Instructions for Form 1066
U.S. Real Estate Mortgage Investment Conduit Income Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice
We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. The time needed to complete and file this form and related schedule will vary depending on individual circumstances. The estimated average times are:

<table>
<thead>
<tr>
<th>Form 1066</th>
<th>Schedule Q (Form 1066)</th>
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<tbody>
<tr>
<td>28 hrs. 28 min.</td>
<td>6 hrs. 13 min.</td>
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<tr>
<td>6 hrs., 29 min.</td>
<td>1 hr., 16 min.</td>
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<tr>
<td>9 hrs., 7 min.</td>
<td>2 hrs., 21 min.</td>
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<tr>
<td>32 min.</td>
<td>16 min.</td>
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If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the Internal Revenue Service, Washington, DC 20224; Attention: IRS Reports Clearinghouse (TFP) and the Office of Management and Budget, Paperwork Reduction Project (1545–1014), Washington, DC 20503. DO NOT send the tax form to either of these offices. Instead, see the instructions below for information on where to file.

General Instructions

Purpose of Form.—Form 1066 is used to report the income, deductions, and gains and losses from the operation of a real estate mortgage investment conduit (REMIC). In addition, the form is used by the REMIC to report and pay the taxes on net income from prohibited transactions, net income from foreclosure property, and contributions after the startup day.

Who Must File.—An entity that elects to be treated as a REMIC for its first tax year (and for which the election is in effect) and that meets the requirements of section 860D(a) must file Form 1066.

A REMIC is any entity—
(a) to which an election to be treated as a REMIC applies for the tax year and all prior tax years,
(b) all of the interests in which are regular interests or residual interests,
(c) that has one (and only one) class of residual interests (and all distributions, if any, with respect to such interests are pro rata),
(d) as of the close of the 3rd month beginning after the startup day and at all times thereafter, substantially all of the assets of which consist of qualified mortgages and permitted investments,
(e) that has a tax year that is a calendar year and
(f) for REMICs with a startup day after March 31, 1988 (unless formed under a binding written contract in effect on that date), with respect to which there are reasonable arrangements designed to ensure that: (i) residual interests are not held by disqualified organizations (as defined in section 860E(e)(5)), and (ii) information necessary for the application of section 860E(e) will be made available by the entity.

See section 860F for definitions and special rules. See section 860D(a) regarding qualification as a REMIC during a qualified liquidation.

Making the Election.—The election to be treated as a REMIC is made by timely filing, for the first tax year of its existence, a Form 1066 signed by an authorized person. Once the election is made, it stays in effect for all years until it is terminated.

First Tax Year.—For the first tax year of a REMIC's existence, the REMIC must furnish in a separate statement attached to the REMIC's initial return the following:

1. information concerning the terms of the regular interests and the designated residual interest of the REMIC, or a copy of the offering circular or prospectus containing such information, and

2. a description of the prepayment and reinvestment assumptions made in accordance with section 1272(a)(6) and the regulations thereunder, including documentation supporting the selection of the prepayment assumption.

Termination of Election.—If any entity ceases to be a REMIC at any time during the tax year, the election to be a REMIC terminates for such year and all succeeding years. An entity is considered to cease being a REMIC when it no longer meets the requirements of section 860D(a).

When To File.—A REMIC must file Form 1066 by the 15th day of the 4th month following the close of its tax year.

If you need more time to file a REMIC return, file Form 8736, Application for Automatic Extension of Time To File Return for a U.S. Partnership, REMIC, or for Certain Trusts, to request an automatic 3-month extension of time to file. You must file Form 8736 by the regular due date of the REMIC return. If, after you have filed Form 8736, you still need more time to file the REMIC return, file Form 8800, Application for Additional Extension of Time To File Return for a U.S. Partnership, REMIC, or for Certain Trusts, for an additional extension of up to 3 months. To obtain this additional extension of time to file, you must show reasonable cause for the additional time you are requesting. Ask for the additional extension early so that if it is denied the return can still be filed on time.

Where To File.—File Form 1066 with the Internal Revenue Service Center listed below.

If the REMIC's principal place of business or principal office or agency is located in

<table>
<thead>
<tr>
<th>State</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)</td>
<td>Holtsway, NY 00501</td>
</tr>
<tr>
<td>New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont</td>
<td>Andover, MA 05501</td>
</tr>
<tr>
<td>Florida, Georgia, South Carolina</td>
<td>Atlanta, GA 39901</td>
</tr>
<tr>
<td>Indiana, Kentucky, Michigan, Ohio, West Virginia</td>
<td>Cincinnati, OH 45999</td>
</tr>
<tr>
<td>Kansas, New Mexico, Oklahoma, Texas</td>
<td>Austin, TX 73301</td>
</tr>
<tr>
<td>California (all other counties), Hawaii</td>
<td>Fresno, CA 93888</td>
</tr>
<tr>
<td>Illinois, Iowa, Minnesota, Missouri, Wisconsin</td>
<td>Kansas City, MO 64999</td>
</tr>
<tr>
<td>Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee</td>
<td>Memphis, TN 37501</td>
</tr>
<tr>
<td>Delaware, District of Columbia, Maryland, Pennsylvania, Virginia</td>
<td>Philadelphia, PA 19255</td>
</tr>
</tbody>
</table>
Accounting Method.—A REMIC must compute its taxable income (or net loss) using the accrual method of accounting. See section 860C(b) for additional information.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that such accrued expenses are incurred, to determine the liability and the amount of the liability can be determined with reasonable accuracy. Generally, however, all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

Rounding Off to Whole-Dollar Amounts.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 49 cents to the next higher dollar.

Recordkeeping.—The REMIC records must be kept as long as their contents may be material in the administration of any Internal Revenue law. Copies of the filed tax returns should also be kept as part of the REMIC’s records. See Pub. 583, Taxpayers Starting a Business, for more information.

Final Return.—If the REMIC ceases to exist during the year, check the box at Item D(1), page 1, Form 1066.

Amended Return.—If after the REMIC files its return it later becomes aware of any changes it must make to income, deductions, etc., the REMIC should file an amended Form 1066 and amended Schedules Q for each residual holder to correct the forms already filed. Check the box at Item D(3), page 1, Form 1066.

Note: If a REMIC does not meet the small REMIC exception under sections 860F(e) and 6231, and the regulations thereunder, or if a REMIC makes the election described in section 6233(a)(1)(B)(i) not to be treated as a small REMIC, the amended return will be a request for administrative adjustment, and Form 8082, Notice of Inconsistent Treatment or Amended Return (Request for Administrative Adjustment (AAR)), must be filed by the Tax Matters Person. See sections 860F(e) and 6227 for more information.

If the REMIC’s Federal return is changed for any reason, it may affect its state return. This would include changes made as a result of an examination of the REMIC return by the IRS. Contact the state tax agency where the state return is filed for more information.

Other Forms and Returns That May Be Required

Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Use this form to summarize and send information returns to the Internal Revenue Service Center.

Form 1098, Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the REMIC’s trade or business.

Forms 1099-A, B, INT, MISC, OID, R and S. You may have to file these information returns to report abandonments and acquisitions through foreclosure, proceeds from broker and barter exchange transactions, real estate transactions, interest payments, medical and dental health care payments, miscellaneous income, original issue discount, total distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also, use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the Instructions for Forms 1099, 1098, 5498, and W-2G.

Note: A REMIC must file Forms 1099-INT and 1099-OID, as appropriate, to report accrued income of $10 or more of regular interest holders (including corporate regular interest holders). See section 6049(a)(7). Also, every REMIC must file information returns if, in the course of its trade or business during the calendar year, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person.

Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Form 8811, Information Return for Real Estate Mortgage Investment Conduits (REMICs) and issuers of Collateralized Debt Obligations. A REMIC uses this form to provide the information required by the regulations under section 6049. The information will be published in Pub. 938, Real Estate Mortgage Investment Conduits (REMICs) Reporting Information. This publication contains a directory of REMICs.

Form 8822, Change of Address, may be used to inform IRS of a new REMIC address if the change is made after filing Form 1066.

Attachments.—If you need more space on the forms or schedules, attach separate sheets. Use the same arrangement as the printed forms, and show the totals on the printed forms. Be sure to put the REMIC’s name and employer identification number on each sheet. Also, each separate sheet should clearly indicate the line or section on the printed form to which the information relates.

Please complete every applicable entry space on Form 1066. Do not attach statements and write “See Attached” in lieu of completing the entry spaces on this form.

Payment of Tax Due.—The REMIC must pay the tax due (line 3, section II, page 1) in full by the 15th day of the 4th month following the end of the tax year. Attach to Form 1066 a check or money order for the amount due payable to “Internal Revenue Service.”

Interest and Penalties

Interest and penalty charges are described below. If a REMIC files late or fails to pay the tax when due, it may be liable for penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

1. Interest.—Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatement, and substantial understatement of tax from the due date (interest continues to accrue from the date of payment). The interest charge is figured at a rate determined under section 6621.

2. Late Filing of Return.—A REMIC that: (1) fails to file its tax return by the due date, including any extensions, or (2) files a return that fails to show all the information required, may have to pay a penalty. If no tax is due, the amount of the penalty for each month or fraction of a month (for a maximum of 5 months) the failure continues is $50 multiplied by the total number of persons who were residual holders in the REMIC during any part of the REMIC’s tax year for which the return is due. If tax is due, the penalty is the amount stated above plus an additional amount based on the amount of tax due. The additional amount is generally 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for not filing a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100. See sections 6621(e), 6651(a)(1), and 6658.

3. Late Payment of Tax.—The penalty for not paying the tax when due is usually 1/2 of 1% of the unpaid tax, for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the unpaid tax. See section 6651(a)(2).

4. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

Contributions to the REMIC.—Generally, no gain or loss is recognized by the REMIC or any of the regular or residual interest holders when property is transferred to the REMIC in exchange for an interest in the REMIC. The adjusted basis of the interest received equals the adjusted basis of the property transferred to the REMIC. The basis of the REMIC of property transferred by a regular or residual interest holder is its fair market value immediately after its transfer.

If the issue price of a regular interest exceeds its adjusted basis, the excess is included in income by the regular holder as accrued market discount for the tax years to which it is attributable under the rules of section 1276(b). If the issue price of a residual interest exceeds its adjusted basis, the excess is amortized and included in the residual holder’s income ratably over the anticipated life of the REMIC.

If the adjusted basis of a regular interest exceeds its issue price, the regular holder treats the excess as amortizable bond premium subject to the rules of section 171. If the adjusted basis of a residual interest exceeds its issue price, the excess is deductible ratably over the life of the REMIC.
Item B. Date REMIC Started.—Enter the “start-up day” selected by the REMIC as defined in section 860G(a)(9).

Item C. Total Assets at End of Tax Year.—Enter the total assets of the REMIC. If there are any assets held at the end of the tax year, enter the total assets as of the beginning of the tax year.

Section I

Income. (Lines 1–6).—Do not include on lines 1–6 any income that is tax-exempt or any income from prohibited transactions.

Line 1. Taxable Interest.—Enter the total taxable interest “Taxable interest” is interest that is included in or from any income from all sources except interest exempt from tax and interest on tax-free covenant bonds. If you so elect, reduce the amount of interest accrued on taxable bonds acquired after 1987 (or after 1986 if you so elect) by the amount of amortizable bond premium on those bonds attributable to the current tax year under section 171(e).

Caution: Be sure to give each payer of interest the REMIC’s correct identification number. Otherwise, the payer may withhold 20% of the interest income. The REMIC may also be subject to penalties.

Line 2. Accrued Market Discount Under Section 860C(b)(1)(B).—Enter the amount of market discount attributable to the current tax year determined on the basis of a constant interest rate under the rules of section 1276(b)(2).

Line 3. Capital Gain (Loss).—Enter the net gain (loss) from line 12, Part II, Form 4797, Sales of Business Property.

Line 4. Ordinary Gain (Loss).—Enter the net gain (loss) from line 18, Part II, Form 4797, Sales of Business Property.

Line 5. Other Income.—Enter any other taxable income not listed above and explain its nature on an attached schedule. If the REMIC issued regular interests at a premium, the net amount of such premium is income that must be prorated over the term of such interests. Include such income on this line.

Deductions. (Lines 7–14).—Do not include any nondeductible amounts on lines 7–14. A REMIC is not allowed the following deductions in computing its taxable income:

1. The net operating loss deduction.
2. The deduction for taxes paid or accrued to foreign countries and U.S. possessions.
3. The deduction for charitable contributions.
4. The deduction for depletion under section 611 for oil and gas wells, and
5. Losses or deductions allocable to prohibited transactions.

Line 9. Amount Accrued to Regular Interest Holders in the REMIC That Is Deductible as Interest.—Regular interests in the REMIC are treated as indebtedness for Federal income tax purposes. Enter the amount of interest, including original issue discount, paid or accrued to regular interest holders for the tax year. Do not deduct any amounts paid or accrued with respect to residual interests in the REMIC.

Line 10. Other Interest.—Do not include interest deducted on line 9 or interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. If you so elect, include amortization of bond premium on taxable bonds acquired before 1988, unless you elected to offset amortizable bond premium against the interest accrued on the bond (see the Section 1, line 1, instructions above) Do not include any amount attributable to a tax-exempt bond.

Line 11. Taxes.—Enter taxes paid or accrued during the tax year, but do not include the following:

1. Federal income taxes (except the tax on net income from foreclosure property).
2. Foreign or U.S. possession income taxes.
3. Taxes not imposed on the REMIC; or
4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

Note: If you have to pay tax on net income from foreclosure property, you should include this tax (from line 11 of Schedule J) on line 11.

See section 164(d) for apportionment of taxes on real property between the seller and purchaser.

Line 12. Depreciation.—See the Instructions for Form 4562 or Pub. 534, Depreciation, to figure the amount of depreciation to enter on this line. You must complete and attach Form 4562, Depreciation and Amortization, if the REMIC placed property in service during 1990, claims a section 179 expense deduction, or claims depreciation on any car or other listed property.

Line 13. Other Distributions.—Enter any other allowable deductions for which no line is provided on Form 1066.

Schedule D—General Instructions

Purpose of Schedule.—Use Schedule D to report the sale or exchange of capital assets.

To report sales or exchanges of property other than capital assets, see Form 4797, and the related instructions.

For amounts received from an installment sale, the holding period rule in effect in the year of sale will determine the treatment of amounts received as long-term or short-term capital gain.

Report every sale or exchange of property in detail, even though there is no gain or loss.

For more information, see Pub. 544, Sales and Other Dispositions of Assets.

Capital Gain Distributions.—On line 7, report as long-term capital gain distributions (a) a capital gain dividend, (b) the REMIC’s share of the undistributed capital gain from a mutual fund or other regulated investment company.

For more information on mutual fund transactions, see Pub. 564, Mutual Fund Distributions.

Losses on Worthless Securities.—If any securities that are capital assets become worthless during the tax year, the loss is a loss from the sale or exchange of capital assets as of the last day of the tax year.
Schedule J
Part I—Tax on Net Income from Prohibited Transactions
Income (Lines 1a–1d)

Do not net losses from prohibited transactions against income or gains from prohibited transactions in determining the amounts to enter on lines 1a through 1d. Such losses are not deductible in computing net income from prohibited transactions.

Note: For purposes of lines 1a and 1d below, the term "prohibited transactions" does not include any disposition that is required to prevent default on a regular interest where the threatened default resulted from a default on one or more mortgages, or to facilitate a clean-up call. A clean-up call is the prepayment of the remaining principal balance of a class of regular interests when, by reason of prior payments with respect to those interests, the administrative costs associated with servicing that class outweigh the benefits of maintaining the class. It does not include the retirement of a class undertaken in order to profit from a change in interest rates.

Line 1a. Gain from Certain Dispositions of Qualified Mortgages—Enter the amount of gain from the disposition of any qualified mortgage transferred to the REMIC other than a disposition resulting from:
1. The substitution of a qualified replacement mortgage for a qualified mortgage (or the repurchase in lieu of substitution of a defective obligation);
2. The foreclosure, default, or imminent default of the mortgage;
3. The bankruptcy or insolvency of the REMIC; or
4. A qualified liquidation.

See section 860F(a) for details and exceptions.

Line 1b. Income from Nonpermitted Assets—Enter the amount of any income received or accrued during the year which is attributable to any asset which is neither a qualified mortgage nor a permitted investment. See section 860G(a) for definitions.

Line 1c. Compensation for Services—Enter the amount of fees or other compensation for services received or accrued during the year.

Line 1d. Gain from the Disposition of Cash Flow Investments (Except Pursuant to a Qualified Liquidation)—Enter the amount of gain from the disposition of any "cash flow investment," except pursuant to a qualified liquidation. A cash flow investment is any investment of amounts received under qualified mortgages for a temporary period before distribution to holders of interests in the REMIC. See section 860F(a)(4) for the definition of a qualified liquidation.

Deductions
Line 3.—Enter the total amount of allowable deductions directly connected with the production of the income shown on lines 1a through 1d, except for those deductions connected with prohibited transactions resulting in a loss.

Part II—Tax on Net Income From Foreclosure Property

For a definition of foreclosure property, see instructions on page 5 for Schedule L, line 1c. Net income from foreclosure property must also be included in the computation of taxable income (or net loss) shown in Section I, page 1, Form 1066.

Line 7. Gross income derived from foreclosure property.—Do not include on line 7 amounts described in section 856(c)(3)(A), (B), (C), (D), (E), or (G).

Line 9. Deductions.—Only those expenses which are proximately related to earning the income shown on line 8 may be deducted to arrive at net income from foreclosure property. Allowable deductions include depreciation on foreclosure property, interest paid or accrued on debt of the REMIC that is attributable to the carrying of foreclosure property, real estate taxes, and fees charged by an independent contractor to manage foreclosure property. Do not deduct general overhead and administrative expenses.

Line 11. Tax on net income from foreclosure property.—The REMIC is allowed a deduction for the amount of tax shown on this line. Include this amount in computing the deduction for taxes to be entered on line 11, Section I, page 1, Form 1066.

Part III—Tax on Contributions After the Startup Day

Do not complete this part if the startup day (as defined in section 860G(a)(9) as in effect before the enactment of the Technical and Miscellaneous Revenue Act of 1988) was before July 1, 1987.

The tax imposed by section 860G(d) is equal to 100% of the amount shown on line 12.

Line 12. Amount of taxable contributions.—Enter the amount of contributions received during the calendar year after the startup day (as defined in section 860G(a)(9)) and enter cash contributions described below:
(a) Any contribution to facilitate a clean-up call or a qualified liquidation.
(b) Any payment in the nature of a guarantee.
(c) Any contribution during the 3-month period beginning on the startup day.
(d) Any contribution to a qualified reserve fund by any holder of a residual interest in the REMIC.

Attach a schedule showing your computation.

Designation of Tax Matters Person (TMP)

A REMIC may designate a tax matters person in the same manner in which a partnership may designate a tax matters partner under Temporary Regulations section 301.6231(a)(7)-1T. For purposes of applying that section, all holders of a residual interest in the REMIC are treated as general partners. The designation may be made by completing the Designation of Tax Matters Person section on page 4 of Form 1066.
Additional Information

Be sure to answer the questions and provide other information in items E through L. The instructions that follow are keyed to these items.

Item E. Type of Entity.—Check the box for the type of entity that the REMIC is recognized as under state or local law. If the REMIC is not a separate entity under state or local law, check the box for "Segregated Pool of Assets," and state the name and type of entity which owns the assets in the spaces provided.

Item F. Number of Residual Holders.—Enter the number of persons who were residual holders at any time during the tax year.

Item G. Consolidated REMIC Proceedings.—Generally, the tax treatment of REMIC items is determined at the REMIC level in a consolidated REMIC proceeding, rather than in separate proceedings with individual residual holders.

Check the box for Item G if any of the following applies:

- The REMIC had more than 10 residual holders at any time during the tax year or
- Any residual holder was a nonresident alien or was other than a natural person or estate, unless there was only one holder of the residual interest; or
- The REMIC has elected to be subject to the rules for consolidated REMIC proceedings.

"Small REMICs" as defined in sections 860F(e), 6231(a)(1)(B), and the regulations thereunder are not subject to the rules for consolidated REMIC proceedings, but may make an irrevocable election to be covered by them.

For more information on the consolidated entity-level audit procedures, see "Examination of Partnership Items" in Pub. 556, Examination of Returns, Appeal Rights, and Claims for Refund, and sections 860F(e) and 6231.

Item H. Foreign Accounts.—Check "Yes" if either a OR b below applies to you.

a. At any time during the year, the REMIC had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country, AND

- The combined value of the accounts was $10,000 or more during the whole year, AND
- The accounts were not with a U.S. military banking facility operated by a U.S. financial institution.

b. The REMIC owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item a above.

Get form TD F 90-22.1, Report of Foreign Bank and Financial Accounts, to see if the REMIC is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you checked "Yes" for Item H, file form TD F 90-22.1 by June 30, 1991. File it with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return. Do not file it with Form 1066.

Attach a statement that gives the name(s) of the country or countries to which Item H applies if you need additional space to write in their names.

Item I. Foreign Trusts.—Check "Yes" if the REMIC was a grantor of, or a transferor to, a foreign trust that existed during the tax year.

A U.S. REMIC that has (at any time) transferred property to a foreign trust may have to include the income from that property in the REMIC’s taxable income if the trust had a U.S. beneficiary during 1990. (See section 679.)

If the REMIC transfers property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign estate or trust, or to a foreign partnership, an excise tax is imposed under section 1491 (see Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership). To avoid this excise tax, the REMIC may choose to treat the transfer as a taxable sale or exchange as specified in section 1057.

Item L. Sum of the Daily Accruals.—Enter the sum of the daily accruals for all residual interests for the calendar year. See section 860E(c)(2) for details.

Schedule L

Balance Sheets

The amounts shown should agree with the REMIC's books and records. Attach a statement explaining any differences.

Line 1a. Cash flow investments are any investments of amounts received under qualified mortgages for a temporary period before distribution to holders of interests in the REMIC.

Line 1b. Qualified reserve assets include any intangible property which is held for investment and as part of any reasonably required reserve to provide for full payment of expenses of the REMIC or amounts due on regular interests in the event of defaults on qualified mortgages or lower than expected returns on cash flow investments. No more than 30% of the gross income from such assets may be derived from the sale or disposition of property held for less than 3 months. See section 860G(a)(7)(C) for details and exceptions.

Line 1c. Foreclosure property is any real property (including interests in real property), and any personal property incident to such real property, acquired by the REMIC as a result of the REMIC's having bid in such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or imminent default on a qualified mortgage held by the REMIC. Generally, such property ceases to be foreclosure property on the date which is 2 years after the date that the REMIC acquired the property. See sections 860G(a)(8), 856(e), and Regulations section 1.856-6 for additional information.

Note: Solely for purposes of section 860D(a), the determination of whether any property is foreclosure property shall not be made without regard to section 856(e)(4).

Line 7. Regular interests are interests in the REMIC that are issued on the startup day with fixed terms and that are designated as regular interests, if:

1) such interest unconditionally entitles the holder to receive a specified principal amount or other similar amounts; and
2) interest payments (or other similar amounts), if any, with respect to such interest at or before maturity are payable at a fixed rate or at the extent provided in regulations, at a variable rate, or consist of a specified portion of the interest payments on qualified mortgages and such portion does not vary during the period such interest is outstanding.

The interest will not fail to meet the requirements of subparagraph (1) merely because the terms (but not the amount) of the principal payments (or other similar amounts) may be contingent on the extent of prepayments on qualified mortgages and the amount of income from permitted investments.

Schedule M

Reconciliation of Residual Holders' Capital Accounts

Show what caused the changes in the residual holders' capital accounts during the tax year.

The amounts shown should agree with the REMIC's books and records and the balance sheet amount. Attach a statement explaining any differences.

Include in column (d) tax-exempt interest income, other tax-exempt income, income from prohibited transactions, income recorded on the REMIC's books but not included on this return, and allowable deductions not charged against book income this year.

Include in column (e) capital losses in excess of the $3,000 limitation, other nondeductible amounts (such as losses from prohibited transactions and expenses connected with the production of tax-exempt income), deductions allocable to prohibited transactions, expenses recorded on books not deducted on this return, and taxable income not recorded on books this year.

Schedule Q

Quarterly Notice to Residual Interest Holder of REMIC Taxable Income or Net Loss Allocation

Attach a separate Copy A, Schedule Q (Form 1066), to Form 1066 for each person who was a residual holder at any time during the tax year and for each quarter in which such person was a residual holder.