

of its affiliates) to damages and administrative enforcement and could result in the borrowers rescinding such loans against either the HB Fund, as the issuing entity, or subsequent holders of such loans.

The lending and servicing business involves the collection of numerous accounts and compliance with various federal, state and local laws that regulate consumer lending. Lenders and servicers may be subject from time to time to various types of claims, legal actions (including class action lawsuits), investigations, subpoenas and inquiries in the course of their business. It is impossible to predict the outcome of any particular actions, investigations or inquiries or the resulting legal and financial liability. If any such proceeding were determined adversely to the lender (e.g., the HB Fund or any of its affiliates) or any other servicer and were to have a material adverse effect on its financial condition, the ability of such servicer to service the loans could be impaired.

A number of federal, state and/or local regulatory changes, designed to prevent lending abuses, may limit the flexibility to offer lending products such as the loans. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in loans that have loan rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such loans. Failure to comply with these laws could result in monetary penalties and in the borrowers rescinding loans against either the HB Fund, as the issuing entity, or subsequent holders of the loans.

In addition, the loans may need to be altered in order to comply with any such federal, state and/or local regulatory changes. The regulatory compliance requirements associated with this activity are detailed and complex, and if such requirements are not complied with, the Underlying Funds could suffer losses. Such compliance issues include obtaining licenses in certain jurisdictions to make loans. The Management Company is not aware at this time of any current or prospective loans requiring it to obtain licenses. However, if any such licenses are required, the Management Company does not anticipate any impediments to obtaining such licenses, but the approval process can take several months.

Under the anti-predatory lending laws of some states, the borrower is required to meet a net tangible benefits test in connection with the origination of a related mortgage loan. This test may be highly subjective and open to interpretation. As a result, a court may determine that a mortgage loan does not meet the test even if the originator reasonably believed that the test was satisfied. Any determination by a court that a mortgage loan does not meet the test will result in a violation of the state anti-predatory lending law.

**Other Regulatory and Private Litigation Risks of Loan Origination Activities.** Loans may be originated or purchased that either are subject to regulatory scrutiny or are so new that no clear legal guidelines have been established with respect to the regulation and compliance of such businesses with existing laws, rules and regulations. Therefore, there will be little or no legal authority or precedent governing the practices of the sellers of those loans or, in fact, of the status of those loans. While the Management Company believes that each loan originated or purchased will be in compliance with applicable laws, rules and regulations, in many cases it might not be possible for the Management Company to be certain that this is the case or that the loans otherwise will not be subject to regulatory or civil challenge. To the extent that a loan originated or purchased