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 September 30, 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 (State or other jurisdiction of incorporation or organization)	**54-1736551** (I.R.S. Employer Identification No.)
4551 Cox Road, Suite 300, Glen Allen, Virginia (Address of principal executive offices)	**23060-6740** (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 October 31, 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

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MERIT SECURITIES CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)
(amounts in thousands except share data)

	September 30, 2003	December 31, 2002
ASSETS:		
Collateral for collateralized bonds:		
Loans, net	$ 825,220	$ 1,017,446
Debt securities, available-for-sale	270,287	323,791
Other loans	3,794	6,505
Asset-backed Securities, held-to-maturity	926	1,644
Due from affiliates, net	37,648	11,507
	$ 1,137,875	$ 1,360,893
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Collateralized bonds	$ 1,081,423	$ 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 (loss)	367	(134)
Retained (deficit) earnings	(12,599)	(6,770)
	56,452	61,780
	$ 1,137,875	$ 1,360,893

See notes to unaudited condensed consolidated financial statements.

MERIT SECURITIES CORPORATION

Condensed Consolidated Statements of Operations (Unaudited)
(amounts in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Interest income:				
Collateral for collateralized bonds	$ 19,176	$ 25,727	$ 61,701	$ 80,478
Other loans	26	17	101	44
Asset-backed securities, held-to-maturity	118	–	234	–
	19,320	25,744	62,036	80,522
Interest and related expense:				
Interest expense on collateralized bonds	11,945	15,648	38,111	49,002
Other collateralized bond expense	230	502	1,017	1,496
	12,175	16,150	39,128	50,498
Net interest margin before provision for loan losses	7,145	9,594	22,908	30,024
Provision for loan losses	(5,003)	(5,486)	(27,298)	(16,643)
Net interest margin	2,142	4,108	(4,390)	13,381
Impairment charges	–	(2,429)	(1,454)	(8,832)
Other	(17)	164	15	(380)
Net income (loss)	2,125	1,843	(5,829)	4,169
Change in net unrealized loss during period on:				
Investments classified as available-for-sale	1,943	(216)	(501)	5,383
Comprehensive income (loss)	$ 4,068	$ 1,627	$ (6,330)	$ 9,552

See notes to unaudited condensed consolidated financial statements.

MERIT SECURITIES CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)
(amounts in thousands)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Operating activities:		
Net (loss) income	$ (5,829)	$ 4,169
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Impairment charges	1,454	8,832
Provision for loan losses	27,298	16,643
Amortization, net	3,602	6,760
Other	1,745	(1,806)
Net cash provided by operating activities	28,270	34,598
Investing activities:		
Principal payments on collateral	218,276	324,830
Purchase of loans	–	(158,933)
Proceeds from sale of collateralized bonds	–	605,272
Net cash provided by investing activities	218,276	771,169
Financing activities:		
Principal payments on collateralized bonds	(220,405)	(775,649)
Payments to affiliates	(26,141)	(6,018)
Capital distributions	–	(24,100)
Net cash used for financing activities	(246,546)	(805,767)
Net change in cash	–	–
Cash, beginning of period	–	–
Cash, end of period	$ –	$ –
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 36,124	$ 46,932

See notes to unaudited condensed consolidated financial statements.

MERIT SECURITIES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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 significant 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 condensed consolidated financial statements have been included. The Condensed Consolidated Balance Sheet at September 30, 2003 and December 31, 2002, the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2003 and 2002, the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2003 and 2002, and the related notes to condensed consolidated financial statements are unaudited. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

Certain reclassifications have been made to the financial statements for 2002 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 September 30, 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 types of collateral for collateralized bonds as of September 30, 2003 and December 31, 2002:

	September 30, 2003	December 31, 2002
Loans, at amortized cost	$ 858,974	$ 1,038,146
Allowance for loan losses	(33,754)	(20,700)
	825,220	1,017,446
Debt Securities, at fair value	270,287	323,791
	$ 1,095,507	$ 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 September 30, 2003 and December 31, 2002:

	September 30, 2003	December 31, 2002
Debt securities, at amortized cost	$ 269,822	$ 323,728
Gross unrealized gains	465	63
Estimated fair value	$ 270,287	$ 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 Fed Effective Rate.

NOTE 4 — FAIR VALUE

Securities classified as available-for-sale are carried in the accompanying financial statements at estimated fair value. 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 September 30, 2003 and December 31, 2002. Prepayment rate assumptions at September 30, 2003, and December 31, 2002, were generally at a “constant prepayment rate,” or CPR ranging from 35%-40% in 2003 and a range of 30%-45% in 2002, for collateral for collateralized bonds consisting of securities backed by single-family mortgage loans, and a CPR equivalent of 10% 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 are based on estimates, actual gains and losses recognized may differ from those estimates recorded in the condensed 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 nine months ended September 30, 2003 and September 30, 2002:

	2003	2002
Beginning balance	$ 20,700	$ 15,364
Provision for loan losses	27,298	16,643
Credit losses, net of recoveries	(14,244)	(17,080)
Ending balance	$ 33,754	$ 14,927

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 "over-collateralization"), excluding price premiums and discounts and hedge gains and losses. The allowance for loan losses is included in collateral for collateralized bonds in the accompanying balance sheets.

The Company continues to experience unfavorable results in its manufactured housing loan portfolio in terms of elevated delinquencies and loss severity. For the nine months ended September 30, 2003, the Company added $27,298 to provision for loan losses. Included in this amount is $14,400 in provision for loan losses recorded in June 2003 specifically for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired. Previously, the Company had not considered current loans to be impaired under generally accepted accounting principles and therefore had not previously provided for the impairment of these loans. Continued worsening trends in both the industry as a whole and the Company's pools of manufactured housing loans prompted the Company to prepare extensive analysis on these pools of loans. The Company has not originated any new manufactured housing loans since 1999, and has extensive empirical data on the historical performance of this static pool of loans. The Company analyzed performance and default activity for loans that were current at various points in time over the last 36 months, and based on that analysis, identified default trends on these loans. The Company also considered current market conditions in this analysis, with the expectation that these market conditions would continue for the foreseeable future. Given this new observable data, the Company now believes the inclusion of amounts in the provision for loan losses for loans which are current as to payment is an appropriate application of the definition of impairment within generally accepted accounting principles, and has accounted for this provision as a change in accounting estimate and, accordingly, recorded the amount as additional provision for loan losses.

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. 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 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)	September 30, 2003	December 31, 2002
Collateral for collateralized bonds	$ 1,095,507	$ 1,341,237
Other loans	3,794	6,505
Asset-backed Securities, held-to-maturity	926	1,644
Collateralized bonds	1,081,423	1,299,113
Shareholder's equity	56,452	61,780
Collateralized bond series outstanding	4	4

Collateral for collateralized bonds

As of both September 30, 2003 and December 31, 2002, the Company had 4 series of collateralized bonds outstanding. The collateral for collateralized bonds decreased to $1.1 billion at September 30, 2003 compared to $1.3 billion at December 31, 2002. This decrease of $245.7 million is primarily the result of $214.8 million in paydowns on the collateral, $27.3 million of additions to allowance for loan losses, $1.5 million in loss on impairment, $1.9 million decrease in accrued interest receivable, and $0.6 million of net premium amortization offset by a $0.4 million decrease in unrealized loss on collateral for collateralized bonds.

Other loans

Other loans decreased to $3.8 million at September 30, 2003 from $6.5 million at December 31, 2002. Other loans are composed of single family loans not included in the securitization completed in April 2002 and retained by the Company as individual loans. This decrease resulted from pay-downs on the loans of $2.7 million.

Asset-backed Securities

Asset-backed securities decreased to $0.9 million at September 30, 2003, compared to $1.6 million at December 31, 2002, as a result of principal payments of $1.0 million during the year partially offset by $0.3 million in discount amortization and accrued interest.

Collateralized bonds

Collateralized bonds decreased to $1.1 billion at September 30, 2003 from $1.3 billion at December 31, 2002. This decrease of $217.7 million is the result of $220.4 million in paydowns and a $0.3 million decrease in accrued interest payable offset by $3.0 million of amortization of premium and discounts during the nine months ended September 30, 2003. Additionally, for certain securitizations, surplus cash in the amount of $3.3 million was retained within the security structure and used to repay collateralized bonds outstanding, instead of being released to the Company, as certain performance triggers were not met in such securitizations.

Shareholder's Equity

Shareholder's equity decreased to $56.5 million at September 30, 2003 from $61.8 million at December 31, 2002. This decrease was primarily the result of a net loss of $5.8 million offset by a decrease of $0.5 million in net unrealized loss on investments available-for-sale.

RESULTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
(amounts in thousands)	2003	2002	2003	2002
Interest income – collateral for collateralized bonds	$ 19,176	$ 25,727	$ 61,701	$ 80,478
Interest expense – collateralized bonds	11,945	15,648	38,111	49,002
Provision for loan losses	5,003	5,486	27,298	16,643
Net interest margin	2,142	4,108	(4,390)	13,381
Impairment charges	–	(2,429)	(1,454)	(8,832)
Net income (loss)	2,125	1,843	(5,829)	4,169

Interest income on the collateral for collateralized bonds decreased to $19.2 million from $25.7 million for the three-month periods ended September 30, 2003 and 2002, respectively. Interest income on the collateral for collateralized bonds decreased to $61.7 million for the nine months ended September 30, 2003 from $80.5 million for the same period in 2002. This decrease was primarily a result of the continued impact of prepayments on interest income, as average collateral for collateralized bonds declined from $1.5 billion to $1.2 billion for the nine-month period ended September 30, 2002 and 2003, respectively, and $1.6 billion to $1.1 billion for the three-month period ending September 30, 2002 and 2003, respectively, coupled with the overall decline in interest rates during 2003.

Interest expense on collateralized bonds decreased to $11.9 million from $15.6 million for the three-month periods ended September 30, 2003 and 2002, respectively. Interest expense on collateralized bonds decreased to $38.1 million for the nine months ended September 30, 2003 from $49.0 million for the nine months ended September 30, 2002. This decrease resulted from the decline in collateralized bonds due to prepayments and paydowns on the related assets and normal scheduled bond paydowns, as well as a decrease in one-month London InterBank Offered Rate ("LIBOR") during the three and nine month periods ended September 30, 2003 and 2002. The one-month LIBOR rate at September 30, 2003 was 1.12% as compared to 1.81% at September 30, 2002.

Provision for loan losses decreased to $5.0 million from $5.5 million for the three-month periods ended September 30, 2003 and 2002, respectively. Provision for loan losses increased to $27.3 million for the nine-month period ended September 30, 2003 from $16.6 million for the same period in 2002. Included in provision for loan losses is $14,400 recorded in June 2003 specifically for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired, as discussed in Note 5 of the notes to the Financial Statements.

Net interest margin decreased to $2.1 million from $4.1 million for the three-month periods ended September 30, 2003 and 2002, respectively. Net interest margin decreased to $(4.4) million from $13.4 million for the nine-month periods ended September 30, 2003 and 2002, respectively. These decreases were primarily a result of an increase in provision for loan losses, as discussed above, and a decline in interest earning assets partially offset by reduced borrowing costs on collateralized bonds outstanding during these periods.

No impairment charges were recorded in the three-month period ended September 30, 2003 as compared to $2.4 million in the three-month period ended September 30, 2002. Impairment charges decreased to $1.4 million from $8.8 million for the nine-month periods ended September 30, 2003 and 2002, respectively. These decreases are primarily a result of a decrease in realized losses on the debt securities portion of collateral for collateralized bonds and an other than temporary impairment in 2002 on a group of loans retained by the Company during the SASCO 9 securitization in 2002.

Net income increased to $2.1 million from $1.8 million for the three-month periods ended September 30, 2003 and 2002, respectively. This increase is primarily a result of a net decrease of $0.5 million in provision for loan losses, a decrease of $3.9 million in interest expense, and a decrease of $2.4 million in impairment charges partially offset by a $6.5 million decrease in interest income on collateral for collateralized bonds during the respective periods. Net income decreased to a net loss of $5.8 million from net income of $4.2 million for the nine-month periods ended

September 30, 2003 and 2002, respectively. This decrease is primarily a result of a net increase of $10.7 million in provision for loan losses and a $18.8 million decrease in interest income on collateral for collateralized bonds partially offset by a decrease of $11.4 million in interest expense on collateralized bonds, a $7.4 million decrease in impairment charges, and a $0.4 million decrease in other expense during the respective periods.

Credit Exposures

With collateralized bond structures, the Company retains credit risk relative to the amount of over-collateralization required in conjunction with the bond issuance. Losses are generally first applied to the over-collateralized amount, or, in some instances, surplus cash and then the over-collateralized 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 September 30, 2003, the Company retained $82.3 million in aggregate principal amount of over-collateralization compared to $93.6 million at December 31, 2002. The Company had reserves, or otherwise had provided coverage on $33.8 million at September 30, 2003. During the first nine months of 2003, the Company provided for additional reserves of $27.3 million and incurred credit losses of $14.2 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 $27.5 million and a remaining deductible aggregating $0.9 million on $57.1 million of securitized single family mortgage loans which are subject to such reimbursement agreements and $193.5 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 65% on such policies before the Company would incur losses.

Other Matters

At September 30, 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. As a financial services company, net interest margin 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 of high quality assets that, in the aggregate, preserves the Company's capital base while generating 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 September 30, 2003. 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 September 30, 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 September 30, 2003. As of September 30, 2003, one-month LIBOR was 1.12% and six-month LIBOR was 1.18%. The analysis is heavily dependent upon the assumptions used in the model. 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 collateralized bonds, underlying collateral, and asset-backed securities held-to-maturity 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	(19.9)%
+100	(10.4)%
Base	-
-100	11.1%
-200	14.6%

Approximately $390.5 million of the Company's collateral for collateralized bonds as of September 30, 2003, are 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 these 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 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 that the Company has entered into such agreements.

The remaining portion of the Company's collateral for collateralized bonds as of September 30, 2003, approximately $749.6 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, as of the end of the period covered by 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 materially affect, or are reasonably likely to materially 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 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).

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 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).

(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: November 13, 2003

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

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

Exhibit 31.1

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-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2003

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

Exhibit 31.2

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 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-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2003

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

Exhibit 32.1

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 September 30, 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: November 13, 2003

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

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