

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into by the Attorney General of the State of California ("Attorney General"), on behalf of the People of the State of California, and Morgan Stanley & Co. LLC, Morgan Stanley Mortgage Capital Holdings LLC, Morgan Stanley ABS Capital I Inc., Morgan Stanley Capital I Inc., Saxon Funding Management LLC, and Saxon Asset Securities Company (collectively "Defendants"). The Attorney General and Morgan Stanley are hereinafter collectively referred to as the "Parties."

WHEREAS, on April 1, 2016, the Attorney General, as head of the California Department of Justice, filed the case captioned *People of the State of California v. Morgan Stanley & Co. LLC et al.*, CGC-16-551238, in the Superior Court of the State of California, County of San Francisco ("the Action");

WHEREAS, Defendants deny the allegations in the Action and all claims of wrongdoing, damages, and liability whatsoever to the Attorney General or the People of the State of California;

WHEREAS, without conceding the merit or lack of merit of any claim or defense or the existence or absence of any liability or damages whatsoever, the Parties wish to avoid the delay, uncertainty, inconvenience, and expense of further litigation;

NOW THEREFORE, in consideration of the mutual promises, covenants, and obligations set forth in this Agreement, and for good and valuable consideration as stated herein, the Parties agree as follows:

1. **Definitions.** As used in this Agreement, the following terms shall have the following meanings:

a. "Claim" means any and all claims, counterclaims, allegations, rights, covenants, causes of action, duties, obligations, demands, actions, debts, sums of money,

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suits, contracts, agreements, promises, damages, and liabilities of every nature and description.

b. "Investigation" has the meaning set forth in the Tolling Agreement.

c. "Residential Mortgage Related Investment" means any residential mortgage-backed securities ("RMBS") or collateralized debt obligations ("CDO") or any other residential mortgage related investment in connection with which Defendants or any of their parents, subsidiaries, or affiliates acted as issuer, depositor, sponsor, underwriter, structurer, arranger, marketer, or placement agent, or in connection with which Defendants or their parents, subsidiaries, or affiliates acted as servicer or originator of any mortgage loans. Residential Mortgage Related Investments includes, without limitation, the securities listed in Exhibit A hereto.

d. "Structured Investment Vehicle" means any structured investment vehicle in connection with which Defendants or any of their parents, subsidiaries, or affiliates acted as issuer, sponsor, underwriter, structurer, arranger, marketer, or placement agent. Structured Investment Vehicle includes, without limitation, Cheyne Finance plc, Cheyne Finance LLC, and Cheyne Finance Capital Notes LLC.

e. "Tolling Agreement" means the Tolling Agreement entered into between and among the Parties, and others, dated October 31, 2011, effective September 29, 2011, and terminated pursuant to notice delivered February 9, 2016.

2. **Payment.** Defendants agree to pay a total sum of \$150,000,000 in settlement of all Claims and potential Claims to be released by the Attorney General under this Agreement ("Payment"). Payment shall be made to the State of California by electronic funds transfer within thirty (30) days of receiving written payment processing instructions from the State of California, Office of the Attorney General. Within five (5) court days of receipt of this payment, the Attorney

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General shall file a dismissal of the Action with prejudice. The full amount of the Payment shall constitute restitution, and no portion of the Payment shall be considered a fine or a penalty.

3. **Covered Conduct.** "Covered Conduct" as used herein is defined as any conduct, representations, disclosures, or omissions, whatsoever, prior to April 1, 2016, the date the Action was filed, relating to or concerning any Residential Mortgage Related Investments or Structured Investment Vehicles, or any notes or securities issued by or in connection with any Residential Mortgage Related Investment or Structured Investment Vehicle.

4. **Releases by the Attorney General.** Subject to the exceptions in Paragraph 4 (Excluded Claims), and conditioned solely upon Defendants' full payment of \$150,000,000 to the Office of the Attorney General, in accordance with written payment instructions from the Attorney General, the Attorney General fully and finally releases Defendants, as well as their current and former parents, subsidiaries, and affiliates, and each of their respective successors and assigns, and all of their current and former directors, officers, employees, servants, and agents (together the "Released Persons"), from any Claim, known or unknown, suspected or unsuspected, including, but not limited to, any Claim brought under California Government Code §§ 12650-12658, California Corporate Securities Law of 1968, California Corporations Code § 25000 *et seq.*, California Business & Professions Code § 17500, common law theories of negligence, unjust enrichment, breach of fiduciary duty, breach of contract, misrepresentation, deceit, fraud, and aiding and abetting (a) that was or could have been brought based on the Investigation or the facts alleged in the Action; (b) that arises from, relates to, or concerns the Covered Conduct; or (c) as to which time limits or time-related defenses were tolled pursuant to the Tolling Agreement. The Attorney General executes this release in his official capacity and releases only Claims that the Attorney General has the authority to release. The Attorney General agrees that no portion of the funds is received as a civil penalty or fine, including, but not limited, to any civil penalty or fine imposed

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under California Government Code § 12651. The Attorney General and Defendants acknowledge that they have been advised by their attorneys of the contents and effect of Section 1542 of the California Civil Code ("Section 1542"), which provides as follows:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that if known by him or her, would have materially affected his or her settlement with the debtor or released party."

The Attorney General and Defendants hereby expressly waive with respect to this Agreement any and all provisions, rights, and benefits conferred by Section 1542.

5. **Excluded Claims.** The following Claims are specifically reserved and not released by this Agreement: (a) any liability based upon obligations created by this Agreement; (b) any liability of any person or entity other than the Released Persons; and (c) any liability to the State of California (or its departments or agencies) for any Claims not released above.

6. **Releases by Defendants.** Defendants fully and finally release the Attorney General and the State of California, and their political subdivisions, departments, agencies, and all their directors, officers, employees, servants and agents from any Claims, including attorney's fees, costs, and expenses of every kind and however denominated, that Defendants have asserted, could have asserted, or may assert in the future against them related to the Investigation or the filing of the Action.

7. **Effect of Agreement.** This Agreement is intended to be for the benefit of the Attorney General and the Released Persons only. This Agreement is not intended for use by any other third party in any other proceeding and is not intended, and should not be construed, as an admission of liability by the Released Persons in this or any other proceeding. Nothing contained

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herein shall be construed so as to create any other third-party rights or private rights of action or to deprive any person of any private right under the law.

8. The terms of this Agreement were negotiated in good faith by the Parties, and reflect a settlement that was reached voluntarily after full investigation, consultation with experienced legal counsel and arms-length negotiation.

9. This Agreement is made without any trial or adjudication or court finding on any issue of fact or law, and is not a final order of any court or governmental authority.

10. Defendants represent and warrant, through the signatures below, that the terms and conditions of this Agreement are duly approved, and execution of this Agreement is duly authorized.

11. This Agreement may not be amended except by an instrument in writing signed on behalf of all the Parties.

12. All notices, reports, requests, and other communications to any party pursuant to this Agreement shall be in writing and shall be directed as follows:

If to Defendants, to:

Samantha L. Schreiber
Executive Director
Legal and Compliance
Morgan Stanley
1633 Broadway, 30th Floor
New York, NY 10019

James P. Rouhandeh
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017

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If to the Attorney General, to:

Frederick W. Acker, Esq.
Supervising Deputy Attorney General
Department of Justice
Office of the Attorney General
State of California
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102-7004

13. This Agreement shall be governed by the laws of the State of California without regard to any conflict of laws principles.

14. In the event of any dispute arising from or relating to this Agreement, the Parties and the Released Persons submit and consent to the exclusive jurisdiction of the Superior Court of California, County of San Francisco.

15. This Agreement constitutes the entire agreement between the Parties, and supersedes any prior communication, understanding, or agreement, whether written or oral, concerning the subject matter of this Agreement.

16. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same agreement.

17. Except as specifically provided herein, Defendants shall not take any position in any proceeding brought by or on behalf of the Attorney General, or to which the Attorney General is a party, that is inconsistent with any part of this Agreement. Nothing in this Agreement affects Defendants' (i) testimonial obligations; or (ii) right to take any legal or factual position that may contradict an allegation in this investigation in litigation or other legal proceedings in which the Attorney General is not a party.

18. This Agreement is not intended to subject the Released Persons to any disqualifications contained in the federal securities laws or the Commodity Exchange Act, the rules

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and regulations thereunder (including, without limitation, Rule 503(a) of Regulation Crowdfunding, Rule 262(a) of Regulation A and Rules 504(b)(3) and 506(d) under the Securities Act of 1933), the rules and regulations of any self-regulatory organizations, or various states' securities laws, including any disqualifications from relying upon registration exemptions or safe harbor provisions. In addition, this Agreement is not intended to form the basis for any such disqualifications, and is not of the type described in Section 15(b)(4)(H)(ii) of the Securities Exchange Act of 1934. This Agreement is not a final order of any court and contains no findings of the type described in Rule 803(8) of the Federal Rules of Evidence.

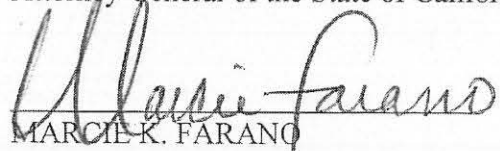
19. This Agreement is not intended to disqualify the Released Persons from any business that they otherwise are qualified, licensed, or permitted to perform under the laws or regulations of California.

20. This Agreement shall become effective and binding upon execution by the Parties hereto.

Dated: April 13, 2019

For the State of California:

XAVIER BECERRA
Attorney General of the State of California

A handwritten signature in dark ink, appearing to read "Marcie K. Farano", is written over the printed name.

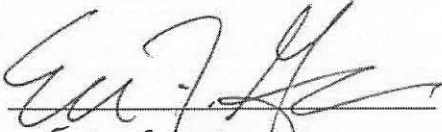
MARCIE K. FARANO
Deputy Attorney General

California Department of Justice
455 Golden Gate Ave., Suite 11000
San Francisco, CA 94102

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Dated: April 24, 2019

Morgan Stanley & Co. LLC

By: 
Name: Eric Grossman

Title: Morgan Stanley, Chief Legal Officer

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Dated: April 21, 2019

Morgan Stanley Mortgage Capital Holdings
LLC

By: 

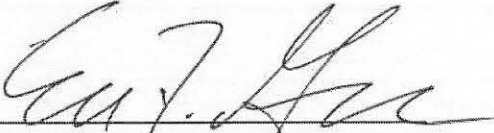
Name: Eric Grossman

Title: Morgan Stanley, Chief Legal Officer

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Dated: April 21, 2019

Morgan Stanley ABS Capital I Inc.

By: 


Name: Eric Grossman

Title: Morgan Stanley, Chief Legal Officer

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Dated: April 24, 2019

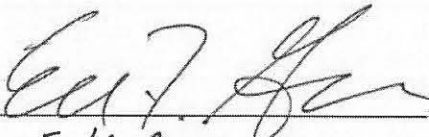
Morgan Stanley Capital I Inc.

By: 
Name: Eric Grossman
Title: Morgan Stanley, Chief Legal Officer

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Dated: April 24, 2019

Saxon Funding Management LLC

By: 

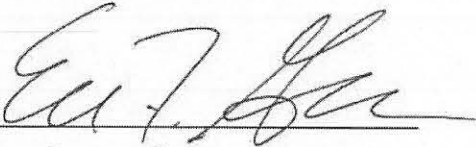
Name: *Eric Grossman*

Title: Morgan Stanley, Chief Legal Officer

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Dated: April 24, 2019

Saxon Asset Securities Company

By: 

Name: *Eric Grossman*

Title: Morgan Stanley, Chief Legal Officer

Exhibit A

Aames Mortgage Investment Trust 2005-2
Accredited Mortgage Loan Trust 2004-3
Ameriquest Mortgage Securities Inc. Asset-Backed Pass-Through Certificates, Series 2004-FR1
Ameriquest Mortgage Securities Inc. Asset-Backed Pass-Through Certificates, Series 2005-R9
Countrywide Home Loans (CWABS) Asset-Backed Certificates, Series 2004-4
Countrywide Home Loans (CWABS) Asset-Backed Certificates Trust 2005-11
Ellington Loan Acquisition Trust 2007-2
HSBC Home Equity Loan Trust (USA) 2006-3
HSBC Home Equity Loan Trust (USA) 2006-4
IXIS Real Estate Capital Trust 2006-HE2
Morgan Stanley Mortgage Loan Trust 2005-3AR
Morgan Stanley Mortgage Loan Trust 2004-8AR
Morgan Stanley Mortgage Loan Trust 2006-15XS
Morgan Stanley Mortgage Loan Trust 2007-6XS
Morgan Stanley ABS Capital I Inc. Trust 2004-HE8
Morgan Stanley ABS Capital I Inc. Trust 2006-NC1
Morgan Stanley ABS Capital I Inc. Trust 2007-NC4
Morgan Stanley ABS Capital I Inc. Trust 2007-NC2
MSCC HELOC Trust 2007-1
Saxon Asset Securities Trust 2004-2
Saxon Asset Securities Trust 2007-2
Saxon Asset Securities Trust 2007-3
Sequoia Mortgage Trust 2004-10
Sequoia Mortgage Trust 2004-12
Sequoia Mortgage Trust 2007-1
Sequoia Mortgage Trust 2007-3