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This brochure provides information about the qualifications and business practices of Resource Real Estate, Inc. If you have any questions about the contents of this brochure, please contact us at (215) 231-7050. The information in this brochure has not been approved or verified by the Securities and Exchange Commission or any state securities authority. Registration with the Securities and Exchange Commission as an Investment Adviser does not imply a certain level of skill or training.

Additional information about Resource Real Estate, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Resource Real Estate, Inc.**

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**Item 4:**        Advisory Business.

- (A) Resource Real Estate, Inc. (“RRE”), a Delaware corporation, is a wholly owned subsidiary of Resource America, Inc. (NASDAQ: REXI). RRE was formed on May 5, 2004. RRE began providing investment advisory services to collateralized debt obligations (“CDOs”) in August of 2006.
- (B) RRE provides investment advisory services to CDOs, which invest primarily in mortgage loans and/or participation interests in mortgage loans secured by commercial real estate properties (“Commercial Mortgage Loans”); subordinated interests in Commercial Mortgage Loans (“Subordinate Mortgage Loan Interests”); loans and/or participation interests in loans that are secured by ownership interests in entities that own commercial real estate properties (“Mezzanine Loan Interests”); commercial mortgage backed securities (“CMBS”); loans that are secured by mortgages on commercial mortgaged properties that are typically leased entirely to a single tenant or guaranteed by another party that may be the parent or another affiliate of such tenant (“Credit Tenant Lease Loans”); securities that entitle the holders thereof to receive payments that depend on the cash flow from or the credit exposure to a portfolio consisting primarily of commercial real estate debt securities (“CRE CDO Securities”); securities representing equity interests in an entity that is a borrower under a mortgage loan secured by commercial properties (“Preferred Equity Securities”); and bank loans that are obligations of corporations, partnerships or other U.S. entities for which the expected source of repayment is income from commercial real estate assets (“REBLs”) (collectively, “Real Estate Investments”). RRE uses fundamental credit, property and market research to identify compelling opportunities in the commercial real estate debt markets. RRE utilizes ongoing analysis and a proactive management style to maximize total return and minimize portfolio risk. RRE’s investment advisory services are limited to investments in commercial real estate backed loans and securities.
- (C) Investment advisory services provided by RRE on behalf of CDOs are conducted pursuant to the terms of a collateral management agreement and indenture for each CDO. These documents are negotiated prior to the commencement of the advisory relationship and set forth the specific services that will be provided by RRE on behalf of the CDO. These documents also impose significant limitations on the types of securities in which RRE may invest.
- (D) RRE does not participate in wrap fee programs.
- (E) As of September 30, 2012 RRE had approximately \$688,788,201 of assets under management. All assets are managed on a discretionary basis.

**Item 5:**        Fees and Compensation.

- (A) N/A. RRE’s brochure is delivered only to qualified purchasers as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940.

(B) Base management fees and incentive management fees are paid to RRE and its affiliates by Resource Capital Corp. (NYSE: RSO), an entity under common control with RRE and an investor in the junior most debt and equity tranches of the two CDOs managed by RRE. Base management fees are paid on a monthly basis and incentive management fees are paid on a quarterly basis for so long as an affiliate of RRE is the holder of the junior most debt and equity securities of the CDOs. In the event that an affiliate of RRE no longer holds these securities, RRE will be paid base management and incentive management fees quarterly in arrears.

(C) CDOs managed by RRE may be responsible for fees payable to independent third parties including, but not limited to, organizational fees, legal fees, accounting and auditing fees, research fees, trustee fees, custodial fees, bank service fees, director's fees and brokerage and commission fees. For additional details on RRE's brokerage practices please refer to Item 12 below.

(D) RRE does not require its advisory clients to pay management fees in advance.

(E) Neither RRE nor any of its supervised persons accepts compensation for the sale of securities or other investment products to its CDO clients, including asset-based sales charges or other fees from the sale of mutual funds.

**Item 6:**        Performance Based Fees and Side by Side Management.

RRE receives both asset based fees and performance based fees (fees based on a share of capital gains on or capital appreciation of assets). Further, RRE's supervised persons may manage other accounts that are charged performance fees. Side by side management of CDO client accounts may create a conflict of interest wherein RRE is incentivized to allocate certain investment opportunities to CDO client accounts with a higher a fee structure.

In order to mitigate conflicts of interest related to side by side management of CDO client accounts with different fee structures, RRE has established a trade allocation policy for all CDO client accounts. Further, other accounts managed by RRE's supervised persons do not invest in Real Estate Investments thereby eliminating any incentive for RRE or its supervised persons to favor one managed account over another.

**Item 7:**        Types of Clients.

RRE provides investment advice to CDOs. RRE does not provide investment advisory services to retail investors.

**Item 8:**        Methods of Analysis, Investment Strategies and Risk of Loss.

(A) RRE, on behalf of its CDO clients, invests in whole Commercial Mortgage Loans that are originated exclusively for the CDOs by Resource Real Estate Funding, Inc. ("RREF"), an affiliate of RRE, and, to a lesser extent, Mezzanine Loans, B-notes and CMBS originated by RREF and independent third parties. RRE's investment strategy is to create a granular and diverse pool of Real Estate Investments that pay the CDOs a predictable and stable income

stream comprised of interest from CDO investments. In general, investments are limited to Commercial Mortgage Loans between approximately \$7 and \$25 million secured by: multifamily, office, retail and hotel properties, and to a lesser extent, other Real Estate Investments. RRE places a strong focus on the amount of capital that the individual borrowers invest in the properties securing the mortgages and the experience of such borrowers in the specific asset class on which the commercial mortgage is being extended. RRE's primary goal is to invest in a diverse group of properties in diverse geographic regions in order to create an income stream that is not dependent on any one property type, borrower or region. Each Commercial Mortgage Loan purchased on behalf of a CDO is individually underwritten and each property underlying such loan is visited by an RRE or RREF professional with a minimum of 15 years of experience. The properties that secure the Real Estate Investments are analyzed for occupancy (both historic and projected), property condition, and business plan. In addition the borrowers on these loans are analyzed for credit worthiness and experience. Further, RRE conducts a separate analysis to indicate the percentage of borrower equity committed to a specific property that is subordinate to the mortgage loan under consideration by RRE. Generally, RRE's parameters for loans limit maximum loan to value ratios to approximately 80% and provide debt service coverage ratios of approximately 1.10X at a minimum. As further security for a mortgage, RRE may, based on its analysis of the property, require elements of personal recourse to be provided by the borrower. Finally, for each Commercial Mortgage Loan or other Real Estate Investment that is purchased for a CDO managed by RRE, RRE conducts a complete third-party due diligence analysis, including an appraisal, a property condition report and a Phase I environmental assessment of the property or properties securing the mortgage, in addition to any other specialized studies that are required. Offering memoranda for each CDO managed by RRE contain specific disclosures on the risk of loss which investors in the CDOs should be prepared to bear. CDO investments are generally illiquid and are only suitable for investors prepared to hold such investment for an indefinite period of time. Further, there is no guarantee that any CDO managed by RRE will be successful, that its investment objectives will be achieved, that the CDO will receive its initial investments or that it will receive any return (or avoid any loss, including total loss) on its investment.

**(B)** RRE generally seeks, on behalf of its CDO clients, to generate total investment return through a combination of both current income and capital appreciation and employs a long bias. For risk factors associated with RRE's strategy, please see Item 8A above and Item 8C below.

**(C)** CDOs managed by RRE invest primarily in Real Estate Investments. Material risks associated with these types of investments are more fully explained in the offering documents of each CDO.

Real Estate Investments are subject to numerous risk factors. The description herein of the Real Estate Investments and the underlying loans, as well as the risks related thereto, is general in nature, and prospective clients should review certain summary information about Real Estate Investments set forth in the applicable private placement memorandum. Certain risks that are referred to herein with respect to a particular type of Real Estate Investment may also have applicability to other types of Real Estate Investments, and the discussions of such other types should be reviewed and construed accordingly.

Nature of Real Estate Investments; Defaults. Real Estate Investments are subject to various risks, including credit, liquidity and interest rate risks, general economic conditions, developments or trends in a particular industry and structural risks. A portion or all of the Real Estate Investments may be effectively subordinated to one or more senior interests.

Any rate of payment shortfalls, liquidations and losses on Real Estate Investments will be subject to risks relating to investments generally and real estate investments particularly. Such risks include general and regional economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Certain of the Real Estate Investments (or commercial mortgage loans underlying the Real Estate Investments) may have been originated in a period of time when the real estate market in most regions of the country was stronger than the current real estate market and economy. There can be no assurance as to the performance of the commercial mortgage loans underlying the Real Estate Investments or the Real Estate Investments in a weaker market or weakened economy. The cyclicity and leverage associated with real estate-related investments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other investments.

The Real Estate Investments (or commercial mortgage loans underlying the Real Estate Investments) are secured by or otherwise relate to commercial properties of varying property types, geographic locations, tenants, local economies, real estate market conditions, special hazards and other factors that could make the Real Estate Investments susceptible to particular types of risks relating to such factors.

Mortgage Loan Interests and Commercial Mortgage Loans Generally. Mortgage loan interests and commercial mortgage loans are generally secured by one or more mortgages, deeds of trust or other similar security instruments creating a lien on the related borrower's fee estate or leasehold estate in one or more multifamily or commercial properties (each, a "Mortgaged Property") and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans made on the security of single-family residential property. In addition, commercial mortgage loans are generally non-recourse loans and in the event of a default, there will generally only be recourse against the specific properties and other assets that have been pledged to secure such loans. Even if a commercial mortgage loan provides for recourse to a mortgagor or its affiliates, a client is unlikely to recover any amounts in excess of the value of the related Mortgaged Property. Therefore, the ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan, and the value of the property, may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions (including responding to changing market conditions, planning and implementing rental or pricing structures and causing maintenance and capital improvements to be carried out in a timely fashion), property location and condition, competition from comparable types of

properties, any need to address environmental contamination at the property and the occurrence of any uninsured casualty at the property.

The net operating income from and value of any Mortgaged Property may also be adversely affected by risks generally incident to interests in real property, including events that the borrower or manager of the property may be unable to predict or control, such as changes in general or local economic conditions and for specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; acts of terrorism; environmental hazards or environmental legislation; and social unrest and civil disturbances.

Additional risks may be presented by the type and use of a particular Mortgaged Property. For instance, properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator; and the transferability of a hotel's operating, liquor and other licenses upon a transfer of the hotel, whether through purchase or foreclosure, is subject to local law requirements.

Furthermore, a Mortgaged Property may not readily be converted to an alternative use in the event that the operation of such property for its original purpose becomes unprofitable. In such cases, the conversion of the property to an alternative use would generally require substantial capital expenditures. Thus, if the borrower becomes unable to meet its obligations under the related commercial mortgage loan, the liquidation value of any such property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such property were readily adaptable to other uses.

Mortgage loan interests and the commercial mortgage loans may provide for balloon payments to be due at their respective stated maturity dates unless prepaid prior thereto. Loans with balloon payments involve a greater likelihood of default than self-amortizing loans because the ability of a borrower to make a balloon payment typically will depend upon its ability either to refinance the loan or to sell the related Mortgaged Property.

Mortgage Loan Interests and the commercial mortgage loans may be subject to subordinate or mezzanine indebtedness. The existence of any subordinate indebtedness may increase the difficulty of refinancing the related commercial mortgage loan at maturity for the purpose of making any balloon payments and may increase the possibility that reduced cash flow could result in deferred maintenance. If the holder of any subordinated debt secured by a Mortgaged Property has filed for bankruptcy or been placed in involuntary receivership, foreclosing on such Mortgaged Property in the event of a default under the related commercial mortgage loan could be delayed. Further, the existence of mezzanine debt may also affect the financial viability of the obligor or the availability of proceeds to fund replacements, tenant improvements or capital expenditures. Because mezzanine loans are secured by all or a portion of the obligor's equity interest in the related borrowers, such financing effectively reduces the obligor's economic stake in the related Mortgaged Property. The existence of mezzanine loans may reduce cash flow on

the borrower's Mortgaged Property after the payment of debt service and may increase the likelihood that the owner of a borrower will permit the value or income producing potential of a Mortgaged Property to fall and may create a greater risk that a borrower will default on the commercial mortgage loan secured by a Mortgaged Property whose value or income is relatively weak. Mortgage loan interests and commercial mortgage loans may prohibit the related borrower from encumbering the Mortgaged Property with additional secured or mezzanine debt or require the consent of the holder of the first lien prior to so encumbering such property. However, a violation of such prohibition may not become evident until the related commercial mortgage loan otherwise defaults.

Borrowers under mortgage loan interests and commercial mortgage loans generally rely on periodic lease or rental payments or guest fees from tenants to pay for maintenance and other operating expenses of the building, to fund capital improvements and to service the related obligation and any other debt or obligations it may have outstanding. There can be no guarantee that tenants will renew leases upon expiration or that they will continue operations throughout the term of their leases. The income of borrowers would be adversely affected if tenants were unable to pay rent or if space was unable to be rented on favorable terms or at all.

Subordinate Mortgage Loan Interests. Subordinate Mortgage Loan Interests are commercial mortgage loans or interests in commercial mortgage loans that rank junior in priority to senior interests in the same commercial mortgage loan (the "Senior Interests") or to more senior debt secured by the same Mortgaged Property (the "Senior Loans" and, together with the Senior Interests, the "Senior Debt"). A Subordinate Mortgage Loan Interest may be in the form of a subordinate note secured by real property (also referred to herein as a subordinate commercial mortgage loan) or a junior participation or sub-participation interest in a commercial mortgage loan (or participation interest in a subordinate commercial mortgage loan). In such cases, although the Subordinate Mortgage Loan Interest that a client holds may be the senior interest of the sub-participation or participation in a subordinate commercial mortgage loan, the Subordinate Mortgage Loan Interest will be junior to the rights of the holders of the Senior Debt with respect to the commercial mortgage loan, or any other holder of a Senior Debt.

Although allocation of payments received from the underlying obligor may vary from deal to deal, such payments are generally allocated pursuant to the applicable participation agreement or inter-creditor agreement first to pay interest and principal (or, a pro rata share of principal) with respect to the Senior Debt and any other pari passu interests, and then to pay interest and principal with respect to the Subordinate Mortgage Loan Interests. Notwithstanding any such allocation, after the occurrence and during the continuation of an event of default under the applicable loan documents, Subordinate Mortgage Loan Interests generally are not entitled to receive any payments of principal or interest unless and until the related Senior Debt is paid in full. In addition, any losses and expenses, including losses of principal or interest, non-recoverable advances, interest on advances and special servicing compensation are generally borne first by the Subordinate Mortgage Loan Interests and then by the Senior Debt.

The Senior Debt related to a Subordinate Mortgage Loan Interest may be included in a securitization transaction (a "Senior Securitization"), in which case the servicing of the entire commercial mortgage loan is generally performed by a servicer (the "Servicer") or special



servicer (the “Special Servicer”) appointed pursuant to the documents governing the Senior Securitization, subject to the provisions of the related inter-creditor agreement. Although the CDO client, as holder of a Subordinate Mortgage Loan Interest (or RRE or an operating advisor on its behalf), may have the right to appoint a special servicer for the related commercial mortgage loan and may have limited rights to consult with, and approve certain servicing actions of, a Servicer or Special Servicer of the commercial mortgage loan appointed pursuant to the Senior Securitization, such rights will generally terminate if the principal balance of the Subordinate Mortgage Loan Interest is reduced below a specified percentage threshold of the principal balance of the Real Estate Investment as the result of principal write downs or appraisal reductions.

With respect to certain Real Estate Investments, there may be one or more interests (the “Junior Interests”) that are junior to such Real Estate Investments, and the Junior Interests may be entitled to exercise the rights described above prior to the exercise of such rights by the client (or RRE or an operating advisor on its behalf), or the terms of such Junior Interests may limit the exercise of rights by the client. Generally, the CDO client will not have the right directly to enforce compliance by the borrower with the terms of the loan documents or to waive enforcement thereof, and has assigned to the holder of the related Senior Debt (or a Servicer or Special Servicer on its behalf) the right to vote all claims in any bankruptcy of the borrower. In any such event, another holder of an interest in the related commercial mortgage loan generally will have the ability to exercise such rights (or similar rights) and there can be no assurance that the loss of such rights to such other holder would not have an adverse effect on the related Real Estate Investment held by the client.

Mezzanine Loan Interests. Mezzanine Loan Interests are loans or participation interests in loans that are secured by one or more direct or indirect ownership interests in a company, partnership or other entity owning, operating or controlling, directly or through subsidiaries or affiliates, one or more commercial properties. A Mezzanine Loan Interest may be a direct participation in a mezzanine loan or a sub-participation in a participation in a mezzanine loan. Mezzanine loans are not secured by a lien on the underlying real estate and are thus structurally subordinate to creditors that are directly secured by the underlying real estate and to other general creditors of the borrower entity. It is expected that the commercial properties owned by such entities are or will be subject to existing commercial mortgage loans and other indebtedness in addition to the related mezzanine loan. Mezzanine Loan Interests share many of the characteristics of Subordinate Mortgage Loan Interests described herein. As with commercial mortgage loans, repayment of a Mezzanine Loan Interest is dependent on the successful operation of the underlying commercial properties and, therefore, is subject to similar considerations and risks. In certain cases, the ownership interests securing the Mezzanine Loan Interests acquired in the future may represent only partial interests in the related real estate company and may not control either the related real estate company or the underlying commercial property and may limit the ability of the holder of such Mezzanine Loan Interest to fully realize on such ownership interests.

Mezzanine Loan Interests may also involve certain additional considerations and risks. For example, the terms of a Mezzanine Loan Interest may restrict transfer of the interests securing such loans (including an involuntary transfer upon foreclosure) or may require the consent of the senior lender or other members or partners of or equity holders in the related real estate

company, or may otherwise prohibit a change of control of the related real estate company. Those and other limitations on realization on the collateral for a Mezzanine Loan Interest or the practical limitations on the availability and effectiveness of such a remedy may affect the likelihood of repayment in the event of a default.

Participation Interests. Participation interests (“Participation Interests”) generally do not directly benefit from the collateral supporting the related commercial mortgage loan or mezzanine loan and may be subject to any rights of set-off the borrower has against the holder of the related Senior Debt. In addition, if a holder of the Senior Debt becomes insolvent, the CDO client, as holder of a Participation Interest, may be treated as a general unsecured creditor of the holder of the Senior Debt and may not have any exclusive or senior claim with respect to such holder’s interest in, or the collateral with respect to, the underlying commercial mortgage loan. As a result, the CDO client as holder of a Participation Interest may be subject to the credit risk of the holder of the Senior Debt as well as of the borrower on the underlying commercial mortgage loan or mezzanine loan. In addition, the underlying loan documents typically restrict the transfer of interests in a Participation Interest to certain institutional investors.

Commercial Mortgage-Backed Securities. Commercial Mortgage-Backed Securities are securities backed by and payable from a pool of mortgage loans secured by commercial properties. CMBS Securities are generally issued in connection with a securitization of the commercial mortgage loans deposited therein (such securitization trusts, the “CMBS Securities Securitizations”). As with the Mortgage Loan Interests and other Real Estate Investments, any CMBS Securities included in a CDO client portfolio may be affected by payments, delinquencies, defaults and losses on the underlying commercial mortgage loans and an investment in CMBS Securities will be subject to certain of the same considerations and risks as an investment in the other Real Estate Investments as described herein. In addition, CMBS Securities may involve structural and legal risks. For example, certain CMBS Securities may be subordinated to other more senior classes in the same issue and so may bear the risk of loss on the underlying commercial mortgage loans prior to such other classes. Such CMBS Securities would also typically receive payments of principal only after more senior classes in the same issue are paid in full. The risk of loss allocated to a subordinate class of CMBS Securities may be disproportionate to the size of the class of subordinated CMBS Securities since it represents the loss in a pool of commercial mortgage loans (or in one or more commercial mortgage loans) having an aggregate principal balance significantly greater than the principal amount of such CMBS Securities. Further, if insufficient funds are received to pay interest to all classes of CMBS Securities in the same issue on any distribution date, interest on more junior classes may be deferred without triggering an event of default or any other remedy.

REIT Debt Securities. Investments in REIT Debt Securities involve special risks. REIT Debt Securities generally are unsecured and may be subordinated to other obligations of the issuer thereof. In particular, issuers of REIT Debt Securities are generally permitted to invest solely in real estate or real estate related assets and are subject to the inherent risks associated with such investments. Consequently, the financial condition of any issuer of REIT Debt Securities may be affected by the risks described above with respect to commercial mortgage loans and similar risks, including (i) risks of delinquency and foreclosure, and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks

generally incident to interests in real property, including those described above, (iv) risks that may be presented by the type and use of a particular commercial property and (v) the difficulty of converting certain property to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason.

Risks of REIT Debt Securities may include, among others, (i) limited liquidity and secondary market support, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates, (v) the possibility that earnings of an issuer of REIT Debt Securities may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT Debt Securities during periods of rising interest rates and economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for REIT Debt Securities and adversely affect the value of outstanding REIT Debt Securities and the ability of the issuers thereof to repay principal and interest.

Issuers of REIT Debt Securities may be, from time to time, highly leveraged and may not have available to them more traditional methods of financing. For example, during an economic downturn or a sustained period of rising interest rates, issuers of REIT Debt Securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific issuer developments, or the unavailability of additional financing. The risk of loss due to default by the issuer may be significantly greater for the holders of REIT Debt Securities because such securities may be unsecured and may be subordinated to other creditors of the issuer of such securities. In addition, a CDO client may incur additional expenses to the extent it is required to seek recovery upon a default on a REIT Debt Security (or any other Real Estate Investment) or participate in the restructuring of such obligation.

Downward movements in interest rates also could adversely affect the performance of REIT Debt Securities. REIT Debt Securities may have call or redemption features that would permit the issuer thereof to repurchase the securities from a CDO client.

As a result of the limited liquidity of REIT Debt Securities, their prices have at times experienced significant and rapid declines when a substantial number of holders decided to sell. In addition, a CDO client may have difficulty disposing of certain REIT Debt Securities because there may be a limited trading market for such securities. Reduced secondary market liquidity may have an adverse impact on market price and the CDO client's ability to dispose of particular issues when necessary to meet the CDO client's liquidity needs or in response to an issuer default.

REBLs. REBLs are bank loans (or senior and/or subordinate participations therein), which are obligations (directly or by way of guarantee) of corporations, partnerships or other entities organized under the laws of the United States (or any state thereof), all or a portion of which may be unsecured for which the expected source of repayment is income from commercial real estate assets. Subordinate participation interests in REBLs are subject to similar risks and provisions as Subordinate Mortgage Loan Interests.

The risks of REBLs include (among others): (i) limited liquidity and secondary market support; (ii) the possibility that earnings of the related borrower may be insufficient to meet its debt service; (iii) the declining creditworthiness and potential for insolvency of the borrower of such REBLs during periods of economic downturn; (iv) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received; and (v) if subordinated, subordination to the prior claims of other bank loans or senior lenders. An economic downturn could severely disrupt the market for REBLs and the ability of the borrowers thereof to repay principal and interest.

The REBLs may include bank loans with terms that, upon certain conditions, allow the spread to a floating rate index to change or the floating rate index itself to change, including upon a change in credit quality. Such REBLs may cause significant changes in interest collections on the Real Estate Investments. Certain REBLs may permit the borrower to extend the maturity date of the REBL upon the satisfaction of certain conditions. In addition, the terms of certain REBLs may permit the underlying obligor to change the frequency at which payments are made.

REBLs are generally more illiquid than debt securities. REBLs are subject to credit risk and may become non-performing for a variety of reasons. Non-performing REBLs may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the REBL. In addition, because of the unique and customized nature of a REBL and the private syndication of a REBL, certain REBLs may not be purchased or sold as easily as publicly traded securities, and, as a result, historically the trading volume in the bank loan market has been small relative to the market for high-yield bonds. Trading in REBLs is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent bank or the underlying borrower. In addition, a CDO client may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a REBL.

RRE CDO clients may acquire interests in REBLs either directly (by way of assignment) or indirectly (by way of participation). A participation acquired in all or a portion of a loan held by a participating institution typically results in a contractual relationship only with such participating institution, not with the loan obligor. As a participant, the CDO client would have the right to receive payments of principal, interest and any fees to which it is entitled under the participation only from the participating institution and only upon receipt by the participating institution of such payments from the obligor. In purchasing a participation, the CDO client generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligations, nor any rights to set-off against the obligor, and the CDO client may not directly benefit from the collateral supporting the loan in which it has purchased the participation. As a result, the CDO client will assume the credit risk of both the obligor and the participating institution. In the event of the insolvency of the participating institution, the CDO client may be treated as a general creditor of the participating institution in respect of the participation, may not benefit from any set-off exercised by the participating institution against the obligor and may be subject to any set-off exercised by the obligor against the participating institution.

In addition, when a CDO client holds a participation in a loan, the CDO client may not have the right to vote to waive enforcement of any default by an obligor. Participating institutions commonly reserve the right to administer the debt obligations sold by them as they see fit and to amend the documentation evidencing such debt obligations in all respects. However, most participation agreements with respect to bank loans provide that the participating institution may not vote in favor of any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal (whether a scheduled payment or a mandatory prepayment), interest or fees or releases any material guarantee or security without the consent of the participant (at least to the extent the participant would be affected by any such amendment, modification or waiver). A participating institution voting in connection with a potential waiver of a default by an obligor may have interests different from those of the CDO client and the participating institution might not consider the interests of the CDO client in connection with its vote.

Adjustable Rate Real Estate Investments. Certain of the Mortgage Loan Interests, Subordinate Mortgage Loan Interests and Mezzanine Loan Interests comprising or underlying the Real Estate Investments bear interest at an adjustable rate based on the London interbank offered rate for one-month U.S. dollar deposits (“Loan LIBOR”). Additional Real Estate Investments (including the commercial mortgage loans or mezzanine loans comprising or underlying such Real Estate Investments) may bear interest at adjustable rates based on Loan LIBOR or other established interest indices (such rates and Loan LIBOR, the “Adjustable Loan Rate”). Accordingly, debt service for any such commercial mortgage loans or mezzanine loans will increase as interest rates rise. In contrast, rental and other income on the related Mortgaged Properties is not expected to rise significantly as interest rates rise. Accordingly, debt service coverage ratios of the underlying floating-rate commercial mortgage loans or mezzanine loans will generally be adversely affected by rising interest rates, and a borrower’s ability to make all payments due on such floating-rate commercial mortgage loans or mezzanine loans may be adversely affected.

The borrowers under certain of the Mortgage Loan Interests, the Subordinate Mortgage Loan Interests, the Mezzanine Loan Interests or the REBLs may obtain, have obtained, or may be required to obtain an interest rate cap agreement (each an “Interest Rate Cap Agreement”) to protect against significant movements in the Adjustable Loan Rate during all or a portion of the term of such Mortgage Loan Interests, Subordinate Mortgage Loan Interests, Mezzanine Loan Interests or REBLs. Pursuant to each Interest Rate Cap Agreement, to the extent the Adjustable Loan Rate increases above a certain specified level (the “Strike Price”), the applicable borrower will be entitled to receive payments calculated by applying an interest rate equal to the difference between the Adjustable Loan Rate and the Strike Price to a notional amount at least equal to the outstanding principal balance of the related commercial mortgage loan or mezzanine loan. As the Adjustable Loan Rate rates increase above the Strike Prices, borrowers may be dependent on such Interest Rate Cap Agreements for income needed to pay interest due on the related commercial mortgage loan or mezzanine loan. The failure of a counterparty to fulfill its obligations under an Interest Rate Cap Agreement during periods of higher levels of the Adjustable Loan Rate or the inability or failure of a borrower to replace a terminated Interest

Rate Cap Agreement could result in the inability of the related borrower to pay its required debt service on the related commercial mortgage loan or mezzanine loan.

Fixed Rate Real Estate Investments. Certain of the Mortgage Loan Interests, the Subordinate Mortgage Loan Interests, the Mezzanine Loan Interests and the commercial mortgage loans comprising or underlying the Real Estate Investments pay a fixed rate of interest. A decline in market interest rates might lead to prepayments of the related commercial mortgage loans. On the other hand, a rise in market interest rates might lead to fewer prepayments of such commercial mortgage loans, which, in turn, would, all other things being equal, result in a slower return of principal above.

Assets with Future Funding Obligations. “Future Funding Assets” are Real Estate Investments that (a) require the lender thereunder to make one or more future advances to the obligor under the underlying documents relating thereto, subject to satisfaction of conditions precedent specified therein (each, a “Future Advance”) and (b) specify a maximum amount that can be borrowed on one or more fixed borrowing dates. The obligation to make one or more Future Advances related to each Future Funding Asset (the “Future Funding Obligation”) will be the obligation of the CDO client. Notwithstanding the foregoing, if the applicable servicer of the Future Funding Asset or RRE, as applicable, has determined that a Future Advance is not required under the related Future Funding Asset, the CDO client shall have no obligation to fund such Future Advance. However, RRE may, in its discretion, direct the CDO client to waive certain conditions to a Future Advance if it determines that making the Future Advance would be consistent with prudent lending practices in the commercial real estate finance industry. Upon the occurrence of any such waiver, the CDO client will be obligated to make the related Future Advance.

Generally, the commercial mortgage loans underlying or comprising the Future Funding Assets provide that the related borrower may, subject to compliance with certain conditions, obtain Future Advances, the amounts of which were determined at the time the related commercial mortgage loan or mezzanine loan was originated, to be applied to one or more purposes, including taxes and insurance; capital expenditures for renovation of the related mortgaged property; existing and future construction of properties; tenant improvements and leasing commissions; or debt service (such amount, a “Future Advance Amount”). Although the Future Advance Amounts related to debt service are calculated based on the originator’s assessment of the possible necessity for such holdbacks in the event that the related properties were not generating sufficient cash flows to meet the required debt service, there can be no assurance that such amounts will be sufficient to cover all required debt service payments or that the required criteria in the related loan documents will be satisfied for the release of such Future Advances. If the CDO client elects not to or fails to make a Future Advance related to debt service, there may be insufficient funds from the borrower to make the interest payment on the related Future Funding Asset. In addition, there may be a disagreement with the borrower as to whether the borrower has satisfied the conditions to obtain the Future Advance as provided in the related underlying documents. Because the related borrowers do not generally agree that any liability with respect to Future Advance Amounts is distinct from other obligations under the related commercial mortgage loan or mezzanine loan, there can be no assurance that a failure to fund

any Future Advance Amount will not cause payments on the related Future Funding Asset to be interrupted.

Additionally, the failure of the party required to make the Future Advance to make such Future Advance could effectively prevent the related borrower from making improvements, entering into leases or making debt service payments for the related mortgaged property that are necessary to achieve stabilized cash flow required for the related commercial mortgage loan or mezzanine loan to achieve stabilization and therefore to refinance such commercial mortgage loan or mezzanine loan upon maturity or, in the case of debt service payments, to make timely payments of interest on such commercial mortgage loan or mezzanine loan.

Illiquidity of the Real Estate Investments; Limitations on Disposition of Real Estate Investments. There will likely be a limited trading market for Real Estate Investments and in certain instances there may be no effective trading market. The CDO client's investment in illiquid Real Estate Investments may restrict its ability to dispose of such investments in a timely fashion and for a fair price. Illiquid Real Estate Investments may trade at a discount from other securities that have similar risks and ratings but are more liquid investments. In addition, the CDO client's transfer of such Real Estate Investments may be subject to satisfaction of legal requirements applicable to transfers that do not require registration or qualification under the Securities Act or any applicable state securities laws and upon satisfaction of certain other provisions of the respective agreements pursuant to which such Real Estate Investments were issued. It is expected that such transfers will also be subject to satisfaction of certain other transfer restrictions. The existence of such transfer restrictions will negatively affect the liquidity of, and consequently the price that may be realized upon a sale of, such securities.

Under the terms of applicable indenture, RRE may only direct the disposition of Real Estate Investments under certain limited circumstances. Such sales (and any subsequent purchases) may result in losses by the CDO client. On the other hand, circumstances may exist under which RRE may believe that it is in the best interests of a CDO client to dispose of Real Estate Investments, but the CDO client will not be permitted to do so under the restrictions and conditions of the applicable indenture.

Volatility of Real Estate Investments' Market Value. The market value of the Real Estate Investments (particularly in the case of fixed rate Real Estate Investments) will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, developments or trends in any particular industry and the financial condition of the CDO clients of the Real Estate Investments. A decrease in the market value of the Real Estate Investments would adversely affect the sale proceeds that could be obtained upon the sale of the Real Estate Investments.

#### Risks Related to Commercial Mortgage Loans

Environmental Considerations. Under the laws of certain states, contamination of real property may give rise to a lien on the property to assure the costs of cleanup. In several states, such a lien has priority over an existing mortgage lien on such property. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and

Liability Act of 1980, as amended, a lender may be liable, as an “owner” or “operator,” for costs of addressing releases or threatened releases of hazardous substances at a property, if agents or employees of the lender have become sufficiently involved in the operations of the borrower, regardless of whether the environmental damage or threat was caused by the borrower or a prior owner. A lender also risks such liability on foreclosure of the mortgage, and the value of a Mortgaged Property can be reduced in part or in whole by releases or threatened releases of hazardous substances. In addition, the related borrower may be liable, as an “owner” or “operator,” for costs of addressing releases or threatened releases of hazardous substances at a Mortgaged Property or elsewhere, which may affect the borrower’s ability to make scheduled payments under the loans.

Under the underlying pooling and servicing agreements and other agreements relating to the Senior Securitizations and any CMBS Securities Securitizations, the applicable Special Servicer generally is required to obtain an environmental site assessment of a Mortgaged Property securing a defaulted commercial mortgage loan prior to acquiring title thereto or assuming its operation. Such requirement effectively precludes enforcement of the security for the related Mortgage Note until a satisfactory environmental site assessment is obtained (or until any required remedial action is thereafter taken), but will decrease the likelihood that the lender will become liable for a material adverse environmental condition at the Mortgaged Property. It is expected that the servicing agreements with respect to any Real Estate Investments not serviced under a Senior Securitization or CMBS Securities Securitization will provide for a similar requirement. However, there can be no assurance that this requirement will effectively insulate the lender from potential liability for a materially adverse environmental condition at any Mortgaged Property.

Risks Relating to Reserve Amounts. In connection with the origination of certain of the commercial mortgage loans comprising or underlying the Real Estate Investments, the related originator may have required that reserves be established upon the closing of the loans to fund identified deferred maintenance items, debt service and environmental remediation items. Certain of the commercial mortgage loans comprising or underlying the Real Estate Investments may also require that reserves be funded on a monthly basis from cash flow of the applicable Mortgaged Properties which may be used by the applicable borrower to fund ongoing capital improvements, tenant improvements, debt service and leasing commissions. There can be no assurance that the reserve amounts established at the closing of a commercial mortgage loan, deposited monthly or available through additional financing will be sufficient to offset the actual costs of the items for which the reserves or additional financing were established or that cash flow from the properties will be sufficient in the future to fully fund the ongoing monthly reserve requirements or that such ongoing monthly reserves or additional financing will be sufficient to offset the future capital expenditure and leasing costs of the properties.

Borrowers’ Recent Acquisitions of the Mortgaged Properties. Certain of the Real Estate Investments or the underlying commercial mortgage loans may have been originated contemporaneously with the acquisition of the related Mortgaged Properties. Consequently, certain of the borrowers may have limited experience operating the particular Mortgaged Properties and therefore, there is a risk that the net operating income and cash flow of such Mortgaged Properties may vary significantly from the operations, net operating income and cash



flow generated by the Mortgaged Properties under prior ownership and management. In certain cases, the Mortgaged Properties may have been acquired by the related borrower because such borrower hopes to be able to increase the future net operating income over the historical net operating income of such Mortgaged Properties. Such increases are expected by the borrowers to result from a combination of factors including capital expenditures, re-tenanting the Mortgaged Properties at higher existing market rents, decreasing vacancy rates and repositioning the property in the relevant market. However, there can be no assurance that the related borrowers will be able to increase the future net operating income or even sustain historical net operating income at any of the Mortgaged Properties. The failure to sustain and, in certain cases increase, such net operating income could adversely affect the ability of the borrowers to make payments on the related Real Estate Investments or underlying commercial mortgage loans.

Disproportionate Principal Balance Concentrations. To the extent the principal balance of any Real Estate Investment (or the commercial mortgage loans underlying such Real Estate Investment) is substantially higher than the average principal balance of the other Real Estate Investments, losses may be more severe (or have more significant effects on yield, in the event of prepayment), relative to the aggregate size of the Real Estate Investments, than would be the case if the aggregate principal balance of the Real Estate Investments were more evenly distributed.

Geographic Concentration. In general, the level of any geographic concentration with respect to the Mortgaged Properties increases exposure to any adverse economic or other developments, including earthquakes, hurricanes and other natural disasters, that may occur in such States. In addition, improvements on Mortgaged Properties located in California and certain other areas may be more susceptible to certain types of special hazards not covered by insurance (such as earthquakes) than properties located in other parts of the country. In general, the Mortgaged Properties are not insured for earthquake risk.

Certain Considerations With Respect to Foreign Mortgaged Properties. There are certain unique risks associated with Mortgaged Properties that are located outside the United States. Certain foreign countries have experienced adverse economic conditions in recent years, including high levels of inflation.

If the economy of the foreign country where the Mortgaged Property is located falls into a recession or if inflation and interest rates increase significantly, the economic performance of the Mortgaged Property underlying the security could suffer adverse consequences.

Operation of hotels under foreign law are subject to numerous federal, state and local licensing, permitting and registration requirements. Most licenses and permits are granted to the operating company and therefore may not be transferred to any other person or entity. In the event of a foreclosure of a hotel loan, RRE would likely have to apply for new licenses and permits in order to operate the hotel. The criteria for granting some of these licenses are discretionary and, therefore, the relevant authority may deny such licenses to RRE, as applicable. Failure to obtain or comply with all such licenses, permits and registrations may cause the imposition of substantial fines and penalties, including, under certain circumstances, the closing of the related hotel.

Availability of Insurance. Although the Mortgaged Properties are generally required to be insured against certain risks, there is a possibility of casualty loss with respect to each Mortgaged Property for which insurance proceeds may not be adequate (such as floods) or which may result from risks if not covered by insurance (such as terrorism risks or hurricanes). In addition, certain of the Mortgaged Properties may be located in states that have been historically at greater risk to acts of nature (such as hurricanes, floods and earthquakes) than properties located in other states. There can be no assurance borrowers have complied or will in the future be able to comply with requirements to maintain adequate insurance with respect to the Mortgaged Properties. As with all real estate, if reconstruction (for example, following fire or other casualty) or any major repair or improvement is required to the property, applicable laws and governmental regulations may materially affect the cost to, or ability of, the borrower to effect such reconstruction, major repair or improvement. As a result of the occurrence of any of these events, the amount realized with respect to Real Estate Investments or the underlying commercial mortgage loans could be reduced.

Mortgage Loans Not Insured. None of the Real Estate Investments (or underlying commercial mortgage loans) is insured or guaranteed by the United States, any governmental entity or instrumentality, by any private mortgage insurer or by the sellers, RRE or any of their affiliates.

Non-Recourse Mortgage Loans. Generally, all of the commercial mortgage loans and mezzanine loans comprising or underlying the Real Estate Investments are expected to be non-recourse loans as to which recourse, in the event of a default, will be limited to the related Mortgaged Property. Consequently, payment on each such commercial mortgage loan and mezzanine loan prior to maturity is dependent primarily on the sufficiency of the cash flow of the related Mortgaged Property, and at maturity (whether at scheduled maturity or, in the event of a default, upon the acceleration of such maturity) upon the then market value of the related Mortgaged Property or the ability of the related borrower to refinance the Mortgaged Property. None of the mezzanine loans comprising or underlying the Real Estate Investments will be secured by a lien on the related commercial property.

Balloon Payments. The commercial mortgage loans and mezzanine loans comprising or underlying the Real Estate Investments may, and most of the Mortgage Loan Interests and Mezzanine Loan Interests comprising the Real Estate Investments do, provide for balloon payments to be due at their respective stated maturity dates unless prepaid prior thereto. Loans with balloon payments involve a greater likelihood of default than self-amortizing loans because the ability of a borrower to make a balloon payment typically will depend upon its ability either to refinance the loan or to sell the related Mortgaged Property. The ability of a borrower to accomplish either of these goals will be affected by a number of factors, including the value of the related Mortgaged Property, the level of available mortgage rates at the time of sale or refinancing, the borrower's equity in the related Mortgaged Property, the financial condition and operating history of the borrower and the related Mortgaged Property, tax laws, rent control laws (with respect to certain residential properties), prevailing general economic conditions and the availability of credit for loans secured by multifamily or commercial, as the case may be, real properties generally. Neither RRE nor any of its affiliates will be required to refinance any underlying commercial mortgage loan or mezzanine loan.

In order to maximize recoveries on defaulted commercial mortgage loans and mezzanine loans, the applicable Servicer or Special Servicer may extend and modify such commercial mortgage loans and mezzanine loans that are in material default or as to which a payment default (including the failure to make a balloon payment) is reasonably foreseeable. There can be no assurance, however, that any such extension or modification will increase the present value of recoveries in a given case.

Leases and Rents. Each Mortgaged Property that is subject to leases typically is secured by an assignment of leases and rents pursuant to which the borrower assigns to the lender its right, title and interest as landlord under the leases of the related Mortgaged Property, and the income derived therefrom, as further security for the related commercial mortgage loan, while retaining a license to collect rents for so long as there is no default. If the borrower defaults, the license terminates and the lender is entitled to collect rents. Some state laws may require that the lender take possession of the Mortgaged Property and obtain a judicial appointment of a receiver before being entitled to collect the rents. In addition, if bankruptcy or similar proceedings are commenced by or in respect of the borrower, the lender's ability to collect the rents may be adversely affected.

Management. The successful operation of a real estate project is dependent on the performance and viability of the property manager of such project. The property manager is responsible for responding to changes in the local market, planning and implementing the rental structure, including establishing levels of rent payments, and ensuring that maintenance and capital improvements can be carried out in a timely fashion. Accordingly, by controlling costs, providing appropriate service to tenants and seeing to the maintenance of improvements, sound property management can improve cash flow, reduce vacancy, leasing and repair costs and preserve building value. On the other hand, management errors can, in some cases, impair the viability of a real estate project.

Certain of the Mortgaged Properties may be managed by property managers affiliated with the respective borrowers. These property managers may also manage and/or franchise additional properties, including Mortgaged Properties or other properties that may compete with the Mortgaged Properties. Moreover, affiliates of the managers and/or the borrowers, or the managers and/or the borrowers themselves, may also own other properties, including competing properties. Accordingly, the managers of the Mortgaged Properties and the borrowers may experience conflicts of interest in the management and/or ownership of such properties.

Limitations of Appraisals. It is expected that an appraisal or an update thereof was conducted in respect of the related Mortgaged Properties in connection with the origination of each commercial mortgage loan comprising or underlying the Real Estate Investments or thereafter. Those appraisals represent the analysis and opinion of the person performing the appraisal or market analysis and are not guarantees of present or future values. In addition, appraisals seek to establish the amount a typically motivated buyer would pay a typically motivated seller. Such amount could be significantly higher than the amount obtained from the sale of a Mortgaged Property under a distress or liquidation sale. Certain of the commercial mortgage loans comprising or underlying the Real Estate Investments are not or will not be newly originated

when acquired by the client and the appraisals of the underlying Mortgaged Properties may not be current or reflect the then-current value of the Mortgaged Property. RRE is under no obligation to obtain or update any appraisals.

Risks of Secured Subordinate or Mezzanine Financing. Commercial mortgage loans may prohibit the related borrower from encumbering the Mortgaged Property with additional secured debt or require the consent of the holder of the first lien prior to so encumbering such property. However, a violation of such prohibition may not become evident until the related commercial mortgage loan otherwise defaults.

The existence of any additional subordinate indebtedness may increase the difficulty of refinancing the related commercial mortgage loan at maturity for the purpose of making any balloon payments and the possibility that reduced cash flow could result in deferred maintenance. If the holder of any subordinated debt secured by a Mortgaged Property has filed for bankruptcy or been placed in involuntary receivership, foreclosing on such Mortgaged Property in the event of a default under the related commercial mortgage loan could be delayed. The borrowers under the commercial mortgage loans may have incurred mezzanine debt or the commercial mortgage loans may provide that mezzanine loans are permitted. Because mezzanine loans are secured by the obligor's equity interest in the related borrowers, such financing effectively reduces the obligor's economic stake in the related Mortgaged Property. Further, the existence of mezzanine debt may also affect the financial viability of the obligor or the availability of proceeds to fund replacements, tenant improvements or capital expenditures.

Related Borrowers; Concentration of Borrowers or Sponsors. Certain borrowers or sponsors under the commercial mortgage loans comprising or underlying the Real Estate Investments or under any mezzanine loans may be affiliated or under common control with one another. Any adverse circumstances relating to a borrower or sponsor or an affiliate thereof and affecting one of the related commercial mortgage loans or Mortgaged Properties could also affect commercial mortgage loans or Mortgaged Properties of the related borrower. In particular, the bankruptcy or insolvency of any such borrower, sponsor or affiliate could have an adverse effect on the operation of all of the Mortgaged Properties of that borrower and its affiliates and on the ability of such related Mortgaged Properties to produce sufficient cash flow to make required payments on the related commercial mortgage loans. For example, if a person that owns or directly or indirectly controls several Mortgaged Properties experiences financial difficulty at one Mortgaged Property, it could defer maintenance at one or more other Mortgaged Properties, in order to satisfy current expenses with respect to the Mortgaged Property experiencing financial difficulty, or it could attempt to avert foreclosure by filing a bankruptcy petition that might have the effect of interrupting payments for an indefinite period on all the related commercial mortgage loans.

Zoning and Building Code Compliance. While it is expected that the originator of each of the commercial mortgage loans comprising or underlying the Real Estate Investments will have taken certain steps to establish at origination that the use and operation of Mortgaged Properties were in compliance in all material respects with all applicable zoning, land-use, building, fire and health ordinances, rules, regulations and orders applicable to such Mortgaged Properties, but no assurance can be made that such steps revealed all possible violations. Evidence of such

compliance may have been in the form of legal opinions, certifications from government officials, title policy endorsements and/or representations by the related borrower contained in the related commercial mortgage loan documents. In many cases, the use, operation and/or structure of a Mortgaged Property constitutes a permitted nonconforming use and/or structure, which may not be rebuilt to its current state in the event of a material casualty event; however, it is expected that insurance proceeds would be available for application to the related commercial mortgage loan if such were to occur. Such insurance proceeds, however, may not be sufficient to cover all principal of and interest on the related commercial mortgage loan.

Availability of Hazard Insurance and Terrorism Insurance. It is expected that the Commercial Mortgage Loans will typically require the borrowers to maintain hazard insurance policies with respect to the related mortgaged properties, as well as comprehensive general liability and business interruption or rent loss insurance policies. Such insurance policies are generally subject to periodic renewals during the term of the related commercial mortgage loans. Insurance coverage may be more difficult to obtain or renew at comparable rates.

Risks Relating to Property Types. The Mortgaged Properties underlying the Real Estate Investments may consist of various property types, including the property types described below, in each case, up to the maximum property concentration limits specified by the Reinvestment Criteria. After the Reinvestment Period, however, prepayments or repayments on the related commercial mortgage loans or disposition of the Real Estate Investments may result in property type concentrations that exceed the related maximum limit specified by the Reinvestment Criteria.

Office Properties. The income from, and market value of, office properties, and a borrower's ability to meet its obligations under a mortgage loan secured by office properties is dependent to a certain extent on the property's age, condition, design, access to transportation and ability to offer certain amenities to tenants, including sophisticated building systems (such as fiber optic cables, satellite communications or other base building technological features) which all affect the ability of such a property to compete against other office properties in the area in attracting and retaining tenants. Increased competition in the market of an office property through the addition of competing properties nearby or otherwise can adversely impact upon the success of an office property, even if (and possibly because) the local, regional and national economies are doing well. Other important factors that affect the ability of an office property to attract or retain tenants include the quality of a building's existing tenants, the quality of the building's property manager, and the attractiveness of the building and the surrounding area to prospective tenants and their customers or CDO clients and the public perception of safety in the surrounding neighborhood. Attracting and retaining tenants often involves refitting, repairing or making improvements to office space to accommodate the type of business conducted by prospective tenants or a change in the type of business conducted by existing major tenants. Such refitting, repairing or improvements are often more costly for office properties than for other property types. Local and regional economic conditions

and other related factors also affect the demand for, and operation of, office properties.

Retail Properties. The success of a retail property is dependent to a certain extent on the quality of the location of the property, which affects the accessibility of the property to potential customers and the volume of consumer traffic at the property. Retail properties are affected significantly by adverse changes in consumer spending patterns, local competitive conditions (such as the supply of retail space or the existence or construction of new competitive shopping centers or shopping malls), the quality and philosophy of management, the attractiveness of the properties to tenants and their customers or CDO clients, the public perception of the safety of customers at retail properties, and the need to make major repairs or improvements to satisfy the needs of significant tenants.

Anchor stores in shopping centers play an important part in generating customer traffic and making the centers a desirable location for other tenants. The failure of an anchor store to renew its lease, the termination of an anchor store's lease, the bankruptcy or economic decline of an anchor store, or the cessation of the business of an anchor that owns its fee or an anchor that leases its space (notwithstanding its continued payment of rent) can have a material negative effect on the economic performance of a retail property. There can be no assurance that if an anchor store in an anchored retail Mortgaged Property were to close, the related borrower would be able to replace the anchor in a timely manner or without incurring material additional costs and adverse economic effects.

Malls with anchor-owned stores often have operating agreements between the mall owner and such anchor stores that require the anchors to operate at the mall for a certain period of time. Anchor leases often also have such operating covenants. Anchor leases and operating agreements often have co-tenancy clauses which permit such stores to cease operating and terminate their lease if certain other anchor stores have not renewed their leases or if a specified percentage of other stores at the related property are not open. Anchor leases also often contain various restrictive covenants, including permissible building areas on the lease site plans and parking ratio requirements which could restrict the related borrower's ability to lease space to other tenants. In certain cases the violation of such a covenant by such borrower could entitle the anchor to terminate its lease. Anchor store leases and operating agreements may also contain various other covenants regarding usage of the applicable property, the breach of which may permit the store to cease operating. In addition, certain tenant leases for non-anchor stores at retail properties may permit the affected tenants to terminate their leases if a certain number of anchor stores or a certain percentage of non-anchor stores are not operated at such properties for a specified period of time or if such tenants fail to meet certain sales targets or other business objectives for a specified period of time.

Industrial and Warehouse Properties. Economic decline in the businesses operated by the tenants of industrial and warehouse properties could result in realized losses on the mortgage loans. These risks are similar to those of tenants of office properties. See “—Office Properties” above. Site characteristics at industrial properties may impose restrictions that may limit the properties’ suitability for tenants, affect the value of the properties and contribute to losses on the mortgage loans. Site characteristics which affect the value of an industrial or warehouse property include: (i) clear heights, (ii) column spacing, (iii) number of bays and bay depths, (iv) truck turning radius, (v) divisibility, (vi) zoning restrictions and (vii) overall functionality and accessibility. An industrial or warehouse property also requires availability of labor sources, proximity to supply sources and customers, and accessibility to rail lines, major roadways and other distribution channels.

Properties used for industrial purposes may be more prone to environmental concerns than other property types. Increased environmental risks could adversely affect the value and cash flow from industrial properties.

Multifamily Properties. In the case of multifamily lending in particular, adverse economic conditions, either local or national, may limit the amount of rent that can be charged and may result in a reduction in timely rent payments or a reduction in occupancy levels. Occupancy and rent levels may also be affected by construction of additional housing units, attractiveness of the property and neighborhood, company relocations or closings and national and local politics. Multifamily rental properties may be or may become subject to rent stabilization or rent control laws if such laws are adopted by the state or local government of the jurisdiction where the property is located. In addition, the level of mortgage interest rates may encourage tenants to purchase single family housing. Further, the cost of operating a multifamily property, including the costs of utilities and the costs of required capital expenditures, may increase.

Hotel Properties. Various factors, including location, quality and franchise affiliation (or lack thereof), affect the economic viability of a hotel. Adverse economic conditions, either local, regional or national, may limit the amount that may be charged for a room and may result in a reduction in occupancy levels. The construction of competing hotels or motels can have similar effects. Because hotel rooms generally are rented for short periods of time, hotel properties tend to respond more quickly to adverse economic conditions and competition than do other commercial properties.

Hotel properties may be operated under a management or franchise agreement between the related borrower and a national hotel chain. The viability of any such hotel property depends in large part on the continued existence and financial strength of the franchisor or manager, the public perception of the service mark of the franchise or membership association and the duration of the franchise licensing agreement or management agreement.

Franchise licensing agreements generally impose affirmative obligations on the franchisees with respect to hotel operation. If the franchisee does not comply with such obligations, it may lose its franchise license. The replacement of a franchise may require significantly higher licensing fees. In addition, the transferability of franchise license agreements may be restricted and, in the event of a foreclosure of a hotel property, the lender may not have the right to use the franchise license or membership agreement without the franchisor's consent, and substantial disruption of operations may occur. Conversely, a lender may be unable to remove a franchisor that it desires to replace following a foreclosure.

Undeveloped Land. Generally, these properties are not expected to generate any cash flow during the term of the related commercial mortgage loan, and the sole source for debt service payments on the commercial mortgage loan will be debt service reserves established and funded at the closing of the loan. At maturity, the ability of the borrower to make the balloon payment on the related commercial mortgage loan will depend on the ability of the borrower to either sell the property or obtain refinancing for the loan.

Self Storage Properties. The self storage facilities market contains low barriers to entry. In addition, due to the short-term nature of self storage leases, self storage properties also may be subject to more volatility in terms of supply and demand than loans secured by other types of properties.

Because of the construction utilized in connection with certain self storage facilities, it might be difficult or costly to convert such a facility to an alternative use. Thus, liquidation value of self storage properties may be substantially less than would be the case if the same were readily adaptable to other uses. In addition, it is difficult to assess the environmental risks posed by these facilities due to tenant privacy, anonymity and unsupervised access to these facilities. Therefore, these facilities may pose additional environmental risks to investors. RRE cannot provide assurance that all of the units included in the self storage properties are free from hazardous substances or other pollutants or contaminants, or that they will remain so in the future.

Condominium Conversion Properties. The viability of a condominium conversion property will depend upon the ability of the related borrower to sell condominium units, and on the pace and price at which condominium units are sold. Since most condominium conversion properties require some level of construction and re-development before condominium units may be sold (although condominium units may be "pre-sold" prior to completion of construction), the success of a condominium conversion property may also be affected by the amount of time and money required to complete the construction and re-development phase of the project.



Unlike some operating properties, which may have a history of operating results that may be analyzed, each condominium conversion project is unique and must be evaluated based on its likelihood for success rather than its operating history.

The success of a condominium conversion project will be influenced by many of the same factors that affect operating properties, as well as: the construction, re-development and conversion experience of the parties involved; the time to completion of, and potential cost of, construction and re-development; cost overruns experienced in the construction phase of the project and the adequacy and reliability of funding for construction costs; the existence of a “completion guarantee” from a credit-worthy entity guaranteeing the completion of the construction phase of the property; the adequacy of reserves for debt service and other property expenses during the construction phase of the project; regulatory and other obstacles encountered in the condominium conversion process; the number of pre-sold condominium units and the percentage of such units that are purchased by “speculators” who are purchasing such units for re-sale (because such re-sales could potentially compete with sales of un-sold condominium units); and the “absorption rate” of condominium units of the price, quality and character of the subject units in the markets where the condominium conversion property is located; and the developer’s track record in successfully completing and marketing similar projects.

Risks Relating to Tenants and Leases; Tenant Concentration and Tenant Bankruptcies. Owners of income-producing properties generally rely on rental payments to pay maintenance and other operating expenses, to fund capital improvements and to pay any mortgage and other indebtedness. Net operating income from a real estate project may be reduced, and consequently a borrower’s ability to repay the related loan may be impaired as a result of, among other things, (i) a decline in market rental rates as leases are renewed or replaced, (ii) an increase in operating expenses of the project and/or (iii) an increase in capital expenditures needed for maintenance and improvements required by tenants.

Income from, and the market value of, a Mortgaged Property would also be adversely affected if (i) space in the Mortgaged Property could not be leased or re-leased as existing leases expire, (ii) tenants were unable to meet their lease obligations, (iii) a significant tenant were to become a debtor in a bankruptcy case or subject to other insolvency proceedings, or (iv) rental payments could not be collected for any other reason. Any tenant may experience a downturn in its business, which may weaken its financial condition and impair its ability to make rental payments when due.

Repayment of a commercial mortgage loan (other than, generally, commercial mortgage loans secured by hotel properties or condominium conversion properties) will be affected by the expiration of leases and the ability of the related borrowers to renew the related leases or re-let the corresponding space on comparable terms. Even if vacated space is successfully re-let, the costs associated with re letting, including tenant improvement costs and leasing commissions, could be substantial and could reduce cash flow from the Mortgaged Properties. There will generally be existing leases that expire during the term of a commercial mortgage loan

comprising or underlying the Real Estate Investments and there can be no assurance that such leases will be renewed. In addition, certain tenants may have options to terminate their related lease prior to the maturity date of the related commercial mortgage loan.

Most Mortgaged Properties have multiple tenants. Commercial properties having multiple tenants generally require expenditures for re-tenanting more frequently than commercial properties with single tenants, thereby reducing the cash flow available to pay debt service on the commercial mortgage loan. In addition, multi-tenanted commercial properties may experience higher continuing vacancy rates and greater volatility in rental income and expenses than single tenanted commercial properties.

In those cases where a Mortgaged Property or group of Mortgaged Properties is leased to a single tenant or is primarily leased to one or a small number of major tenants, the lender has relatively less or none of the benefits of tenant credit risk diversification and any deterioration in the financial condition or results of operations of any of those tenants, or other adverse circumstances relating to such tenant(s) (such as bankruptcy or insolvency) may have particularly significant effects on the net cash flow derived from the operation of the property. If any of such tenants defaults under or fails to renew its lease, the resulting adverse financial effect on the operation of the related Mortgaged Property or group of Mortgaged Properties will be substantially more severe than would be the case with respect to a property occupied by a larger number of less significant tenants. Any such Mortgaged Property or group of Mortgaged Properties is highly dependent upon such single or major tenants and, therefore, adverse changes in the businesses of those tenants (whether arising from several economic circumstances, industry circumstances, circumstances that are unique to the tenant(s) or otherwise) are likely to affect the operation of the properties.

The bankruptcy or insolvency of a major tenant or a number of smaller tenants occupying a Mortgaged Property will likely have an adverse impact on the Mortgaged Property and the income it produces. Under the bankruptcy law, a tenant has the option of assuming or rejecting or, subject to certain conditions, assuming and assigning to a third party, any unexpired lease. If the tenant assumes its lease, the tenant must cure all defaults under the lease and provide the landlord with adequate assurance of its future performance under the lease. If the tenant rejects the lease, the landlord's claim for breach of the lease would (absent collateral securing the claim) be treated as a general unsecured claim against the tenant. The amount of the claim would be limited to the amount owed for the unpaid rent reserved under the lease for the periods prior to the bankruptcy petition (or earlier surrender of the leased premises) that are unrelated to the rejection, plus the greater of one year's rent or 15% of the remaining rent reserved under the lease (but not to exceed three years' rent). If the tenant assigns its lease, the tenant must cure all defaults under the lease and the proposed assignee must demonstrate adequate assurance of future performance under the lease.

Risks Associated with Leasehold Interests. Commercial mortgage loans comprising or underlying the Real Estate Investments may be secured by a mortgage lien on the related borrower's leasehold interest in the related Mortgaged Properties. Lending on a leasehold ownership interest is riskier than lending on a fee ownership interest because, among other reasons, the ground lease creating the leasehold estate may be terminated, leaving the lender

without its security. The risks to a leasehold mortgagee may be minimized if the ground lease contains certain customary provisions protective of a leasehold lender. Certain Commercial Mortgage Loans comprising or underlying the Real Estate Investments may be secured by ground leases that do not contain all or some of these protective provisions.

Risks Particular to Condominium Agreements. Certain of the Mortgaged Properties underlying the Real Estate Investments may be subject to the terms of one or more condominium agreements. Due to the nature of condominiums, a default on the part of the related borrower will not allow the mortgagee the same flexibility in realizing on the collateral as is generally available with respect to commercial properties that are not condominiums. The rights of other unit owners, the condominium documents and the state and local laws applicable to condominium units must be considered and respected. In addition, Mortgaged Properties which are part of a condominium regime may not be readily convertible (or convertible at all) due to restrictive covenants imposed by the condominium declaration and other related documents. Consequently, servicing and realizing upon the collateral consisting of condominium units could subject a CDO client to greater delay, expense and risk than a loan secured by a commercial property that is not a condominium.

Risks Associated with Multiple-Property Loans. Commercial mortgage loans comprising or underlying the Real Estate Investments may be secured by more than one Mortgaged Property. Multiple-property security arrangements provide diversity that may reduce the risk that the underperformance of one or more of the Mortgaged Properties will result in defaults and ultimate losses. However, multiple property security arrangements may be difficult to enforce (as a practical matter) for loans secured by properties in states with “one-form-of-action” or similar rules. Moreover, certain of such commercial mortgage loans are secured by liens on Mortgaged Properties located in different states. Due to various state laws governing foreclosure or the exercise of a power of sale, and because the courts of one state cannot exercise jurisdiction over property in another state, it may be necessary upon a default under either such commercial mortgage loan to foreclose on the related Mortgaged Properties in a particular order rather than simultaneously in order to ensure that the lien of one or more of the related mortgages is not impaired or released. As a result, the ability to realize upon such commercial mortgage loan may be limited by the application of state laws. Foreclosure actions may also, in certain circumstances, subject the lender to liability as a “lender-in-possession” or result in the equitable subordination of the claims of the lender to the claims of other creditors of the borrower.

Litigation. There may be legal proceedings pending and, from time to time, threatened against the borrowers and the managers of the Mortgaged Properties and their respective affiliates arising out of the ordinary business of the borrower, the managers and such affiliates. It is possible that such litigation may have a material adverse effect on any borrower’s ability to meet its obligations under the related mortgage loan. In addition, certain Mortgaged Properties and/or borrowers (or their principals) may have been the subject of bankruptcy proceedings, foreclosure proceedings or other civil litigation.

From time to time, there may be condemnations pending or threatened against one or more of the mortgaged real properties securing the mortgage loans. The proceeds payable in connection

with a total condemnation may not be sufficient to restore the related mortgaged real property or to satisfy the remaining indebtedness of the related mortgage loan. The occurrence of a partial condemnation may have a material adverse effect on the continued use of, or income generation from, the affected mortgaged real property.

Bankruptcy and Insolvency Limitations on Lenders. Under the Bankruptcy Code, the filing of a petition in bankruptcy by or against an obligor will stay the commencement or continuation of a foreclosure action against the real property owned by that obligor. The resulting delay may be significant. In addition, a court that determines the value of a Mortgaged Property to be less than the principal balance of the related commercial mortgage loan may (subject to certain protections available to the lender) stop a lender from foreclosing on the Mortgaged Property and, as a part of a restructuring plan, reduce the amount of secured indebtedness to the value of the Mortgaged Properties as it exists at the time of the proceeding (leaving the lender as a general unsecured creditor for the difference between such value and the outstanding amount of the commercial mortgage loan). A bankruptcy court may also grant a debtor a reasonable time to cure a payment default, reduce monthly payments due under a commercial mortgage loan, change the rate of interest due on a commercial mortgage loan or otherwise modify the commercial mortgage loan's repayment schedule.

Limits on Enforceability of Cross Collateralization. Certain of commercial mortgage loans comprising or underlying the Real Estate Investments may represent the obligation of multiple borrowers, each of which has mortgaged its interest in its Mortgaged Property to secure the entire principal amount of the related commercial mortgage loan on a joint and several basis. The payment obligation of a borrower under such loan in excess of its pro rata obligation, and the grant of a lien to secure such excess obligation, however, could be challenged as fraudulent conveyances by creditors of the related borrower in an action brought outside a bankruptcy case or, if such borrower were to become a debtor in a bankruptcy case, by such borrower or its bankruptcy trustee. Generally, under federal and most state fraudulent conveyance statutes, the incurrence of an obligation or the transfer of property or an interest in property (including the grant of a lien) by an entity will be subject to avoidance under certain circumstances if the grantor did not receive fair consideration or reasonably equivalent value in exchange for such obligation or transfer and (a) was insolvent or was rendered insolvent by such obligation or transfer, (b) was engaged in business or a transaction, or was about to engage in business or a transaction, for which any property remaining with the person constituted unreasonably small capital, or (c) intended to, or believed that it would incur, debts that would be beyond such person's ability to pay as such debts matured. If a court were to find or conclude that the granting of the liens or the incurrence of the obligations associated with the commercial mortgage loan was an avoidable fraudulent conveyance with respect to a particular borrower, that court could subordinate all or part of the commercial mortgage loan to existing or future indebtedness of such borrower, recover payments made under the commercial mortgage loan or take other actions detrimental to the lender.

The Borrower's Form of Entity May Cause Special Risks. Commercial mortgage loans made to legal entities may entail risks of loss greater than those of commercial mortgage loans made to individuals. For example, a legal entity, as opposed to an individual, may be more inclined to seek legal protection from its creditors under the bankruptcy laws. Unlike individuals involved

in bankruptcies, most of the entities generally do not have personal assets and creditworthiness at stake.

Generally, Real Estate Investments that are Mortgage Loan Interests and are whole loans do not require that the borrowers covenant to be single purpose entities or may not require the borrowers to observe all covenants and conditions that typically are required in order for them to be viewed under standard rating agency criteria as “special purpose entities.” In general, a borrower required to be a single purpose entity will have organizational documents that limit their activities to the ownership of only the related Mortgaged Property or Properties and limit the borrower’s ability to incur additional indebtedness. These provisions are designed to mitigate the possibility that the borrower’s financial condition would be adversely impacted by factors unrelated to the Mortgaged Property and the related commercial mortgage loan. Even if a borrower is required to be a single purpose entity, there can be no assurance that such borrower will comply with these requirements.

Any borrower, even a special purpose entity structured to be bankruptcy-remote, as an owner of real estate, will be subject to certain potential liabilities and risks. Any borrower may file for bankruptcy protection or creditors of a borrower or a corporate or individual general partner or managing member of a borrower may initiate a bankruptcy or similar proceeding against such borrower or corporate or individual general partner or managing member.

Furthermore, creditors of a common parent in bankruptcy may seek to consolidate the assets of such borrowers with those of the parent. Consolidation of the assets of such borrowers would likely have an adverse effect on the funds available to make distributions on the related Real Estate Investment.

Tenants-in-Common. Certain of the commercial mortgage loans comprising or underlying the Real Estate Investments may have borrowers that own the related Mortgaged Property as tenants-in-common. The bankruptcy, dissolution or action for partition by one or more of the tenants-in-common could result in an early repayment of the related commercial mortgage loan, a significant delay in recovery against the tenant-in-common borrowers, a material impairment in property management and a substantial decrease in the amount recoverable upon the related commercial mortgage loan. Not all tenants-in-common are special purpose entities.

Risks Related to Significant Vacant Space. Certain of the Mortgaged Properties underlying the Real Estate Investments have or will have significant vacant space and may not generate sufficient cash flow to meet the required debt service and other financial obligations of the related borrower. While the mortgagee requires the related borrower to establish certain debt service reserves, the existing space may not generate sufficient cash flow to support payments under the related commercial mortgage loan.

Risks Related to Redevelopment or Renovation. Certain of the Mortgaged Properties underlying the Real Estate Investments may be undergoing or are expected to undergo redevelopment or renovation. There can be no assurance that the planned redevelopment or renovation will be completed, that such redevelopment or renovation will be completed in the time frame contemplated or that, when and if such redevelopment or renovation is completed, it will

improve the operations at, or increase the value of, the related Mortgaged Property. Failure of any of the foregoing to occur could have a material adverse impact on the ability of the related borrower to repay the related commercial mortgage loan.

In the event the related borrower fails to pay the costs of work completed or material delivered in connection with such ongoing redevelopment or renovation, the portion of the Mortgaged Property on which there are renovations may be subject to mechanics' or materialmen's liens that may be senior to the lien on the related commercial mortgage loan.

The existence of construction or renovation at a Mortgaged Property may make such Mortgaged Property less attractive to tenants or their customers or, in the case of hospitality properties, may require that a portion of the Mortgaged Property not be used during that renovation and, accordingly, could have a negative effect on net operating income.

**Item 9:**        Disciplinary Information.

Neither RRE nor its management personnel have been involved in or are the subject of any legal or disciplinary events that would be material to a client's or prospective client's evaluation of RRE's advisory business or the integrity of RRE or its management personnel.

**Item 10:**      Other Financial Industry Activities and Affiliations.

(A) Darshan Patel, the Chief Compliance Officer of RRE is a registered representative of Resource Securities, Inc., a FINRA registered broker-dealer affiliate of RRE.

(B) Neither RRE nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

(C) RRE is a wholly owned subsidiary of Resource America, Inc., a specialized asset management company that focuses, through its wholly owned subsidiaries and joint ventures, on the commercial finance, real estate and financial fund management sectors. Each of these subsidiaries focuses on unique asset classes and investment strategies.

1. Resource Securities, Inc., a wholly owned subsidiary of Resource America, Inc., is a FINRA licensed broker-dealer engaged in (i) the underwriting of direct participation programs and real estate investment trusts on an "all or none," "part or none," and/or "best efforts" basis; (ii) the wholesaling with other broker/dealers of direct participation programs and REITs; and (iii) the sale in private placements of certain tranches of CDO and CDO debt securities including CRE CDO securities, ABS CDO securities as well as CMBS and CMBS CDO securities, trust preferred securities of REITs, insurance companies and other financial service companies, and subordinated debt to institutional investors.

2. Affiliates of RRE manage pooled investment vehicles including, but not limited to, collateralized debt obligations, private equity funds and hedge funds. However, each affiliate of RRE focuses on distinct asset classes and therefore does not trade in the same securities or loans that are purchased and sold on behalf of RRE CDO clients. Notwithstanding the foregoing, Ischus Capital Management, LLC (“Ischus”), an affiliate of RRE, manages CDOs focused on ABS investments including CMBS. However, RRE and Ischus are managed by separate groups of investment professionals and have distinct compensation arrangements. Therefore, these relationships do not cause any material conflict of interest.
3. Resource Financial Fund Management, Inc. (“RFFM”), an affiliate of RRE, is a registered investment advisor that is primarily engaged in the business of providing portfolio management services to issuers of CDOs that primarily hold investments in trust preferred securities issued by banks, thrifts, financial institutions, real estate investment trusts, real estate operating companies and homebuilders. CDOs managed by RFFM do not invest in the same asset classes as CDOs managed by RRE. This relationship does not cause any material conflict of interest.

CVC Credit Partners, LLC, a joint venture between Resource America, Inc. and CVC Capital Partners SICAV-FIS, S.A., is a registered investment advisor that is primarily engaged in the business of providing portfolio management services to issuers of CDOs that primarily hold investments in senior secured leveraged loans, second lien loans, and corporate and high yield bonds. CDOs managed by CVC do not invest in the same asset classes as CDOs managed by RFFM. This relationship does not cause any material conflict of interest.

Ischus Capital Management, LLC is a registered investment adviser specializes in managing CDOs that primarily hold investments in structured finance products with a focus on ABS, RMBS and CMBS securities. With the exception of the ability to invest in CMBS as indicated in response to Item 10C(2) above, CDOs managed by Ischus generally do not invest in the same asset classes as the CDOs managed by RRE. This relationship does not cause any material conflicts of interest.

4. RRE does not have any relationship or arrangement with any related persons that are futures commission merchants, commodity pool operators or commodity trading advisors.
5. RRE does not have any relationship or arrangement with any related entity that is a banking or thrift institution.
6. Related persons of RRE are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as accountants. The relationship

between RRE and such related persons does not cause any material conflict of interest.

7. Related persons of RRE are employed in the ordinary course of business by Resource America, Inc. and its subsidiaries as lawyers. The relationship between RRE and such related persons does not cause any material conflict of interest.
8. RRE does not have any relationship or arrangement with any related entity that is an insurance company or agency.
9. RRE does not have any relationship or arrangement with any related person that is a pension consultant.
10. RRE does not have any relationship or arrangement with any related person that is a real estate broker or dealer.
11. Related persons of RRE may serve as sponsors or syndicators of limited partnerships. CDO clients of RRE are not solicited to invest in these limited partnerships and such limited partnerships do not transact with RRE. The relationship between RRE and such related persons does not cause any material conflict of interest.

(D) RRE does not recommend or select other investment advisors for its CDO clients.

**Item 11:**      Code of Ethics.

(A) In recognition of RRE's fiduciary duty to its CDO clients and its desire to maintain its high ethical standards, RRE has adopted a Code of Ethics containing provisions designed to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflicts in favor of the RRE CDO client. Adherence to the Code of Ethics is considered a basic condition of employment by RRE.

It is the responsibility of each employee of RRE to ensure that a particular securities transaction being considered for his or her own personal account is not subject to a restriction contained in the Code of Ethics or otherwise prohibited by any applicable laws.

RRE employees are prohibited from executing any personal securities transactions of any kind in any securities on RRE's restricted list. This list will contain the names of companies for which RRE has material non-public information. However, RRE does not anticipate receiving material non-public information on issuers of publicly traded securities in the ordinary course of business. RRE employees are required to provide the Compliance Officer with copies of all brokerage statements and trade confirmations for all accounts in which securities are held. All such statements will be reviewed on a regular basis and compared against the restricted list by the Compliance Officer.



RRE employees may not acquire beneficial ownership in any securities in any private placement of securities or investment opportunity of limited availability unless the Compliance Officer has given express prior written approval.

RRE employees may not serve as a director (or similar position) of the board or as a member of a credit committee of any company unless the employee has received written approval from the Compliance Officer. Authorization will be based on a determination that the board service would not be inconsistent with the interest of any CDO client account.

RRE employees are prohibited from using their position with RRE to obtain an item of value from any person or company that does business with RRE. Employees are prohibited from accepting any gift greater than \$300 in value from any person or company that does business with RRE or any investment vehicle managed by RRE. Unsolicited business entertainment is permitted if: a) it is not so frequent or of such high value as to raise a question of impropriety and b) the person providing the entertainment is present at the event.

RRE's management, with the advice of legal counsel, at its discretion, will consider reports made to it and upon determining that a violation of the Code of Ethics has occurred, may impose such sanctions or remedial action as it deems appropriate or to the extent required by law.

A copy of RRE's Code of Ethics is available to any investor or potential investor upon request.

**(B)** RCC Real Estate, Inc. a wholly owned subsidiary of Resource Capital Corp., generally receives a 1% origination fee and a 1% exit fee for originated loans, payable by the borrower thereunder, that may be purchased by CDOs managed by RRE. Loans originated by RCC Real Estate, Inc. generally have two-year initial terms in addition to three one-year extensions. RCC Real Estate Inc., generally receives no fee for the first extension and between 25 and 50 basis points for any extensions thereafter. The origination fee is accreted into income over the initial term of the loan and extension fees are accreted into income over the period of the applicable extension. Exit fees are recognized as income during in the period in which it is received. A conflict of interest may exist in instances in which RCC Real Estate, Inc. selects Real Estate Investments for which it is receiving origination fees for inclusion in a CDO. This conflict is mitigated by the fact that Resource Capital Corp., as the holder of preferred and junior notes in the CDOs managed by RRE, bears the risk of first loss associated with any Real Estate Investments held by the CDO.

**(C)** RRE or its related persons may provide discretionary investment advisory services to various other affiliates. In addition, RRE or its related persons may provide investment advice to themselves. In managing proprietary accounts, RRE or its related persons may purchase or sell securities for such accounts, that they also recommend to their CDO clients. It is RRE's policy that no CDO client for whom it has investment decision responsibility shall receive preferential treatment over any other CDO client or proprietary account. RRE and its related persons have adopted internal allocation procedures governing such transactions that require, among other things, that: (i) all trades for the related proprietary accounts be reviewed by portfolio management and compliance personnel, and (ii) RRE maintain records as to the activity and position in the related proprietary accounts and any transaction allocations involving related

proprietary accounts and CDO client accounts. Potential conflicts of interest may exist in instances in which RRE or its related persons determine that a specific transaction in a security is appropriate for a specific account, including proprietary accounts and accounts for which RRE charges a performance based fee, based upon numerous factors including, among other things, investment objectives, investment strategies or restrictions, while other accounts including proprietary accounts and accounts for which RRE charges a performance based fee may hold or take the opposite position in the security in accordance with those accounts' investment objectives, strategies and restrictions. RRE has adopted a Trade Allocation Policy that governs allocation of investment opportunities among CDO client accounts to ensure that all CDO client accounts are treated fairly. This policy generally results in CDO client accounts receiving pro rata allocations of any investment opportunity sought by a portfolio manager on behalf of a CDO client account. Potential conflicts of interest may also exist in instances in which personnel of RRE and its related persons seek to purchase or sell securities that RRE recommends to CDO client accounts ahead of any purchases or sales made by RRE on behalf of CDO client accounts ("front running"). The conflict of interest posed by front running is mitigated by the fact that the majority of investments made by RRE on behalf of its CDO clients are in securities that are not available for purchase by individuals. Further, RRE's Insider Trading Policy and Code of Ethics require pre-clearance by the Chief Compliance Officer of all securities transactions. This policy makes securities transactions by the personnel of RRE and its related persons transparent and prevents front running by such personnel.

(D) RRE and its related persons generally do not buy or sell securities for CDO client accounts, at or about the same time that RRE or its related persons buy or sell securities for its own (or the related person's own) account.

**Item 12:**      Brokerage Practices.

(A) RRE retains discretionary authority in its collateral management agreements with CDO clients to select broker-dealers in connection with all portfolio transactions; however, discretionary authority to purchase or sell securities or loan investments in CDOs is be limited by the terms of the applicable indentures and other governing agreements which impose quality, liquidity, concentration, diversification and other requirements. Pursuant to standard industry practice, it is RRE's general policy to purchase loan investments directly from the entities that originate the loans and hold such loan investments to maturity. It is also RRE's policy in placing orders to seek to obtain reasonably available best net results, including best price and execution, for portfolio transactions taking into account all relevant factors including quality of execution, ability of the broker to commit capital to provide liquidity, financial responsibility and market-making capabilities and RRE's overall responsibilities to each CDO client. RRE has discretion in selecting broker-dealers to effect portfolio transactions on behalf of the CDOs. In selecting broker-dealers, RRE considers a number of factors including quality of execution, ability of the broker-dealer to commit capital to provide liquidity, financial responsibility and market-making capabilities.

1. RRE does not receive products or services other than order execution from broker-dealers or third parties in connection with client securities transactions.
2. RRE and its related persons do not receive client referrals from broker-dealers or third parties that provide order execution on behalf of client accounts

3. RRE does not routinely recommend, request, require or permit clients to direct RRE to execute transactions through specified broker-dealers.

(B) From time to time, it may be appropriate for RRE to aggregate CDO client orders for the purchase or sale of securities. RRE will generally follow the guidelines set forth below in aggregating CDO client orders for securities, including any orders placed for private investment vehicles: (1) no CDO client will be favored over any other client; (2) each CDO client that participates in an aggregated order will participate at the average share price for all of RRE's transactions in that security on a given business day and transaction costs will be shared pro rata based on each CDO client's participation in the transaction; (3) if the aggregated order is filled in its entirety, it will be allocated among CDO clients in accordance with the RRE's general policy; and (4) if the aggregated order is partially filled, it will be allocated among CDO clients pro rata. Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified above, if the reason for the different allocation is explained in writing and approved by the Chief Compliance Officer no later than the close of trading on the day on which the order was executed. Reasons for allocation on a basis different from that specified in the allocation statement may include, but are not necessarily limited to: a CDO client's investment guidelines and restrictions; available cash; liquidity requirements; legal and regulatory reasons; or to avoid odd lots.

**Item 13:**        Review of Accounts.

(A) RRE generally reviews the cash-flow performance of all the mortgage loans in the CDOs on a monthly basis, but in no event are the loans reviewed less frequently than each quarter. The loan reviews are conducted by the debt asset management team in conjunction with the senior loan originator who was involved with the loan at its inception.

(B) N/A

(C) The trustee for each CDO provides a written note valuation report to the bond holders of the CDO on a monthly basis. RRE provides a written collateral manager's summary to the bond holders of the CDO on a quarterly basis.

**Item 14:**        Client Referrals and Other Compensation.

(A) RRE does not receive any economic benefit from any party that is not a client in connection with the provision of investment advice or other advisory services to RRE clients.

(B) RRE does not directly or indirectly compensate any person who is not a supervised person for client referrals.

**Item 15:**        Custody.

RRE does not maintain custody of CDO client funds or securities.

**Item 16:**      Investment Discretion:

The applicable indentures for each of the CDOs managed by RRE place restrictions on RRE's ability to buy and sell loans and securities on behalf of the CDO. Pursuant to the terms of these indentures, RRE has limited discretionary authority over such CDOs. CDO indentures generally restrict RRE from selling loans or securities unless such loans or securities have experienced specified credit deterioration, ratings downgrades, or events of default. RRE is also permitted by the terms of each CDO indenture to trade a portion of the CDO account on a discretionary basis.

**Item 17:**      Voting Client Securities.

(A) When RRE has discretion to vote the proxies of its CDO clients, it will vote those proxies in the best interest of its CDO clients and in accordance with its internal policies and procedures. RRE CDOs are primarily comprised of real estate loans and other real estate debt securities. Generally, the holders of these loans and securities are not entitled to vote on corporate matters. Notwithstanding the foregoing, Real Estate Investments held in CDOs managed by RRE may have voting rights attached to certain tranches of real estate loans. Such voting rights generally address remedial provisions available to lenders and loan extensions. If RRE is solicited to vote with respect to a CDO client investment, an RRE portfolio manager will, absent material conflicts of interest, determine how RRE should vote and send a recommendation on how to vote to the Chief Compliance Officer for approval. Generally, RRE will vote in favor of routine corporate housekeeping proposals, including election of officers and directors (where no corporate governance issues are implicated), selection of auditors, and increases or reclassification of common stock. RRE will generally vote against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting. For other proposals, RRE shall determine whether a proposal is in the best interests of its CDO clients and may take into account the following factors among others: (i) whether the proposal was recommended by management and RRE's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance. RRE does not permit CDO clients to vote proxies or corporate action notifications.

Conflicts of interest may exist between RRE and its CDO clients with respect to voting their securities in instances in which the issuer of loans or other securities for which votes are solicited is a CDO client or affiliate of RRE or has some other relationship with RRE. In the event that there is a material conflict of interest with regard to a corporate action notification or proxy, RRE may retain the services of an independent third party.

CDO clients may obtain information from RRE on how proxies are voted by contacting the Chief Compliance Officer of RRE. RRE CDO clients may obtain a copy of RRE's proxy voting policies and procedures upon request.

**Item 18:**      Financial Information.

(A) RRE does not require or solicit prepayment of more than \$1200 in fees per CDO client, six months or more in advance.

(B) There are no financial conditions that are reasonably likely to impair RRE's ability to meet its contractual commitments to its CDO clients.

(C) RRE has not been the subject of a bankruptcy petition at any time during the past ten years.