All of the CMOs mentioned above are structured as a real estate mortgage investment conduits (''REMIC'') under section 860D of the Code. The various classes of certificates receive principal and, possibly, interest payments in differing portions and at differing times from the cash flows provided from the monthly payments received on the underlying mortgages.

The repayment of principal from the underlying mortgages fluctuates significantly. To facilitate the structuring of such REMICs, the prepayments on the pools of mortgages are commonly measured relative to a variety of prepayment models. The model used for these REMICs is the Public Securities Association's standard prepayment model or ''PSA''. This model assumes that mortgages will prepay at an annual rate of .2 percent in the first month after origination, then the prepayment rate increases at an annual rate of .2 percent per month up to the 30th month after origination and then the prepayment rate is constant at 6 percent per annum in the 30th and later months. This assumption is called 100 PSA.

The REMIC structure allocates principal payments to the various classes or ''tranches'' in varying amounts as principal payments are made accordingly to the allocations specified in the prospectuses. The exact date of repayment of all principal to any REMIC class is not known until the mortgage-backed securities are paid in full. The maturity for the various classes is referred to as the ''weighted average life'' (WAL). The WAL of a class refers to the average amount of time, expressed in years, which will elapse from the date of its issuance until each dollar of principal has been repaid to the investor based on the PSA assumption. The holders of all classes will receive all of their principal back. However, the timing of when that principal is returned is dependent on how quickly the underlying mortgages are repaid or refinanced. In no event will the time for the recovery of principal exceed the final maturity date of the underlying mortgages.

Each month the monthly payments on the underlying mortgages are collected and distributed to the holders of the various REMIC classes. Depending upon the structure of the REMIC, interest may be paid monthly according to a specific formula. The CMOs owned by the Plans, described in further detail below, are either ''principal only'' or ''inverse floaters'' indexed to one month LIBOR.

Principal only bonds are similar to Series E savings bonds in that the investor purchases the bond at a discount and receives the principal cash flow off the collateral. The difference in the principal amount invested and the face value equates to the investment's yield. The timing of the cash flows received determines the ultimate yield on the investment. With a principal only bond, the faster the collateral pays down, the higher the yield the investor receives. Income is recognized by accreting the discount over the expected life of the security; however, there are no regular interest payments received on principal only bonds. There is no loss of principal because the investor will ultimately receive face value. However, because there is no guarantee as to the timing of the cash flows, the bond's ultimate yield is unknown.

The remaining CMOs are ''inverse floaters'' so described, because the formulas used to calculate the interest payments, which adjust monthly for each certificate, usually raise the rate when the index falls and lower the rate when the index rises. ''LIBOR'' refers to the arithmetic mean of the London Interbank offered quotations for one-month Eurodollar deposits. LIBOR moves up or down as interest rates move up or down. The movement of LIBOR has an inverse relationship with the interest paid on all inverse floating rate classes.

The Bank, as trustee of the Plans, purchased all of the CMOs from Andrew F. Cashiola of Government Securities Corporation of Texas, located in Houston, Texas, and Randy Stevens of Hart Securities, Inc., located in Houston, Texas. The Bank states that neither the brokers (i.e. Mr. Cashiola or Mr. Stevens) nor their brokerage firms have any relationship to the Plans, the employers that maintain the Plans, the Bank or any of its affiliates.

A description of each CMOs, including the respective interest rate formulas, WAL and PSA assumptions are set forth below in the Appendix.

4. At the time of the purchase of the CMOs by the Bank, as trustee of the Plans, the Bank anticipated that each CMO would be retired within one to three years of the date of purchase due to prepayments of the underlying mortgages in each pool as obligors refinanced their mortgages at lower interest rates. Because of recent increases in interest rates, the market value of the CMOs had decreased significantly. On April 25, 1995, the Bank obtained bids to determine the fair market value of each CMO held by the Plans on the date of sale from three different independent broker-dealers—PNC Securities in Louisville, Kentucky; Commerce Union Investments in Memphis, Tennessee; and First Tennessee Corporation in Memphis, Tennessee (the Broker-Dealers). The Bank states that as of the date of the sale, the Broker-Dealers were not related to, or associated with, the Bank or the Plans. The Broker-Dealers provided the following bids as of April 25, 1995:[4]

CUSIP No.	PNC Securities	Commerce Union	First Tennessee	Average bid
31358JAU5	35.00	37.00	46.50	39.50
31358NCV2	42.00	37.00	39.50	39.50
31359GDT0	29.00	29.75	27.25	28.67
31359GDX1	14.00	20.00	24.50	19.50

Based on the pricing information obtained from the Broker-Dealers, the Bank represents that the fair market value of the CMOs was significantly below the original purchase price of the CMOs (as noted in the first table below in Representation #7). The expectation of additional interest rate increases in the near future caused the Bank to believe that the CMOs would not appreciate in the near term. As a result of these changing market conditions, the Bank anticipated that the CMOs will not be retired for fifteen to twenty years due to the slowing of the prepayment speed because of the recent increases in the

assets of the Plans do not include any of the mortgages underlying such CMOs.

[4] The Broker-Dealers' bids shown in the table represent a price quoted per $100 of principal. To determine the fair market value for each CMO based on the average bid quoted, the par value of the CMO would be multiplied by the particular quote, expressed as a percentage of 100. For example, if the par value of the CMO was $10,000 and the average bid for the CMO on April 25, 1995 was $39.50 per $100 of principal, the quoted price would have been $3950 since $10,000 × .3950 = $3950.