company generally receives an excess yield on the collateralized loans relative to the yield on the collateralized bonds. At March 31, 2003, the Company retained $92.1 million in aggregate principal amount of overcollateralization compared to $93.6 million at December 31, 2002. The Company had reserves, or otherwise had provided coverage on $21.0 million at March 31, 2003. During the first three months of 2003, the Company provided for additional reserves of $5.0 million and incurred credit losses of $4.7 million.

Other forms of credit enhancement that benefit the Company, based upon the performance of the underlying loans, may provide additional protection against losses. These additional protections include loss reimbursement guarantees with a remaining balance of $30.2 and a remaining deductible aggregating $1.3 million on $72.1 million of securitized single family mortgage loans which are subject to such reimbursement agreements and $241.4 million of securitized single family mortgage loans which are subject to various mortgage pool insurance policies whereby losses would need to exceed the remaining stop loss of at least 53% on such policies before the Company would incur losses.

**Other Matters**

At March 31, 2003, the Company had securities of approximately $308.6 million remaining for issuance under a registration statement filed with the Securities and Exchange Commission. The Company anticipates issuing additional Bonds in the future.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management extends beyond derivatives to include all market risk sensitive financial instruments. Net interest income comprises the primary component of the Company's earnings. Additionally, cash flow from the investment portfolio represents the primary component of the Company's incoming cash flow. The Company is subject to risk resulting from interest rate fluctuations to the extent that there is a gap between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that are prepaid, mature or re-price within specified periods. The Company's strategy has been to mitigate interest rate risk through the creation of a diversified investment portfolio that generates stable income and cash flow in a variety of interest rate and prepayment environments.

The Company and IHC monitor the aggregate cash flow, projected net yield and market value of the collateral for collateralized bonds under various interest rate and prepayment assumptions. While certain investments may perform poorly in an increasing or decreasing interest rate environment, other investments may perform well, and others may not be impacted at all.

The Company focuses on the sensitivity of its cash flow, and measures such sensitivity to changes in interest rates. Changes in interest rates are defined as interest rate movements in 100 basis point and 200 basis point ratable increments, both up and down, over the ensuing twelve months from the measurement date. The Company estimates its net interest margin cash flow for the next twenty-four months assuming that interest rates over such time period follow the forward LIBOR curve (based on the 90-day Eurodollar futures contract) as of period end. Once the base case has been estimated, cash flows are projected for each of the defined interest rate scenarios. Those scenario results are then compared against the base case to determine the estimated change to cash flow.

The following table summarizes the Company's net interest margin cash flow sensitivity analysis as of March 31, 2003. This analysis represents management's estimate of the percentage change in net interest margin cash flow given a shift in interest rates. The "Base" case represents the interest rate environment as it existed as of March 31, 2003. As of March 31, 2003, one-month LIBOR was 1.30% and six-month LIBOR was 1.23%. The analysis is heavily dependent upon the assumptions used in the model. Prepayment rate assumptions used were estimates and were generally at a "constant prepayment rate", or CPR, ranging from 30% to 70% for collateral for collateralized bonds consisting of single-family mortgage loans and securities, and a CPR equivalent ranging from 7% to 8% for collateral for collateralized bonds consisting of manufactured housing loans and securities.

The effect of changes in future interest rates, the shape of the yield curve or the mix of assets and liabilities may cause actual results to differ from the modeled results. In addition, certain financial instruments provide a degree of "optionality." The most significant option affecting the Company's portfolio is the borrower's option to prepay the loans. The model applies prepayment rate assumptions representing management's estimate of prepayment activity on a projected basis for each collateral pool in the investment portfolio. The model applies the same prepayment rate assumptions for all five cases indicated below. Given the current composition and performance of the investment portfolio, and the limitation to estimating twenty-four months of net interest margin cash flows, variations in prepayment rate assumptions are not expected to have a material impact on the net interest margin cash flows. Projected results assume no additions or subtractions to the Company's portfolio, and no change to the Company's liability structure. Historically, there have been significant changes in the Company's assets and liabilities, and there are likely to be such changes in the future.

| **Basis Point Increase (Decrease) in Interest Rates** | **% Change in Net Interest Margin from Base Case** |
|---|---|
| +200 | (18.5)% |
| +100 | (10.4)% |
| Base | – |
| -100 | 12.4% |
| -200 | 26.3% |

Approximately $471.6 million of the Company's investment portfolio as of March 31, 2003, is comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 73% and 14% of the adjustable rate mortgage ("ARM") loans underlying the Company's collateral for collateralized bonds are indexed to and reset based upon the level of six-month LIBOR and one-year Constant Maturity Treasury ("CMT"), respectively. These ARM assets are financed with adjustable-rate collateralized bond borrowings.

Generally, during a period of rising short-term interest rates, the Company's net interest spread earned on its collateralized bonds will decrease. The decrease of the net interest spread results from (i) the lag in resets of the ARM loans underlying the collateral for collateralized bonds relative to the rate resets on the collateralized bonds and (ii) rate resets on the ARM loans which are generally limited to 1% every six months or 2% every twelve months and subject to lifetime caps, while the associated borrowings have no such limitation. As short-term interest rates stabilize and the ARM loans reset, the net interest margin may be restored to its former level as the yields on the ARM loans adjust to market conditions. Conversely, net interest margin may increase following a fall in short-term interest rates. This increase may be temporary as the yields on the ARM loans adjust to the new market conditions after a lag period. In each case, however, the Company expects that the increase or decrease in the net interest spread due to changes in the short-term interest rates to be temporary. The net interest spread may also be increased or decreased by the proceeds or costs of interest rate swap and cap agreements, to the extent the Company has entered into such agreements.

The remaining portion of the Company's collateral for collateralized bonds, as of March 31, 2003, approximately $822.5 million, is comprised of loans that have coupon rates that are fixed. The Company has limited its interest rate risk on such collateral primarily through the issuance of fixed-rate collateralized bonds. Overall, the Company's interest rate risk is primarily related to the rate of change in short-term interest rates and to the level of short-term interest rates.

### Item 4. Controls And Procedures

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Exchange Act, within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"), the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management. Based upon that evaluation, the Company's management concluded that the Company's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's management, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such internal controls requiring corrective actions.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings:

None

### Item 5. Other Information:

None

### Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibits

3.1 Articles of Incorporation of the Registrant (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

3.2 Bylaws of the Registrant (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

3.3 Amended and Restated Articles of Incorporation of the Registrant, effective April 19, 1995 (Incorporated herein by reference to Exhibit to the Registrant's Current Report on Form 8-K, filed April 21, 1995).

4.1 Indenture between Registrant and Trustee, dated as of August 1, 1994 (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

4.2 Form of Supplement Indenture between Registrant and Trustee (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

4.3 Copy of the Indenture, dated as of November 1, 1994, by and between the Registrant and Texas Commerce Bank National Association, as Trustee (Incorporated herein by reference to Exhibit to the Registrant's Current Report on Form 8-K, filed December 19, 1994).

4.4 Copy of the Series 11 Indenture Supplement, dated as of March 1, 1998, by and between the Registrant and Texas Commerce Bank National Association, as Trustee (related schedules and exhibits available upon request of the Trustee). (Incorporated herein by reference to Exhibit of Registrant's Current Report on Form 8-K, filed June 12, 1998).

4.5 Copy of the Series 12 Indenture Supplement, dated as of March 1, 1999, by and between the Registrant and Texas Commerce Bank National Association, as Trustee (related schedules and exhibits available upon request of the Trustee). (Incorporated herein by reference to Exhibit of Registrant's Current Report on Form 8-K, filed April 12, 1999).

4.6 Copy of the Series 13 Indenture Supplement, dated as of August 1, 1999, by and between the Registrant and Texas Commerce Bank National Association, as Trustee (related schedules and exhibits available upon request of the Trustee). (Incorporated herein by reference to Exhibit of Registrant's Current Report on Form 8-K, filed September 13, 1999).

4.7 Copy of the Series 14 Indenture Supplement, dated as of November 1, 1999, by and between the Registrant and Texas Commerce Bank National Association, as Trustee (related schedules and exhibits available upon request of the Trustee). (Incorporated herein by reference to Exhibit of Registrant's Current Report on Form 8-K, filed November 12, 1999).

4.8 Copy of the Structure Asset Securitization Corporation Series 2002-9 Indenture Supplement, dated as of April 1, 2002, by and between Structured Asset Securitization Corporation and J. P. Morgan Chase, as Trustee (related schedules and exhibits available upon request of the Trustee). (Incorporated herein by reference to Exhibit of Structured Asset Securitization Corporation's Current Report on Form 8-K, filed April 25, 2002).

99.1 Standard Provisions to Servicing Agreement (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.2 Form of Servicing Agreement (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.3 Standard Terms to Master Servicing Agreement (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.4 Form of Master Servicing Agreement (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.5 Form of Prospectus Supplement of Bonds secured by adjustable-rate mortgage loans (Incorporated herein by reference to Exhibits to Registrant's Pre-Effective Amendment No. 4 to Registration Statement No. 33-83524 on Form S-3 filed December 5, 1994).

99.6 Form of Financial Guaranty Assurance Policy (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.7 Form of GEMICO Mortgage Pool Insurance Policy (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.8 Form of PMI Mortgage Insurance Co. Pool Insurance Policy (Incorporated herein by reference to the Exhibits to Registrant's Registration Statement No. 33-83524 on Form S-3 filed August 31, 1994).

99.9 Form of Prospectus Supplement of Bonds secured by fixed-rate mortgage loans (Incorporated herein by reference to Exhibits to Registrant's Pre-Effective Amendment No. 4 to Registration Statement No. 33-83524 on Form S-3 filed December 5, 1994).

99.10 Copy of the Saxon Mortgage Funding Corporation Servicing Guide for Credit Sensitive Loans, February 1, 1995 Edition (Incorporated herein by reference to Exhibit to the Registrant's Current Report on Form 8-K, filed March 8, 1995).

99.11 Copy of the Standard Terms to Master Servicing Agreement, June 1, 1995 Edition (Incorporated herein by reference to Exhibit to the Registrant's Current Report on Form 8-K, filed July 10, 1995).

99.12 Copy of Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Incorporated herein by reference to Exhibit to the Registrant's Current Report on Form 8-K, filed August 28, 2002).

99.13 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.14 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MERIT SECURITIES CORPORATION**

Dated: May 14, 2003

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
President
(Principal Executive Officer, Principal Financial Officer)

By: /s/ Kevin J. Sciuk
Kevin J. Sciuk
Controller
(Principal Accounting Officer)

**CERTIFICATION**
**PURSUANT TO 17 CFR 240.13a-14**
**PROMULGATED UNDER**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen J. Benedetti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merit Securities Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 14, 2003

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Executive Officer

**CERTIFICATION**
**PURSUANT TO 17 CFR 240.13a-14**
**PROMULGATED UNDER**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin J. Sciuk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merit Securities Corporation;

2. Based on my knowledge, this quarterely report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 14, 2003

By: /s/ Kevin J. Sciuk
Kevin J. Sciuk
Principal Financial Officer

Exhibit 99.13

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merit Securities Corporation (the “Company”) on Form 10-Q for the quarter ending March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen J. Benedetti, the Principal Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2003

By: /s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Executive Officer

Exhibit 99.14

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merit Securities Corporation (the “Company”) on Form 10-Q for the quarter ending March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin J. Sciuk, the Principal Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2003

By: /s/ Kevin J. Sciuk
Kevin J. Sciuk
Principal Financial Officer